Highlights:

Both financial and economic data for October fell short of expectations. This indicates that deleveraging campaign and environmental policy have taken effect in slowing economic activities and may cloud economic outlook of 4Q 2017. China's industrial capacity utilization rate reached 76.6% over the first three quarters, the highest level in nearly five years. This reflects that latest effort of de-capacity started to pay off.

China has shown higher tolerance for slower growth since 19th Party Congress, the latest news about the suspension of subway construction in Baotou city shows that China's investment spree may come to an end. A cost benefit approach will be taken to strike the balance between containing financial risk and promoting economic growth. This also explains why PBoC will move to tighten its regulation on asset management industry. PBoC announced drafted rules to seek opinion from market about how to regulate asset management industry. Moving forward, we expect the authorities to continue their focus on containing financial risks and protecting environment, which will probably weight down long-term economic outlook.

Despite disappointing economic data, volatility persists in China's bond market. After China's October CPI data print surprised on the upside, market fret that inflationary risks will increase further in the coming year on the back of strong global growth and higher commodity prices. On the other hand, the market is concerned that deleveraging campaign may intensify following the rumour about lowering the upper limit on interbank liability. Therefore, the PBOC injected a net CNY810 billion (largest since Jan 2017) last week via an open market operation to calm the bond market rout. The action also helped to ease the tight liquidity condition amid corporate tax payments and the year-end effect. In the near term, the PBOC may continue to use tools like OMO and MLF to proactively manage liquidity while ensuring that their de-leveraging campaign remains on track.

In Hong Kong, as IPO money returned to the market, liquidity condition improved and pushed USD/HKD up despite the broad weakness of the greenback. Moving forward, as major central banks remained cautious about tapering while equity inflows from China remained robust, we see little signs of capital outflows in HK. Given ample liquidity, USD/HKD may face some upward risks but could probably find strong resistance around 7.8100, as correction in HIBOR will be capped by year-end effect and rising expectations of Fed's Dec rate hike. Elsewhere, Hong Kong signed a free-trade agreement and an investment deal with the Association of Southeast Asian Nations. The agreements are expected to ease downward risks on the trade sector and facilitate Hong Kong to share its expertise in the services sector with countries along the new Silk Road (see below for details). In Macau, Policy Address 2018 reveals that the government will increase social benefits and improve infrastructure, which is expected to support domestic consumption and sustain growth in public investment. Besides, the government proposes to review the laws and regulations on the gaming industry. This reinforces our concern about the sustainability of VIP growth which has been fueled by credit extensions of junket operators. Finally, the government will enhance Macau's role as bridge between China and Portuguese-speaking countries, in order to facilitate Belt and Road Initiative.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Despite weaker economic data for October, China's 10-year government bond yield touched 4% for the first time since Oct 2014 last Tuesday before retreating to around 3.95%. This reveals fragile sentiment amid rising concerns about further crackdown on financial leverage.	▪ Last week, the PBOC injected a net CNY810 billion (largest since Jan 2017) via an open market operation, in an effort to calm the bond market rout. The action also helped to ease the tight liquidity condition amid corporate tax payments and the year-end effect. Despite that, we see little possibility of the PBOC altering its policy stance. Instead, the PBOC may continue to proactively manage liquidity by using tools like OMO and MLF while ensuring that their de-leveraging campaign remains on track.
▪ It is reported that even the large banks have already used up their loan quota for the fourth quarter in November 2017.	▪ Due to the PBOC's tightening bias and MPA assessment, even the large banks found loan quota insufficient against the backdrop of economic recovery and improved corporate sentiment. Whether the loan quota will be increased will be closely monitored. Given that containing financial risks remain the key focus of the central government, we expect de-leveraging campaign to continue and the PBOC to remain its tightening bias.
▪ The PBOC and the Ministry of Finance were	▪ If the rumour is true, it may add to a more stable RMB and the

