Highlights:

In an event-light week, focus has shifted to China's bond market. China's central bank removed one of the uncertainties faced by bond investors after it announced to buy CNY600 billion special bonds, which will be rolled over this week, in the secondary market on the day of issuance to minimize the impact on interbank liquidity as well as balance sheets of both central bank and commercial banks. However, bond investors continued to suffer from the liquidity uncertainty with 10-year bond futures fell for seven consecutive trading days after PBoC net withdrew CNY330 billion liquidity from the system last week. Although we think there is limited room for PBoC to tighten its monetary policy further, PBoC's reluctance to inject liquidity to the interbank market and approaching month-end effect are likely to keep overall funding costs remain elevated.

On currency, RMB strengthened against the dollar last week benefiting from weaker broad dollar although RMB's value against currency basket has been largely stable. The demand for CNH funding has been increasing due to onshore-offshore yield differential. The small spike of CNH TN last Friday supported the CNH. We see two reasons why there is the risk that RMB may appreciate against the dollar further. First, as onshore corporates and individuals have hoarded huge amount of dollar for the past two years, the potential unwind of long dollar position due to sentiment change may pose the risk for RMB to overshoot. Second, the possible repatriation of proceeds from the unwind of some overseas investments by Chinese conglomerates due to rising political cost may also provide support to RMB.

In Hong Kong, focus has shifted from HKD to economic data. We noted that trade activities slowed down in July. Whether global recovery could continue to boost external demand and further accelerate HK's exports growth will be closely watched. The rise of protectionism in the US also remains a concern. As low base effect is likely to fade away, growth in exports may moderate in coming months despite a weaker HKD. In Macau, GDP growth accelerated to 11.5% yoy in 2Q 2017, due to resilient private consumption, strong government investment and robust exports of services. However, an expected slowdown in China's growth in 2H, policy risks and the impact of Typhoon Hato may result in a slower growth in the tourism sector and the gaming sector. Therefore, we expect Macau's GDP growth to decelerate in 2H and print 8% approximately over 2017.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China announced the plan to rollover CNY600 billion maturing Special bond, including CNY400 billion 7-year bond, priced at 3.6% and CNY200 billion 10-year bond priced at 3.62%.	▪ The PBoC said in its website following the announcement of special bond that the issuance has no impact on China's interbank liquidity as the central bank is expected to buy CNY600 billion bonds in the secondary market on the day of issuance. As such, there will be no impact on balance sheets of both central bank and financial institutions.
▪ In the latest press conference last Friday, China's deputy commerce minister Wang Shouwen played down the concern that monopoly by SOE is the key hurdle for foreign investors to increase their investment in China.	▪ Although China's utilized foreign direct investment fell by 1.2% in the first seven months, the investment structure has improved with investment in high-tech manufacturing grew by 8.3% while investment in high-tech service sector jumped by 16.8%. ▪ China has issued the updated document in mid-August to attract more foreign direct investment via easing of restrictions. We think China will continue to lower its barrier to allow foreign investors to play a bigger role in China's reform and transformation including the recent mixed ownership reform. This is also in line with China's strategy to attract more capital inflows.
▪ China's central bank net withdrew CNY330 billion from the system last week.	▪ China's 10-year bond future has fallen for seven consecutive trading days due to tight liquidity ahead of massive maturing of NCDs. SHIBOR resumed its upward trend since August with 3-month SHIBOR climbed up by 12bps to 4.37% from low of 4.25%. ▪ Although we think there is limited room for PBoC to tighten its monetary policy further, PBoC's reluctance to inject liquidity to the interbank market and approaching month-end effect are likely to keep overall funding costs remain elevated.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's industrial profit growth decelerated slightly to 16.5% from 19.1%.	▪ The upstream companies have benefited from the sharp rebound of raw material prices driven by supply side reform. This explains why industrial profit by state holding enterprises has outperformed year to date, up by 44.2% yoy. ▪ Nevertheless, given there is no evidence of pickup of demand, we think downstream companies, in particular those private companies, may start to feel profit squeeze due to elevated raw material prices.
▪ HK's trade activities continued to move in tandem with China's, with both exports and imports expanding at a slower pace in July. Specifically, exports ticked up by 7.3% yoy (+11.1% yoy in June) while imports grew at its slowest pace since January 2017 by 5.5% yoy due to lower commodity prices. As a result, trade deficit narrowed notably from HK$48.3 billion in June to HK$29.6 billion.	▪ In terms of exports, the continuous gain was due to the increased overseas shipments to Asian countries including Mainland China (+8.8% yoy), Japan (+9% yoy), Taiwan (+23.5% yoy) and Singapore (+7.8% yoy). Nevertheless, the growth of exports to major trading partners receded on a broad-based basis. Whether global recovery could continue to boost external demand and further accelerate HK's exports growth will be closely watched. Additionally, exports to the USA (-0.6% yoy) are likely to remain subdued as Trump's talks and actions have reignited concerns over protectionism. Moving forward, as low base effect fades away, growth in both exports and imports may continue to moderate.
▪ Macau's tourism sector regained momentum with the number of visitor arrivals rising at a faster pace by 4.4% yoy in July, benefiting from the summer holiday season.	▪ The number of Mainland visitors was up by 9.6% yoy (its largest gain since March 2017) and accounts for 69% of total inbound visitors. Due to political issues between China and some Asian countries, Mainlanders increasingly prefer Hong Kong and Macau as their travel destination during holidays. Besides, visitors from Japan and South Korea continued to increase by 3% yoy and 42.6% yoy in July. A weaker MOP and the promotions offered by a slew of new hotels have continued to lure visitors from these two countries. However, despite the favorable factors, high transportation and accommodation costs appeared to have deterred visitors from Hong Kong (-9.6% yoy) and Taiwan (-0.3% yoy). ▪ Moving forward, Typhoon Hato which hindered the normal operations of hotels and casinos may result in a worse-than-expected performance in the tourism sector in August despite positive effect of summer holiday. As September is another off-season month, we expect tourism activities to slow down. This indicates that the mass-market segment of gaming sectors is only likely to exhibit moderate growth in coming months.
▪ Macau's GDP growth accelerated to 11.5% yoy in 2Q 2017, refreshing its strongest level since 1Q 2014. The sustained economic expansion was mainly attributed to resilient private consumption, strong government investment and robust exports of services.	▪ Specifically, exports of gaming services and those of other tourism services jumped by 19% yoy and 22.1% yoy respectively. As VIPs return, gaming sector exhibited rosy performance with gross gaming revenue rising 21.9% yoy in the second quarter of this year. Meanwhile, tourism activities revived as a weaker MOP and the promotions offered by new hotels have lured tourists from various Asian countries. The revival of the tourism sector has also supported the mass-market segment of the gaming sector. On the other hand, a slew of infrastructure projects under construction have translated into increased public investment (+73.1% yoy). Finally, private consumption increased at a faster pace by 3.4% yoy amid tight labor market. Moving forward, household

