Highlights

In last week's IMF and World Bank annual meeting in Bali, PBoC Governor Yi Gang reiterated to maintain a prudent and neutral monetary policy. However, he also said there is still ample room to implement monetary policy including interest rate, reserve requirement ratio and financial condition, signalling that RRR cut remains as an option to counter any external shock.

Yi Gang also met with US Treasury Secretary Mnuchin and Fed Chairman Powell. There is very limited information from the meeting except that Mnuchin said he wanted to discuss the currency with China as part of trade talks. The Trump Administration may continue to press China to make concessions ahead of possible meeting between President Xi and President Trump in late November in G20 meeting. The focus is likely to shift to US Treasury semi-annual report due today on whether US will name China as currency manipulator.

The impact of trade war on China's trade data was still contained. China's trade surplus with the US hit another record high in September. This was partially attributable to frontloading activities by China's export to US as the latest batch of tariff on US$200 billion Chinese goods only took effect from 24 September. China's State Council announced to increase export tax rebate effective from 1 November. The increase of export tax rebate will be 1%-5% depending on the items. This will continue to limit the shock to China's growth.

On currency, RMB weakened last week with the USDCNY stood above 6.90 handle comfortably after the USDNCY fixing was set above 6.90 for three consecutive days. PBoC's gesture to follow the fixing rule to allow the USDCNY daily fixing above 6.90 shows that China may turn more flexible to allow market to play a bigger role in deciding the currency value. Nevertheless, in the near term, we still doubt China will let the USDCNY 7 go as the break of key psychological level of 7 following the launch of counter cyclical measures within a short timeframe may dampen market confidence in China.

In **Hong Kong,** 2018 Policy Address mainly focuses on the prolonged housing problems. Specifically, the government will raise the public-to-private housing ratio and ensure that 70% of the housing units on government's newly developed land will be for public housing. On top of the existing public housing schemes, the government will increase land supply for public housing development by land reclamation in next 20-30 years, studying on brownfield operations and introducing "Land Sharing Pilot Scheme". Given the prospects of increasing land supply and public housing supply, we expect private housing demand to soften, especially with rising borrowing costs, volatile stock market and trade war concerns. In the coming year, private housing transactions are expected to remain muted. Private housing prices may continue sliding and drop by 5% qoq in 4Q18. On the other hand, land reclamation, public housing construction and the "Lantau Tomorrow Vision" project together will bolster public investment and cushion the downside growth risks amid trade war and global monetary tightening. Elsewhere, USDHKD spot rose by nearly 100pips within one week to around 7.8350 on 12th October due to flushed front-end funding. However, we see limited downside for 1M HIBOR and 3M HIBOR which may find support at 1.5% and 2% respectively. If this is the case, USDHKD spot may not touch 7.85 in the near term. On the other hand, it is also unlikely for either HIBOR or HKD to jump so strongly as they did in late September. On the HIBOR front, the HK$76.5 billion aggregate balance and the lack of large IPOs could help to cap the upside for HIBOR. In terms of HKD, before HK's monetary base shrinks further, any narrowing or inverting of USD-HKD yield differential may not sustain. This combined with stock market correction may constrain HKD's rally.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ PBoC Governor Yi Gang said China is able to achieve its growth target of 6.5% in 2018. ▪ On policy, he reiterated to maintain a prudent and neutral monetary policy. However, he also said there is still ample room to implement monetary policy including interest rate, reserve requirement ratio and financial condition. ▪ On trade war, China has been preparing for the worst. ▪ On reform, China will continue to open its service sector, in particular financial services.	▪ Governor Yi has met both US Treasury Secretary Mnuchin and Fed Chairman Powell in Bali last week as well as conduct a number of media interviews. ▪ Although Yi has reiterated to maintain its neutral monetary policy, it seems that RRR cut remains as an option to counter any external shock. ▪ Meanwhile, China may also let market to play a bigger role in deciding currency value as China will not use RMB as the weapon for trade war. In the longer run, China may turn more flexible to allow the USDCNY to drift higher to above 7 against the backdrop of strong dollar.
▪ China's State Council announced to increase export tax rebate effective from 1 November. The increase of export tax rebate will be 1%-5% depending on the items.	▪ It has been the second export tax rebate since September after the escalation of US-China trade war. The export tax rebate is the most effective way to counter the negative impact of trade war on Chinese exporters to stabilize the job market. As such,

