Highlights

In a rare case, all four China's top financial regulators came out on the same day to calm down the market after the sharp decline of China's equity market. All regulators delivered the same message that the recent sell-off of equity market has deviated from China's economic fundamental significantly. China's Vice Premier Liu He announced five measures to support equity market. The measures are very targeted to tackle the source of market volatility. To recall, the recent market volatility was mainly driven by weak sentiment arising from trade war, concerns about China's SOE reform as well as technical issue such as the margin call of share pledged financing.

On data, China's growth decelerated more than expected in the third quarter. Despite a strong headline number for credit expansion in September, the underlying details show a weak lending appetite from the banks as a result of rising uncertainty from both external and domestic shocks.

As such, China may start to unwind some of the previous tightening measures. China loosens its grip on off-balance sheet non-standard financing under the new wealth management rule by removing the cap on bank wealth management subsidiary's investment in non-standard debt assets as being less than 4% of total bank assets. The fine-tuning of the wealth management rule is likely to put a brake on the recent decline of off-balance sheet lending activities. This may offset the weak credit expansion.

Overall, it is clear now that growth tops the priority again. Between interest rate and currency, China is unlikely to guide interest rate higher to defend the currency. Given that the PBoC has started to play down the importance of key psychological level, the break of 7 for the USDCNY is no longer unthinkable even though we still think the USDCNY will stay below 7 for 2018. Looking into 2019, China may eventually have to let 7 go as between the sharp slowdown of the economy and the break of 7, the latter is probably the lesser evil.

In Hong Kong, USDHKD spot broke the key psychological level of 7.8400 amid stronger USD and wider USD-HKD yield differential. Given the hawkish FOMC meeting minutes, rising expectation of much more Fed rate hikes droved USD rates up across the board. 3M USD LIBOR rose to the highest level since late 2008 at 2.469%. In contrast, front-end HKD liquidity continues to ease due to the lack of seasonality and large IPOs. 3M HIBOR fell slightly from 2.11% on 12th Oct to 2.099% on 19th Oct. As such, 3M LIBOR and 3M HIBOR spread widened to 36.85bps, the largest since late Aug. Nonetheless, after the savings rate hike by all HK commercial banks, we expect to see limited downside for the HIBOR. Adding on month-end effect, 1M HIBOR and 3M HIBOR will likely find support at 1.5% and 2% respectively in the near term. In the coming months, HIBOR may move up again gradually amid month-end & year-end effect, large IPOs in late 2018 and renewed prime rate hike expectation in Dec. On the other hand, USD LIBOR's increase may be gradual, in tandem with the Fed's gradual rate hike pace. Therefore, LIBOR and HIBOR spread may not widen significantly. At this juncture, we see little possibility of HKD touching the weak end of the trading band. Elsewhere, the CCL index which tracks secondary housing prices dropped for the three consecutive weeks and was down by 0.1% week-on-week for the week ended 12th Oct. The data print may not yet reflect the impact of US-China trade war escalation in September, the 2018 policy address and recent stock rout. This means that more downside for the housing price index is possible in the coming months.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In a rare case, all four China's top financial regulators including Vice Premier Liu He, CBRIC chief Guo Shuqing, PBoC Governor Yi Gang and CSRC chief Liu Shiyu, came out on the same day to calm down the market after the sharp decline of China's equity market. ▪ All regulators delivered the same message that the recent sell-off of equity market has deviated from China's economic fundamental significantly. ▪ The PBOC's Governor Yi Gang said the central bank will study measures to ease companies' financing difficulties and to boost banks' credit expansion. The head of the China Securities Regulatory Commission Liu Shiyu said they would encourage local government-backed funds to help weather the risks	▪ The recent market volatility was mainly driven by weak sentiment arising from trade war, concerns about China's SOE reform as well as technical issue such as the margin call of share-pledged financing. ▪ The message from China's top regulators are very targeted to tackle the source of volatility. For example, China's banking and insurance head Guo Shuqing has asked banks to take a more cautious stance when unwinding the share-pledged financing. The PBoC has also worked with local governments to come out more measures to support liquidity needs of local companies. Meanwhile, Vice Premier reiterated China's commitment to SOE reform and denied that SOEs are nibbling the space of private-owned companies. The reassurance from Liu He on SOE reform may restore market confidence.