reported to have reached an agreement, which allows issuers of panda bond to apply either IFRS or US GAAP for financial reporting.	reduced cost of hedging in bolstering the panda bond market which has been rather quiet so far this year.
▪ The PBOC announced draft rules to control risks in asset management industry. ▪ The PBOC plans to set debt ratio ceiling for publicly-offered products at 140% and private products at 200%, in an effort to standardize the regulation on same type of asset management products and therefore effectively control financial risks.	▪ The new regulation requires asset management companies to manage asset management products in terms of their net value. Under the regulation, the depository institutions and non-depository institutions which enjoyed implicit government guarantee will be punished accordingly. ▪ Financial institutions should not use the proceeds from sales of asset management products to directly or indirectly invest in credit assets of commercial banks. Financial institutions should manage various asset management products separately. ▪ The tenor of closed-end asset management product should not be lower than 90 days. ▪ Financial institutions should set aside 10% of the management fee as risk reserve. ▪ Non-financial institutions should not issue or sell any asset management products. ▪ Once the regulation is implemented, the transition period will end on 30 Jun 2019. ▪ The new regulation reinforces that the authorities' long-term goal is to contain financial risks, damp shadow banking and develop a holistic supervisory model.
▪ In Hong Kong, as IPO money returned to the market, liquidity condition improved (1-month HIBOR fell to 0.735% on Nov 17) and pushed USD/HKD up despite the broad weakness of the greenback.	▪ Moving forward, as major central banks remained cautious about tapering while equity inflows from China remained robust, we see little signs of capital outflows in HK. Given ample liquidity, USD/HKD may face some upward risks but could probably find strong resistance around 7.8100, as correction in HIBOR will be capped by year-end effect and rising expectations of Fed's Dec rate hike.
▪ Hong Kong signed a free-trade agreement and an investment deal on Nov 12 with the Association of Southeast Asian Nations (ASEAN).	▪ Hong Kong Commerce Secretary Edward Yau Tang-wah said ASEAN is Hong Kong's second-largest merchandise trading partner and fourth-largest partner in services trade. ▪ In fact, Hong Kong's trade sector has been under threat due to potential trade frictions between the US and China, the rise of China's ports and the latest free trade port plan in China. The free-trade agreement is expected to reduce the tariff burdened by Hong Kong's exporters and ease some downward risks on the trade sector. On the other hand, the agreement will cover services sector including professional services, commercial, telecom, education, financial, tourism, arbitration, construction, and so on. This may facilitate Hong Kong to share its expertise in the services sector with countries along the new Silk Road, in turn enhancing its role in the Belt and Road Initiative.
▪ According to Macau Policy Address 2018, the government will continue the Wealth Partaking Scheme while improve various social benefits, including raising the upper limit of rebate of personal income tax, increasing old age allowance and student allowance. ▪ As a result, the subsidies, allowances and wealth sharing will cost the government about MOP12.89 billion, higher than the cost of MOP12.352 billion for the previous fiscal year. Meanwhile, the implementation of the tax cuts, waivers and	▪ We expect a slew of increased social benefits will continue to support domestic consumption. Following the two typhoons, the government plans to improve infrastructure. Increasing infrastructure investment will likely contribute to economic growth in the coming years. ▪ On the gaming front, the government proposes to comprehensively review the laws and regulations on the gaming industry while encourage gaming operators to continue developing non-gaming businesses. Specifically, Macau regulators are reported to plan to start tightening the standards for junket-related business in January 2018 when

rebates is expected to reduce government tax revenue by MOP3.851 billion (more than MOP3.32 billion for the previous fiscal year).	they review operators' applications for new and renewed licenses. This reinforces our concern about the sustainability of VIP growth which has been fueled by credit extensions of junket operators. Policy risk and liquidity risk remain the main factors that would weigh down VIP segment. Therefore, we expect VIP segment to contribute less to gaming growth which is likely to decelerate to 10%-15% yoy in 2018. ▪ Regarding housing market, the government's plans to build around 9,500 public housing units in the short-to-medium term, 3,100 fewer than that proposed last year. Besides, application for home-ownership scheme housing is estimated to be resumed in coming two years. However, according to Macau Housing Bureau, the supply of public housing will still be limited in the coming years. Therefore, we see little downside in housing market in the near term despite prospects of higher rates. In the longer term, we will wait and see whether the proposed supply of 28,000 public housing units in the New Urban Zone Area A could help to drag down housing market. ▪ Finally, the government will focus on promotion of emerging industries, such as the convention and exhibition industry, traditional Chinese medicine industry and specialized financial industry (financial leasing). Also, the government will enhance Macau's role as bridge between China and Portuguese-speaking countries, in order to facilitate Belt and Road Initiative.

Key Economic News

Facts	OCBC Opinions
▪ Fixed asset investment growth decelerated further to 7.3% yoy in the first ten months from 7.5% yoy in the first nine months, albeit in line with expectations. ▪ On the other hand, growth in industrial production and retail sales fell short of expectations, decelerating to 6.2% yoy and 10% yoy in October from 6.6% yoy and 10.3% in September respectively.	▪ Over the first ten months, private investment and investment in manufacturing both grew at a slower pace by 5.8% yoy and 4.1% yoy partially due to higher borrowing costs and environmental policies. Meanwhile, October infrastructure investment growth moderated to 11.6% yoy amid curbed leverage of local governments. Furthermore, property investment growth softened to 7.8%, its weakest in 2017 given further tightened housing measures. We expect various policies will continue to weigh on fixed asset investment in the coming months and in turn cloud the growth outlook in 4Q17. ▪ The slowdown in industrial production growth in October was due to the deceleration of manufacturing output from September's 8.1% yoy to 6.7%. This is in line with softer exports growth and weaker manufacturing PMI resulted from softer external demand and internal production cut. Elsewhere, retail sales grew at the weakest pace in eight months, probably due to diminished wealth effect from a cooling housing market. Also, some households might have delayed their spending until single's day for more promotions. ▪ All in all, the tepid economic data reinforces our view that economic growth will moderate in 4Q17. Still, given the rosy economic activities over the first three quarters, our GDP growth forecast at 6.8% for 2017 remains unchanged.
▪ China's October financial data missed market expectations. Aggregate social financing rose by CNY1.04 trillion while total new Yuan loan increased at a much slower pace by CNY663.2	▪ Moderation of new yuan loan growth was mainly attributed to the softer increase in household leverage. Total medium to long term loan to household sector moderated to CNY371 billion, partially due to the further tightened property rules.

