Highlights:

"A new era" probably is the key words from the latest 19th Party Congress. From political standpoint of view, China's Communist Party (CCP) has officially reckoned that China's socialism model with Chinese characteristics has crossed in the threshold into a new era. "Socialism with Chinese characteristics for a new era" will be the core of Xi Jinping Thought, which is built to enrich Mao Zedong Though and Deng Xiaoping Theory. Domestically, CCP will work hard to achieve building a moderately prosperous society in all respects while globally, China will move further closer to centre stage and make greater contributions to mankind. Well, we will stop here as we are not in the position to go deeper into the political topic.

From economic perspective, the latest data seems to suggest that China's growth has also entered "a new era". China's GDP growth has been more stable since 2015 after a quick deceleration from double digit growth in 2010 to 7% handle in 2014. The stability, despite concerns about the negative impact of monetary tightening and high leverage, was the result of successful economic transformation. Chinese economy has further moved away from old investment driven growth model to consumption driven model. The consumption's share to GDP growth has increased to 64.5% in the first three quarters while the capital formation's share to GDP growth has fallen to 32.8% in the same period.

We think Chinese economy could be more resilient than what we initially had expected thanks to ongoing economic transformation. Although fixed asset investment is likely to slow down further, which may weigh down on the growth prospect in the last quarter. The pace of decline is unlikely to be significant due to steady support from consumption. As such, we will revise our whole year GDP forecast to 6.8% in 2017.

In order to secure a sustainable growth to lead China into a moderately prosperous society, a proper risk management is important. PBoC governor Zhou Xiaochuan's warning about Minsky moment was not really in contrast to his upbeat growth outlook for the second half as warning about debt problem is the long term efforts for PBoC and other financial regulators to work out to prevent China from falling into the debt trap. As mentioned by CBRC Chairman Guo Shuqing that financial supervision will become tighter in future to strengthen risk management. As such, we think China is unlikely to loosen its monetary policy in 2018, which may continue to be the swing factor to China's capital market in future.

On currency, RMB also felt the warning from Mr. Zhou on debt problem. RMB weakened against both dollar and currency basket last week. RMB is likely to continue to take cue from reform rhetoric from 19th Party Congress. On the positive note, Hong Kong Secretary for Financial Services and the Treasury stated that RMB may be allowed to be freely circulated in some cities or areas of the Greater Bay Area.

In Hong Kong, liquidity got tighter amid upcoming IPOs, possible additional exchange fund bill issuance and rising expectations on Fed's third rate hike. The resultant narrowing of yield differential kept more HKD short sellers at bay. Therefore, USDHKD dropped briefly below 7.80. We will closely monitor the possibility of HKMA announcing a third batch of exchange fund bill issuance on Oct 24 which is the last tender date of the second batch. Should the HKMA issue less than HK$40 billion under the third batch, USDHKD may drop sharply and then return to the range of 7.7950-7.8100. Moving forward, we expect the HIBOR to rise moderately with 1-month HIBOR to reach 0.75% by end of this year. As such, housing market moderation may continue in the rest of 2017. In Macau, VIP segment continued to lead gaming growth. However, such growth is vulnerable to both policy risks and liquidity risks. Therefore, whether gaming growth could sustain in the longer term may hinge on the performance of the mass-market segment. With the expansion of China's middle-class and a slew of new mega project openings in years ahead, we still see upside on the mass-market segment.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In the latest 19th Party Congress press conference focusing on financial sector, PBoC Governor Zhou Xiaochuan warned China's Minsky moment as a result of rising leverage. Meanwhile, he also said there is no urgency for China to widen its currency trading band.	▪ We think Mr. Zhou's upbeat 7% growth outlook for the second half of 2017 and waring about China's Minsky moment is not contradictory as upbeat growth outlook is more short term while warning about debt problem is the long term efforts for PBoC and other financial regulators to work to prevent China from falling into the debt trap. ▪ Nevertheless, the signal is quite clear that China will take debt problem very seriously in the next five years. And PBoC will use counter cyclical macro prudential measures to keep financial risk in check.

	▪ Zhou's comment was also echoed by CBRC chief Guo Shuqing who said that it is certain that financial supervision will become tighter in future to strengthen risk management.
▪ James Lau, Hong Kong Secretary for Financial Services and the Treasury, stated that RMB may be allowed to freely circulated in some cities or areas of the Greater Bay Area.	▪ This will be in line with the central government's long-term goal of opening up China's economy and promoting RMB internationalization. Also, such policy may also help to attract more foreign investment to the area. Going forward, we will closely monitor the new policies and development plan of the Greater Bay Area.
▪ 1-month HIBOR rose consecutively over the past week to 0.6057%. As a result, the spread between 1-month LIBOR and 1-month HIBOR narrowed to 63.32 bps on Oct 20 after peaking at 81.97 bps on Aug 29. Meanwhile, USDHKD briefly dropped below 7.8000 due to the rising speculation that yield differential has peaked.	▪ In the near term, possible additional exchange fund bill issuance, upcoming IPOs and Fed's third rate hike could all translate into upward risks to the HIBOR. ▪ For this week, we will closely monitor the possibility of HKMA announcing the third batch of exchange fund bill issuance on Oct 24 which is the last tender date of the second batch. If it is not Oct 24, it could still be any time before Dec FOMC. To allow some room for further liquidity management, the HKMA is expected to issue less than HK$40 billion under the third batch. If this is the case, USDHKD may drop sharply below 7.80 as a knee jerk reaction to HKMA's action and then return to the tight range of 7.7950-7.8100. ▪ Moving forward, if the Fed raises rates in Dec FOMC or otherwise the HKMA issues a fourth batch of EFBs, we expect the 1-month HIBOR and the 3-month HIBOR to reach 0.75% and 0.95% respectively by end of this year. This may help to ease HKD's downward pressure further.