stemming from share-pledged financing. The head of the China Banking and Insurance Regulatory Commission Guo Shuqing noted that recent abnormal fluctuations in markets don't reflect China's economic fundamentals and its stable financial system. China's vice premier Liu He called for more efforts in propelling healthy stock-market development and opined that equity valuations had fallen to historically cheap levels.	▪ With top officials trying to talk up the market, on 19th Oct, northbound net inflows under two stock connects marked RMB45.34 billion, the strongest since 20th September. ▪ Nonetheless, any verbal intervention could turn out to be ineffective in the medium term if fundamentals fail to warrant a sustainable rebound. Looking ahead, market will continue to monitor how Chinese economy weathers the external shocks from trade war as well as weak domestic investment.
▪ China's Vice Premier Liu He announced five measures to support the equity market.	▪ First, the CBIRC will allow the wealth management products sold by banks' wealth management subsidiaries to be directly invested in China's equity market. ▪ Second, China will increase its supports for tech company to raise money via equity financing. ▪ Third, China will allow insurance company to invest in good company as a long-term strategic investor. Insurance companies will also be allowed to design special products to alleviate the liquidity risk arising from share-pledged financing. ▪ Fourth, China will speed up the SOE reform and support the funding needs of private-owned companies via bond and equity financing. ▪ Fifth, China will continue to broaden its opening and reform in particular the financial service sectors including banking, security and insurance. ▪ These measures are very targeted to tackle the recent source of market volatility.
▪ China loosens its grip on off-balance sheet non-standard financing.	▪ The new wealth management rule removes the cap on bank wealth management subsidiary's investment in non-standard debt assets as being less than 4% of total bank assets while remains the cap of less than 35% of the wealth management products' net capital. The fine-tuning of the wealth management rule is likely to put a brake on the recent decline of off-balance sheet lending activities. This may offset the weak credit expansion.
▪ US Treasury Department did not label China as a currency manipulator as widely expected in its semi-annual FX report. However, they are concerned about China's lack of currency transparency and the recent weakness in the RMB. Also, they will monitor whether all the potential currency manipulators try to stem their currency's weakness in the same way as they curb its strength.	▪ As China is still on the monitoring list of potential currency manipulators, the PBOC may continue to reiterate its reluctance to use RMB as a retaliation tool to the trade war and stress the role of market in determining the price of RMB. The increasing flexibility of the PBOC with regard to the RMB indicates that the currency could fall further should the broad dollar continue to strengthen.
▪ USDHKD spot broke the key psychological level of 7.8400 amid stronger USD and wider USD-HKD yield differential. Given the hawkish FOMC meeting minutes, rising expectation of much more Fed rate hikes droved USD rates up across the board. 3M USD LIBOR rose to the highest level since late 2008 at 2.469%. In contrast, front-end HKD liquidity continues to ease due to the lack of seasonality and	▪ Nonetheless, after the savings rate hike by all HK commercial banks, we expect to see limited downside for the HIBOR. Adding on month-end effect, 1M HIBOR and 3M HIBOR will likely find support at 1.5% and 2% respectively in the near term. ▪ In the coming months, HIBOR may move up again gradually amid month-end & year-end effect, large IPOs in late 2018 and renewed prime rate hike expectation in Dec. On the other hand, USD LIBOR's increase may be gradual, in tandem with the Fed's gradual rate hike pace.

large IPOs. 3M HIBOR fell slightly from 2.11% on 12th Oct to 2.099% on 19th Oct. As such, 3M LIBOR and 3M HIBOR spread widened to 36.85bps, the largest since late Aug.	▪ As such, LIBOR and HIBOR spread may not widen significantly. At this juncture, we see little possibility of HKD touching the weak end of the trading band.

