Summary

It is all about RMB last week. In a relatively quiet week, all eyes are on RMB after the USDCNY finally broke 6.9. PBoC published its official press statement in reaction to the recent RMB movement following Trump's victory. PBoC deputy Governor Yi Gang reiterated that RMB should be observed from perspective of currency basket instead of simple bilateral exchange rate relationship. The tone from the latest press statement is very similar to our article "RMB: looking for a new anchor" published two weeks ago. RMB index has strengthened for the past two weeks despite volatile USDCNY. We expect PBoC to continue to stabilize RMB index amid dollar strength even at the expense of predictability of RMB fixing. The basket anchor policy may help slow down the pace of depreciation.

In addition, China is likely to further tighten its control on capital outflows via including RMB cross border business into its macro prudential assessment of country's financial system according to report from local newswire. We are still waiting for official confirmation of this news. Nevertheless, it is no secret that the cross border RMB payment has been one of the key channels for corporates to move the money out of the country. The cross border RMB payment has been used as an avenue to purchase dollar in the offshore market to bypass the tight regulation in the onshore market. This created tremendous pressure for RMB in the offshore market. With the increasing influence of CNH on CNY, the persistent weakness of CNH has weighed down the sentiment in the onshore market. The latest regulation change if confirmed may be at the expense of RMB internationalization. Nevertheless, between RMB internationalization and financial stability, it seems that the latter is more important at the current stage.

The latest data from China remained stable. November PMI due this week is likely to be the focus of the week.

Key Events and Market Talk

Facts	OCBC Opinions
▪ China may tighten its grip on RMB cross border payment. According to local newswire, China's regulator plans to include RMB cross border business into its macro prudential assessment of country's financial system. ▪ The details have not been released officially yet.	▪ Since early this year after China tightened dollar purchase and payment in the onshore market. The cross border RMB payment has been one of the key channels for corporates to move the money out of the country. ▪ The cross-border payment denominated in RMB increased to CNY4.86 trillion in the first ten months according to data from the SAFE, up by 6.8% yoy, despite the sharp decline of cross border RMB receivable, which fell by 41% yoy to CNY3.04 trillion. This resulted in a sizable deficit of CNY1.8 trillion outflows denominated in RMB in the first ten months of this year. ▪ However, the increase of cross border RMB payment did not translate to increase in offshore RMB deposit, which instead fell on the monthly basis. ▪ This clearly shows that cross border RMB payment has been used as an avenue to purchase dollar in the offshore market to bypass the tight regulation in the onshore market. This created tremendous pressure for RMB in the offshore market. With the increasing influence of CNH on CNY, the persistent weakness of CNH has weighed down the sentiment in the onshore market. ▪ In addition, this may also exhausted China's FX reserve after Chinese banks stepped in to deter the depreciation pace of CNH. ▪ The latest possible move to tighten cross border RMB payment signals that China may further tighten its capital control, in our view, but at the expense of RMB internationalization. Between RMB internationalization and financial stability, it seems that the latter is more important at the current stage.
▪ PBoC published its first official press statement about RMB quoting deputy Governor Yi Gang on Sunday after RMB's weakness against the dollar	▪ Yi Gang reiterated that RMB should be observed from perspective of currency basket. In addition, Yi considered the current FX reserve as abundant. The tone from the latest press

accelerated post Trump victory on 9 Nov.	statement is very similar to our article "looking for a new anchor" published two weeks ago. ▪ We think PBoC may continue to stabilize RMB index amid dollar strength even at the expense of predictability of RMB fixing. The basket anchor policy may help slow down the pace of depreciation.
▪ 6-month HKD HIBOR rose above 1% for the first time since 2009, gradually catching up with the rising LIBOR.	▪ Elsewhere, 1-month HIBOR rose to the highest since Feb at 0.37% on last Monday, up by 17bps from the trough year to date. Most banks have competed for mortgage loan businesses by cutting the mortgage rate from 1-month HIBOR plus 1.7% earlier this year to 1-month HIBOR plus 1.35%. However the negative impact of 35 bps cut on profitability was gradually offset by the increase in HIBOR. Nevertheless, the increase in HIBOR may further weigh down on HK's housing market.
▪ HK commercial banks raised cash rebate offered to home loan borrowers from 1.3% to 1.4% and the minimum loan amount requirement is as low as HKD1 million.	▪ In late July, the HKMA reiterated its guideline that any cash rebate of more than 1% of the mortgage loan should be counted as part of the loan when calculating the loan-to-value ratio. Therefore, the rebate is offered to the home loan borrowers with loan-to-value ratio below the upper limit set by the government. This has been the main incentive to attract mortgage businesses as the room for rate cuts diminishes. On the other hand, some property developer cut prices by 13% recently, in order to compete with its peers who offer to absorb the 15% stamp duty.
▪ According to the long-term land planning report issued by the government, 1 million residential units need to be built to meet the housing demand by 2046 in Hong Kong.	▪ The Long-term Housing Strategy annual progress report 2015 estimates that 460,000 flats are required during 2016 to 2026. Further demand for 540,000 units between 2026 and 2046 will come from household growth, families displaced by redevelopment projects, non-local students, workers and buyer, as well as mobile households. Given that more than 194,400 units are expected to be completed during 2016 to 2020, should developers keep the current construction pace in the coming decades, the increase in supply may outpace that in demand.

