Highlights:

A more centralized power for Xi administration is probably the new line-up of China Communist Party's leadership for the next five years implied. We see three possible implications from economic perspective. First, quality of growth rather than speed of growth is more important for Xi administration. We expect a higher tolerance for a lower growth target in the next five years. Second, with new two-step targets extended all the way to 2050 to eventually develop China into a great modern socialist country, a steady growth is still needed though it is not as important as before. Third, we expect President Xi to step up his reform agenda with less resistance from vested interest group after the completion of power consolidation.

China's bond market entered a bear market despite China's strong issuance of dollar sovereign bond last week as well as PBoC's gesture to ease liquidity concern. The 11 times over subscripted with good participation from non-Asian investors is a confidence vote for China's economic outlook. However, this rosy economic outlook weighed down sentiment in China's bond market. The sell-off of China's onshore bond market worsened last Wednesday after rumors circulated that PBoC may cut down some banks' proportion of interbank liability in total liability to 25% from one third effective from 2018, which triggered concerns about the fresh round of financial de-leverage. However, in a rare occasion, PBoC denied the rumors in the same day. Nevertheless, bond yields remained bid up as a result of fragile market sentiment. The liquidity injection via innovative 63-day reverse repo for the first time to support banks' longer tenor funding needs also failed to stabilize sentiment. With the 10-year bond yield broke 3.8% last week, we think the room for further upside may have opened. Nevertheless, we do think it may be a good opportunity to enter China's bond market.

In Hong Kong, the HKMA did not act on Oct 24 as widely expected while USDHKD jumped as a knee jerk reaction. Despite that, HIBOR continued to tick up due to IPOs and month-end effect. We expect HIBOR to come off a bit on ample liquidity after the end of this month and after IPOs. If this is the case, the HKMA may still have intension to announce a third round of bill sales plan before Dec FOMC. Therefore, any correction is unlikely to bring the HIBOR back to its recent trough. For example, 1-month HIBOR may not retreat below 0.5%. Before the HKMA takes further action, we expect USDHKD to hover between 7.7950-7.8100. On the other hand, trade activities remained resilient in September. The entire electronic value chain in Asia may continue to benefit from global recovery. Therefore, we expect Asia's export to remain supported in the near term. This also indicates that HK's growth in 2H could be better than our previous expectation. Elsewhere, Hong Kong, Singapore and Shenzhen agreed to encourage collaboration on fintech development. This may help to stimulate an industrial upgrade across the Greater Bay Area and boost the area's growth.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China Communist Party concluded its 19th Party Congress and unveiled its new leadership team including its 25-member politburo and 7-member standing member of politburo for the next five years.	▪ We see three implications from economic perspectives. ▪ First, quality of growth rather than speed of growth is more important for Xi administration. In order to promote a fairer distribution of income as well as a greener economy, we think China is willing to sacrifice some of its growth rate. As such, we expect a higher tolerance for a lower growth target in the next five years. ▪ Second, as President Xi outlined a new two-step targets for the next 30 years from 2020-2050 to develop China into "a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful" after the completion of building China a moderately prosperous society in all aspects, we think a steady growth rate is still needed even though growth target is not as important as before. As such, we think China will continue its fine-balancing game. ▪ Third, most China watchers believe President Xi Jinping has completed his power consolidation following the release of 25-member politburo. So do we. A more centralized power is likely to pave the way for President Xi to push his reform agenda. With less resistance from vested interest group after the completion of power consolidation, we think it could be easier for the new leadership to step up their reforms and de-leverage to contain financial risk.

