Highlights:

RMB's rapid appreciation last week has caught market by surprise. The swift movement was mainly driven by momentum as the break of 6.6 created room for imagination for traders. As we mentioned last week, the potential unwind of previous long dollar position may add to recent momentum. Looking beyond momentum, how shall investors position for the possible rising risk aversion sentiment this week following the sixth nuclear test by North Korea on Sunday? Although President Trump's threat to stop trade with any country trading with North Korea may cloud the bilateral relationship between China and US again, we think RMB's upward trend is unlikely to be derailed for two reasons. First, as China is the world's second largest net creditor, which owned more than US$1.73 trillion net assets as of March 2017, RMB may actually benefit from safe haven flows. Second, should North Korea situation worsen, the USD yield may fall due to risk aversion. The widening yield differential between China and US may also support RMB.

China has set 18 Oct as the date for its 19th Party Congress. On economic front, the rebound of PMI in August also surprised us as the breakdown data shows that China's recovery of PMI was mainly driven by medium and small enterprises. This is in contrast to ground feedback that smaller enterprises may suffer from the tight environmental inspection in August. It seems that latest data did not justify our concerns that the latest supply side reform driven by environmental policy may weigh down the growth. We probably need more data to assess it.

On policy side, China's central bank announced to ban the issuance of 1-year above longer tenor certificate of deposits (CDs) by financial institutions. PBoC said in its latest monetary policy report that effective from the first quarter of 2018, CDs with tenor 1-year and less will be included in central bank's macro prudential assessment framework to keep interbank liability in check. The ban of issuance of longer tenor CDs will cover the potential loophole that banks may switch to longer end CDs issuance. The announcement is expected to have limited impact on the overall liquidity as total outstanding of longer tenor CDs only accounted for about 1.4% of total CDs as of June 2017 according to PBoC data.

In Hong Kong, total loans and advances rose by 16% yoy in July due to strong trade finance and huge loan demand at home and from Mainland China. Despite an expected housing correction and China's crackdown on overseas M&A activities, total loans and advances may still expand further in the near term. On the RMB deposits front, as market increasingly speculates on a stronger RMB, RMB deposits may continue to rebound in coming months and hit the HKD. Though Hang Seng Index reached its highest level since May 2015 last week, northbound equity net flows amounted to CNY8.44 billion in August. This is also unfavorable to the HKD. In Macau, gaming revenue growth decelerated to 20.4% yoy in August as two typhoons disrupted operations. As the city is set to resume tour group arrangements from September 2 while hotels and casinos offered huge discounts, tourism activities and gaming sector may regain some traction.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's central bank announced to ban the issuance of longer tenor certificate of deposits (CDs) by financial institutions. Effective from 1 Sep, financial institutions are only allowed to issue CDs with tenor one-year and less.	▪ PBoC said in its latest monetary policy report that effective from the first quarter of 2018, CDs with tenor 1-year and less will be included in central bank's macro prudential assessment framework to keep interbank liability in check. The ban of issuance of longer end CDs will cover the potential loophole that banks may switch to longer end CDs issuance. ▪ The announcement is expected to have limited impact on the overall liquidity as total outstanding of longer tenor CDs only accounted for about 1.4% of total CDs as of June 2017 according to PBoC data.
▪ Geopolitical situation has been complicated further in North Asia after North Korea announced to successfully test the hydrogen bomb, which is ready to be loaded into ICBM, on Sunday. The blast was estimated to be 10 times stronger than previous nuclear test in September 2016.	▪ This was the sixth nuclear test by North Korea and the first since President Trump took over the office. Whether this will be a new order of threat or new order of balance remains to be seen. However, in the near term, the risk of conflicts may heighten, which may affect the market sentiment this week. ▪ In addition, the fact that North Korea chose the date when China host the BRIC meeting in Xiamen also made China look bad in the global stage. Nevertheless, we think the impact on China's financial market is likely to be limited despite global risk aversion may heighten.
▪ HK's Chief Secretary for Administration stated that	▪ We believe that should the Innovation and Technology Park is

