Summary

China's credit risk returned to the centre stage last week after Guangxi Nanning intermediate court announced to liquidate the state-owned Guangxi nonferrous metal group, ten-month after the company filed for bankruptcy, as the company failed to come up the concrete restructuring plan. This marks the first company defaulted in China's interbank bond market as a result of bankruptcy. The failure to reach debt restructuring shows that the status of state-owned is no longer the risk free pass to debt holders. As such, this is likely to help break the assumption of implicit guarantee for government.

China officially approved the launch of Chinese version CDS and CLN to meet the rising demand for credit protection as a result of increase in the event of defaults as well as deteriorating asset quality.

The tight CNH liquidity has finally eased in the second half of last week after the overnight CNH HIBOR touched a high of 23.68% last week. PBoC denied it is involved in recent liquidity squeeze in the offshore RMB market. Nevertheless, market has reached consensus that both CNY and CNH is likely to be managed tightly ahead of SDR inclusion on 1 Oct. As such, investors are likely to stay side-line this week.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Guangxi Nanning intermediate court announced to liquidate the state-owned Guangxi nonferrous metal group, ten-month after the company filed for bankruptcy, as the company failed to come up the concrete restructuring plan though the government wanted to rescue the company with debt restructuring.	▪ This marks the first company defaulted in China's interbank bond market as a result of bankruptcy. The bond holder will have to wait for liquidation details. According to the estimation from the onshore media, the debt recovery rate might be below 20%. ▪ The failure to reach debt restructuring shows that the status of state-owned is no longer the risk free pass to debt holders. As such, this is likely to help break the assumption of implicit guarantee for government. ▪ Nevertheless, we don't expect the repeat of similar sharp sell-off as we saw in April given still flush liquidity.
▪ China officially approved the launch of Chinese version CDS.	▪ The National Association of Financial Market Institutional Investors (NAFMII) published the guideline on 23 Sep on the trial of credit risk mitigation tools in China's interbank bond market. ▪ Since 2010, China has launched the trial of credit risk mitigation tool including CRMA and CRMW. The latest guideline is the upgrade of previous pilot programme and includes two new tools including credit default swap (CDS) and credit linked note (CLN). ▪ The previous trial was lacklustre due to weak demand as a result of low default risk distorted by implicit guarantee. However, with the gradual increase in the event of bond default as well as deteriorating asset quality due to slowing economic growth, the demand for credit protection has increased. As such, it is good time to launch the Chinese version CDS to deepen the derivative market.
▪ China is planning to open its foreign currency interbank borrowing and lending market to qualified foreign institutions.	▪ China has already opened its onshore interbank bond and FX market to qualified offshore financial institutions. The open of foreign currency money market is another step for China to open its capital market as part of efforts to internationalize its currency.
▪ Hong Kong commercial banks appeared to be more aggressive in retail businesses.	▪ Despite signs of scrutiny by the HKMA, some bank cut the mortgage rates further to Hibor plus 1.38% from Hibor plus 1.4%. Given sour corporate sentiment, retail businesses became the banks' focus. And the further cut in mortgage rates is to prepare for more new project launches in 4Q. As the Fed continues to hold the rates unchanged, the banks may

	feel more confident to gradually reduce the home loan rates. Still, we believe that the HKMA will remain alert and may be prompted to take action if the battle prolongs. Elsewhere, the tight CNH liquidity propelled Hong Kong banks to offer higher deposit rate. Some bank even offers as high as 5% of time deposit rate, similar to the case in this January.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's housing prices continued to go up in August. 64 cities out of 70 cities monitored by National Bureau of Statistics reported month-on-month price gain.	▪ Resale prices in Beijing, Shanghai and Shenzhen all increased by more than 30% yoy in August. Fever has spread to some tier-2 cities such as Hefei, which recorded more than 46% yoy gain. The spread of housing fever to lower-tier cities again raised concern about China's housing bubble. ▪ As we mentioned in last week's report that recent increase of housing prices is not the result of return of confidence in economic outlook, rather it is due to lack of investment channels as well as tight capital control. ▪ The housing bubbles also flagged the policy dilemma faced by PBoC. We reiterated our view that China is unlikely to cut its interest rate and reserve requirement ratio this year.
▪ Hong Kong: Unemployment rate remained high at 3.4% in August.	▪ The labor market held largely stable in overall terms but the retail sector was still badly hit. Unemployment rate in the retail sector edged up by 0.9% yoy to 5.4% in August, as business performance in retail sales remained clouded amid shrinking tourist expenditure and a lackluster local consumption. Indeed, employment of the consumption and tourism-related sectors witnessed the 16th consecutive year-on-year decline in August. Unemployment rate in trade and wholesale sector picked up again from 2.8% to 3.0%. This is because decline in export value has widened somewhat recently amid an unsteady global demand conditions after having narrowed in the preceding months. It looks to us that the soft external demand could continue to pose downward risk to exports. On the flip side, unemployment rate in construction sector decreased notably from 4.2% to 3.5%, backed by the accelerating construction activities. What is also worth noticing is that Shenzhen-Hong Kong connect is expected to bring more employment opportunities to 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.
▪ Macau's overnight visitors, which account for over 50% of total visitors, rose further by 3.7% yoy in Aug to the highest since Jan 2008.	▪ However, this summer, households in Mainland and Hong Kong might have preferred to take a longer trip, in turn pushing the same-day visitors to Macau down significantly by 12.6% yoy in Aug. As a result, total visitor arrivals also tumbled by 5% yoy despite the continuous increase in tourists from Taiwan, Japan and South Korea. It looks to us that the tourism activities remain volatiles. On this, the city's economic transition will be more complicated. Looking ahead to the next months, we believe that the new hotel openings in 3Q will be able to attract more tourists to the city, especially given the

	effect of Mid-Autumn festival and Chinese Golden Week Holiday. This would have been a boost to the gaming sector. However, additional benefits that the new hotel openings can bring to the tourism and gaming sectors in the longer term remain uncertain.

RMB	
Facts	**OCBC Opinions**
▪ The tight CNH liquidity has eased after the overnight CNH HIBOR hit a high of 23.68% on Monday and stayed elevated at 12.13% on Tuesday. ▪ CNY continued to be traded in a tight range around 6.67 ahead of SDR inclusion on 1 Oct. However, RMB index fell again to 94.11 last Friday from 94.56 last Monday.	▪ PBoC denied it is involved in recent liquidity squeeze in the offshore RMB market. Nevertheless, market has reached consensus that both CNY and CNH is likely to be managed tightly ahead of SDR inclusion on 1 Oct. As such, investors are likely to stay side-line this week. ▪ The Fed's decision to leave its interest rate unchanged last week is certainly helpful, which removed the imminent pressure for USDCNY to go higher. ▪ Market is likely to re-focus on RMB after the golden week holiday.

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