Highlights:

The USDCNY ended the week below 6.50. The pair plunged to a low of 6.4390 at one stage on Friday following the collapse of broad dollar on Thursday before recovering to 6.49 region. The pace of appreciation caught us by surprise. The sharp decline of daily USDCNY trading volume in the onshore market on Friday, which fell to only US$14.1 billion lowest since Chinese New Year, suggested that market has turned more cautious and traders are reluctant to chase RMB higher further.

In addition, China unwound two previous admin measures to support RMB including 20% reserve cost for long dollar forward in the onshore market as well as reserve requirement ratio imposed on the offshore RMB deposits placed with onshore agent banks. The recent two-way movement of the currency justified China's confidence in its currency expectation management. Moving forward, counter cyclical factor in RMB's fixing mechanism will play a more important role in currency expectation management than unconventional administrative measures such as reserve cost. The unlock of offshore RMB liquidity may help lower offshore RMB funding costs further, which may be supportive of RMB internationalization in the longer run.

The unwind of those RMB supportive administration measures together with weaker than expected RMB fixing may suggest that China want to slow the pace of appreciation. The recent spree may come to an end. We think market may continue to take cue from this week's fixing.

On economic data, China's August export growht decelerated further while import growth remained resilient. The bright spot is import growth of electronic integrated circuit, which has grown by average 15.4% in the past three months, much stronger than decline of 0.44% in 2016. The pickup of EIC import benefitted from improving global outlook. This may provide support to exports in the coming months. China's August inflation surprised the market on the upside The 0.9% mom jump of PPI was the result of surging raw material prices due to supply shock following recent tight environmental inspection. Nevertheless, we think the supply side driven price rebound may not be sustainable as there is no strong evidence of pickup of demand.

In Hong Kong, HKD's fast movement was back in spotlight. A sharp tumble in the greenback together with RMB's robustness supported a broad-based appreciation in emerging market currencies, including the HKD. A further rally in the HKD was then driven by crowded short-covering. However, HKD's rebound may be short-lived as yield differential remains intact. Therefore, we hold onto our view that USDHKD may return to 7.8250-7.8300 by end of this year. Elsewhere, due to mounting uncertainties in the global market and the lingering impact of cooling measures, housing market correction (transactions dropped for the second straight month in August) is likely to persist albeit huge buyer interest seen in recent new home projects. The "Starter Homes" scheme initiated by the Chief Executive may have limited impact on private housing market amid supply issues. For this week, we will keep an eye on the belt and road summit held in Hong Kong on Sep 11.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ According to onshore media, banks are no longer required to set aside 20% reserve cost for long dollar forward position effective from today as a result of recent rapid appreciation of RMB.	▪ Since October 2015, China's central bank has imposed 20% reserve cost on any long dollar forward position to discourage speculation on RMB depreciation via forward position. As a result of higher hedging cost, the contracted value of long dollar forward done by clients have fallen from average monthly US$33.8 billion in the first eight months of 2015 to only single digit amount. Although the new rules help slow RMB's depreciation, it also hurt those companies who have genuine needs to hedge their future dollar payment. ▪ The removal of this reserve cost shows that PBoC is more confident of managing market expectation on RMB. The recent two-way movement of the currency suggested that counter cyclical factor in RMB's fixing mechanism will play a more important role in currency expectation management than unconventional administrative measures such as reserve cost.
▪ In addition, market talk is that RMB deposits placed with onshore agent banks except clearing banks by offshore participating banks are no longer require setting side reserve requirement.	▪ This is expected to unlock hundreds of billions liquidity in the offshore market, which may lower the RMB funding costs in the offshore market. This may ease costs for investors to short CNH. In the longer run, it may be also supportive to restart the

