Summary

Although the prospect of Chinese economic growth remains murky due to weak private investment and uncertain global environment, the focus of top policy makers twisted a bit last week with the word of "asset bubble" started to dominate the market sentiment. It is the first time for top leaders in the Politburo meeting to openly vow to curb asset bubbles after property prices and land prices in tier-1 and tier-2 cities soared recently. In addition, China's banking regulator and Security regulator started to revisit the rules on wealth management products and refinancing activities from listed property companies as part of campaign to contain asset bubbles.

China's equity market reacted negatively to the talk of asset bubbles by top leaders as well as the drafted tightened wealth management product rules. For bond investors, the impact is more mixed. The talk of asset bubble may further cap the monetary easing expectation; however, the restriction of wealth management product to invest in equity market may benefit the bond market. Given the lack of investment channels amid low interest rate environment and still weak growth expectation, we expect liquidity may continue to flow to bond market, which may lend support to bond prices. On currency front, RMB took the back seat last week as the global focus shifted to Fed and BOJ meetings. The retreat of USD on less hawkish Fed and surge of JPY on less dovish BOJ further lent the support to RMB sentiment. The RMB fixing is likely to strengthen further to test 6.60 should dollar remain weak.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Politburo flagged concerns about asset bubble and vowed to curb asset bubbles.	▪ It is the first time for top leaders to flag concerns about the asset bubble in the Politburo meeting. Although the meeting did not specify the details about the asset bubble, the consensus view is that it may target the hot property market in tier-1 and some tier-2 cities. ▪ China's equity market reacted negatively to the message from Politburo meeting as well as the new drafted rules about the investment scope of wealth management products. ▪ We see three implications from the message from Politburo. First, the differentiated property policies are likely to continue. De-stock of housing inventory in lower tier cities are likely to be the main policy focus while property cooling measures will continue in tier-1 and tier-2 cities. Second, the pledge to curb asset bubble also shows China's intention to shift away from old investment growth model to service and consumption driven economy with the help of supply side reform. Third, China is likely to remain cautious on further monetary easing. As such, our view about no interest rate cut and only one RRR cut remain intact for the second half of 2016.
▪ China may tighten its rules on wealth management products further according to a draft regulation unveiled by local media. ▪ Equity market fell due to concerns that the new rules may curb the capital inflows into equity market.	▪ A few highlights from the latest draft rules. ▪ ***First,*** wealth management products issued by smaller banks with net capital less than CNY5 billion are only allowed to invest in money and bond markets. ▪ ***Second,*** even for bigger banks, the wealth management products are also not allowed to invest in equity directly and indirectly except for high net worth investors. ▪ ***Third,*** leverage of wealth management will be capped. Total assets of single wealth management product are not allowed to exceed 140% of net assets, aiming to curb leverage. ▪ As of end of 2015, total outstanding of wealth management products has reached CNY23.5 trillion with close to 8% are invested in equity market. As such, the impact on capital inflows to equity market may be trillions. ▪ We think the new draft rules clearly pointed to contain financial risk arising from leverage. We see three possible implications. First, the return from wealth management

	products is likely to fall further. Second, as the wealth management products investing in equity market are only allowed to issue to high net worth clients, China may eventually break the implicit guarantee of those products. Third, as the result of restrictions to invest in equity market, bond market may eventually benefit from the tighter rules.
▪ China may tighten the fund raising practices for listed property companies.	▪ The onshore media reported last week that companies will only be allowed to raise capital for construction instead of supplementing cash flows and land purchase. This may help cool down the soaring land prices in the tier-1 and tier-2 cities.
▪ HKMA reiterated its guideline on cash rebate to reduce banks' operating risks.	▪ Banks have been offering large sweeteners to attract mortgage customers amid property market correction. In fact, the HKMA has given guideline to the banks that cash rebate should be capped at 1% of the loan amount. However, banks have recently been offering cash rebates of 1.2% to 1.3%, up from previous 1.1% under the Member Get Member (MGM) program. As the cash rebate is not treated as part of the mortgage loan, it may expose banks to higher operating risks. Therefore, the HKMA reiterated its guideline that any cash rebate of more than 1% of the mortgage loan should be counted as part of the loan in calculating the loan-to-value ratio. By the same token, the authority is curbing the MGM program. In this case, the banks may focus more on mortgage interest rate cuts to compete for mortgage business. Some banks even reduced the minimum loan amount requirement for enjoying the HIBOR plus 1.5% of mortgage rate from previous HKD10 million to HKD3 million or even 2 million. At this junction, as the HIBOR is unlikely to show steep increase on slower pace of Fed's rate hike, the banks are not exposed to huge risks as a result of recent mortgage rate cuts. However, in the longer term, increasing supply and Fed's rate hike will put renewed downward risks on the housing market. Eyes will be on whether the HKMA will step up its scrutiny on the banks' strategies to attract mortgage customers.
▪ Hong Kong government launched HKD3 billion of first silver bond with tenor of three year for residents aged 65 or above. The subscription started on July 26.	▪ The elderly appeared to be more interested in the silver bond than initially expected. It is a type of inflation-linked bond, which however offer 2% of guaranteed annual coupon. Though low inflation amid sluggish tourist and local consumption has dent demand for iBonds, it is unlikely to impact the interests in silver bonds. Moreover, the silver bond is not allowed to be traded in the secondary market, making it similar to time deposit. With higher rates than HKD time deposit, silver bonds are undoubtedly more favorable to the elderly with less investment experience. Therefore, the number of eligible elderly subscribed for silver bond jumped by around 80% than that for iBonds issued months ago. In comparison, the subscription amount also rose by over 20%.

