Summary

Thanks to dovish Fed, RMB's depreciation against both dollar and basket currency paused after the USDCNY fixing touched a high of 6.6001 last Wednesday just ahead of June FOMC decision. Under the current new fixing mechanism, there are only two ways to reverse RMB's mild depreciation trend against the dollar including a stronger daily closing for RMB and broader dollar weakness. It seems that PBoC chose to intervene the closing price to bring down the base for next day's fixing. Meanwhile, the dovish FOMC meeting also lent support to RMB via basket currency system. Nevertheless, despite weaker dollar index, RMB bear continued to push the USDCNH higher in the offshore market, with the pair ended the week slightly shy of 6.60 handle.

We suggest RMB bear to pay attention to the latest regulation 16 from the SAFE. Under the new regulation, the companies are allowed to sell their foreign currency receivable from foreign debt at their own willingness. Given the fact that companies are able to swap their onshore RMB loan with foreign debt under the new rule, it may attract more capital inflows, which lend some support to RMB. Meanwhile, the new regulation is likely to further narrow the CNYCNH gap in our view.

The general weaker than expected May growth and financial data pointed towards a possible weak GDP reading in 2Q. This also fuelled fresh rounds of speculation on monetary policy easing, driving bond prices higher. Nevertheless, we see low probability of imminent easing given PBoC is likely to rely on non-traditional monetary policy tool rather than interest rate cut.

Other than that, the news that Hong Kong's largest property developer is offering 120% mortgages is pretty much eye-catching. The bold move reinforced the increasing difficulties of housing sales in Hong Kong. Eyes will be on whether the HKMA will step in to tackle such distortions in the housing market. For this week, RMB will remain the centre of focus ahead of key Brexit referendum event risk.

Key Events and market talk	
Facts	**OCBC Opinions**
▪ **China's currency regulator SAFE released regulation 16** on 15 June to ease the sale of foreign currency receivable from foreign debt. The companies are allowed to sell their foreign currency receivable from foreign debt at their own willingness. ▪ Meanwhile, the SAFE will also reduce the size of negative list for the use of money under capital account.	▪ As we highlighted in the past report that most of China's capital account liberalization is lopsided, meaning most reforms focused on attracting capital inflows. This latest regulation 16 served the same purpose of encouraging capital inflows. ▪ China has eased the restrictions of sale of foreign currency receivable for companies since last year. Companies have been able to sell their foreign currency receivable from IPO in the offshore market and capital injection at their own willingness in 2015. The latest rule applies to income from foreign debt. ▪ **Under the new regulation, we see two implications.** First, companies are able to swap their onshore RMB loan with foreign debt subject to their foreign debt limit under the new MPA for cross border financing. Given the offshore all-in cost remains low compared to onshore RMB cost, companies may have incentive to bring in the foreign debt to swap their existing RMB loan, which may provide some support to RMB. ▪ Second, given companies are able to sell their foreign currency receivable in both onshore and offshore market. The new regulation is likely to further narrow the CNYCNH gap.
▪ **The MSCI** announced to delay the inclusion of China's A-share into its international stock benchmark for the third year. ▪ China's security regulator said in response that it is up to MSCI's commercial decision to decide whether it includes China's A-share into the	▪ MSCI's decision to postpone the inclusion of China's A-share into the benchmark index is a wakeup call for China to speed up its reform in capital market. The impact is limited on China's equity market given the market is still mainly driven by domestic retail investors. ▪ Nevertheless, given the size of China's economy and capital

benchmark index. However, the decision will not change China's commitment to further open up its capital market.	market, the inclusion of A-share at some point is inevitable.
▪ PBoC started to publish its daily government bond yield curve in its website.	▪ The move will make it more convenient and transparent for both onshore and offshore investors to invest in China's interbank bond market.
▪ Hong Kong's largest property developer offers 120% mortgages.	▪ Housing transaction volume rebounded lately thanks to the consistently low borrowing costs and lower housing prices. However, the sour sentiment amid bleak economic outlook and weaker labor market condition in Hong Kong remains to cloud the property market. The largest developer's bold move reinforced the increasing difficulties of housing sales. In fact, to cool the over-heated housing market, the HKMA raised the minimum down payment ratio for homes valued below HK$7 million from 30% to 40%. However, developers' financial units are not supervised by the banking regulator. Therefore, in face of property market correction, some developers strove to prop up sales by directly offering home loans of up to 80% - 95% of a home's value instead of largely cutting home prices. Interestingly, applicants of such mortgage are even exempted from proof of income. This time, the largest developer offers 95% of a home's value as the first mortgage and allows homebuyers to apply for second mortgage on another property pledged as security to get 25% more of the home's value. Though mortgage term is set at 3 years and borrowers only need to pay interest in the first year, prospects of higher borrowing costs in coming years still expose such homebuyers to significant default risks. The lenders, property developers' deteriorating cash flow conditions thereby may also lead to higher probability of credit events. We expect the trend of developers using aggressive mortgage tactics to spur sales will continue. Meanwhile, eyes will be on whether the HKMA will step in to tackle such distortions in the housing market.

