Highlights

Risk-off sentiment has worsened in China in the past weeks despite easing monetary and fiscal policies due to rising concerns about policy inconsistency. The proposed change of collection authority for social security contribution has sparked nation-wide concerns that it may force lots of smaller labor intensive private owned companies out of business against the backdrop of trade war despite China's commitment to lower the tax burden. In a rare move, Premier Li Keqiang called for status quo for social security contribution before China finalising the plan to lower the social contribution rate. This shows that top policy makers are caring about the concerns from market and will continue to remain flexible to mitigate the impact on business. This may provide some relief to market to prop up sentiment.

On rates, Although PBoC denied news that it conducted CNY300 billion targeted repo in August to withdraw the liquidity, China's money market rate rose last week due to rising expectations that there is limited room for further marginal monetary easing. The expectation was confirmed by MLF roll over last Friday, which China did not inject extra liquidity as it has done in the past three months.

At the current juncture, bad news for bond may be good news for currency. RMB held up relatively well for most of time last week despite the return of emerging market currency rout thanks to diminishing expectation on further monetary easing. China's 12-month onshore swap points turned positive again last Friday for the first time in one and half months. The limited downside room for China rates is positive for RMB in our view as China may prefer maintaining interest rate differential between China and US. The focus of RMB is likely to shift back to trade war from easing monetary policy in the coming sessions after Trump threatened to raise its stake again.

On trade data, China's trade surplus with the US widened further to a record high of US$31.05 billion in August. This was mainly the result of frontloading activities ahead of the implementation of new trade tariff on 23 August. China's domestic demand remains resilient undisrupted by the trade war as China's imports of raw material continued to grow strongly. However, the decline of PMI to below 50 in Guangdong province, China's manufacturing base, for the first time since Feb 2016 showed that China's manufacturers may have felt the pain from trade war. This implied a weaker trade outlook in the coming months.

Despite rising uncertainties in the global context, China's government bond held by foreign investors continued to increase in August unaffected by RMB depreciation. The increase of foreign ownership in China's government bond is a confidence vote by foreign investors that China is able to stabilize the market despite the recent currency rout.

In **Hong Kong**, one-month HIBOR ended the six consecutive days of increase on 6 Sep. USDHKD continued to hover well below 7.85. After month-end, HIBOR remained elevated as market players continued hoarding money to prepare for Meituan IPO which opens its order book on 7 Sep. However, trade war concerns, emerging market turmoil and China's economic slowdown continued to weigh down HK's stock market. This suggests weak sentiment for upcoming IPOs. As such, market players started to release the money hoarded for Meituan IPO to the market and halted HIBOR's uptrend. With front-end liquidity improving, we expect HIBOR to edge lower in the coming sessions. This combined with the Fed's possible rate hike in Sep indicates a wider US-HK yield differential. As such, around mid-Sep, USDHKD spot is likely to test 7.85 again and in turn prompt more HKMA liquidity withdrawal. Any further reduction in aggregate balance (HK$76.45 billion) together with quarter-end effect will likely push up the HIBOR. We expect one-month and three-month HIBORs will test 1.8% and 2.1% respectively by end of Sep. Elsewhere, housing transaction volume and value dropped for the second consecutive month by 20.8% mom and 28.3% mom respectively in Aug. We expect housing transactions to remain muted and housing prices to drop 5% in 2H18 on trade war concerns, bearish stock market, muted economic outlook, higher borrowing costs and new housing measures. It is reported that the government may consider unveiling more restrictions on non-local homebuyers, which could accelerate housing market correction. In **Macau**, gross gaming revenue rose by 17.1% yoy to the highest since last October at MOP26.6 billion in Aug. However, gaming growth may slow down gradually due to high-base effect, a stronger MOP, Asia's muted economic outlook on trade concerns as well as the looming policy risks regarding anti-money laundering.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Premier Li Keqiang reiterated the commitment to lower the tax burden for individuals and corporate in its regular State Council meeting. Meanwhile, the State council also called for status quo for the collection of social security contribution	▪ Risk-off sentiment has worsened in the past weeks despite easing monetary and fiscal policies due to rising concerns about policy inconsistency. Although the Chinese government has repeated its pledge to lower the burden for corporates, the unintended consequence of some policy shifts may actually lead

