Summary

"De-leverage" is probably Word of the Year 2016 in China in addition to supply side reform. This word does not only apply to corporate sector but bond market as well. PBoC continued to use its "carrot and stick" approach to strike the balance between maintaining stable liquidity in money market and curbing excessive leverage in bond market. On one hand, PBoC continued to raise the short-end funding cost to warn of that excessive leverage behaviour via tighter open market operation. On the other hand, PBoC continue to inject longer-end liquidity such as 6 month and 1-year to cap the volatility of short end money market rate to smooth out the fluctuation of money market.

In addition, China's Ministry of Finance reiterated last week that except the local government bond, all the debt issued by local government funding vehicles from 2015 will not be guaranteed by the government.

On Currency, RMB took advantage of dollar retreat in the global market to demonstrate its two-way movement last week. However, the dip of RMB index to record low since the publication of data in December 2014 shows the jittery about RMB's gradual depreciation remains. The theme is unlikely to be changed in the near term. Dollar rebounded this morning after FBI concluded its second investigation on Clinton Email with no change in findings. This may create renewed pressure for RMB to weaken against the dollar.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Ministry of Finance reiterated last week that except the local government bond, all the debt issued by local government funding vehicles from 2015 will not be guaranteed by the government.	▪ "De-leverage" is probably Word of the Year 2016 in China in addition to supply side reform. Most of policy announcements and re-highlights recently focused on containing the leverage. The reiteration from MoF is a good reminder to some local governments who still quietly leverage via their funding vehicles. This also serves a good reminder to investors and lenders that China is serious about exiting implicit guarantee. The credit risk and probability of default is likely to go higher.
▪ China net withdrew CNY104.1 billion liquidity from its open market operation but injected CNY437 billion via medium term lending facility (MLF).	▪ PBoC continued to use its "carrot and stick" approach to strike the balance between maintaining stable liquidity in money market and curbing excessive leverage in bond market. On one hand, PBoC continued to raise the short-end funding cost to warn of those excessive leverage behaviour via tighter open market operation. On the other hand, PBoC continue to inject longer-end liquidity such as 6 month and 1-year to cap the volatility of short end money market rate to smooth out the fluctuation of money market. The "carrot and stick" approach seems to be a dangerous game, however, we think PBoC is doing good at the moment with market increasingly became cautious without sparking the big volatility in China's bond market.
▪ The HKMA eased one of the market concerns that Hong Kong government will be able to extend the leasing tenure beyond 2047 for most lands.	▪ As such, there is probably no need for banking system to adjust the mortgage loan policies. This is likely to help ease the concern of the end users who are planning to purchase a home in the coming years. As such, this may no longer be one of the many factors that will lead to renewed correction in HK property market.
▪ The Hong Kong rolled out additional steps to cool its hot property market applying 15% buyer stamp duty to all property transactions except for the local first time buyers.	▪ The quick recovery of property prices in the past half year has again raised concern about property bubble. Decline of overall residential property price narrowed further from 5.83% yoy to 3.46% in September, the smallest decline on yearly basis since February this year. ▪ The new measure is likely to affect the transaction of smaller units as well as secondary market.