cooperation between Hong Kong and other cities of the Greater Bay Area will focus majorly on innovation and technology. Besides, he also pointed out that the Lok Ma Chau Loop Innovation and Technology Park will be HK's largest innovation platform. The platform is estimated to contribute HK$57 billion to the GDP every year and create approximately 50 thousand jobs.	well established with adequate transport infrastructure and other relevant facilities, it may be able to gather talents graduated from HK's top-tier educational institutions and talents from all over the China. Also, domestic and foreign investors may not miss the opportunities to gain from the boom in high-tech industry in the Mainland China. Hopefully, the express rail link between Hong Kong and Guangdong could start running in 2018 and facilitate the free flow of human resources, capital and knowledge across the border. Still, apart from hard infrastructure, soft infrastructure including tax system, regulatory framework and so on also needs to be improved to support the long-term cooperation between Hong Kong and other cities of the Greater Bay Area.

Key Economic News	
Facts	**OCBC Opinions**
▪ Both China's official PMI and Caixin PMI rebounded in August despite heightening concerns about the impact of recent stricter environmental inspection.	▪ China's official PMI reaccelerated to 51.7 in August from 51.4. On demand side, although new export order fell to 50.4 from 50.9, new order increased to 53.1 from 52.8. Production also rebounded further to 54.10 from 53.5. ▪ Purchasing price index jumped from 57.9 to 65.30 as a result of rising commodity prices in August. This implied that PPI may rebound in August. We expect PPI to reaccelerate to around 6% yoy in August after stabilizing at 5.5% for three months. Although PPI is still expected to trend lower in the last quarter due to base effect, the renewed prices pressure due to recent commodity price boom may slow the pace of decline of PPI. ▪ The latest breakdown of PMI was in contrast to the feeling on the ground as both PMI for medium sized companies and small companies rebounded to 51 and 49.1 respectively from 49.6 and 48.9 despite concerns that smaller companies may feel the initial pain from tighter environmental policy. It may still take some time for us to assess the potential impact of recent environmental inspection on growth.
▪ HK's retail sales growth accelerated to 4% yoy in July, the strongest level since February 2015. Sales of jewellery, watches and other luxurious goods increased at the fastest pace since August 2013 by 12.9% yoy while sales growth of goods in department stores accelerated to 5.5% yoy. Sales of clothing, footwear and allied products and those of medicines and cosmetics rebounded by 0.6% yoy and 3% yoy respectively.	▪ Robust sales of these items reflected that retail sector's rosy performance was mainly attributed to revival in tourism activities amid the effect of summer holiday. Adding on low base effect, we expect retail sector to sustain its growth in August. Elsewhere, sales of consumer durable goods dropped by 0.9% yoy amid the nearly one-year consecutive tumbles in the sales of electrical goods and photographic equipment (-6.0% yoy in July). As Apple is set to launch iPhone 8 in September, we expect the sales of consumer durable goods to regain some momentum. However, with low base effect fading, retail sales may moderate in 4Q2017. Local consumers' preference over online shopping may also have long-term impact on the retail sector. We expect retail sales to only see marginal growth over 2017.
▪ HK's total loans and advances increased by 16% yoy in July. In terms of loans for use in Hong Kong, trade finance rose for the fifth straight month by 2.5% yoy amid resilient trade activities. Buoyant growth in the primary housing market and improved corporate sentiment also fueled growth in other loans for use in HK (+16.5% yoy). However, approved new mortgage loans retreated by 23.5%	▪ This indicates that the secondary housing market which relies heavily on bank loans has been moderating. Moving forward, whether global recovery could be sustainable and support HK's trade sector remains a concern, especially given heightened trade frictions between the US and China. Besides, an expected slowdown in housing market is likely to suppress loan demand from property developers and home buyers. ▪ On the other hand, loans for use outside of Hong Kong jumped