	we think the near term shock to Chinese growth is likely to be limited.
▪ Shanghai unveiled a new negative list for service trade effective from 1 November. The negative list will pave the way for foreign investors to participate in China's opening of financial sector.	▪ This also echoed PBoC Governor Yi Gang's opinion to further open China's service sector in Bali. The open of China's service is likely to attract more demand for China's assets, which may stabilize the sentiment.
▪ The Trump Administration may continue to press China to make concessions ahead of possible meeting between President Xi and President Trump in late November in G20 meeting. The focus is likely to shift to US Treasury semi-annual report on whether US will name China as currency manipulator.	▪ It is clear that China does not meet the criteria of currency manipulator based on the current assessment as China's current account surplus as % of GDP has fallen below 3% and China's current intervention is to stop RMB from depreciation rather than appreciation. ▪ There is very limited information from the meeting between PBoC Governor Yi Gang and US Treasury Secretary Mnuchin in Bali last week. Nevertheless, given Mnuchin has said he wanted to discuss the currency with China as part of trade talks, the risk for US to name China as currency manipulator cannot be ruled out.
▪ USDHKD spot rose by nearly 100pips within one week to around 7.8350 on 12th October. The rebound is mainly due to flushed front-end funding after China's golden week holiday when tight CNH liquidity had spill-over effect on HKD liquidity. 1M HIBOR dropped from 1.81% on 9th October to 1.61% on 12th October. 3M-1M HIBOR spread widened notably from 36.9bps to 49.7bps within a week.	▪ Nonetheless, we believe that the spread will not deviate too much from the five-year historical average of 25bps. Besides, the current level of HIBOR should reflect the banks' higher funding costs following September's hike in savings deposit rate. Finally, banks may tend to hoard some money in anticipation of rising volatility of deposits after the launch of "Fast Payment System". Therefore, at this juncture, we still see limited downside for 1M HIBOR and 3M HIBOR which may find support at 1.5% and 2% respectively. If this is the case, USDHKD spot may not touch 7.85 in the near term. ▪ On the other hand, it is also unlikely for either HIBOR or HKD to jump so strongly as they did in late September. On the HIBOR front, the HK$76.5 billion aggregate balance and the lack of large IPOs could help to cap the upside for HIBOR. In terms of HKD, before HK's monetary base shrinks further, any narrowing or inverting of USD-HKD yield differential may not sustain. This combined with stock market correction may constrain HKD's rally.
▪ HK's 2018 Policy Address mainly focuses on the prolonged housing problems.	▪ Specifically, the government will raise the public-to-private housing ratio and ensure that 70% of the housing units on government's newly developed land will be for public housing. On top of the existing public housing schemes, the government will increase land supply for public housing development by land reclamation in next 20-30 years, studying on brownfield operations and introducing "Land Sharing Pilot Scheme". Given the prospects of increasing land supply and public housing supply, we expect private housing demand to soften, especially with rising borrowing costs, volatile stock market and trade war concerns. In the coming year, private housing transactions are expected to remain muted while private housing prices may continue sliding and drop by 5% qoq in 4Q18. ▪ On the other hand, land reclamation, public housing construction and the "Lantau Tomorrow Vision" project together will bolster public investment. HK's Chief Secretary for Administration estimates that government's infrastructure investment will remain high at HK$250 billion-HK$300 billion per year over the next five years and exceed HK$1 trillion in the coming tem years. This may help to cushion the downside growth risks amid trade war and global monetary tightening. ▪ Elsewhere, the government aims to diversify the economy by

	providing financial support for innovation and technology including re-industrialization. On the other hand, following the launch of fast payment system, further development of financial technology on the back of government support could provide new impetus for the financial services sector in the coming years. ▪ Finally, to pave way for sustainable long-term growth, the government strives to bolster development in education, ease ageing problem and increase collaboration with China.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's trade data beat market expectation in September. ▪ Total export growth in dollar term reaccelerated to 14.5% yoy while import grew by 14.3% yoy. ▪ As a result of stronger export growth, China's trade surplus widened to US$31.69 billion in September from US$27.89 billion in August.	▪ A weaker currency is helpful but is not the main reason for September's outperformance of export growth in my view. If you look at China's RMB index, which is RMB's value against its major trading partner, RMB index has rebounded slightly in September after hitting the bottom in August. This suggests there is limited additional support from currency factor to trade in September as compared to August. ▪ The strong trade data was partially attributable to frontloading activities by China's export to US as the latest batch of tariff on US$200 billion Chinese goods only took effect from 24 September. This probably explains China's record trade surplus with the US. My guess is that China's trade with the US is likely to decelerate in October. Nevertheless, a 10% tariff is unlikely to kill the trade with the US at the current stage, therefore the deceleration is likely to be contained. ▪ In addition, it seems global trade has not been distorted by the recent noises from US-China trade war, China continues to enjoy the strong demand from other advanced economies. For example, export growth to Japan and EU accelerated to 14.3% yoy and 17.4% yoy respectively in September from 3.7% yoy and 8.4% yoy in August.
▪ Macau's housing transaction volume and average housing price both increased for the third consecutive month and was up by 27.1% yoy and 4.7% yoy respectively to 829 deals and MOP99,254/square meter in August. During the same month, approved new residential mortgage loans surged by 128.9% yoy to MOP7.3 billion, slightly lower than the four-year high of MOP7.4 billion in June 2018.	▪ Taken all together, it reveals that housing market remained resilient. On the back of supportive housing measure, local first-home buyers who accounted for 86% of total housing transactions continued to be the main driver of recent housing market growth. As the new policy allowed local first-home buyers to borrow up to 90% of their property value from banks, mortgage loans also showed substantial increase. ▪ Moving forward, with regard to demand, the new housing measures may continue to tame speculation demand. In addition, stock market correction and higher borrowing costs together may dent overall housing demand despite the supportive measure. As such, we expect the growth of mortgage loans and housing transaction volume to soften in the near term. However, on the supply front, housing completion and housing start dropped by 41% and 69% to 2037 units and 945 units respectively during January to August. This signals slow increase in new housing supply, which could keep housing prices elevated. Therefore, average housing prices are expected to hover around MOP100,000/square meter.
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RMB	

Facts	OCBC Opinions
▪ RMB weakened last week with the USDCNY stood above 6.90 handle comfortably after the USDNCY fixing was set above 6.90 for three consecutive days. ▪ RMB index depreciated slightly to 92.38 from Monday's 92.80.	▪ PBoC's gesture to follow the fixing rule to allow the USDCNY daily fixing above 6.90 shows that China may turn more flexible to allow market to play a bigger role in deciding the currency value. Nevertheless, in the near term, we still doubt China will let the USDCNY 7 go as the break of key psychological level of 7 following the launch of counter cyclical measures within a short timeframe may dampen market confidence in China.

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