Summary

OMG! Dollar index ended the week at 101.20, strongest since April 2003. So it is not surprising that RMB extended its loss against the dollar last week. However, the much stronger than expected fixing last Friday again fuelled expectation that PBoC may want to slow down the pace of depreciation after the USDCNY is approaching 6.9 in the onshore market. As a result, RMB index rebounded despite RMB's loss against the dollar. The spike of daily spot trading volume last Friday to US$41.8 billion, highest since August 2015, however, signals the heighten of concerns about RMB depreciation. Whether China will continue to defend 6.9 amid dollar strength will be the key focus of this week. Our model shows that the USDCNY fixing is likely to be above 6.90 this morning. However the forecasting error of daily fixing has increased recently. Should the fixing are kept below 6.90, the RMB index is expected to rise further to about 94.60.

The jittery is not only found in RMB market but in China's bond market as well. The human error on interest rate for 1-year MLF in PBoC's published in PBoC's microblog sparked the sell-off in the onshore bond market as the knee-jerk reaction. The recent rise of yields in longer end globally together with PBoC's intention to contain excessive leverage in bond market has weighed down on China's bonds. 10-year government bond yields ended the week at 2.9%, up from 2.83%.

On data front, China's property market started to cool down in October following tightening measures in more than 20 cities. The growth of price gains slowed down together with the deceleration of property sales growth. In addition, land auction premium in some cities also started to decline. In Hong Kong and Macau, both property markets showed signs of resilience. Tax revenue from buyer stamp duty amounted to HKD1.02 billion in October in Hong Kong, more than doubling the HKD0.506 billion in September. This probably justified the launch of new tightening measures in Hong Kong.

Key Events and Market Talk

Facts	OCBC Opinions
▪ PBoC continued to inject CNY302 billion liquidity last week via medium term lending facility (MLF) including CNY179.5 billion 6-month funding and CNY122.5 billion 1-year funding.	▪ Under the framework of prudent monetary policy, MLF remains the key tool for PBoC to strike the balance between smoothing liquidity fluctuation and increasing short end funding costs to contain excessive leverage in the onshore bond market. ▪ The interest rate for MLF remained unchanged; however, bond market was initially sold off after PBoC accidently keyed in the wrong interest rate (10bp higher) for 1-year MLF operation in its microblog. This suggested the sentiment remained fragile. ▪ Bond yields continued to trend higher last week with the 10 year government bond yields ended at around 2.9%, up from 2.83% in the previous week.
▪ Average land auction premium in Nanjing last week fell to 51% from 300% before the announcement of property tightening measures.	▪ China's property market started to cool down in October following tightening measures in more than 20 cities. The growth of price gains also slowed down together with the deceleration of property sales. The falling land auction premium shows that developers have turned more realistic and cautious.
▪ Shanghai continued to simplify its policy on free trade zone.	▪ The pre-condition for banks to set up the branches in Shanghai free trade zone to enjoy the streamlined policy support is no longer necessary. Both Chinese banks and foreign banks in Shanghai will be able to access to those policy support.
▪ CNH overnight HIBOR jumped again to 3.5293% last Monday but subsequently moderated.	▪ The offshore market remained the key battleground for managing market expectation on RMB. The fluctuation of CNH money market rate was also considered as the signal. ▪ The authorities are likely to further curb the capital outflows from the onshore market. For example, some banks in HK raised the minimum deposit requirements for Mainlanders. If the average daily balance in the account is less than HKD1.5 million, a transaction fee of HKD500 per month will be incurred.

▪ The launch of Shenzhen Hong Kong connect will be postponed to early December from 21 November.	▪ The launch is expected to lend additional support to Hong Kong stock market amid rising fears of RMB depreciation.

Key Economic News	
Facts	**OCBC Opinions**
▪ The deficit in financial institution's net sell of foreign currency narrowed to US$14.6 billion in October from US$28.4 billion. ▪ Long dollar forward position also fell to US$10.2 billion from US$17.4 billion.	▪ The decline of the deficit was mainly attributable to two reasons in our view. First, some of the dollar demand may have been brought forward to September as corporates took advantage of window of stable USDCNY to hedge risk. Second it is probably the result of tighter window guidance. ▪ Nevertheless, the falling deficit shows that outflow pressures eased in October, however, it did not address the concern about capital outflows. Given RMB's depreciation against the dollar has re-accelerated since October; the pressure for outflow is likely to remain.
▪ The latest economic activity data are largely in line with market expectation except retail sales growth, which decelerated to 10% short of market consensus of 10.6%. ▪ China's fixed asset investment growth, however, accelerated further growing by 8.3% in the first ten months, up from 8.2% in the first nine months. ▪ Industrial production grew by 6.1% yoy.	▪ The weaker than expected retail sales could be distorted by the single's day shopping in November, as retailers may delay their shopping to November waiting for big discount. ▪ In addition, the October retail sales may also be distorted by subsidiary to smaller car with engine below 1.6L. Car sales spiked in October last year after China rolled out tax cut to promote smaller cars. ▪ Given property sales are slowing down following the tighter property measures, it may affect sales of furniture and electronics products, which may further cap the growth of retail sales. ▪ On investment front, private investment growth accelerated to 2.9% in the first ten months from 2.5% in the first nine months. The return of private sector confidence is encouraging, which is likely to further bolster the growth outlook.
▪ **HK:** tax revenue from buyer stamp duty amounted to HKD1.02 billion in October, more than doubling the HKD0.506 billion in September.	▪ Foreign buyers mainly from Mainland China have increased their stake in HK residential property market on global easing and China's property tightening measures. This is also the main reason behind the HK government's recent tightening on the housing market. ▪ However, the loophole of the new policy, including investors' buying more than one home under one agreement and buying new home under the name of their children, may undermine the effectiveness of the policy. In addition, some developers offered to pay the 15% new levy on behalf of the buyers to attract demand. ▪ Eyes will be on whether the government will modify the new housing cooling measure. If no, the downward risks on the housing price will be limited in near term, especially given that recent depreciation in Yuan may drive more capital inflow to the HK's property market.
▪ Hong Kong's economy continued to improve in 3Q 2016, up from the 1.7% yoy to 1.9% yoy.	▪ Growth in private consumption improved notably from previous 0.5% to1.2% amid improving market sentiment, lending support to economic growth. Investment also printed a 6% increase in 3Q. Export growth remained stable while import growth surged from 0.2% to 2.4% amid the rise of commodity price. Outlook of HK's economy remained subpar amid weak tourism sector and global uncertainties. Given US new presidents' unfriendly stance on China's exports, HK's

