Summary

Green shoots emerged in August with most economic, financial and credit data beat market expectations driven by property market and simulative fiscal policy. Leverage continued to shift from corporate sector to household sector, with loan to household sector accounted for more than 70% new loan in August. The strong property sales in September as reported by some tier-1 and tier-2 cities suggested strong household demand for loan is likely to prevail in the near term, which may continue to support credit growth. The strong financial data together with green shoots in activity data show that Chinese economy may have found bottom in the near term. We maintain our projection for China's 2016 growth unchanged at 6.6%.

Both Zhenzhou and Hangzhou announced new property cooling measures last week in reaction to the rapid increase of land and housing prices. The recent property spree is not really a confidence vote to Chinese economy in our view, rather it is the result of lack of investment channels amid easing monetary policy and tight capital control. In addition, some investors also use property market at the hedge against RMB depreciation risk. We think more cities may announce tightening measures to cool down the market.

The tight CNH liquidity spread from swap market to money market last week with the overnight CNH HIBOR spiked to 8.16% last Wednesday after the CNH TN swap points spike previous day. Once a few months, CNH bear feels the pain due to liquidity squeeze. CNH appreciated strongly against the dollar in the absence of CNY in a short trading week. We think China has sent a clear signal that 6.7 will be near term cap PBoC is going to defend. For this week, all eyes will be on FOMC and BOJ meeting.

Key Events and Market Talk

Facts	OCBC Opinions
▪ China is preparing the Shanghai London stock connect according to onshore media citing PBoC officials.	▪ The study of new stock connect between UK and China was delayed after unexpected Brexit referendum results. However, it seems that UK remains the top choices for China to open its capital market to developed western economies.
▪ Both Zhenzhou and Hangzhou announced new property cooling measures last week in reaction to the rapid increase of land and housing prices.	▪ The property sales volume in hot tier-1 and tier-2 cities has spiked recently. It seems liquidity has been spilled over to lower tier cities. ▪ The recent property spree is not really a confidence vote to Chinese economy in our view, rather it is the result of lack of investment channels amid easing monetary policy and tight capital control. In addition, some investors also use property market at the hedge against RMB depreciation risk. ▪ We think more cities may announce tightening measures to cool down the market.
▪ The tight CNH liquidity spread from swap market to money market last week with the overnight CNH HIBOR spiked to 8.16% last Wednesday after the CNH TN swap points spike previous day.	▪ Seasonality is to blame for the surge in short-end funding costs. However, it is also believed by investors that the tighter CNH liquidity is part of PBoC's measures to curb CNH short sellers ahead of USDCNY's key 6.7 level. ▪ The HKMA said last week that it has injected liquidity to market. HK banks also raised CNH deposit rates to help ease the tight liquidity. This should help cap the CNH funding costs. As such, the overnight CNH HIBOR is unlikely to spike like it did in Jan.
▪ HKMA was reported to collect information on banks' mortgage loans based on low rates.	▪ HK commercial banks have battled for home loan business by continuously lowering mortgage rates and reducing the minimum loan amount requirement. As a result, HKMA has started to collect information on the mortgage loans approved since August. And the new approved home loans should be divided into three categories in terms of mortgage rates based on over HIBOR plus 1.5%, HIBOR plus 1.4% to 1.5% and below HIBOR plus 1.4%. Given signs of scrutiny from HKMA, banks are unlikely to reduce the mortgage rates further. However, the rates will remain low to lure more retail business amid subdued corporate business on sour economic outlook.

