Highlights:

China's bond connect program kicked off strongly in the first week. Both Agriculture Development Bank of China and China Development bank reported the strong interest from offshore investors in their issuance. CDB said more than CNY2 billion was allocated to offshore investors after receiving close to CNY10bn orderbook. Meanwhile, five non-financial corporate bonds were also issued to global investors last week with offshore investors accounted for 17% of total allocation out of CNY7 bn issuance. However, bond connect failed to support China's bond market in the first week with 10-year government bond yield rose to above 3.6% due to stronger Chinese data and steepened yield curve globally.

The southbound flows returned under both stock connect. This suggested mainland's interest in Hong Kong's equity market remained and the previous fund relocation from Hong Kong to mainland was probably due to tight domestic liquidity.

PBoC has suspended its open market operation for 11 consecutive trading days since late June. However, the short term liquidity remained stable with money market rate fell noticeably in the first week of the second half. The latest suspension of open market operation showed PBoC has been more precise in daily liquidity management. This may give central bank more confidence to keep its tightening bias tone. As such, the tug of war between PBoC and financial institutions on financial de-leverage is likely to continue.

On currency, RMB weakened slightly against the dollar in both onshore and offshore market with the pair testing 6.80. However, RMB index gained last week to end the week at 93.52, up from 93.29 on 30 June. China has shown bias towards stronger RMB to attract more inflows to China's capital market. Nevertheless, market remains sceptical whether this will last after initial excitement about bond connect passes. On the positive note, China's FX reserve continued to rise for the fifth consecutive month in June, implying more balanced cross border flows. Market will close monitor the forex purchase data later this month.

President Xi Jinping called on G20 major economies to champion an open world economy and a multilateral trade regime. The friendly meeting between President Xi and President Trump eased the market concern about the imminent crisis in North Korea after the test of International Ballistic Missile. For this week, in addition to key economic data, China's financial work conference to lay out the framework for financial regulatory regime this Friday will also be the key focus of the market.

<table>
<tr><th colspan="2">Key Events and Market Talk</th></tr>
<tr><th>Facts</th><th>OCBC Opinions</th></tr>
<tr><td>China's bond connect program kicked off strongly in the first week with total trading volume reached CNY7 billion in the first day of official launch. Both Agriculture Development Bank of China and China Development bank reported the strong interest from offshore investors in their issuance. CDB said more than CNY2 billion was allocated to offshore investors after receiving close to CNY10bn orderbook.
Meanwhile, five non-financial corporate bonds were also issued to global investors last week with offshore investors accounted for 17% of total allocation out of CNY7 bn issuance.
However, bond connect failed to support China's bond market in the first week with 10-year government bond yield rose to above 3.6%.</td><td>According to the statement issued by the CDB, in addition to Hong Kong based investors, overseas monetary authority as well as investors from Europe, Japan and Singapore also participated in the primary issuance via bond connect. The relatively higher yields and improving currency outlook make China's onshore bond more appealing to offshore investors.
Nevertheless, given there might be the planted demand and supply in the first week of bond connect, the transaction via bond connect after the first few weeks could be a better gauge for the demand for onshore assets from the offshore investors.
The steepening yield curve in China was mainly attributable to two factors including better than expected PMI data as well as tracking the steepening yield curve in the US and EU.</td></tr>
<tr><td>PBoC has suspended its open market operation for 11 consecutive trading days since late June.
As such, PBoC net withdrew CNY250 billion liquidity from the system.</td><td>Despite the net withdrawal of liquidity from the system by PBoC, short end money market rates fell significantly in the first week of the second half. 7 day repo fixing fell to 2.8% last Friday from 3.9% at the end of June while the 1-month SHIBOR rate also fell by 24.5bps to 4.215% last Friday from 4.46% at the end of June. This sharp decline of money market rates showed that liquidity situation has improved after the</td></tr>
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	semi-annual end assessment. ▪ The latest suspension of open market operation showed PBoC has been more precise in daily liquidity management. This may give central bank more confidence to keep its tightening bias tone. As such, the tug of war between PBoC and financial institutions on financial de-leverage is likely to continue.
▪ China increased its RQFII quota to Hong Kong to CNY500 billion from previously CNY270 billion.	▪ This is probably another gift to Hong Kong to mark the 20-year anniversary of Hong Kong's return to motherland. This will further reinforce Hong Kong's role as the global financial centre. ▪ Meanwhile, the increase of quota also further widens avenues to attract more foreign investors to participate in China's capital market. This is also positive for the longer term development of China's capital market.
▪ President Xi Jinping called on G20 major economies to champion an open world economy and a multilateral trade regime.	▪ Different from the summit in Hangzhou in 2016, the rise of protectionism has become the latest challenge to the global economy. China's latest initiative one belt one road will help restart the globalization engine. ▪ The friendly meeting between President Xi and President Trump eased the market concern about the imminent crisis in North Korea after the test of International Ballistic Missile. It seems President Trump managed to control his impatience about China's intervention on North Korea despite his warning via Twitter.
▪	▪