▪ HNA Group paying over HK$8.8 Billion at about 150% premium for government land in the former Hong Kong airport site.	▪ The land price is about HK$13,490 per square foot. Some quantity surveyor projected that the residential unit price could be above HK$30,000 per square foot after the property project is completed. Chinese policy makers announced various new rules to curb fund raising by property developers in the onshore market, in order to cool the housing frenzy. As a result, more Mainland property developers may turn to offshore market for financing and project development. Since 2013, four out of seven government lands supplied in the former HK airport site have been bid by Mainland developers. Given tight land supply, increasing demand by Mainland property developers is likely to push up the land prices and thereby the housing prices in HK. On the other hand, following the curb on Mainland investors' purchase of investment-linked lift insurance in Hong Kong, the capital may instead flow into HK property market. In this case, though we believe that higher borrowing costs and increasing supply ahead will lead to renewed correction in HK property market, investment from Mainland China may moderate the correction.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's PMI surprised the market on the upside again with the October manufacturing PMI rose to 51.2, up from 50.4 in September.	▪ The strong recovery was mainly led by new orders, which increased from 50.9 to 52.8. New export order, however, slipped below 50 again to 49.2 from 50.1. The mixed reading from demand side shows that uncertainty remains. Input price extended its gain, rising to 62.6 from 57.6 as a result of strong coal and steel prices. The quick pickup of input prices is likely to support PPI, which returned to positive year-on-year growth for the first time in 55 months in September. PPI is expected to grow by 1.1% yoy in October.
▪ China's currency regulator SAFE reported its flash Balance of Payment data for 3Q. China's current account surplus remains sizable, totalling US$174.7 billion in the first three quarters. However, capital and financial account deficit in the first three quarters rose to US$85.6 billion.	▪ There is no detailed breakdown of 3Q balance of payment data. However, based on the trend from the first half. We think China's overseas direct investment is likely to account for big chunk of capital account deficit. As we mentioned in the previous report, the balance of payment seems to remain balanced in the near term. However, the risk is biased towards outflows in future due to change of big pictures, which we will elaborate in separate reports later.
▪ The offshore RMB deposits in Hong Kong rose 1.9% mom to RMB 665 billion in September ahead of Yuan's inclusion into SDR.	▪ RMB deposit pool stayed at a low level, which was partly attributed to PBoC's intervention in the offshore market through soaking up the liquidity to lift the cost of shorting RMB in mid-September.
▪ Total retail sales fell for the 19th straight month by 4.1% yoy in September.	▪ The decline narrowed significantly compared with previous month (-10.5% yoy), we believe this was attributed to the effect of low base as well as a reduced drag from the smaller decline in visitor arrivals and the improved market sentiment. Decline of visitor arrival narrowed from 11.3% to 5% in September. ▪ Decline in the luxury segment continued to pose a severe drag on retail sales. Value of sales of jewelry and watches contracted for the 24th straight month by 12.3% yoy in September, which was also the 13th consecutive double-digit contraction. Meanwhile, consumer durable goods dipped by

	9.3% yoy. In the near term, outlook for retail sales is still subject to various external uncertainties, depending on the performance of inbound tourism as well as the local consumer sentiments. Gloomy prospect for retail sector will as a result translate into more downward pressure on retail shop property market, decline in rents and price of which printed 3.9% yoy and 10.3% yoy respectively in September. More rental concession by the landlord and higher vacancy rate in core business district could also be expected.
▪ Residential property transaction volume recorded 6,601 units in October, remaining robust though declining slightly compared with previous month.	▪ On a yearly basis, residential property transactions doubled. By segment, sales of housing units priced over HKD 5 million were rather strong, which registered 4,201 units and took up 64% of total transaction. ▪ Decline of overall residential property price narrowed further from 5.83% yoy to 3.46% in September, the smallest decline on yearly basis since February this year. This signaled that the property price gained some ground in the near term. The growth in the prices of smaller residential units (below 100 sq.m.) contracted 3.51% yoy while those belonging to the larger units (above 100 sq.m.) dipped 2.81% yoy.

RMB	
Facts	**OCBC Opinions**
▪ RMB benefited from the FBI's re-investigation of Clinton's E-mail scandal last week with the USDCNY slipped back to 6.7500-6.7600 range riding on the retreat of broad dollar index. ▪ However, RMB index fell again, tracking the retreat of dollar index, to 93.78, lowest in record since the release of the index in December 2014.	▪ RMB took advantage dollar retreat in the global market to demonstrate its two-way movement. However, the dip of RMB index to record low since the publication of data in December 2014 shows the jittery about RMB's gradual depreciation remains. The theme is unlikely to be changed in the near term. ▪ Dollar rebounded this morning after FBI concluded its second investigation with no change in findings. This may create renewed pressure for RMB to weaken against the dollar.

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