billion. Broad money supply M2 decelerated to 8.8% yoy, refreshing its record low.	Short term loan to household sector also slowed down notably from CNY253.7 billion in September to CNY79.1 billion in October as China has been keeping consumption loan from entering the property market. Medium to long term loan to corporate weakened to CNY236.6 billion. ▪ With regard to aggregate social financing, off-balance-sheet lending softened in October with entrusted loan, trust loan and undiscounted bankers' acceptances moderating to CNY4.3 billion, CNY101.9 billion and CNY1.2 billion from September's CNY77.5 billion, CNY236.8 billion and CNY78.2 billion respectively. After 19th Party Congress, market fret that de-leveraging campaign may intensify. This might have curbed expansion of off-balance-sheet lending. The renewed deceleration of M2 growth was also the result of the prolonged de-leveraging campaign. ▪ Lately, large banks are reported to have already used up their loan quota for the last quarter. As such, we expect credit expansion to remain benign in the rest of the fourth quarter. This indicates that the PBOC's tightening bias and the deleverage campaign might have taken effect in slowing economic activities. ▪ On the deposit front, foreign currency deposit marked its first monthly gain in October in three months. This confirms that RMB has entered a two-way movement mode. Elsewhere, fiscal deposit jumped by CNY1050 billion after sliding over the past two months. This is another reason behind the deceleration of M2 growth and helps to explain the latest tight liquidity condition.
▪ China's forex purchase rose for the second consecutive month by CNY2.098 billion in October. ▪ In addition, Chinese banks bought net CNY50.1 billion of FX from clients in October, more than doubling the amount of CNY21.8 billion in September.	▪ Both data prints confirm that China continued to witness mild capital inflows due to firmer expectations on RMB's two-way volatility. After the golden week holiday, individuals' demand for FX is likely to reduce in the rest of 2017. ▪ On the other hand, China's net purchase of dollar forward moderated to CNY41.4 billion in October from CNY49.5 billion in September. This indicates hedging demand stabilized after the removal of 20% reserve cost for forward contract. Therefore, downward risks to the RMB remain contained. All in all, we expect capital flows across the border to be more balanced even without central intervention. If this is the case, expectations on RMB's two-way movement in a tight range will be supported further.
▪ According to the Ministry of Commerce, outbound investment plunged by 40.9% yoy to USD86.31 billion over the first ten months of 2017.	▪ This indicates the curbs on irrational deals including overseas M&A activities in recreational sector or offshore property investment have taken effect. This also successfully helps to ease some downward pressure on the RMB.
▪ HK's unemployment rate decreased to its lowest since early 1998 at 3.0% for the three months through October 2017.	▪ Specifically, jobless rate of the trade sector improved notably from 2.9% to 2.6%, the lowest since 4Q 2015 due to improved trade activities. As the outlook of the trade sector remains positive in the run-up to Christmas Holiday, we expect trade sector's employment to keep elevated. In the consumption- and tourism-related sector, unemployment rate was unchanged at its lowest level since 4Q 2014 of 4.4% given tourism recovery and resilient domestic consumption. For other major industries, including financial sector and public sector, the unemployment rate also remained near its multi-year low. Hiring sentiments across all sectors have been upbeat amid strong economic growth at home and abroad.

	▪ All in all, we expect a solid labor market to sustain in the short-to-medium term. If this is the case, domestic consumption will remain supported and continue to contribute to economic growth. Tight labor market could also help to cap housing market correction which may be resulted from increasing supply, cooling measures and higher interest rates.
▪ Macau's housing transactions and approved new mortgage loans both dropped for the second consecutive month in September 2017 by 24.3% yoy to 665 deals and 47.5% yoy to MOP2.81 billion respectively. A quite housing market was due to new cooling measures and dampened investment sentiment following two typhoons. However, due to high new home prices, average housing prices rose by 6% mom or 22.9% yoy to MOP100,487/sq. m..	▪ Elsewhere, we note that housing completions surged by 1205% yoy during the first nine months of 2017. With more new home projects launched successively from late September onwards, we expect to see a rebound in housing transactions in the primary market, supported by stable labor market and rosy performance of domestic economy. In comparison, cooling measures and prospects for higher rates may continue to curb secondary housing market demand. Therefore, average housing price is expected to oscillate between MOP95,000 per square meter to MOP100,000 per square meter in the rest of 2017.

RMB	
Facts	**OCBC Opinions**
▪ RMB rebounded with a broad weakness of the greenback and was barely impacted by the bond market rout or the sluggish data prints out of China. Meanwhile, RMB fell against the basket currency with RMB index sliding slightly from 95.05 on Nov 10 to 94.7 on Nov 17. Still, the fixing rate remained in line with expectations.	▪ Post- 19th Party Congress and Trump's visit to China, RMB became less event-driven and more market-oriented. This means that RMB will continue its two way movement between 6.5-6.7, in line with the broad performance of the USD.

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