Key Economic News	
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▪ Despite stronger than expected headline figures, China's September finical and credit data shows rising uncertainty from funding side. ▪ China's aggregate social financing rose to CNY2.2 trillion in September, beating the expectations of CNY1.55 trillion, and August's CNY1.52 trillion. ▪ New yuan loan rose to CNY1.38 trillion in September from CNY1.28 trillion in August and also surprised to the upside. ▪ Broad money supply M2 reaccelerated to 8.3% yoy in September from 8.2% yoy in August.	▪ The rebound of aggregate financing was mainly due to the inclusion of special local government bond issuance which increased by CNY738.9 billion. Off-balance sheet lending activities continued to shrink with entrusted loan, trust loan and banker's acceptance falling by CNY143.6 billion, CNY90.9 billion and CNY54.6 billion respectively. Total outstanding of off-balance sheet lending continued to fall by 6.3% yoy in September. The increase of corporate bond issuance also shrank from CNY337.6 billion in August to CNY11.5 billion. ▪ In addition, despite new Yuan loan increased by CNY1.38 trillion in September, total medium to long term loan to corporate only increased by CNY380 billion, much lower than that in September 2017. The weaker than expected loan support to corporates despite easing monetary policy shows weak lending appetite as a result of weak sentiment. ▪ Taken all together, it indicates that credit growth remained muted despite the accommodative monetary policy as previous de-leveraging efforts continued to take effect. ▪ One of the biggest surprises from the September credit data is the sharp decline of foreign currency deposit despite, which fell by US$22.9 billion, despite RMB depreciation. China's onshore foreign currency deposits has been falling for six consecutive months. This is probably due to China's window guidance. From positive perspective, China is likely to rely on administrative measures to contain dollarization pressure.
▪ China's 3Q GDP expanded by 6.5% yoy, slower than 6.7% yoy in 2Q and shy of the expectations of 6.6% yoy. ▪ Main economic indicators painted a rather mixed picture in September. Fixed asset investment growth during January to September rebounded to 5.4% yoy from 5.3% yoy in the first eight months. ▪ Retail sales growth also rebounded to 9.2% yoy in September from 9.0% yoy in August. ▪ Industrial production growth decelerated to 5.8% yoy in September from 6.1% in August.	▪ Growth in the secondary industry slowed down from 6% yoy in 2Q to 5.3% yoy in 3Q, dragging down overall economic growth. Due to rising uncertainty from the US-China trade war, manufacturing output growth slowed down to 5.7% yoy in September, slightly weaker than the headline industrial data. This echoes the weaker manufacturing PMI in September. On a positive note, despite the external shocks, fixed asset investment in manufacturing growth rebounded to 8.7% yoy in the first nine months from 7.5% yoy. ▪ Property related data also remained stable. Fixed asset investment in property grew by 9.9% yoy during January to September, down slightly from 10.1% yoy in the first eight months. In addition, retail sales of building & decoration material and furniture grew by 8.4% yoy and 9.9% yoy respectively in September. ▪ However, despite more proactive fiscal policies and the increased issuance of special local government bond issuance, the growth of infrastructure investment still decelerated to the record low of 3.3% yoy from 4.2% yoy probably due to the shrinking of off-balance sheet lending. This may prompt more fiscal and monetary stimulus to boost infrastructure investment which has been a main drag on economic growth.

