Highlights:

China concluded its once-in-five-years National Financial Work Conference last Saturday. The meeting re-emphasized the role of financial sector, which included two aspects. First, financial sector should continue to serve the real economy and meet the needs of financing needs. Second, China would strengthen supervision further to avert financial risk. Meanwhile, China would set up a new Financial Stability Committee under the State Council to be responsible for managing risk in the financial system. This will improve coordination among all major financial regulators including PBoC, CBRC, CSRC and CIRC, which will help close the gap for regulatory arbitrage. Two areas including high leverage by SOEs and local government debt will be put under close watch. We expect more M&A and promotion of direct financing to reduce the leverage in SOE sector.

On economic data, China's M2 growth continued to decelerate in June, signalling financial de-leverage is taking effect. China's trade data remained resilient in June thanks to improving global outlook. Inflationary pressure remained muted and is unlikely to be the problem for rest of the year.

On monetary policy, PBoC resumed its reverse repo and conducted another round of MLF last week ahead of maturity of CNY459.5 billon. This showed PBoC's policy flexibility to maintain financial stability. We expect monetary policy to remain neutral in the coming months.

On currency, RMB has been mainly driven by dollar factor rather than domestic factor. We expect this situation to continue in the foreseeable future. The recent outflows under both stock connect may raise concern again on capital outflows. However, we think the impact on RMB is unlikely to be significant. The stability of RMB index recently showed that RMB index has decoupled from the dollar index with the help of counter cyclical factor. This will continue to provide support to RMB sentiment.

The removal of Sun Zhencai, who is the youngest member of the Politburo, from the Chongqing Party Chief's position sparked the speculation ahead of 19th Party Congress. We are not in the position to speculate any political topic but we will continue to monitor the development of this story as market's interest in China's leadership reshuffle will spike ahead of the 19th Party Congress. For this week, market will also look at China's GDP data due today.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ PBoC resumed its reverse repo operation on last Tuesday after suspending it for 12 straight trading days ahead of CNY459.5 billion liquidity maturity this week. ▪ Meanwhile, China also injected CNY360 billion into the system via 1-year MLF.	▪ Given the increasing maturity of previous reverse repo and MLF last week, liquidity turned tighter again. The resumption of reverse repo as well as the conduction of MLF showed PBoC's policy flexibility to maintain financial stability.
▪ China concluded its once-in-five-years National Financial Work Conference last Saturday. The meeting reinforced financial sector's role to support the real economy. Meanwhile, China would set up a new Financial Stability Committee under the State Council to be responsible for managing risk in the financial system.	▪ The meeting re-emphasized the role of financial sector, which included two aspects. First, financial sector should continue to serve the real economy and meet the needs of financing needs. Second, China would strengthen supervision further to avert financial risk. ▪ The setup of centralized Financial Stability Committee (FSC) will improve coordination among all major financial regulators including PBoC, CBRC, CSRC and CIRC. This will help close the gap for regulatory arbitrage. ▪ In addition, PBoC will play a stronger role in managing financial risk via macro prudential measures according to President Xi. ▪ Two areas including high leverage by SOEs and local government debt will be put under close watch. We expect more measures such as merge and acquisition as well as debt for equity swap will be rolled out to help SOEs to lower their leverage. Meanwhile, the further development of direct financing will be another important avenue to lower SOEs' leverage. ▪ On monetary policy, the conference reiterated to keep

	monetary policy "prudent". Although it did not mention the word "neutral", we don't see this as signs of easing monetary policy. Given de-leverage in SOE and local government sectors will remain the key focus for the next few years, we think monetary policy is likely to remain neutral to strike the balance between stable economic and financial stability. ▪ The lack of details on currency shows that China's policy makers are comfortable with current modest two-way volatility within a narrow range. As such, we think the current currency policy will continue.
▪ A preliminary plan for the future development of the Greater Bay Area has been submitted to National Development and Reform Commission (NDRC). According to the plan, the target GDP of the Greater Bay Area by 2030 is set at USD 4.62 trillion which will surpass the GDP of Tokyo Bay Area and New York Bay Area. Furthermore, infrastructure will be the priority of the development plan. Investment in infrastructure in the Greater Bay Area is estimated to be RMB 1 trillion. NDRC said that it will finish compiling a plan on the development of the Greater Bay Area by the year's end.	▪ The GDP target for 2030 indicates that the economy is expected to more than triple as compared to the GDP in 2016 which marked approximately USD 1.35 trillion. The increasing investment in infrastructure could be supportive to the area's growth in the near term and will also pave way for a tighter integration between Hong Kong, Macau and the nine cities in Guangdong Province.
▪ Over the first two weeks of July, net flows from Mainland China to HK through the two stock connects amounted to RMB 20 billion approximately, a robust increase from RMB 1.26 billion in June. This indicates that the slowdown in capital flows to HK's stock market via the two stock connects in June might be transitory.	▪ Due to return of Mainland investors to HK's stock market, HK's banking system remained flushed with liquidity. As a result, market speculation on a narrower interest rate differential between the USD and HKD has been waning. Specifically, HKD 1-year IRS reduced from 1.3% to 1.04% while USDHKD 12-month swap points retreated and approached the 9-year low around -550. Should the interest rate differential continue to widen, HKD spot rate will face more downward pressure. However, rosy performance of the stock market amid increasing capital inflows may limit HKD's downside. At this juncture, we still believe that USDHKD will find strong resistance around 7.83.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's inflation pressure remains muted in June. Both CPI and PPI remained intact at 1.5% and 5.5% respectively.	▪ The modest inflationary pressure was partially attributed to weak food prices. The recent flood in China may push the food prices higher, however, it is unlikely to create significant shock to China's CPI. We expect CPI to stay below 2% for most of the months in the second half of the year. ▪ For PPI, the divergent trend between oil prices and metal prices created the mixed impact on producer prices. Given metal prices such as steel remained strong, the deceleration of PPI is likely to be gradual. However, as base effect is likely to fade away, we still expect PPI to fall gradually in the remining of the year.
▪ China's broad money supply M2 continued to decelerate to a record low of 9.4% yoy in June. ▪ However, both new Yuan loan and aggregate social financing beat market expectation, up by CNY1.54 trillion and CNY1.78 trillion respectively.	▪ The deceleration of M2 was the result of the contraction of deposits by non-bank financial institutions as those institutions started to unwind their interbank exposure due to China's financial de-leverage campaign. As we mentioned last week, the single digit M2 growth could be the new normal going forwards for China. ▪ The recent de-leverage push has driven the funding demand