▪ China's first dollar sovereign bond issuance in 13 years received strong demand last week despite being unrated. ▪ The order book for US$2 billion issuance reached US$22 billion, 11 times over subscripted. The yield spread over US Treasury for 5-year and 10-year bond tightened to 15bps and 25bps respectively.	▪ The issuance of dollar sovereign bond will help China build its benchmark curve for dollar bond in the offshore market. In addition, the unrated issuance, which is a reaction to the rating downgrade by both Moody's and S&P this year, may also fine tune the game rule in the primary issuance market that rating may not be necessary for big country and big names. As such, the chance for some big Chinese SOEs to go ahead with unrated issuance in future cannot be ruled out. ▪ Overall speaking, the strong demand from non-Asian investors, which accounted for slightly more than 50% according to news report, is a confidence vote for China's economic outlook in addition to the result of scarcity value.
▪ China's bond market tumbled further last week due to concerns about tighter liquidity despite signal sent by PBoC that the central bank does not want to rock the boat via denial of rumours as well as the launch of 63-day reverse repo operation.	▪ The sell-off of China's onshore bond market worsened last Wednesday after rumors circulated that PBoC may cut down some banks' proportion of interbank liability in total liability to 25% from one third effective from 2018, which triggered concerns about the negative impact of financial de-leverage on bond market. However, in a rare occasion, PBoC denied the rumors in the same day. Nevertheless, bond yields remained bid up as a result of fragile market sentiment. ▪ The liquidity injection via innovative 63-day reverse repo for the first time to support banks' longer tenor funding needs also failed to stabilize sentiment. ▪ China's 10-year government bond yield broke 3.80% and is expected to test higher this week.
▪ According to the media, Hong Kong and Singapore have reached an agreement to encourage collaboration on fintech development. The first project is about applying blockchain to trade finance. In addition, HKMA's Chief Executive announced a slew of schemes to encourage collaboration between Hong Kong and Guangdong, including new schemes to facilitate the operation of Hong Kong fintech companies in Shenzhen, and vice versa.	▪ Promoting development of the high-tech industry and encouraging collaboration between Hong Kong and Guangdong are in line with the focus of the latest policy address of HK's new government. We expect further cooperation between high-tech companies across the border to stimulate an industrial upgrade across the Greater Bay Area and boost the area's growth.
▪ USDHKD jumped from 7.7985 to 7.8061 on Oct 24 as HKMA did not act as widely expected. Despite that, HIBOR continued to tick up amid IPOs and month-end effect. 1-month HIBOR has risen consecutively over the past two weeks to 0.702%, its highest level since January 2017.	▪ Moving forward, if HIBOR comes off a bit on ample liquidity after end of this month and after IPOs, the HKMA may still have intension to announce a third round of bill sales plan before Dec FOMC. On the other hand, expectations on Fed's Dec rate hike and global monetary tightening have been rising. Adding on year-end effect, the HIBOR is set to catch up with the LIBOR. All in all, we hold onto our view that the yield differential between HKD and USD has peaked. A narrowing interest rate gap will likely damp carry trade which shorts HKD for higher-yielding greenback. As such, we see little possibility of USDHKD surging towards its recent peak around 7.83 even with a broad USD strength. At this juncture, we expect the USDHKD to hover in the tight range of 7.7950-7.8100. Should the HKMA take action before Dec FOMC and the Fed proceed with a third rate hike in Dec FOMC, HKD's downward pressure could ease further with a narrower yield differential.

Key Economic News

Facts	OCBC Opinions
▪ HK inflation moderated to its lowest level since March 2017 and printed 1.4% in September 2017.	▪ As public housing rentals were adjusted upwardly in September 2016, housing inflation softened from 2.8% in