by corporate before China finalising the plan to lower the social contribution rate.	to higher burden for corporates especially private companies. The concerns heighten that labor costs of labor intensive companies may increase dramatically should China implement the new rule to give tax bureau authority to collect the social security contribution on behalf. ▪ Although in the longer run a strict system for companies to pay the full amount of social welfare contribution is necessary, it may force some thin-profit margin manufacturers out of job in the near term should full compliance be in place against the backdrop of US-China. The statement from the State Council is a rare move in our view to assure the private owned companies that top policy makers are caring about the concerns from market and will continue to remain flexible to mitigate the impact on business. This may provide some relief to market to prop up sentiment.
▪ China's central bank rolled over CNY176.5 billion 1-year MLF last Friday, same amount matured on the same day.	▪ Since June, China has injected higher than expected amount via 1-year MLF. The net increase of MLF outstanding in the past few months has been an important signal for easing monetary policy. With PBoC is moving away from excessive injection, it shows that there might be limited room for further marginal easing. As such, we think China's rates may consolidate. This should be good news for currency market as limited downside for China's rates may ease concerns about the narrowing interest rate differential between the US and China.
▪ PBoC denied the news that China conducted CNY300 billion targeted repo operation in August to withdraw some excessive liquidity.	▪ PBoC did not give the details. Nevertheless, given the market rate has fallen below the open market operation rate for a few times, we would not be surprised to see the PBoC to restart its repo operation to maintain its lower bound of interest rate corridor.
▪ China's Ministry of Finance announced a new incentive to encourage financial institutions to lend to small and medium sized companies. China will exempt the value added tax on interest income from the loan to micro and small companies, which was priced less than 150% of benchmark interest rate. No exemption will be given to loans priced above 150% benchmark interest rate.	▪ The announcement is in line with the recent policy direction to improve the transmission mechanism from money market to credit market as well as the support to meet funding demands from small companies. ▪ The impact is unlikely to be significant, however, it shows China commits to lower the funding costs for small companies.
▪ According to onshore newswire, China's security firms have been preparing for the upcoming Shanghai London connect.	▪ The latest development in Shanghai London connect shows China's commitment to further open its financial market has not been disrupted by the uncertainty from US-China trade war.
▪ One-month HIBOR ended the six consecutive days of increase on 6 Sep. USDHKD continued to hover well below 7.85.	▪ After month-end, HIBOR remained elevated as market players continued hoarding money to prepare for Meituan IPO which opens its order book on 7 Sep. However, trade war concerns, emerging market turmoil and China's economic slowdown continued to weigh down HK's stock market. Hang Seng Index dropped by 3.3% last week. This suggests weak sentiment for upcoming IPOs. As such, market players started to release the money hoarded for Meituan IPO to the market and halted HIBOR's uptrend. With front-end liquidity improving, we expect HIBOR to edge lower in the coming sessions. This combined with the Fed's possible rate hike in Sep indicates a wider US-HK yield differential. As such, around mid-Sep, USDHKD spot is likely to test 7.85 again and in turn prompt more HKMA liquidity withdrawal. Any further reduction in aggregate balance (HK$76.45 billion) together with quarter-end effect will likely push up the HIBOR. We expect one-month and three-month