	▪ back to on-balance sheet from off-balance sheet. That's why new Yuan loan continued to surprise the market on the upside. New Yuan loan increased by almost CNY8 trillion in the first half of 2017, we think PBoC may ease its loan quota in the second half to support on-balance sheet lending. ▪ Entrusted loan continued to shrink in June due to financial de-leverage. However,
▪ China's trade growth reaccelerated further in June with both export and import in dollar term grew by 11.3% and 17.2% respectively, up from 8.7% and 14.8% in May. ▪ Trade surplus remained sizable at US$42.8 billion.	▪ The strong export growth was mainly the result of improving global demand. Exports to US and EU reaccelerated to 19.8% and 15.2% respectively although exports to ASEAN fell by 0.4%. ▪ Demand for commodity remained strong with imports of crude oil and iron ore by volume increased by 17.9% yoy and 11.6% yoy respectively.
▪ HK: The number of residential property transaction deals which involved Double Stamp Duty (DSD) and Buyer Stamp Duty (BSD) rebounded by 14.6% and 98.1% on a monthly basis respectively in June, after declining briefly in the previous month due to new cooling measures.	▪ Property developers offered to pay stamp duty for buyers while also offer mortgages with high loan-to-value ratio. As a result, despite new cooling measures, a slew of new property projects launched successfully lured an increased number of investors and overseas buyers to the housing market. However, a stable RMB, tight onshore liquidity and the cooling house market could be factors helping to tame housing demand from Mainland investors. Prospects of higher rates and increasing supply may also hit investor sentiment in the near term. Therefore, we believe that housing market is bracing for a moderate correction in 2H while the stamp duty for property transactions is also likely to retreat.
▪ Macau's housing transactions (1567 deals) grew for the 15th consecutive month in May and were up at a faster pace by 46.9% yoy. Strong housing demand in turn translated into higher demand for mortgage with approved new mortgage loans increasing further by 6.3% yoy to MOP5.74 billion, the highest level since June 2014. Meanwhile, housing prices rose for the eighth consecutive month by 48.3% yoy to MOP114,463 per square meter.	▪ An expected Prime Rate hike later this year and the new housing cooling measure are expected to hit demand, especially in the secondary market. Nevertheless, the impact of a mere 25 bps hike in Prime Rate and the cooling measure are likely to be short-lived as strong domestic recovery may continue to support housing demand. On the supply front, housing completions edged up 302% yoy over the first five months to 651 units. This is attributed to the notable growth of housing starts during 2015 and 2016. However, the new home supply was well absorbed by the strong demand which was fueled by resilient performance of the gaming sector, tight labor market and low borrowing costs. Therefore, though housing starts increased by 6% yoy to 2978 units over the first five months, it may not cause any notable correction in the housing market. As such, we revise our forecast on housing prices growth for 2017 up to 0% - 5% yoy.

RMB	
Facts	**OCBC Opinions**
▪ RMB strengthened against the dollar last week tracking the decline of dollar index due to slightly dovish Yellen and weak US CPI data. ▪ RMB index remained largely stable last week at around 93.34.	▪ RMB has been mainly driven by dollar factor rather than domestic factor. We expect this situation to continue in the foreseeable future. The recent outflows under both stock connect may raise concern again on capital outflows. However, we think the impact on RMB is unlikely to be significant. ▪ The stability of RMB index recently showed that RMB index has decoupled from the dollar index with the help of counter cyclical factor. This will continue to provide support to RMB sentiment.

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