Key Economic News

Facts	OCBC Opinions
▪ Both **fixed asset investment** and retail sales decelerated further in May while industrial production is largely in line with market expectation. ▪ Fixed asset investment decelerated to 9.6% in the first five months from 10.5% in the first four months. ▪ **Retail sales** decelerated to 10% in May, close to record low level. ▪ **Industrial production** grew by 6% in May unchanged intact from April reading.	▪ The weaker than expected fixed asset investment was mainly the result of the poor investment in manufacturing sectors as well as the sluggish private investment. Private investment decelerated to 1% in May from 4.3% in April, signalling caution in the private sector. The growth of infrastructure investment remained strong at 19.8% in May albeit slowing down from 20.6% in April. ▪ The weaker than expected fixed asset investment and retail sales are likely to point toward a weaker GDP reading in 2Q. It also fuelled speculation on monetary easing again, driving bond prices higher. Nevertheless, we see low probability of imminent easing given PBoC is likely to rely on non-traditional monetary policy tool rather than interest rate cut.
▪ China's **new Yuan loan** data beat market expectation in May while aggregate social financing missed the target. ▪ Meanwhile, broad money supply **M2** decelerated to 11.8% in May from 12.5% in April.	▪ Total new Yuan loan increased by CNY985.5 billion driven by the strong demand from household sectors. The medium to long term loan to household sector hit a record high of CNY528.1 billion as a result of improving housing transactions. Meanwhile, the issuance of local government debt for debt swap program fell significantly in May to CNY115.7 billion

	from CNY469.9 billion leading to less distortion compared with April. ▪ Aggregate social financing fell to only CNY659.9 billion, much less than new Yuan loan. This was mainly due to falling un-discounted bill acceptance, which fell by CNY506.6 billion, as well as the decline of corporate bond issuance. The collapse of undiscounted bill acceptance was the result of recent clampdown on fake domestic trade following the recent scandel. The decline of net corporate bond issuance in May was rare, signalling the stress from recent rising credit events. ▪ Meanwhile, broad money supply M2 decelerated to 11.8% in May from 12.5% in April due to lower deposit from non-bank financial institutions as well as persistent capital outflows. Non-bank deposit spiked in May last year as a result of booming equity market, which created relatively high base. The M2 growth is likely to decelerate further in the coming months due to high base effect in June and July as a result of stock market intervention.
▪ **Hong Kong's unemployment rate** remained high in various sector.	▪ The seasonally adjusted unemployment rate of HK remained high at 3.4% in May. Unemployment rate in the retail sector stayed at 5.3%, as business prospects in retail sales deteriorated amid shrinking tourist spending. Accordingly, employment in the consumption and tourism-related sectors witnessed the 13th consecutive year-on-year decline in May. We expect the on-going anti-corruption campaign and unstable environment in HK to continue to hit HK tourism sector as well as retail sales sector. Unemployment rate in trade and wholesale sector increased from 2.9% to 3.0%. Weak trade activities also resulted in visible increases of unemployment in the warehousing sector and transportation sector. Looking forward, corporate hiring sentiments are likely to remain clouded given the slow-growing domestic economy and dimmer business performance. We expect employment in the retail sector to continue to face headwinds amid slackening inbound tourism while employment growth within the trade sector may also be constrained amid global uncertainty. As a result, this may weigh on local sentiment, and reinforce an even weaker labor market in the retail sales sector.

RMB	
Facts	**OCBC Opinions**
▪ Thanks to dovish Fed, RMB's depreciation against both dollar and basket currency paused after the USDCNY fixing touched a high of 6.6001 last Wednesday just ahead of June FOMC decision. ▪ However, RMB sentiment remained weak with investors still took buy-on-dip approach.	▪ PBoC is believed to have intervened the market last Wednesday after the USDCNY fixing hit 6.6001 to bring down the 4:30 closing price. Under the current new fixing mechanism, there are only two ways to reverse RMB's mild depreciation trend against the dollar including a stronger daily closing for RMB and broader dollar weakness. It seems that PBoC chose to intervene the closing price to bring down the base for next day's fixing. Meanwhile, the dovish FOMC meeting also lent support to RMB via basket currency system. ▪ Nevertheless, despite weaker dollar index, RMB bear continued to push the USDCNH higher in the offshore market, with the pair ended the week slightly shy of 6.60 handle.

	▪ On the positive note, there is increasing interest from corporate to buy RMB around 6.60 level as a result of belief in two-way movement.

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