Key Economic News

Facts	OCBC Opinions
▪ China's economic growth decelerated slightly to 6.8% yoy in 3Q, slightly shy of PBoC Governor Zhou Xiaochuan's 2H 7% target. ▪ Fixed asset investment growth continued to decelerate to 7.5% yoy in the first nine months down from 7.8% yoy in the first eight months. ▪ Industrial production, however, rebounded slightly to 6.6% yoy in September from 6.0% yoy in August. ▪ Retail sales remained steady growing by 10.3% yoy in September.	▪ China's GDP growth has been more stable since 2015 after a quick deceleration from double digit growth in 2010 to 7% handle in 2014. The stability, despite concerns about the negative impact of monetary tightening and high leverage, was the result of successful economic transformation. Chinese economy has further moved away from old investment driven growth model to consumption driven model. The consumption's share to GDP growth has increased to 64.5% in the first three quarters while the capital formation's share to GDP growth fell to 32.8% in the same period. In addition, net export's share to GDP rebounded to 2.7% in the first three quarters after the negative contribution in 2016. The stronger consumption as a result of economic transformation as well as improving export benefiting from global recovery were the main reasons why China's economic growth has beat market expectation year to date. It is certain that China will exceed its around 6.5% growth target set in March. ▪ For September data, both private investment and investment in manufacturing growth decelerated further to 6% and 4.2% respectively from 6.4% and 4.5% probably due to rising uncertainty as a result of tightening in environmental protection. Given infrastructure investment is also likely to slow down further, we expected headline fixed asset investment to slow down further in the coming months, which may weigh down on growth outlook in 4Q. ▪ The rebound of industrial production in September was partially attributable to reacceleration of manufacturing

	output which could be the result of improving trade outlook. ▪ In conclusion, we think Chinese economy could be more resilient than what we initially had expected thanks to ongoing economic transformation. Although fixed asset investment is likely to slow down further, which may weigh down on the growth prospect in the last quarter. The pace of decline is unlikely to be significant due to steady support from consumption. As such, we will revise our whole year GDP forecast to 6.8% in 2017.
▪ China's forex purchase flipped to positive CNY850 million after staying in negative territory for 22 consecutive months. In addition, China's net settlement of foreign exchange on behalf of clients also flipped to positive US$3.32 billion.	▪ Both forex purchase data reported by PBoC and net settlement of foreign exchange reported by SAFE shows China's capital flow has finally returned to a mild inflow after outflows for almost two years. This was another evidence of rising expectation on RMB's two-way volatility. ▪ Interesting to note that China's net purchase of dollar forward jumped to US$27.84 billion in September, up from US$10 billion in August as a result of removal of 20% reserve cost for forward contract. The surge of hedging demand for foreign currency also shows the divergent views on RMB, which is the foundation for RMB's two-way volatility.
▪ HK's unemployment rate remained unchanged at 3.1% yoy in the third quarter of 2017. Global recovery and resilient domestic growth have boosted hiring sentiments	▪ Specifically, jobless rate of the trade sector rose slightly to 2.9% from 2.8%. However, the jobless rate is unlikely to rise beyond 3.0% given positive outlook of trade activities on strong external demand associated with Christmas Holiday. With regard to the consumption- and tourism-related sector, the unemployment rate dipped to its lowest level since 4Q 2014 at 4.4%. As a bullish stock market and a stable labor market continued to encourage household spending, we expect retail sector's moderate growth to persist and its employment to stabilize at the current level. On the other hand, financial sector's jobless rate slid further to 2.0%, a level unseen since 2Q 2008, due to a bullish stock market and increasing job opportunities associated with new home project launches. All in all, we expect a solid labor market to sustain and the unemployment rate to mark 3.2% for 2017 (the lowest level since 1997).
▪ Macau's gaming revenue expanded by 21.8% yoy in 3Q 2017, a tad slower than a 21.9% yoy increase in the previous quarter. VIP segment remained the main driver of the gaming sector's growth with its revenue surging 35% yoy in 3Q 2017 and its share rallying to 57.74% (the highest level since 1Q 2015). However, the sustainability of VIP growth is succumbed to both policy risks and liquidity risks.	▪ Mass-market revenue grew at a slower pace by 6.7% yoy in 3Q 2017 due to bad weather. A rather moderate improvement in tourism activities and the low betting amount of leisure gamblers are other reasons behind the moderate growth in mass-market revenue. This may add to an abating low base effect in slowing down the gaming growth in 4Q 2017. Still, we expect gaming revenue to grow by about 15% yoy this year. In the longer term, should VIP growth prove to be unsustainable, whether the gaming sector could gain further momentum may hinge on the performance of the mass-market segment. With the expansion of China's middle-class and a slew of new mega project openings in years ahead, we still believe that tourism activities will gain further traction and render more support to the mass-market segment. Nonetheless, gaming growth driven by mass-market improvement is likely to be less robust than that fuelled by VIP demand.

RMB	
Facts	**OCBC Opinions**

▪ RMB weakened against dollar last week due to rebound of dollar. In addition, RMB also weakened against currency basket with RMB index fell to 94.64 from 95 level.	▪ RMB has been moved by PBoC Governor's comments for the past week. RMB was initially supported by Zhou's upbeat GDP outlook for the second half but was sold off after Zhou warned about China's Minsky moment due to rising debt level. In addition, the USDCNY rose further to around 6.6200 level due to the rebound of broad dollar following US Senate's passage of budget resolution, which cleared the first hurdle to tax reforms.

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