	trade sector may take a hit.
▪ The unemployment rate In HK remained stable at 3.4% in October.	▪ The labor market held largely stable in overall terms. As the downtrend of inbound tourism appeared to have eased slightly, unemployment rate in the retail sector notched down by 0.2 percentage point to 5.3% in October. However, the considerable external uncertainties and dimmer domestic outlook could continue to dampen local consumption. ▪ Unemployment rate in trade and wholesale sector fell slightly from 3.1% to 3.0%, hovering over high level. Given the rise of trade protectionism, HK's trade sector may take a hit. It looks to us that the tepid external demand could continue to pose downward risk to HK exports and unemployment in this sector is likely to climb up again. On the flip side, unemployment rate in construction sector dropped to lowest level since record, on the back of the accelerating construction activities. What is also worth noticing is that unemployment rate in financing and business sector fell further from 2.8% to 2.7%. It is plausible that the Shenzhen-Hong Kong connect will bring more employment opportunities in security firms and fund houses amid the increasing need for brokerage and asset management from mainland investors.
▪ **Macau:** With a fiscal surplus of MOP29.2 billion in 2015, the government plans to offer MOP12.3 billion of social benefits this year.	▪ The raft of the social benefits, however, has barely changed from that provided in 2015. Still, the sweeteners are likely to give short-term boost to the consumer sentiment, in turn partially offsetting the impact of stagnant wage growth on the private consumption. Elsewhere, the government forecasts that total gaming revenue will be MOP200 billion for 2017, same as its estimate for 2016. However, we expect that the development of non-gaming businesses may help to attract more recreational gamblers, therefore spurring the gaming revenue to grow by around 5% yoy to over MOP230 billion in 2017. In conclusion, with a gradual recovery of the gaming sector and the economy, fiscal stimulus is expected to sustain in the medium term. In this case, government spending and public investment will remain as the main forces driving the city's growth.
▪ **Macau:** upbeat sentiment combined with low borrowing costs drove the housing transaction volume up by 86.8% yoy to 878 units in September. New residential mortgage loan also climbed 44.3% yoy to MOP5.36 billion in the same month. However, average housing price (-2% yoy to MOP81769/sq. m.) held rather stable in September as compared to the previous month.	▪ With the housing cooling measures in place, and adding that fewer sellers are willing to cut prices on a rebounding market, demand of end-users may shrink gradually. Also, as any recovery in the tourism and gaming sectors may be moderate, upward risks on the housing demand will be limited. Moreover, increasing expectations on Fed's rate hikes following a Trump presidency indicate that higher borrowing costs will weigh on housing demand in Macau. More notably, unlike HK's property market, Macau's property market is less attractive to Mainland investors and may not benefit from the continuous capital outflows from the Mainland market. On the supply side, increasing supply will also pose downward pressure to the housing market (the government plans to build around 12,600 public housing units in short-to-medium term). In all, stabilization in the housing market may not last in the longer term. Besides, we opine that average housing price may end this year at slightly above MOP80,000/sq.m.

RMB

Facts	OCBC Opinions
▪ RMB extended its loss against after dollar index broke 100. ▪ In contrast, RMB index spiked last Friday after PBoC fixed RMB fixing stronger than expected at 6.8796.	▪ The much stronger than expected fixing last Friday again fuelled expectation that PBoC may want to slow down the pace of depreciation after the USDCNY is approaching 6.9 in the onshore market. ▪ The daily spot transaction volume last Friday rose to a high of US$41.81 billion, highest since August 2015. This signals that jittery about RMB depreciation heightened again. ▪ Should dollar continue to go higher, the pressure for RMB to weaken further against the dollar may persist.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Kam Liu
Kamyyliu@ocbcwh.com

Co.Reg.no.:193200032W