	HIBORs will test 1.8% and 2.1% respectively by end of Sep. Aggregate balance is expected to hold above HK$50 billion by end of Sep.
▪ It is reported that Hong Kong Government may consider rolling out more restrictions on home purchases by non-locals.	▪ According to the Permanent Secretary for Transport and Housing Bureau, transactions by non-locals and companies accounted for merely 1.2% of total purchases in 1H18. However, according to the real estate agency Centaline Property, non-local buyers took up over 10% of the total transactions in the private housing market in 1Q18. Though the government has unveiled a raft of housing cooling measures to tame foreign demand, non-local buyers could still avoid the 30% stamp duty as some developers offer to pay for them or they buy the property via a trust. Therefore, should the proportion of non-local buyers and housing prices remain high, the government may step up efforts to curb foreign buyers.
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Key Economic News	
Facts	**OCBC Opinions**
▪ China's total trade growth decelerated slightly in August. Export growth slowed down to 9.8% yoy from 12.2% yoy in July while import growth decelerated from 27.3% yoy to 20%. Trade surplus shrank slightly to US$27.9 billion, lower than market expectation. ▪ However, China's trade surplus with the US widened further to a record high of US$31.05 billion as a result of strong export growth to US, which accelerated to 13.22% yoy from 11.24% yoy.	▪ The impact of US-China trade war has not fully taken effect. China's record trade surplus with the US in August was mainly the result of frontloading activities ahead of the implementation of new trade tariff on 23 August. Despite strong exports to US, China's export to EU and Japan decelerated. In addition, China's exports to major EM markets such as Russia and Brazil also contracted due to sharp currency depreciation. The weak demand from EM markets offset the strong demand from US. On the positive note, China's trade with ASEAN remains strong with total export to ASEAN grew by 15.9% yoy in August. ▪ China's domestic demand remains resilient undisrupted by the trade war as China's imports of raw material continued to grow strongly. Imports of crude oil, iron ore and linearity low density polyethylene grew by 74.38%, 6.61% and 23.29% yoy respectively by value. ▪ Although trade data remained resilient in August, we export both export and import growth to slow down in the coming months as the Trump administration is likely to impose more tariff on China's imports as soon as next week. Meanwhile, the decline of PMI to below 50 in Guangdong province, China's manufacturing base, for the first time since Feb 2016 showed that China's manufacturers may have felt the pain. This implied a weaker trade outlook in the coming months.
▪ China's FX reserve fell slightly in August by US$8.2 billion to US$3.11 trillion.	▪ The slight decline was probably attributed to the small appreciation of the dollar in August. Overall speaking, the FX reserve data shows that there is no evidence of disorderly capital outflows despite RMB depreciation.
▪ China's government bond held by foreign investors continued to increase in August to CNY1.03 trillion from CNY980.3 billion unaffected by RMB depreciation.	▪ The increase of foreign ownership in China's government bond is a confidence vote by foreign investors that China is able to stabilize the market despite the recent currency rout.
▪ HK: Housing transaction volume and value dropped for the second consecutive month by 20.8% mom and 28.3% mom respectively in August.	▪ Lately, property developers have been accelerating the pace of new project launches. Some even cut the price to sell the new projects. However, the oversubscription rate of the new projects

	is still much lower than months ago. Similarly, secondary home sellers lowered the price but failed to attract much potential buyers. Taken all together, it reflects that the housing market starts to slow down. Moving forward, China's economic slowdown and trade concerns may hurt investor sentiment. Besides, banks have lifted mortgage rates and may lift prime rate this year. Finally, new housing measures announced in June might have shifted some housing demand to public market. All in all, we expect housing prices will drop by 5% in 2H18 and fall by another 5%-8% in 2019. Should the government roll out more restrictions on non-local homebuyers, the slowdown of housing market may decelerate further.
▪ Macau: Gross gaming revenue rose by 17.1% yoy (the strongest pace since Apr) to the highest since last October at MOP26.6 billion in Aug.	▪ The buoyant growth in Aug might be led by pent-up demand as gamblers might have delayed their trip to Macau amid the World Cup. As such, we are wary that the rosy performance in Aug will not sustain into coming months. ▪ At this juncture, we still believe that gaming growth will slow down gradually due to several reasons other than high-base effect. First, a stronger MOP on USD strength and Asia's muted economic outlook on trade concerns may weigh down Macau's inbound tourism. This is unfavorable to the mass-market segment of the gaming centers. Second, China's economic slowdown as well as the looming policy risks regarding anti-money laundering may curb casual and VIP gamblers. Third, the prospects for higher interest rates could impede junket operators from extending cheap credits to high-rollers. ▪ On a positive note, infrastructure improvement and new wave of mega project openings may help to cap the downside for both tourism and gaming sectors. We expect gross gaming revenue to grow by about 15% yoy in 2018.

RMB	
Facts	**OCBC Opinions**
▪ RMB held up relatively well for most of time last week despite the return of emerging market currency rout due to confidence in China's capability to stabilize the currency. ▪ However, the USDCNY ended the week higher above 6.86 in the offshore market after President Trump to tax all Chinese imports by additional tariff. ▪ RMB index gained last week to 93.5.	▪ The focus of RMB is likely to shift back to trade war from easing monetary policy in the coming week after Trump threatened to raise its stake again. In addition, China's 12-month onshore swap points turned positive again last Friday for the first time in one and half months after market believes the room for further marginal easing is limited. The limited downside room for China rates is positive for RMB in our view as China may prefer maintaining interest rate differential between China and US. Watch out for the development of trade war in the coming week. Again, as China has mentioned clearly that RMB depreciation is not the weapon for trade war, we think the impact of trade war on RMB is likely to be smaller now as compared to that in June.

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