	engine of RMB internationalization.
▪ The HKD marked its largest gain since January 2016 against the USD in late last week, probably due to three reasons.	▪ First, a slew of unfavorable factors including geopolitical risks have suppressed US treasury yield and continued to push the greenback down against major currencies, including the HKD. Second, appreciation in the HKD forced short sellers to cover their positions and further boosted the HKD. Third, equity flows returned to Hong Kong under the two stock links last week after rotating back to the mainland in August. Equity-related demand might have lent supports to the HKD. ▪ Nevertheless, we still see downward risks on the HKD as flush liquidity in the banking system indicates that a wide interest rate differential will remain in place. On the other hand, improved outlook and the high yield of RMB may encourage investors to short HKD and long CNH and in turn translate into downward pressure on the HKD.
▪ HK's Chief Executive Carrie Lam is set to announce more details about "Starter Homes" scheme targeting first-time local buyers during her maiden policy address in October. The eligible buyers would be those who earn too little to afford private homes but too much to qualify for buying subsidized homes. Carrie Lam also pointed out that those who had previously purchased a subsidized flat or owned any other property would not be eligible for the scheme.	▪ Though buyers showed huge interests in new home project launches lately, the most popular flats are the smaller-size ones. Surge in housing prices have made the larger-size flats more and more unaffordable whereas the average waiting time for general applicants for public housing was 4.7 years as at end-June 2017, according to the Housing Department. Therefore, the "Starter Homes" scheme may help to distract some demand for smaller-size private homes. However, taking subsidized housing scheme as an example, due to the lack of land reserve for such scheme and therefore limited supply, few residents really benefit from the scheme. This could also be the case to the "Starter Homes" scheme. Therefore, we believe that the new scheme may have limited impact on the private housing market. Still, we will closely monitor the announcement of the scheme's details next month.
▪ Media reported that Hong Kong Monetary Authority asked Chinese banks and major lenders in Hong Kong for details of loans to HNA and Wanda.	▪ China's authorities may continue to crackdown on overseas M&A activities. This is expected to have some downward pressure on Mainland-related loans in HK. Besides, it will also hurt the bonds issued by Chinese big names in the offshore market, including Dim Sum Bond. Elsewhere, Mainland property developers may as a result become less aggressive in bidding for lands in Hong Kong. Therefore, upward risks on HK's housing market could be reduced to some extent.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's FX reserve rose for seven consecutive month in August to US$3.091 trillion.	▪ The US$11 billion monthly increase in August was slightly weaker than market expectation given unexpected rapid appreciation of RMB in August. Market will closely monitor the FX purchase by PBoC and net settlement of FX by SAFE in the coming weeks. Despite improvement of FX reserve, both data still recorded mild outflows. This long dollar bias explained why RMB has moved at such a rapid pace in the past few months.
▪ China's export growth in dollar term decelerated to 5.5% yoy in August from 7.2% yoy in July. However, import growth in dollar term accelerated to 13.3% yoy from 10% yoy. ▪ As such, China's trade surplus narrowed slightly to	▪ For breakdown, exports to G3 economies slowed with exports to EU and Japan decelerated to 5.18% yoy and 1.06% yoy respectively from 10.1% and 1.06% while export growth to US also slowed slightly to 8.45%. However, export growth to ASEAN accelerated slightly to 6.03% from 4.01%.

US$41.99 billion, down from US$46.7 billion In July.	▪ Import growth remained strong, rising by 13.5% yoy in August. The resilient import growth was mainly supported by solid import of electronic integrated circuit, which rose by 16.2% yoy. Demand for major commodities eased in August with imports and crude oil and iron ore by volume decelerated to only 3.44% and 1.07% respectively. ▪ China's import of electronic integrated circuit has grown by average 15.4% in the past three months, much stronger than decline of 0.44% in 2016. The pickup of EIC import benefitted from improving global outlook.
▪ China's August inflation surprised the market on the upside despite sluggish global inflationary pressure.	▪ China's CPI rose by 1.8% yoy in August, up from 1.4% yoy in July. The rebound of CPI was mainly due to seasonal pattern, which drove vegetable prices and travel costs higher. However, we expect inflation to stay muted in the coming months as there is no strong evidence of demand pickup, which may continue to disrupt the transition from higher PPI to CPI. ▪ PPI reaccelerated to 6.3% yoy in August after stabilizing at 5.5% for three months. The 0.9% mom jump of PPI was the result of surging raw material prices due to supply shock following recent tight environmental inspection. Nevertheless, given the high base effect is expected to kick in, PPI is expected to fall in the coming months, which will narrow the gap between PPI and CPI. ▪ Despite higher than expected inflation reading in both consumer and producer sectors, we think inflation is unlikely to be the concern for policy makers, in particular with base effect being likely to cap PPI.
▪ HK's housing transactions dropped for the second straight month by 31% yoy to 4014 deals in August. The slump was mainly attributed to weakness in the secondary property market. Given huge buyer interest in new project launches, we expect the year-on-year decline in housing transactions to slow down in September.	▪ Despite that, we believe the buying spree in the primary housing market will calm down gradually. Specifically, growth in the transaction volume of private homes priced at or above HK$ 10 million rose at a much slower pace by 8% yoy while that of private homes priced between HK$ 5 million to HK$ 10 million dropped for the second consecutive month by 23% yoy in August. In addition, overall property price index (+19.6% yoy in July) softened on a year-on-year basis for the first time since June 2016. Furthermore, approved new mortgage loans retreated by 23.5% mom while the number of new applications received in July dropped by 38% mom. All these indicators reinforced that the housing market has been moderating. Moving forward, we expect cooling measures, fears of higher rates, prospects for increasing new home supply and lower investment demand from Mainland China to suppress the housing market. Therefore, we believe housing prices would fall by 5% approximately in 2H.

RMB	
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▪ The USDCNY ended the week below 6.50. The pair plunged to a low of 6.4390 at one stage on Friday following the collapse of broad dollar on Thursday before recovering to 6.49 region due to rebound of dollar.	▪ Although we expect RMB strength to continue, uninterrupted by North Korea situation, the pace of appreciation still caught us by surprise. ▪ The sharp decline of daily USDCNY trading volume in the onshore market on Friday, which fell to only US$14.1 billion lowest since Chinese New Year, suggested that market has

	turned cautious and traders are reluctant to chase RMB higher further. ▪ Meanwhile, the higher than expected USDCNY fixing on Friday also implied PBoC may want to slow the pace of appreciation. Market may continue to monitor this week's fixing as a gauge to test the boundary of policy makers. ▪ We think the recent pace of appreciation is unlikely to be sustainable, as such we expect RMB to consolidate this week without further catalyst for dollar weakness.

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