Key Economic News

Facts	OCBC Opinions
▪ China's industrial profits growth in October accelerated to 9.8% yoy, up from 7.7% in September.	▪ The rebound of profits in big industrial companies were mainly attributable to two factors including the recent pickup of producer prices and low base effect. For example, profits from coal mining and processing companies increased by 112.9% in the first ten months thanks to recovery of coal prices.
▪ Hong Kong's export dropped 1.8% yoy in October.	▪ Export growth in value terms reverted to a slight decline in October (-1.8% yoy), after registering growth in the preceding two months. Performance across major markets was sluggish. Region-wise, exports to Asia as a whole fell by 0.9% yoy. Decreases were registered in exports to Thailand, Japan and Vietnam, which dropped by 12.7% yoy, 11% yoy and 7% yoy respectively. Meanwhile, total exports to the Mainland remained unchanged. On the flipside, China reported its import growth from Hong Kong for a prominent negative growth of 49.1%. This was mainly attributed to strengthened administrative measures on cross border capital flow and the narrowing gap between CNH and CNY, which limited the

	opportunity for carry trade. It is expected that China's capital control could remain stringent amid the strong dollar cycle. ▪ Elsewhere, exports to other main trading partners showed some weakness, in particular exports to Germany (-15.3%) and the UK (-13.5%). Given the rise of trade protectionism and negative spillover effects to China amid post-Trump world, HK's trade sector may continue to take a hit. Looking ahead, export outlook in the near term will still hinge on global demand conditions. The external trading environment is still subject to uncertainties, including (1) US policy directions after the general election, (2) monetary policy divergence among major central banks, (3) unfolding Hard-Brexit event and political crisis in Eurozone.
▪ Macau's GDP registered its first annual growth (+4% yoy) in 3Q over two years.	▪ Amid rebound in gaming and tourism sectors, exports of gaming services (+0.2% yoy) and those of other tourism services (+6.5% yoy) retrieved growth, supporting the GDP to mark its first advance since 2Q 2014. Another supporting factor turns out to be the resurgence in investment (+2.3% yoy). For fiscal year 2017, the government plans to increase expenditure by 12%. Therefore, though fewer projects are scheduled to be completed in 2017, buoyant government investment and expenditure would help to compensate the benign private investment. ▪ On the other hand, private consumption (+0.3% yoy) reversed its downward trend over the past two quarters amid low inflation and stable labor market. However, private consumption is likely only to grow moderately in the coming quarters due to stagnant income growth. ▪ Finally, lackluster external demand continued to weigh with exports of goods (-15.6% yoy) falling for the fourth straight quarter. ▪ In conclusion, the GDP is expected to contract by around 5% yoy in 2016. Moving forward, the effect of low base, gradual recovery in gaming and tourism sectors, as well as resilient government consumption and investment are likely to offset the impact of benign local and external demand. As such, a 3% to 5% GDP growth is expected for 2017.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY finally broke 6.9 in the onshore market as dollar index extended its gain. ▪ However, RMB index strengthened and ended the week at 94.67, up by 0.13% from previous week's 94.54.	▪ Despite RMB's weakness against the dollar, RMB has outperformed most of its peers in the region since mid-October after dollar rallied in the global stage. ▪ We think RMB index is likely to be the new anchor amid dollar strength. As such, we expect RMB index to remain stable prior to the FOMC meeting. Though the new anchor is unlikely to reverse RMB's weakness against the dollar, it may help slow down the pace of depreciation.

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