Summary

RMB's rebound against the dollar during the US Presidential election day proved to be short lived. The incredible rebound of broad dollar on re-inflation expectation fuelled by President elect Trump's fiscal stimulus plan pushed RMB into the corner. The effort for China to defend USDCNY at 6.80 on Thursday failed and the fixing was fixed above 6.8000. This signals that China continued to honour its commitment to allow the fixing to be decided by market players. Despite RMB weakened against the USD further, RMB index rebounded last Friday to 94.33 as a result of China's efforts to slow down the pace of RMB depreciation. It only took about a month for the USDCNY to travel from 6.70 to 6.80. This may further fuel capital outflows in the near term. The next psychological level to be watched will be 6.82-84 range as this is the level China has pegged RMB against the USD for almost two years after the outbreak of Lehman crisis.

Both CPI and PPI continued to reaccelerate on the back of stronger commodity prices. The CPI is expected to test 3% in January 2017 due to earlier Chinese New Year holiday. With the return of inflationary pressure, monetary policy is expected to remain status quo in the near term. The flash collapse of China's commodity future within a few minutes during the night trading last Friday may raise the concern that the correction may last to this week. Nevertheless, we see limited spread over effect to other asset classes as the tumble does not reflect the change of fundamental but mainly due to the unwind of previous speculative position. For this week, market will continue to watch out for RMB movement as well as October economic data due today.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In its 3Q monetary policy report, PBoC said the monetary policy is constrained by both change of asset price and exchange rate. As such, it is still important for monetary policy to remain neutral.	▪ The expectation on further easing including interest rate cut and reserve requirement ratio cut has already gone down the drain. The reiteration in the monetary policy report explained the concern about bond market bubble driven by excessive leverage. With the return of inflationary pressure, policy status quo is expected in the near term.
▪ China's commodity futures plunged within a few minutes during the night trading on Friday, correcting the recently rally fuelled by speculative position.	▪ The flash collapse of commodity prices on Friday night raised the concern that the correction may last further to this week. Nevertheless, we see limited spread over effect to other asset classes as the tumble does not reflect the change of fundamental but mainly due to the unwind of previous speculative position.
▪ Given US President Elect's unfriendly stance on China's exports, HK's trade sector may take a hit as 61% of re-exports were of China origin while re-exports represent nearly 99% of HK's total exports.	▪ US accounts for around 9.3% of HK's total exports and about 5% of its total imports. Worse still, global demand is likely to be dampened by this year's second black swan. Therefore, HK's trade sector is bracing for renewed downward pressure. In this case, any rebound in the economy may be slower than initially expected. On the other hand, a Trump presidency will translate into heightening global uncertainties. As a result, global easing is likely to persist, in turn fuelling capital inflows to emerging market. This is expected to lend some momentum to HK stock market in the near term.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's CPI accelerated to 2.1% yoy in October from 1.9% in September. ▪ PPI grew positively, up by 1.2%yoy, for the second consecutive months after ending 54 month's straight decline in September.	▪ The acceleration of CPI was mainly due to base effect. The recent rally in commodity prices such as coal, garlic and ginger has led to concerns about the return of inflationary pressures. The CPI is expected to rise further and may test 3% in January next year due to earlier Chinese New Year. Nevertheless, we think it may be too early to call for the tipping point for inflation. CPI may retreat again from February 2017. ▪ The quick turnaround of PPI was mainly supported by the rally of metal prices. The gain of PPI may extend further in the coming months.

▪ China's total new Yuan loan increased by CNY651.3 billion, largely in line with expectation. ▪ Aggregate social financing increased by 896.3 billion in October. ▪ Broad money supply M2 grew by 11.6%.	▪ The creation of new Yuan loan was still mainly supported by the medium to long term loan to household sector, which increased by CNY489.1 billion, less affected by the property tightening measures. This is probably due to delayed effect of tightening measures on housing loan. We expect the demand for housing loan to fall in the coming months, which may lead to slower loan growth. ▪ However, banks remain cautious on lending to corporates. Medium to long term loan to corporate only grew by CNY72.8 billion. The sluggish loan to corporates in October was not mainly attributable to local government debt swap as the issuance of local government debt was limited. As such, this signals banks' caution. ▪ As a result of recent property tightening measures, China's loan growth is expected to moderate further. ▪ Off balance sheet lending slowed in October with both designated loan and trust loan grew by only CNY72.5bn and CNY53bn respectively, down significantly from September level. This is probably due to tightening property measures. ▪ Foreign currency loan fell by CNY33.5 billion as a result of reacceleration of RMB depreciation in October. ▪ The only bright spot from the aggregate financing is equity financing, which increased by CNY112.5 billion. ▪ M2 growth in October was largely in line. However, the growth rate was capped by persistent outflows and unexpected increase of fiscal deposits.

RMB	
Facts	**OCBC Opinions**
▪ RMB lost its defence of psychological 6.80, smashed by the wave of stronger broad dollar. ▪ Despite RMB weakened against the USD further, RMB index rebounded last Friday to 94.33 as a result of China's efforts to slow down the pace of RMB depreciation.	▪ Unlike Brexit referendum day when China took advantage of window to allow the USDCNY to break 6.60, a level has been defended for about half year; we can sense that China is unwilling to let 6.80 go so soon following the unexpected result of US election. The effort to slow the pace of depreciation has been well received by market on Thursday. However, the unstoppable dollar strength globally finally crushed China's efforts to keep the USDCNY fixing below 6.80. This signals that China continued to honour its commitment to allow the fixing to be decided by market players. ▪ It only took about a month for the USDCNY to travel from 6.70 to 6.80. This may further fuel capital outflows in the near term. Given China is unlikely to change its fixing mechanism any time soon, RMB is likely to weaken further against the dollar should dollar strength extend. The next psychological level will be 6.82-84 range as this is the level China pegged for almost two years after the outbreak of Lehman crisis.

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