Summary

The G20 summit officially kicked off yesterday in Hangzhou. The show for opening gala directed by the famous film director Zhang Yimou was spectacular. Nevertheless, the message from the Summit seems nothing new so far. China is trying to divert the attention away from the dispute in South China Sea and focuses on economic issue when President Xi Jinping met the US President Obama. The world's two largest economies agree to avoid competitive currency devaluation as well as use a basket of policy toolkits including monetary policy, fiscal policy and supply-side reform to revive global growth.

Some green shoots emerged in China after both official and Caixin PMI stood above 50 in August. The PMI data was also confirmed by micro observation on the ground. The sale of heavy trucks was reported to jump by 45% in August, which is usually a low season. This is probably the result of supportive fiscal policy as well as booming property market. Whether it can last remains to be seen.

The latest BIS Triennial Survey shows that average daily CNY trading turnover has increased significantly to US$202 billion in April 2016 from US$120 billion in April 2013 despite the decline of global FX daily trading volume. RMB has become the most actively traded emerging market currency and eighth most traded currency globally, accounting for 2% of global shares, up from 1.1% three years ago. This should serve a confidence vote to China's policy makers to promote RMB internationalization. Nevertheless, the short term impact remains murky with the RMB liquidity pool continued to shrink in Hong Kong for the 11th straight month in July. On currency front, the USDCNY spot has been kept in a tight range of 6.67-6.6850 last week running up to G20 meeting despite choppy fixing. It seems that China's interest in defending 6.7 in the near term remains unchanged. Nevertheless, the key focus will be whether China will continue to defend 6.7 after G20 meeting. Our view is that should dollar regain strength, the risk for PBoC to allow the USDCNY to break above 6.7 cannot be ruled out. Market will watch out for August economic data this week.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The World Bank successfully sold its first SDR denominated bond in China one month ahead of Yuan's inclusion into SDR basket.	▪ This is the first issuance of SDR denominated bond since 1980s. The issuance was 2.5 times oversubscribed, which will give onshore investors alternative tools to hedge against RMB depreciation risk. ▪ The bond was priced at 0.49% and will be settled in RMB. The PBoC said in its website that it will continue to improve trading and settlement of SDR bonds.
▪ The latest BIS Triennial Survey shows that average daily CNY trading turnover has increased significantly to US$202 billion in April 2016 from US$120 billion in April 2013 despite the decline of global FX daily trading volume.	▪ RMB has become the most actively traded emerging market currency and eighth most traded currency globally, accounting for 2% of global shares, up from 1.1% three years ago. The USDCNY is the sixth most traded currency pair globally, accounting for 95% of total RMB trading volume. ▪ Hong Kong remains the largest RMB trading centre with the daily average trading volume increased from US$49.4 billion in April 2013 to US$77.1 billion in April 2016. Daily average trading volume in mainland China market also increased from US$33.5 billion to US$55.3 billion. ▪ Singapore took over London as the second largest offshore RMB trading centre after Hong Kong with the daily average trading rose to US$42.5 billion from US$23.8 billion three years ago, surpassing the daily average of US$39 billion in London. ▪ In Singapore, the contribution of RMB to FX business has gone up to about 8% from 6% three years ago. The average daily trading volume has exceeded its home currency's daily trading volume, which is around US$40 billion. ▪ On the positive front, the daily average trading volume in the US increased by almost threefold to US$24.24 billion from US$8.62 billion three years ago. This reinforces the

	achievement of RMB internationalization over the past three years.
▪ China's Vice Finance Minister Zhu Guangyao said at a briefing ahead of G20 meeting last week that conventional monetary policy is ineffective. ▪ In the same briefing, PBoC deputy Governor Yi Gang warned the leverage risk and said China is aiming to contain the leverage ratio. An annualized 9% grow of leverage ratio is too fast.	▪ The official tone from G20 meeting reinforced our expectation that China is unlikely to roll out any conventional monetary easing, such as interest rate cut and reserve requirement ratio cut soon. PBoC is expected to operate its prudent monetary policy via open market operation to maintain interbank liquidity stable.
▪ Hong Kong commercial banks start another round of mortgage rate cuts battle.	▪ After the HKMA indirectly curbed the cash rebate offered by commercial banks to home loan borrowers, the banks competed more fiercely for market shares of mortgage business. Lately, several banks cut the mortgage rate from 1-month HIBOR plus 1.5% to 1-month HIBOR plus 1.4% for clients who apply for HKD10 million of mortgage loan. Some even lowered the minimum loan amount requirement to HKD3 million for mortgage based on 1-month HIBOR plus 1.4%. Given the recent heat in the housing market, more banks may successively join the battle. Home-owners with outstanding mortgage loans are also expected to refinance their mortgage in the near term. In fact, 1-month HIBOR has hovered below 0.25% since early July. Low borrowing costs are likely to lure more potential home buyer and in turn further underpin the rebound in the housing market. However, HIBOR is relatively volatile. Though the mortgage rate based on HIBOR is capped by the PRIME Rate (5.25%) minus 3.1%, any sudden jump in the HIBOR due to the increasing odds of Fed's resuming rate hike cycle in coming meetings will risk the banks' asset quality and the health of the housing market. At this juncture, we believe that HIBOR will not see steep increase as capital inflows continue post Brexit. In the meantime, the HKMA will also remain alert about the real estate lending as the share of mortgage loan based on HIBOR surging from 89.8% to 92.6% in July.
▪ According to HK Office of the Commissioner of Insurance, the new office premiums from policies issued to Mainland visitors surged by 138% yoy to HKD16.9 billion in 2Q, reaching the record high. This represents 39.3% (historical high) of total new office premiums for individual business in 2Q.	▪ Despite Chinese authorities cap the amount of each offshore payment via UnionPay at USD5,000, Mainland investors' concern about depreciation in Yuan still prompted them to purchase insurance products in Hong Kong. This indicates that risks of capital outflow remain intact.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's official PMI unexpectedly rebounded to 50.4 in August from 49.9 in July while Caixin PMI fell to 50.	▪ Both PMI remained above 50 in August, signalling that manufacturing activity returned to expansion. ▪ Both new orders and new export orders expanded by 0.9 and 0.7 respectively to 51.3 and 49.7. Input price rebounded by 2.6 to 57.2, suggesting that the contraction of PPI may narrow further in the coming months. We expect PPI to only contract by 0.6% yoy in August. ▪ The PMI data was also confirmed by micro observation on the ground. The sale of heavy trucks was reported to jump by 45% in August, which usually a low season. This is probably the