▪ China's CPI accelerated to 2.5% yoy in September from 2.3% yoy in August while PPI decelerated to a five-month low of 3.6% yoy from 4.1% in August.	▪ The slightly higher than expected CPI was mainly the result of higher food prices and rental prices. Food prices increased by 2.4% mom in September with vegetable prices and fruit prices increasing by 9.8% mom and 6.4% mom respectively due to bad weather and seasonality. In addition, housing inflation continued to grow by 0.4% mom amid rising rental prices. ▪ With the weather effect and seasonality waning gradually, we expect inflation to stabilize below 3% for the rest of the year. On the other hand, we believe that trade war will have limited impact on China's inflation as China's CPI has a low correlation with import prices historically. As such, inflation is unlikely to be the constraint to China's monetary policy. ▪ On the PPI front, though raw material prices rebounded, China's PPI growth continued to decelerate due to high base effect. We expect China's PPI to fall further in the coming months.
▪ China's yuan foreign exchange positions fell by CNY119.4 billion mom to CNY21.4 trillion in September.	▪ This together with the decreased foreign exchange reserve in September suggests gradual capital outflows from China due to trade war concerns, economic slowdown and a weaker RMB. As the PBOC becomes more flexible about the RMB, we expect the currency to depreciate further should broad dollar continue to strengthen. If this is the case, it is possible to see further capital outflows, albeit at a gradual pace as cross-border flows remain well managed.
▪ HK's CCL index which tracks secondary housing prices dropped for the three consecutive weeks and was down by 0.1% week-on-week for the week ended 12th Oct.	▪ The data print may not yet reflect the impact of US-China trade war escalation in September, the 2018 policy address and recent stock rout. This means that more downside for the housing price index is possible in the coming months. ▪ Housing demand is expected to soften gradually in the near term. First, bearish stock market may reduce wealth effect and in turn dampen investment demand. Due to rising USD rates, US-China trade war and China's economic slowdown, Hang Seng Index slid for the fourth consecutive week and was down by 8% month-to-date on 19th Oct. Second, the prospect of rising borrowing costs will continue to weigh on housing demand. Third, as the government plans to increase public housing supply, housing demand may shift from private sector to public one. All in all, we expect housing prices to drop by 5% qoq in 4Q.
▪ HK's jobless rate stabilized at an over twenty-year low of 2.8% in 3Q 2018.	▪ Zooming in, the unemployment rate of retail sector increased to 4% from a more than 6-year low of 3.9% in Jun-Aug. This is due to muted outlook of the retail sector as tourist spending and local consumption might have been weighed down by stock market correction, trade war concerns and muted economic outlook. ▪ On the other hand, trade sector's jobless rate decreased from 2.5% in Jun-Aug to 2.4% in 3Q. The resilient labour demand of the trade sector may be attributed to the front-loading of trading activities before US-China trade war accelerates. Nevertheless, we may gradually see the impact of the escalating US-China trade conflict on HK's trade sector as well as its employment. ▪ Moving forward, the concerns over trade war, China's economic slowdown and global monetary tightening could be headwinds to HK's economy and its labor market. We expect jobless rate will climb to 2.9% in the coming quarter.

▪ Macau's gross gaming revenue increased by 10% yoy in 3Q 2018 to MOP73.8 billion, marking the slowest growth since 1Q 2017.	▪ The muted performance of the gaming centres was mainly attributed to the World Cup betting and Typhoon Mangkhut. By segment, the growth of mass-market revenue remained static at 20.5% yoy whereas that of VIP revenue decelerated notably to 3.6% yoy (the lowest since 3Q 2016). This indicates that other than bad weather and the World Cup, China's economic slowdown might have also weighed down Macau's gaming revenue growth through denting VIP gambling demand. As such, the share of VIP revenue dropped to 54.3%, the lowest since 3Q 2016. ▪ Moving forward, we are wary of further slowdown in VIP revenue growth due to trade war concerns, weaker RMB and higher borrowing costs. ▪ On a positive note, the HK-Zhuhai-Macau Bridge is reported to commence operation on 24th October. This may help to weather some impact of Asia's muted growth and stronger MOP on Macau's tourism as well as the mass-market gaming. Still, the gross gaming growth driven by mass-market is expected to be weaker than that led by VIP demand amid lower betting amount. All in all, we expect gross gaming revenue to grow by about 15% yoy in 2018 and by 2%-5% yoy in 2019.

RMB	
Facts	**OCBC Opinions**
▪ RMB remained under pressure last week as there is rising consensus that PBoC may eventually let 7 go for USDCNY. ▪ RMB index briefly broke 92 intraday though the index based on daily fixing remained above 92 for now.	▪ Given that the PBoC has started to play down the importance of key psychological level, there is increasing consensus that the break of 7 is inevitable. This consensus may continue to push the USDCNY higher regardless of broad dollar movement. This may also add pressure to RMB index. ▪ Clearly, PBoC will continue to face the challenge whether China should defend the RMB index at 92 in the coming weeks.

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