Key Economic News	
Facts	**OCBC Opinions**
▪ HK export growth in value terms fell for the 14th consecutive month, printing -1.0% yoy in June.	▪ On the quarterly basis, the contraction in export value softened to 1.2% yoy in 2Q16 vs a -6.8% yoy print seen in the previous quarter, suggesting improvement in trade activity in recent months. Region-wise, exports to Asia as a whole grew encouragingly by 0.5% yoy, led by exports to China which grew by 1.8% yoy. On the flipside, China reported its import growth

	from Hong Kong to have decelerated to 70.8% yoy in June (vs +242.6% in May). On this, China's officials explained that the surge in China's import from HK in the past few months was mainly attributed to the demand for gold. Elsewhere, exports to other main trading partners showed some weakness, with exports to US falling 7.3% yoy and those to UK dipping 10.3% yoy. In the coming months ahead, we expect trade growth to remain in contraction territory given sluggish external demand amid the uncertainty in the aftermath of Brexit, tepid recovery in some advanced markets as well as heightened geopolitical tensions in certain regions.
▪ Offshore RMB deposits in Hong Kong shrank further by 28.3% yoy for the 10th straight month to RMB 712 billion in June as CNH depreciated 1.3% during last month.	▪ Offshore RMB liquidity pool continued to shrink due to RMB depreciation expectation although total deposits in Hong Kong banking system increased by 4.7% yoy in June. USD deposits skyrocketed 23.8% yoy to HKD 3,891 billion. With US economy continuing to recover moderately on the back of its strong property market and the upbeat consumer sentiment, USD is expected to remain appealing to investors. ▪ Total loan and advances increased slightly by 0.3% yoy to HK$ 7,670 billion. Loans for use outside HK increased slightly by 0.7% mom (-3.7% yoy), indicating that demand for Mainland related loan remained soft in China. Both the cheaper borrowing cost in Mainland and the ongoing deterioration of credit quality of Mainland enterprises could keep depressing Mainland-related loan growth. Moreover, loans for use in HK rose by 1.1% mom while loan to finance HK's visible trade slumped significantly by 10.2% yoy. As HK could continue to witness sagging trade activity amid weak external demand from global uncertainty, growth in loan to finance HK's visible trade may stay sluggish.
▪ Macau's jobs market remained stable with the unemployment rate unchanged at 1.9% in 2Q.	▪ Despite tighter rules, the persistent increase in overnight visitors has lent support to the gaming sector, allowing it to add jobs by 0.7% mom. However, the growth of hotel guests (+16.5% yoy in June) appeared to be less supportive to the hotel, restaurant and related sectors due to increasing margin pressure. The sectors showed 1.4% of mom decline in employment. Moving forward, upon completions of two new projects in 2H, employment in the construction sector (-0.9% mom) may face further downward pressure whereas job creations in the gaming and hotel & restaurant sector are likely to gain traction. On the other hand, China's slowdown coupled with a stronger MOP may continue to hit the retail sector and its employment (0% mom). All in all, we expect the jobless rate to stabilize below 2.0% this year. However, the median monthly salary (unchanged at MOP15,000 since Q1 2015) is expected to grow at slower pace amid economic uncertainty at home and abroad, thereby hurting consumer sentiments. In a longer term, whether jobs market could gain further momentum depends on the progress of domestic economic transition and the completion schedules of new projects.

RMB	
Facts	**OCBC Opinions**
▪ RMB rebounded sharply last week after PBoC	▪ The retreat of USD on less hawkish Fed and surge of JPY on

signalled its near-term bottom line of 6.7. ▪ RMB index has been stable last week after the sharp rebound the week before following the intervention.	less dovish BOJ further lent the support to RMB sentiment. The RMB fixing is likely to strengthen further to test 6.60 should dollar remain weak. The renewed expectation on RMB's two-way movement is likely to keep the fear of sharp depreciation in check.

OCBC Greater China research

Tommy Xie Xied@ocbc.com

Carie Li Carierli@ocbcwh.com

Kam Liu Kamyyliu@ocbcwh.com