Highlights:

Market continued to digest the key messages from the 19th Party Congress. With more comments from President Xi as well as some key leaders, it is clearer that Xi administration is likely to speed up China's reform in the next five-year. In meeting with a group of US business leaders in Beijing last week, President Xi said China is deepening its reform with unprecedented commitment and at unprecedented pace. In addition, PBoC governor Zhou Xiaochuan echoed that reform and openness is important to optimise the structure of financial system, which will eventually help China avoid the outbreak of systemic risk.

China's bond market remained under pressure last week due to concerns about financial de-leverage. PBoC's decision to inject CNY404 billion via 1-year MLF sent the signal that China wants to calm the market down after the recent bond market rout. Nevertheless, market sentiment remains fragile with bond futures prices failed to gain strongly. In addition, PBoC governor Zhou Xiaochuan's warning about systemic risk to call for tighter financial regulation over the weekend also did not bode well for the near-term sentiment. As such, we expect market to remain nervous in the start of the new week.

In Hong Kong, all eyes were on the surge in short-end funding costs amid month-end effect and China Literature's IPO. As month-end effect fades, even with more IPOs to come, short-end HIBOR may not jump rapidly again but rather oscillate around it current level. After the upcoming IPOs, 1-month and 3-month HIBORs may come off on ample liquidity. Moving forward, should HIBOR tick up again due to year-end effect and rising expectations on Fed's Dec rate hike, banks may increase the pricing spreads of HIBOR-based mortgages. As such, demand for mortgage loans is expected to recede. Despite that, total loans and advances are set to hold up well with resilient trade finance and upbeat corporate loan demand. Besides, as onshore liquidity tightened again in October, Mainland companies might have returned to offshore market for financing. Adding on funding needs associated with the Belt and Road Initiative, we expect growth in loans for use outside of HK to stabilize. As robust loan growth indicates buoyant private investment and trade activities while China's growth surprised on the upside in 3Q, HK's growth may also be better than we previously expected. In Macau, gaming revenue growth surprised on the upside in October, mainly led by VIP growth. Given the rosy picture painted by the gaming sector so far this year, we revise our forecast on gaming growth from 15% to 19% and our GDP forecast from 8% to 10% for 2017.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ President Xi Jinping promised more reforms to a group of US business leaders in Beijing such as Apple CEO Tim Cook, Facebook CEO Mark Zuckerberg and Blackstone Chairman etc ahead of Trump's visit next week.	▪ President Xi said China is deepening its reform with unprecedented commitment and at unprecedented pace. In addition, President Xi also believes that the China's opening is win-win situation for the global economy. Xi's first meeting with foreign delegation post 19th Party Congress confirmed our thoughts that Xi administration is likely to speed up China's reform in the next five-year with less resistance from vested interest groups.
▪ Caixin reported that China will allow a trial of full float of H-shares.	▪ Currently, the nonlisted "domestic shares" of Hong Kong listed mainland companies are not allowed to be sold in the secondary market or pledged as collateral for financing. The trial will remove those limits. ▪ Despite the supply of tradable shares is expected to increase, the full float is still positive for the market as it may align major domestic shareholder's interest with offshore retail investors. In addition, this may also serve a new funding channel for Hong Kong listed Chinese companies.
▪ The PBoC injected CNY404 billion via 1-year MLF on Friday as compared to CNY207 billion MLF matured this week. Meanwhile, it also exceeds CNY396 billion matured in November.	▪ The larger than expected liquidity injection via MLF send the signal that China wants to calm the market down after the recent bond market rout due to cocnerns about financial de-leverage and further montary tightening. ▪ Bond futures failed to rebound despite positive headline as sentiment remains fragile.
▪ PBoC published its Governor Zhou Xiaochuan's articles in the website over the weekend titled "safeguarding the bottom line to prevent from systemic financial risk."	▪ The title of the article is self-explanatory and showed that containing financial risk will be the key task for China's financial regulator including PBoC for the next few years. As such, PBoC is expected to exercise its caution to keep financial leverage in check. In addition, Mr. Zhou also reiterated the

