Summary

6.7% again. This has been the third consecutive quarter for China to achieve 6.7% growth. It is almost certain that China is going to achieve its 6.5-7% growth for this year. One of the highlights of 3Q data is that the growth was underpinned by the return of business confidence, as proved by the rebound of medium to long term loan to corporate and reacceleration of private investment growth. The return of private business confidence is encouraging. However, the stable headline number failed to address market's concern about Chinese growth as investors have shifted their focus to recent coordinated property tightening measures, which is likely to dampen growth prospect in the coming quarters. In fact, the sharp decline of newly started property projects in September has sent a warning signal.

China's bond market seemed to share the similar concern. The rally in China's bond market gathered pace last week unexpectedly despite stable 3Q GDP reading. The benchmark 10-year government bond yield dipped to record low, touching 2.63%, due to two possible reasons including the concern about the economic slowdown due to property tightening measures and speculation on foreign inflows into bond market following RMB's inclusion into SDR basket.

The extremely stable USDCNY in September ahead of SDR inclusion failed to calm investors down. The sharp decline of foreign currency loan, the spike of long dollar forward position and the rise of dollar purchase in September all pointed towards one thing that Chinese corporates may use the period of stable Yuan as the window to hedge against RMB weakness. The extension of RMB's loss against the dollar last week was mainly due to dollar strength in the global stage. However, RMB index's failure to track the dollar index shows that the concerns about RMB depreciation may have heightened again in October. Should dollar extend its gain, we think the USDCNY is likely to test 6.8 soon. However, we expect resistance to increase ahead of 6.8.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The rally in China's bond market gathered pace last week unexpectedly despite stable 3Q GDP reading.	▪ The benchmark 10-year government bond yield dipped to record low, touching 2.63%. The rally of bond last week was mainly attributable to two reasons in our view. First, despite stable headline growth figures, the concern about the growth remain intact as recent property tightening measures in major Chinese cities have dampened the growth prospect. Second, the speculation on foreign inflows to interbank bond market after RMB's inclusion to SDR from October may also fuel the recent rally in bond market.
▪ China continued to lower its holdings of US Treasury to US$1.185 trillion as of end of August, lowest since December 2012.	▪ Although market tended to link China's sale of US Treasuries to China's efforts to defend RMB's stability, we think there is no point to over-read the numbers as China is not the only country dumping the US Treasuries. Foreign central banks' holding of US Treasury has been falling at a steady pace due to concerns about interest rate hike by the Fed.
▪ Knight Frank, a real estate consultancy, reported that China invested nearly USD3 billion in Hong Kong's property market over first seven months, 75% of the USD4 billion registered over 2015 as a whole.	▪ Specifically, in the 1H, 87% of the investment was for purchase of offices, 10% for lands and 2% for retail shops. Clearly, China's huge investment in Hong Kong's real estate market was driven by the corporates' needs to expand their businesses offshore. On the other hand, the investment demand was also driven by property cooling measures in China's onshore market as well as concerns about RMB depreciation. Recent rebound in Hong Kong's housing market has also attracted onshore property developers to tap this market.
▪ China's detention of Austria's Crown Resorts Ltd. employees cast some shadow on the Macau's recovering gaming sector.	▪ This is considered a warning to the Macau's gaming sector. In the short term, Macau casinos and junkets will be less proactive to lure visitors to the VIP rooms and the premium mass market, in turn shrugging off some upward risks from the gaming sector. VIP segment has already been hard hit by the anti-corruption campaign and will be vulnerable to any further headwinds. But there is no sign that the recent

	scrutiny will involve Macau's gambling businesses. Therefore, the impact will be transitory. Moreover, the detention of workers at the Australian company may translate into benefit to Macau's casinos given the crackdown on their competitors.