	spending is likely to sustain its momentum as muted price pressure could help to mitigate the impact of stagnant wage growth. Meanwhile, fiscal stimulus will likely continue to underpin government investment. However, exports of services may slow down as policy risks loom over the gaming sector while Typhoon Hato might have added transitory downward pressure onto the gaming and tourism sectors. Also, an expected slowdown in China's growth in 2H may weigh on the two sectors. On the other hand, private investment (-8.8% yoy) is expected to remain sluggish due to successive completion of mega entertainment projects. All in all, we expect economic growth to decelerate in 2H print 8% approximately over 2017.

RMB	
Facts	**OCBC Opinions**
▪ RMB strengthened against the dollar last week benefiting from weaker broad dollar. In addition, the small spike of CNH TN last Friday also supported the CNH. Both the USDCNH and USDCNY ended the week below 6.65.	▪ As a result of tighter than expected onshore liquidity, the demand for CNH funding has been increasing taking advantage of onshore-offshore yield differential. This provided some support to the CNH spot. ▪ In addition, we see two reasons why there is the risk that RMB may appreciate against the dollar further. First, as onshore corporates and individuals have hoarded huge amount of dollar for the past two years, the potential unwind of long dollar position due to sentiment change may pose the risk for RMB to overshoot. Second, the possible repatriation of proceeds from the unwind of some overseas investments by Chinese conglomerates due to rising political cost may also provide support to RMB.

OCBC Greater China research

Tommy Xie Xied@ocbc.com

Carie Li Carierli@ocbcwh.com