	result of supportive fiscal policy as well as booming property market.
▪ Hong Kong: Total retail sales fell for the 17th straight month by 7.7% yoy in July.	▪ Though the decline on a yearly basis was narrower than that in the preceding two months, retail sales were still weak. The decline in the luxury segment continued to pose a severe drag on retail sales. Value of sales in jewelry and watches contracted for the 22nd straight month by 26.2% yoy in July, which was also the 11th consecutive double-digit contraction. Meanwhile, sales of consumer durable goods dipped notably 19.3% yoy. Though a milder drop was witnessed in visitors arrivals (Visitor arrivals shrank 3.5% yoy in 2Q compared with the decline of 10.9% yoy in 1Q 2016), tourist expenditure remained soft, especially visitor spending on big-ticket items. Retail sector is likely to be constrained by weak inbound tourism activities amid external uncertainties and cautious local consumer sentiment amid dimmer economic outlook. Gloomy prospect for retail sector will as a result translate into downward pressure on retail shop property market. More rental concession by the landlord and higher vacancy rate in core business district could also be expected.
▪ RMB deposits shrank significantly by 32.9% yoy for the 11th straight month to RMB 667 billion in July in Hong Kong though CNH appreciated 0.6% in July.	▪ The contraction was mainly attributed to the sudden depreciation of RMB following Brexit in early July, which hit the weakest level of 6.7107 since September 2010. Looking ahead, uncertainty about RMB outlook remains, as such, the ongoing angst of RMB depreciation could result in persistent contraction in offshore RMB deposit. ▪ In addition, USD deposits skyrocketed 27.5% yoy to HKD 4,021 billion. Total loan and advances increased slightly by 0.9% yoy to HK$ 7,696 billion. Loans for use outside of HK dipped 0.5% mom (-4.4% yoy), indicating that demand for Mainland related loan remained soft amid cheaper borrowing cost in Mainland and credit risk of Mainland enterprises. Moreover, loan to finance HK's visible trade slumped by 6.9% yoy. Sagging trade activity amid weak external demand could continue to depress growth in loan to finance HK's visible trade.
▪ Macau: Due to a rebound in tourism and gaming sectors, exports of gaming services and other tourism services fell at a much slower pace, by 12% yoy and 7.4% yoy respectively. Therefore, the GDP contraction softened from -13.3% yoy in 1Q to -7.1% yoy in 2Q.	▪ On the other hand, resilient government expenditure (+4.5% yoy) remained the main contributor to the softened economic contraction. Also, government investment (+41.7% yoy) appeared to buoy the economic recovery amid robust growth in public construction and equipment investment. However, sluggishness in external demand (exports of goods dropped 24.7% yoy), private consumption (-2.2% yoy) and private investment (-18.4% yoy) remained a drag. ▪ Moving forward, two mega projects to be opened in 3Q are expected to further bolster the rebound in both gaming and tourism sectors. However, given tighter rules and fewer-than-expected gambling tables being allocated to new casinos, gaming revenue (rose for the first time in more than two years by 1.1% yoy in August) may recover at a slow pace. In addition, though the increased visitors started to loosen their purse strings, Mainland visitors remained reluctant to consume amid the relentless anticorruption campaign and a stronger MOP against the Yuan. Therefore, any further rebound in exports of gaming services and other tourism services is likely to be moderate. On a positive note, private investment is expected to regain momentum as casino

	operators are planning to complete a fresh wave of new projects in 2017. All in all, moderate pickup in gaming and tourism sectors, as well as rebound in private investments ahead may not be enough to offset the weakness in external and domestic demand. Therefore, the GDP is expected to contract by around 5% yoy in 2016. However, the economy is likely to retrieve growth next year owing to effect of low base and the boosts from new project openings.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY spot has been kept in a tight range of 6.67-6.6850 last week running up to G20 meeting despite choppy fixing. ▪ RMB strengthened against the currency basket.	▪ The USDCNY fixing briefly broke 6.69 last Wednesday as a result of stronger dollar, however, the spot has been contained below 6.68 for most of the trading hours last week. It seems that China's interest in defending 6.7 in the near term remains unchanged. ▪ Nevertheless, the key focus will be whether China will continue to defend 6.7 after G20 meeting. Our view is that should dollar regain strength, the risk for PBoC to allow the USDCNY to break above 6.7 cannot be ruled out.

OCBC Greater China research

Tommy Xie Xied@ocbc.com

Carie Li Carierli@ocbcwh.com

Kam Liu Kamyyliu@ocbcwh.com

Co.Reg.no.:193200032W