Key Economic News

Facts	OCBC Opinions
▪ The Chinese economy grew by 6.7% yoy in 3Q, in line with market expectation. ▪ Key economic indicators in September were largely also in line with market expectation with the exception of industrial production, which grew by 6.1%, shy of consensus of 6.4%. ▪ Retail sales grew by 10.7% yoy, up from 10.6% in August. ▪ Fixed asset investment grew by 8.2% yoy in the first three quarters, up from 8.1% in the first eight months.	▪ The stabilization of Chinese economy in 3Q was mainly underpinned by the return of business confidence in our view. Private fixed asset investment halted the pace of deceleration and reaccelerated to 4.5% yoy in September. In addition, medium to long term new Yuan loan to corporate also rebounded to CNY455 billion, signalling the return of willingness for corporates to expand their investment. ▪ The economic restructuring is well on track. Service sector accounted for 52.8% of total GDP in the first three quarter. Meanwhile, contribution from final consumption increased significantly to 71% in the first three quarters. ▪ Bottom or top? Looking ahead, it seems that Chinese economy has found its bottom in 3Q. However, challenge remains with the growth is likely to be capped by the recent property tightening measures. The sharp decline of newly started property (down 19.4% yoy in September) could serve as the warning signal. ▪ We have been arguing for the past few weeks that the announcement of property tightening measures since late September in more than 20 cities are not coincident. The top-down decision suggests that political pressure could have outweighed the economic pressure. We think top policy makers are quite serious about containing property bubbles, which could be at the cost of economic growth in the coming quarters.
▪ China's credit growth beat market expectation again with new Yuan loan increased by CNY1.22 trillion. In addition, aggregate social financing also increased by CNY1.72 trillion, highest since March. ▪ M2 grew by 11.5% yoy, in line with market expectation, but slightly short of government target of 12%.	▪ Medium to long term loan to household hit a record high of CNY574 billion, probably due to booming property market. However, given more than 20 Chinese cities have joined the tightening camp since late September, which have significantly curbed the housing transactions in most of cities, we think the loan to household is likely to fall significantly in the coming months. ▪ One of the bright spot from the September credit data is the rebound of medium to long term loan to corporate, which increased by CNY446 billion after shrinking by CNY8 billion in August. China's loan to corporate has been distorted by debt for bond swap program for local government recently. The rebound of loan to corporate in September was partially attributable to the decline of debt for bond swap in September. Nevertheless, looking together with the reacceleration of private investment, it signals the return of business confidence. ▪ Foreign currency loan fell again in September after the small pickup in August. The outstanding of foreign currency loan fell to CNY2.63 trillion from CNY2.687 trillion, signalling concerns about RMB depreciation remains despite stable USDCNY in September.

▪ The deficit of banks' net sale of foreign currency on behalf of clients widened again to US$26.8 billion in September.	▪ The willingness for clients to sell foreign currency slipped slightly to 47.6% from 47.8%. ▪ In addition, the long dollar forward position spiked to US$17.4 billion, highest since January this year despite 20% reserve cost. ▪ This shows that corporates and investors remained jittery about RMB outlook and took advantage of window of stable Yuan to hedge against the currency risk.
▪ Macau: Housing transaction continued to recover, up by 65% yoy to 809 units, on the back of low interest rate and rebound in gaming revenue.	▪ The increase was mainly led by the launch of new residential properties, the developers of which offered various sweeteners. Secondary housing market, however, was rather benign. As a result, the average housing price retreated by 2% yoy to MOP82,800 / sq. m. in August after gaining 15% in the previous month. Besides, new residential mortgage loans (RMLs) approved dropped by 33.6% yoy (+6% mom) in August to MOP3.71 billion. In the coming months, the supporting factors including low rates, economic recovery and lower price than the peak of 2014 will continue to help stabilize the housing market. Average housing price is expected to recover its loss early this year and end 2016 at slightly above MOP80,000/sqm. Looking ahead, the outlook remains uncertain due to increasing supply and concerns about Fed rate hike.
▪ Unemployment rate of HK remained high at 3.4% in September	▪ The labor market held largely stable in overall terms but the retail sector was still hit badly. Unemployment rate in the retail sector edged up by 0.9% yoy to 5.5% in September due to weak local consumption besides sluggish tourist spending. Unemployment rate in trade and wholesale sector picked up further from 3.0% to 3.1%. This is because the still soft trade activity amid an unsteady global demand conditions. It looks to us that the tepid external demand could continue to pose downward risk to HK exports. ▪ On the flip side, unemployment rate in construction sector remained low at 3.5%, backed by the accelerating construction activities. What also worth noticing is that unemployment rate in financing and business sector began to fell from 2.9% to 2.8%. It is plausible that the Shenzhen-Hong Kong connect which is going to be launched in late November will bring more employment opportunities in security firms and fund houses amid the increasing need for brokerage and asset management from mainland investors. Looking ahead, corporate hiring sentiment could remain overshadowed given the slow-growing domestic economy and lingering external uncertainties.

RMB	
Facts	**OCBC Opinions**
▪ RMB extended its loss against the USD in both onshore and offshore market with the USDCNY ended above 6.75 due to strong broad dollar. ▪ RMB index failed to track the rise of dollar index and dipped slightly to 94.30 from previous week's 94.64.	▪ The recent weakness of RMB was mainly due to the dollar strength in the global market. However, RMB index's failure to track the dollar index shows that the concerns about RMB depreciation may have heightened again in October after market has reached the consensus that China will allow higher volatility for USDCNY. ▪ Should dollar extend its gain, we think the USDCNY is likely to test 6.8 soon. However, we expect resistance to increase

	ahead of 6.8.

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