Highlights:

Financial stability remained the key word for Chinese market last week as various regulators started to digest the information from the top-level meeting and published their understanding about how to ensure financial stability. PBoC said that it will host the office for the newly established financial stability and development committee. This shows that PBoC is likely to play a leading role in coordinating regulatory policies. The comments from the CSRC also caught the market attention. The agency said in its website that experience and lessons show that the stability of capital market will hinge on central bank's monetary policy and financial stability mechanism. This also reinforced market belief that China's monetary policy carries multiple targets in addition to price stability. This probably will restrict PBoC's room to tighten monetary policy further.

China's central bank net injected CNY510 billion last week via reverse repo, largest weekly injection since Chinese New Year, to ease liquidity pressure. Meanwhile, given CNY540 billion reverse repo is going to mature this week, liquidity is likely to remain tight. We expect PBoC to remain flexible to inject liquidity via open market operation.

As Chinese economy continued to surprise the market on the upside, the economic risk is no longer the key concern this year in our view. Market has shifted their focus from systemic risk to company or industry specific risks as concerns about regulatory tightening in specific sectors heightens following the recent wave of news. The recent sold-off of Wanda and Wanda related stocks show that policy risk cannot be discounted this year.

China's mild capital outflows continued as net settlement of foreign exchange by banks on behalf of clients remained negative despite improving FX reserve. China's strategy to promote capital inflows and discourage capital outflows remain intact. The revised rules for foreign direct investment will take effect from 28 July, which will shorten negative list by one-third. In addition, the NDRC also said the respective regulators will continue to monitor some sectors' irrational overseas direct investment such as property, hotel, entertainment as well as sports club.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The National Development and Reform Commission (NDRC) said in its press conference that the revised rules for foreign direct investment will take effect from 28 July, which will shorten negative lists by one-third. ▪ In addition, it also said the respective regulators will continue to monitor some sectors' irrational overseas direct investment such as property, hotel, entertainment as well as sports club.	▪ China's strategy to promote capital inflows and discourage capital outflows remain intact despite stable FX reserve and currency outlook. The eased restriction for foreign direct investment is likely to attract more inflows. ▪ In addition, the year-on-year decline of outward direct investment in the first half of 2017 was mainly attributable to four factors including base effect, domestic factors such as returning confidence in domestic growth, external factors such as rising political uncertainty globally and regulatory factors such as increasing scrutiny on overseas investment. ▪ We think China will continue to encourage more capital inflows via easing restrictions in both business and financial areas.
▪ The surprising cancellation of the scheduled press conference after the conclusion of first US-China Comprehensive Economic Dialogue sparked speculation that both parties failed to reach agreement on how to narrow US's trade deficit with China.	▪ As a result of 100-day economic plan, China has opened its market to the US beef production. Meanwhile, the US Treasury department also said it made progress on financial services including credit ratings, bond clearing, electronic payments and commercial banking. ▪ However, given lack of further progress following the 100-day economic plan, the concerns about possible import tariff on Chinese steel products heightened again.
▪ Market shifted their focus from systemic risk to company or industry specific risks as concerns about regulatory tightening in specific sectors heightened following the recent wave of news.	▪ Bloomberg reported that commercial banks are asked by banking regulator to lower the yields offered for wealth management products. ▪ Meanwhile, the market talk about China has cut the funding channel for Wanda's overseas projects due to violation of capital control and investment rules also triggered the sell-off of Wanda related stocks and bonds including property developer Sunac, which agreed to buy assets from Wanda

	Group.
▪ PBoC said that it will host the office for China's financial stability and development committee.	▪ We expect PBoC to play a leading role in ensuring China's financial stability.
▪ CSRC said in its website that experience and lessons show that the stability of capital market will hinge on central bank's monetary policy and financial stability mechanism.	▪ As the development of financial market deepens, policy coordination becomes more essential given higher correlation among different asset classes. It seems that PBoC will play a leading role in ensuring China's financial stability. The comments from CSRC also reinforced market belief that China's monetary policy carries multiple targets in addition to price stability. This probably will restrict PBoC's room to tighten monetary policy further.

Key Economic News

Facts	OCBC Opinions
▪ The deficit in net settlement of foreign exchange by banks widened to US$20.9 billion in June, up from US$17.1 billion. ▪ However, settlement by banks on behalf of clients in forward contract increased to US$13 billion in June, resulting in a surplus of US$4.5bn.	▪ The rebound of dollar demand in June showed mild capital outflow remained despite improving FX reserve. This was probably the result of seasonal factor as more Chinese travelled overseas in Summer holiday. As such, we think outflows may continue in July due to school holiday. ▪ Nevertheless, the increasing demand for forward hedge of dollar receivable shows improving sentiment on RMB. This was echoed by relative stable willingness to sell foreign currency, which stood at slightly above 50%.
▪ HK's seasonally adjusted jobless rate reduced slightly to 3.1% in 2Q, its lowest level in more than three years.	▪ The trade sector's unemployment rate decreased from 3.2% to 3.1% and is expected to edge down further in the coming months due to rosy performance of the trade sector on the back of global recovery. The unemployment of the consumption- and tourism-related sector reduced from 4.8% to 4.7%, its lowest level since November 2015 amid improvement in tourism activities. For the construction sector, its jobless rate held unchanged at a one-year high of 4.8% and is expected to decrease slightly given a slew of new property and infrastructure projects. Strong economic growth at home and abroad may also support the overall hiring sentiments. However, we still believe that an expected housing correction in 2H will add downward pressure to the employment of some sectors, including the decoration, repair and maintenance for buildings sector whose unemployment rate decreased notably in 2Q. Despite that, we expect labor market to remain resilient throughout 2017.
▪ Macau's gross gaming revenue (GGR) grew at its fastest pace since 4Q 2013 and was up by 22% yoy to MOP 62.9 billion in 2Q. The strong growth was attributed mainly to the return of VIP demand. Since the share of VIP revenue (+34.8% yoy) has bottomed out in 2Q 2016, it rose steadily to its highest level since 1Q 2015 at 57%. In comparison, the share of mass-market segment's revenue (+7% yoy) dropped steadily to 38.1%.	▪ China's strong economic growth in 1H and junket operators' provision of credit extension to high rollers have supported the revival of VIP demand. Moving forward, an expected slowdown in China's growth and its cooling housing markets may deter Mainland high-stake players. In addition, as China and Macau increasingly stress on anti-money laundering initiatives, both VIP and mass market segments could face downward pressure. Elsewhere, the improving tourism activities on the back of global recovery may help to sustain the gradual growth of mass-market segment. All in all, we expect GGR growth to decelerate in 2H and register around 12% yoy in 2017.

RMB

Facts	OCBC Opinions
▪ RMB strengthened against the dollar further last week due to the sharp decline of dollar as a result of political uncertainty. ▪ However, RMB fell against its currency basket slightly and RMB index ended the week below 93.	▪ The fall of RMB index was mainly due to the sharp decline of dollar index in the global market. However, thanks to the counter cyclical factor, the pace of decline has been much smaller as compared to before. We think China may still try to maintain its RMB index relatively stable in the near term.

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