Key Economic News	
Facts	**OCBC Opinions**
▪ China's FX reserve continued to climb for the fifth consecutive month in June to US$3.056 trillion.	▪ The rebound of FX reserve was partially driven by valuation effect as a result of weaker dollar. However, it also reinforced market's view that China's capital outflow risk has subsided thanks to capital control measures as well as improving currency outlook. ▪ FX reserve in SDR term, however, continued to fall to 2.1969 trillion from 2.2058 trillion. This suggests that forex purchase may not be able to turn positive in June. Market will close monitor the forex purchase data later this month.
▪ Hong Kong's total transactions rebounded by 6.4% mom to 6100 deals in June after decreasing briefly in May. Specifically, transactions of houses priced over HKD 5 million grew by 24% mom in June. As the new houses are mostly priced above HKD 5 million, we believe that the revival of total transactions was mainly due to rosy performance of the primary housing market.	▪ In contrast, a slew of new cooling measures have hit demand in the secondary housing market with transactions of houses priced below HKD 5 million showing a 20% month-on-month decline. In the near term, the tightening liquidity in the onshore market and a stable RMB may deter some Mainland investors from rushing to HK's housing market. Elsewhere, as 1-month HIBOR gradually ticks up and banks are expected to raise Prime Rate by end of this year, higher rates accompanied by increasing supply could together lead to a moderate correction in housing markets. Overall property price index (+20.8% yoy in May) which refreshed its record high for the seventh straight month may see its growth moderating in 2H. However, given a stable labor market and still low borrowing costs even after a 25 bps hike in Prime Rate, we believe housing prices would still grow by 0% to 5% yoy over 2017.
▪ Macau's gross gaming revenue (GGR) rose at its fastest pace since February 2014 and was up 25.9% yoy in June. However, the growth missed market	▪ Summer holidays during July and August may help to boost GGR back to above MOP 20 billion. As China's growth has been stronger than expected, we believe that tourism sector

expectations and was mainly due to a low base effect. Amid off-season effect, GGR printed MOP 19.994 billion in June, its lowest level since January.	and the mass-market segment to remain resilient. However, with a cooling housing market in China and a slew of tighter polices on money laundering in Macau, we expect the growth of VIP revenue to be volatile. Policy risks are also likely to hit low-end gambling demand. Despite that, given the rosy performance of the gaming sector in 1H (GGR grew by 17.2% yoy in 1H), we revise our forecast on GGR growth for 2017 to about 12%.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened slightly against the dollar in both onshore and offshore market with the pair testing 6.80. ▪ However, RMB index gained last week to end the week at 93.52, up from 93.29 on 30 June.	▪ Chinese banks were reported to sell USD in the onshore market in the beginning of the week to support the bond connect. China has shown bias towards stronger RMB to attract more inflows to China's capital market. Nevertheless, market remains sceptical whether this will last after initial excitement about bond connect passes. ▪ Nevertheless, the rebound of RMB index is encouraging and it shows that China's new fixing mechanism with the counter cyclical factor has worked well.

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