	August 2017 to 2.3% in September 2017 with the dissipation of low base effect. Meanwhile, the price index of educational services dropped by 3.4% yoy due to the launch of new subsidy schemes in 2017/18 academic year. Nonetheless, the easing of price growth in these two sections is transitory. Though durable goods price index continued to deflate by 3.3%, it is expected to see milder decline in the coming months with the launch of new iPhone devices. Also, low base effect may help to accelerate the inflation. Despite that, we expect muted external price pressures will continue to contain inflationary risks in HK. Therefore, CPI is expected to only print 1.6% yoy over 2017, the weakest growth since 2009. As such, benign inflation may help to offset the impact of tepid wage growth on private consumption.
▪ HK's trade activities remained robust with exports rising 9.4% yoy and imports increasing 9.7% yoy in September.	▪ Specifically, exports to the Mainland China, Japan, India, Taiwan and Vietnam grew by 7.5% yoy, 18.1% yoy, 30.8% yoy, 12% yoy and 16.9% yoy. More notably, overseas shipment to the USA rebounded by 4.1% yoy after sliding for two consecutive months. By commodity, exports of electrical machinery, apparatus and appliances, and electrical parts increased by 10.1% yoy while imports of electrical machinery, apparatus and appliances, and electrical parts climbed by 14.6% yoy. Meanwhile, China's imports and Southeast Asia's exports of similar commodity also expanded substantially. The entire electronic value chain in Asia may continue to benefit from global recovery. Therefore, we expect Asia's export to remain supported in the near term. This also indicates that HK's growth in 2H could be better than our previous expectation. However, the rise of protectionism in the US and Europe and China's free trade port plan may pose downward risk to HK's trade sector in the long term.
▪ Macau: the number of visitor arrivals merely increased by 2.4% yoy in September 2017 after the gambling hub was struck by two typhoons during late August 2017. Overnight visitors which represented 56% of total visitor arrivals increased by 5.4% yoy as hotel promotions helped to weather the impact of two typhoons.	▪ However, growth in South Korean visitors (68% were overnight tourists) softened notably from 30.8% yoy in August to 10.7% yoy in September. Also, tourists from Taiwan (52% were overnight tourists) decreased for the fourth consecutive month by 5.9% yoy. Visitors might have refrained from re-visiting Macau due to high accommodation costs. As the opening of a mega project was delayed until 1Q 2018, this might also have deterred some potential visitors. On the other hand, same-day visitors dropped for the fifth straight month by 1% yoy as the number of HK visitors (55% were same-day visitors) also slid for the fifth consecutive month by 14.3% yoy. High transportation cost is to blame for the loss of HK tourists. ▪ Moving forward, the number of visitor arrivals might have grown at a faster pace in October 2017 given an 11.6% yoy gain in inbound visitors during the golden week holiday. We expect the expansion of China's middle-class and a slew of new project openings in years ahead will help to provide more impetus for the tourism sector. Meanwhile, upon the completion of Hong Kong-Zhuhai-Macau Bridge, transportation cost hopefully could be reduced. At this juncture, we remain optimistic about tourism sector's outlook. Therefore, we also believe that the mass-market segment of the gaming centers will be able to benefit from a further increase in leisure gamblers.
▪ Macau's unemployment rate remained static at 2% in 3Q. However, all major sectors showed month-	▪ Specifically, employment in the construction sector dropped for the third consecutive 3-month periods by 2.3% mom as

on-month decrease in their employment as the two typhoons probably have tamed hiring sentiments.	mega projects completed successively. Meanwhile, gaming sector's employment fell 0.2% mom. Hotels, restaurants and similar activities cut jobs by 1.3% mom. For these two sectors, decrease in jobs was attributed to the delayed opening of a mega project until 1Q 2018. Furthermore, tepid tourism activities in 3Q amid bad weather were to blame for the reduction in retail sector's employment (-0.6% mom). Labor demand is expected to remain sluggish in 4Q and may regain momentum as a slew of new projects open in the coming years. Still, tight labor supply may allow unemployment rate to remain low around 2%.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened against the dollar last week as a result of stronger broad dollar. However, RMB outperformed other currencies with RMB index rebounded slightly to 95.02 last Friday.	▪ As RMB has entered a two-way movement trading mode, the recent weakness against the dollar amid dollar strength is in line with market expectation. Given RMB has outperformed other currencies from its major trading partners, we think the recent move is unlikely to put RMB back into spotlight. Again, we think RMB's near term move will still depend on the broad dollar movement.

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