Key Economic News	
Facts	**OCBC Opinions**
▪ Green shoots emerged in August with all three major economic indicators beat market expectations. ▪ Industrial production re-accelerated to 6.3% yoy in August from 6.0% yoy in July. ▪ Retail sales also re-accelerated to 10.6% yoy from 10.2% yoy. ▪ The deceleration of fixed asset investment paused, growing by 8.1% yoy in the first eight months.	▪ The improvement of retail sales was mainly driven by the stronger car sales, which was the result of tax cut for vehicles with 1.6 litre engines or smaller, launched last October. However, given the stimulus is likely to expire in a couple of months. The outlook on retail sales remains uncertain. ▪ The recovery of industrial production is in line with stronger high frequency data, such as electricity production. ▪ Private investment remains weak despite general upbeat tone in August, growing by 2.1% in the first eight months unchanged from the growth pace in the first seven months.
▪ All August financial and credit data also surprised market on the upside. New Yuan loan increased by CNY948.7 billion. ▪ Off-balance sheet financing also rebounded in August after bill financing showed stabilisation. M2 grew by much stronger than expected 11.4% in August, up from 10.2% in July.	▪ Year to date, RMB loan has increased by almost CNY9 trillion, signalling loose credit condition. Demand from household sector remained strong accounting for more than 70% of total increase. Medium to long term loan to corporate fell by CNY8 billion, probably due to debt swap. ▪ The stronger than expected M2 growth was partially attributable to supportive fiscal policy with fiscal deposits in August fell by CNY180 billion. ▪ The strong property sales in September as reported by some tier-1 and tier-2 cities suggested strong household demand for loan is likely to prevail in the near term, which may continue to support credit growth. ▪ The strong financial data together with green shoots in activity data show that Chinese economy may have found bottom in the near term. ▪ We maintain our projection for China's 2016 growth unchanged at 6.6%.
▪ HK Private residential housing starts rose by 23.9% yoy to 1,379 units in July, reversing the decline of 7.19% yoy in the previous month.	▪ This pushes the total housing starts over first seven months up to 12,244 units, the highest since the same period of 2002. Figure indicates that the construction activities in private sector could be on a solid growth pace over next two to three years. This is also one of the main driving forces for the economy. On the other hand, housing completion surged by 76.2% yoy to 1,311 units in July, driving total completions over Jan-Jul up to the highest (8728 units) since the same period of 2014. We expect the completion could continue its rebound till late 2016 or early 2017 given the robust growth of ground-breaking (18,152 units) in 2015 compared with those in 2013 (10,064 units) and 2014 (6,427 units). Based on the average housing starts figures, average supply of private residential units during 2016 to 2018 could be around 15,530 units, higher than the annual average of 11,397 units in 2010 to 2014. If this is the case, the increasing housing supply combined with higher borrowing costs ahead could add downward pressure to the housing market in the longer term.
▪ In July, Macau housing transaction volume registered double-digit annual growth for the fifth straight month, up by 23.4% yoy to 712 units.	▪ Low borrowing costs and local economic recovery have encouraged potential homebuyers, mainly upgraders, back to the market. As 52% of housing transaction in July was on new and high-end residential flats, average housing price ended its 15 consecutive months of decreases and retrieved robust growth of 15.3% yoy in July. However, the factor supporting the surge is transitory. Also, the housing transaction volume retreated for the second consecutive month on monthly basis, signaling that the housing market is stabilizing rather than

	thriving. As a result, new residential mortgage loans (RMLs) approval dropped by 16.5% yoy in July to MOP3.5 billion. In the coming months, Fed's slow rate hike pace, rebound in the gross gaming revenue and HK bullish stock market together may boost Macau housing market sentiment. As such, housing transaction volume and mortgage loans are likely to pick up some traction as compared to previous months. Nonetheless, housing transaction volume is unlikely to return to the peak during 2012-2013 as housing cooling measures remain in place and fewer non-local workers reside in the city. Also, housing prices are likely to retreat after the short-lived resurgence.

RMB	
Facts	**OCBC Opinions**
▪ Once a few months, CNH bear feels the pain after CNH appreciated in the absence of CNY due to public holiday taking advantage of tighter liquidity. The USDCNH ended week close to 6.65.	▪ The onshore CNY market was closed last Thursday and Friday due to min-Autumn Festival. However, it did not deter CNH to rally against dollar regardless of broad dollar appreciation against the major currency. ▪ We think China has sent a clear signal that 6.7 will be near term cap PBoC is going to defend.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Kam Liu
Kamyyliu@ocbcwh.com

Co.Reg.no.:193200032W