mom while the number of new applications received in July dropped by 38% mom.	for the eighth consecutive month by 17.9% yoy. Tight onshore liquidity continued to encourage Mainland corporates to borrow in the offshore market. However, China's crackdown on overseas M&A activities may shrug off some upward risks on Mainland-related loans. Still, total loans and advances are expected to expand further in the near term.
▪ RMB deposits in Hong Kong climbed for the second consecutive month on a monthly basis by 1.64% mom to 534.7 billion in July. The year-on-year decline also shrank to its smallest level since February 2016.	▪ Lately, CNH appreciated notably amid subdued performance of the greenback and improving sentiment towards RMB. As households and corporates in the onshore market are likely to unwind their long dollar positions while PBOC also show high tolerance for yuan strength, we expect RMB to see further upside risks. Therefore, RMB deposits in HK may continue to rebound in coming months and add downward pressure to the HKD. ▪ In addition, we noted that net northbound flows under the two stock connects amounted to CNY8.44 billion in August This means that improved RMB outlook may propel Mainland investors to shift capital back home and thereby hit the HKD.
▪ Macau: The growth of gross gaming revenue (MOP22.676 billion) decelerated from 29.2% yoy in July to 20.4% yoy in August as two typhoons disrupted operations of hotels and casinos.	▪ Besides, the government requested local travel agencies to suspend arrangements of tour groups to Macau after the city was struck by Typhoon Hato. Therefore, despite the effect of summer holiday, tourism sector might have also witnessed poor performance in August. Moving forward, as Macau Government Tourism Office said that the city is set to resume tour group arrangements from September 2, tourism activities and gaming sector may regain some traction. Also, huge discounts offered by hotels and casinos on fine dining and accommodation may help to recover tourism-related businesses. However, we do not see much upside on tourism activities and the gaming sector in September as September is normally the offseason month. In addition, policy risks on the gaming sector need to be closely watched. All in all, as low base effect is dissipating, gross gaming revenue growth is expected to soften gradually in the rest of this year.
▪ Macau's jobless rate remained static at 2% in the three months through July. Meanwhile, total employment rose from 382,300 to 384,100.	▪ On a monthly basis, employment in the construction sector dropped by 2.2%. Due to the successive completion of mega entertainment projects, labor demand in the construction sector may remain sluggish throughout this year. On the other hand, as one mega project is scheduled to be opened in the coming months, we expect gaming sector (-0.9% mom), retail sector (0.2% mom) and hotel & restaurants sector (2.0% mom) to increase employment correspondingly. In the next few years, the scheduled completion of a new wave of mega recreational projects may buoy construction sector's hiring sentiment and lead to higher labor demand in the gaming sector and tourism-related sectors. Given revival of domestic economy, the labor market is expected to remain tight with unemployment rate stabilizing around 2%. Though wage growth has been stagnant since 1Q 2015, the impact on consumer sentiment might be offset by muted inflation. Therefore, we believe that solid labor market will continue to support domestic consumption.

RMB

Facts	OCBC Opinions
▪ RMB outperformed last week gaining against both USD and baskets of currencies. ▪ RMB index appreciated by 0.7% to 94.42.	▪ The swift movement of USDCNY last week was mainly driven by momentum as the break of 6.6 created room for imagination for traders. As we mentioned last week, the potential unwind of previous long dollar position may add to recent momentum. ▪ Looking beyond momentum, how shall investors position for the possible rising risk aversion sentiment following the sixth nuclear test by North Korea this week? We think RMB's upward trend is unlikely to be derailed for two reasons. First, as China is the world's second largest net creditor, which owned more than US$1.73 trillion net assets, RMB may actually benefit from safe haven flows. Second, should North Korea situation worsen, the USD yield may fall due to risk aversion. The widening yield differential between China and US may also support RMB.

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