	importance of reform and opening to optimise the structure of financial system. ▪ Although it is not the first time for Zhou to mention about containing financial risk, it is probably the first time for Zhou give us detailed explanation about cause of financial risk in the article, which can be attributable to arbitrage activities by wealth management products, asset liability mismatch as well as unintended consequence of implicit guarantee. In addition, he also warned the illegal interest transfer between some financial guru and insiders from financial regulators. ▪ Zhou's article has probably laid out the grand vision for financial regulation for the next five years. From market perspective, it may not bode well for calming nervous market sentiment.
▪ Short-end HIBOR continued to edge up with 1-month HIBOR rising for the 13th consecutive trading day to its nine-year high at 0.815% on Nov 1.	▪ As month-end effect fades while upcoming IPOs are unlikely to lock up as much liquidity as China Literature's IPO, short-end HIBOR may not jump rapidly again. Instead, 1-month and 3-month HIBORs are expected to oscillate around their current high levels in the run-up to several IPOs. After IPOs, we expect HIBOR to come off on amply liquidity. However, any correction is unlikely to bring HIBOR down to its recent trough due to year-end effect and rising expectations on Fed's Dec rate hike. For example, 1-month HIBOR may not fall below 0.5%. Moving forward, should HIBOR tick up again, there could be three implications. First, the narrowed yield differential may keep HKD supported. Second, banks may be prompted to lift HKD deposit rates. Third, banks are likely to increase the pricing spreads of HIBOR-based mortgages and in turn suppress housing demand.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's official PMI softened to 51.6 in October from 52.4 in September.	▪ The retreat of October PMI to August level is normal in our view after a surprise jump in Septebmer. Both supply and demand sub-indicators fell slightly but still be well above threshold line. The input price index fell from a high of 68.4 in September to 63.4 in October. As such, expect China's PPI to retreat from a high of 6.7% to estimated 6.5%.
▪ The September approved new mortgage loans exhibited the first year-on-year decline since July 2016 and were down for the third consecutive month on monthly basis. During the same month, growth in secondary housing prices index decelerated to its lowest level since this Feb and printed 14.8% yoy. Furthermore, housing transaction volume fell for the fourth consecutive month by 20% yoy to 5289 deals in October 2017.	▪ In contrast, housing market showed signs of improved investment sentiment recently as proposed supply under the "Starter Homes" scheme missed expectations while the new government refrained from carrying out more cooling measures. However, we hold onto our view that moderation in housing market growth will continue in the coming months due to the following reasons. ▪ First, prospects for higher interest rates may add to cooling measures in taming secondary housing demand. Second, increasing supply of subsidized flats may help to distract some demand for smaller flats from private housing market. Third, some less affluent home buyers may wait and see if increasing private home supply could take down housing prices. Fourth, curbed overseas investment of Mainland property developers has stopped residential land prices from surging. Finally, a slew of new home projects launched so far this year might have reduced the investment demand in the secondary housing market.

	▪ All in all, we expect secondary housing prices index to peak in October and come off a bit in the coming months. In the meantime, housing transactions are likely to remain tepid in the secondary market. Nevertheless, the correction is likely to be capped by a still solid labour market as well as wealth effect from stock market.
▪ Hong Kong's total loans and advances continued to grow notably by 15.2% yoy in September 2017.	▪ Firstly, trade finance grew by 8.5% yoy, in line with the strong growth in total exports and imports (+9.5% yoy in September 2017). Trade finance is expected to expand further as global recovery continues to support Asian exports. Secondly, other loans for use in HK increased by 15.8% yoy. As the Fed is set to tighten its monetary policy at a gradual pace while other central banks appeared to be relatively dovish in terms of tapering, global liquidity may remain flush at least until mid-2018. As such, demand for loans to other financial institutions and property development may hold up well. Thirdly, approved new mortgage loans exhibited the first year-on-year decline since July 2016 and were down by 8.1% yoy. Given uptrend in HIBOR and prospects for increasing new home supply, moderation in housing market growth may persist and remain to suppress demand for mortgages loans (93.4% of which were loans with reference to HIBOR). ▪ On the other hand, growth in loans for use outside of HK slowed down to 16.8% yoy from 17.1% in August and 17.9% in July. This was due to a less tight liquidity condition in the onshore market and the curbed overseas investment of Mainland companies. However, given concerns about intensifying de-leveraging campaign and year-end effect, onshore liquidity tightened again. Adding on financing needs associated with the Belt and Road Initiative, we expect growth of loans for use outside of HK to stabilize in the coming months.
▪ CNH deposits in HK rose by 0.5% mom to RMB535.5 billion in September 2017.	▪ Recently, RMB has stabilized after depreciating on a broad strength of USD in September. As market expectations on the two-way volatility of RMB become more solid while banks raised CNH deposit rates, we expect RMB deposits to expand moderately in the coming months.
▪ Macau's gaming revenue surprised on the upside and increased by 22.1% yoy to its three-year high at MOP26.6 billion in October 2017.	▪ The number of visitor arrivals increased by 11.6% yoy during the golden week and continue to grow after the holiday. The return of leisure gamblers after the two typhoons have lent supports to the mass-market segment. Still, due to the relatively low betting amount of recreational gamblers, high rollers remained the key driver of gaming growth. VIP gamblers' pent-up demand after the two typhoons might have well boosted VIP revenue in October. As China's growth appeared to have been more resilient than previously expected, high rollers' gambling demand have held up well. Continuous credit extensions offered by junket operators also supported the return of VIP gamblers. Given the rosy picture painted by the gaming sector, we adjust our forecast on gaming revenue growth from 15% to 19% for 2017 and revise our GDP forecast from 8% to 10% for 2017. ▪ In the longer term, we remain wary of the unsustainability of VIP revenue growth as the segment is vulnerable to both policy risk and liquidity risk. Liquidity risk may intensify with more central banks to tighten the monetary policy in the coming years. Despite that, we remain optimistic about

	gaming sector's outlook as mass-market segment will likely further benefit from Asia's recovery and the expansion of China's middle-class, given upcoming completion of Hong Kong-Zhuhai-Macau Bridge and a slew of new project openings in years ahead.

RMB	
Facts	**OCBC Opinions**
▪ RMB strengthened against the dollar last week despite dollar remained steady. As a result, RMB appreciated against its currency basket with the RMB index rose to 95.33 on Friday.	▪ Although there is no major news flow, the unexpected jump of RMB against both dollar and the currency basket in the first half of last week was probably the result of planned Trump visit. It seems to have been part of "tradition" that RMB may appreciate ahead of key Sino-US meeting.

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