Highlights:

China was out for golden week holiday last week with only CNH market opened. Surprisingly, the CNH has been fairly well behaved for most of the week despite the USDCNH was bided up to test high of 6.69 last Tuesday on corporate buying flow as a result of broad dollar strength. This was probably due to concerns that China may continue to use fixing to slow down the pace of depreciation. Nevertheless, it also shows that two-way movement expectation has been formed even in the absence of onshore guidance. The focus will be switched to September economic data this week as well as market's reaction towards the targeted reserve requirement ratio cut announced on 30 Sep.

In Hong Kong, 1-month HIBOR ended its six consecutive trading days of increase last Friday as the month-end effect and holiday effect faded gradually. Nevertheless, we expect HIBOR to tick up moderately on HKMA's further bill-sale plans and Fed's gradual rate hikes. This may add to the cooling measures in suppressing demand in the secondary housing market. Besides, "Starter Homes" scheme and prospects for increasing new home supply may deter prospective home buyers from chasing an overheated housing market. Therefore, we expect housing transactions to remain muted. On the other hand, the lack of support from southbound equity flows did not stop Hang Seng Index from closing at its highest level since Apr 2015 on Oct 6. As we believe that global liquidity will remain flushed in the coming year, the stock market is unlikely to collapse in the near term. This week, eyes will be on HK's Chief Executive's maiden policy address on Oct 11. In Macau, despite weaker-than-expected increase in visitor arrivals during Oct 1 to Oct 5, the return of VIP gamblers may still lead the gaming revenue to rebound on monthly basis in October.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Hang Seng Index closed at its highest level since Apr 2015 at 28432.56 on Oct 6 despite the lack of support from southbound equity flows amid golden week holiday.	▪ The buoyant performance was attributed to US tax reform optimism, China's rosy PMI data and the PBOC's announcement of RRR cuts. As the Fed is set to reduce its balance sheet at a gradual rate while the ECB and the BOJ may continue their QE plans, we expect global liquidity to remain flushed in the coming year. As such, with the sustained southbound equity flows under the two stock connects, we see little chance of a sharp fall in the stock market. However, risks of a moderate correction cannot be ruled out should global monetary tightening accelerate (including Fed, ECB, BOC and BOE). An expected slowdown in China's growth and the uncertainty about Trump's tax reform may also pose downward pressure to the stock market.

Key Economic News	
Facts	**OCBC Opinions**
▪ Hong Kong: approved new mortgage loans dropped for the second straight month by 10.7% mom while overall housing price index growth moderated further to 17.95% yoy in August. In addition, housing transactions tumbled on a yearly basis for the third consecutive month by 28% yoy in September. All the data reinforce our view that the housing market has been cooling. The tepid data print of housing transactions also points out that upbeat demand in the primary housing market failed to offset the muted buying interest in the secondary housing market.	▪ Moving forward, as fewer new home projects will be launched in 4Q, we expect new home sales growth to slow down. In addition, cooling measures which prompted some banks to increase the pricing spreads of HIBOR-based mortgages may continue to tame secondary housing demand. Besides, HIBOR is expected to tick up gradually and in turn hit housing demand should the HKMA issue more bills and the Fed raise rates gradually according to its dot plot. Furthermore, potential homebuyers may enter a wait-and-see mode before details about the "Starter Homes" scheme are out on October 11. Expecting that new home supply will increase substantially in the years ahead, some prospective homebuyers may also refrain from chasing an overheated housing market at this juncture. All in all, we expect overall housing price index to peak in the coming months and then retreat modestly. Still, housing price index growth may print 5% to 10% for 2017 as a whole. ▪ In the short to medium term, we see little chance of housing

	market crash given three reasons below. First, as the Fed is set to reduce its balance sheet at a gradual rate while the ECB and the BOJ may continue their QE plans, we expect global liquidity to remain flushed in the coming year. This means that HIBOR is unlikely to rise rapidly. As such, a solid labor market and strong domestic recovery may help to weather the impact of a moderate increase in the HIBOR. Second, the "Starter Homes" scheme initiated by the Chief Executive may be constrained by the shortage of land supply and therefore have limited impact on private housing market. Third, over 70% of new home supply in next 4 years consists of small to medium size houses. As larger private flats become less affordable while few subsidized homes or public rental flats are available, demand for smaller housing units is expected to remain resilient.
▪ Hong Kong's retail sales growth slowed down to 2.7% yoy with visitor arrivals decreasing by 1.2% yoy in August. Sales of jewelry, watches and other luxurious goods increased robustly for the second consecutive month by 7.3% yoy, probably due to low base effect. Meanwhile, sales growth (-1.4% yoy) of clothing, footwear and allied products returned to negative territory.	▪ As inbound tourism activities has been recovering at a modest pace, tourist spending failed to buoy a faster rebound in the retail sector. On the other hand, sales of consumer durable goods edged up at the strongest pace since October 2015 by 4.4% yoy. Specifically, the sales of electrical goods and photographic equipment marked the first year-on-year growth (+1.4% yoy) since August 2015 and are expected to climb up further as Mainland tourists and local consumers will likely show huge demand for new iPhone devices. Besides, sales of motor vehicles and parts jumped significantly by 7.2%. Increased demand for durable goods may be attributed to upbeat domestic consumer sentiment on the back of a solid labor market and wealth effect. However, local households still tend to spend more when travelling overseas or shop at overseas online stores. All in all, we expect retail sales growth to remain modest in the rest of 2017 given a dissipating low base effect. If this is the case, retail property prices and rentals growth will also be moderate.
▪ Macau's gross gaming revenue (GGR) grew for the 14th consecutive month by 16.1% yoy to MOP 21.36 billion in September. The growth rate surprised to the upside but was still much slower than the 20.4% gain in the preceding month.	▪ On a positive note, media reported that hotels have been nearly fully booked during the golden week holiday even with higher room rates. Besides, the number of visitor arrivals rose by 11.6% yoy and that of Mainland visitors also increased by 9.6% yoy during the first seven days of the golden week, according to Macau Government Tourism Office. After two typhoons, tourism activities might have regained strong momentum. Therefore, revival of mass-market segment in the gambling centers could also be expected. ▪ On the other hand, high rollers might have postponed their trip to Macau till golden week amid bad weather in late August. Besides, credit extensions offered by junket operators would have continued to underpin VIP demand. Therefore, we expect the return of VIPs to lead a month-on-month rebound in gaming revenue in October. Despite that, the year-on-year growth of GGR is more likely to slow down gradually as the low base effect dissipates. For 2017, we expect GGR growth to mark around 15% yoy and GDP growth to print around 8%. ▪ Moving forward, we are concerned that VIP segment's revenue growth, which has been fueled by credit, will be vulnerable to liquidity risks. Adding on policy risks regarding anti-money laundering and an expected slowdown in China's growth, we suspect the sustainability of GGR growth.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNH was bided up to a high of 6.6900 last Tuesday on corporate buying flow due to broad dollar rally. However, the pair retreated back to around 6.65 level due to concerns that China may continue to use fixing to slow down the pace of appreciation.	▪ In the absence of onshore CNY market due to golden week holiday, the offshore CNH market has been fairly well behaved as investors are reluctant to chase the dollar higher. This was probably due to concerns about the upcoming fixing. Nevertheless, it also shows that two-way movement expectation has been formed even in the absence of PBoC's guidance.

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