Highlights

China's main economic indicators are largely in line with market expectation in August though fixed asset investment growth from January to August decelerated further to a record low level. Infrastructure investment remained the key drag on the growth in August. On the positive note, despite rising uncertainty from the US-China trade war, there has been limited impact on China's manufacturing sectors as of now with both manufacturing output and investment remained stable. Nevertheless, the deceleration of China's M1 to a multi-year low may imply a weak growth prospect in the coming months. On inflation, CPI reaccelerated in August but unlikely to be out of control. As such, inflation is unlikely to be the constraint to China's monetary policy this year.

China has paid increasingly more attention to sentiment management in the onshore market after the rising market volatility. China's financial stability and development committee vowed to keep its equity market, credit market, money market as well as currency market stable at the same time. China restarted its reverse repo operation again last week after suspending for 15 days to net inject liquidity. The liquidity injection again pressed RMB. RMB failed to gain last week despite weaker broad dollar and positive development of trade war. It seems China is still trying to achieve an unsustainable balance between easing liquidity and currency stability. Should China decide to continued pump market with liquidity, RMB may face renewed downward pressure.

China's Ministry of Commerce confirmed that it has received the invitation from to the US side to restart the trade negotiation. Vice Premier Liu He is expected to reply early this week. It was tipped that Liu He may visit Washington again at the end of September. Watch out for delegation list. Should China send a lower rank delegation this time, the market sentiment may be dampened again.

Although the focus has shifted to growth and market stability, China has not lowered its guard on leverage and slowed its push for financial reform. China targets to bring down the average asset to liability ratio for SOEs by 2% by end of 2020 from the level in 2017. In addition, China also allows qualified foreign individuals to open the stock account in China's domestic market effective from 15 Sep.

In **Hong Kong,** the stock market tumbled for the sixth consecutive session into bear-market territory on 12 Sep before rebounding on positive headlines about US-China trade war. However, US President Trump said the US is under no pressure for China trade deal. As the US and China are unlikely to reach trade agreement any time soon, last week's stock market rally is likely to be fragile. Also, Haidilao IPO may not lock up much money given the relatively small IPO size. Once the locked-up money returns to the market, HIBOR may wipe out some of its recent gains. With Sep FOMC around the corner, expectations of wider US-HK yield differential could boost carry trade activities. Should HKMA withdraw more liquidity, this together with quart-end effect could drive HIBOR up. All in all, we expect one-month and three-month HIBORs to test 1.8% and 2.1% respectively by end of Sep. On top of higher HIBOR, higher HKD fixed-deposit rates and sharp increase in HKD fixed-deposits also increase banks' funding costs. We remain our view that banks will raise prime rate by 25bps this year. In **Macau**, the effect of supportive housing measures on local first-home buyers might have started to abate as overall housing demand have been hit by higher interest rates, stock market correction, and possible economic slowdown given China's economic slowdown and prolonged trade war. All in all, we expect housing transactions (-6.8% mom to 973 deals in Jul) to remain muted. However, given slow increase in housing supply, housing prices (+8.5% YTD to MOP105,332/square meter in Jul) may oscillate around HK$100,000/square meter.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China further opens its equity market to foreign investors. Effective from 15 Sep, qualified foreign individuals including those working in China or those working in overseas Chinese subsidiary of listed Chinese companies compensated by stock options.	▪ Other than institutional scheme such as QFII, RQFII and stock connect, foreigners are also able to access to China's onshore equity market directly via individual scheme. This is in line with China's commitment to further reform and open its financial market.
▪ China's Ministry of Commerce confirmed that it has received the invitation from to the US side to restart the trade negotiation.	▪ It is tipped that Vice Premier Liu He will lead the delegation back to Washington again at the end of September to meet Treasury Secretary Mnuchin. This may pave the way for the possible meetup between President Trump and President Xi in the upcoming G20 meeting in Argentina in late November and early

	December. ▪ Meanwhile, Trump Administration may bring down the tariff rate for the US$200 billion products again to 10% from previous threatened 25%. ▪ Watch out for China's reply to the invitation. China is expected to give a formal reply early this week.
▪ China's financial stability and development committee concluded its third meeting in early September.	▪ The meeting minutes show that China has paid more attention to the recent capital market volatility and vowed to keep its equity market, credit market, money market as well as currency market stable at the same time. We think it is quite an aggressive target to keep all the markets stable together as the cause of recent RMB depreciation was China's easing monetary policy aiming to stabilize the money market.
▪ China restarted its reverse repo operation again last week after suspending for 15 days. The PBoC net injected CNY330 billion liquidity into the system.	▪ The restart of reverse repo shows that the PBoC tries to support market sentiment after China's equity market tumbled. China will continue to strike the balance between currency stability and easing monetary policy.
▪ The CEO of FTSE Russel, a leading global provider of benchmarks, said will decide whether to include China's domestic listed stocks into its index very soon.	▪ The possible inclusion of A share to another important global benchmark after the MSCI inclusion shows that China's commitment to reform its capital market has paid off.
▪ China unveiled a new guidance to control the leverage ratio of SOEs. China targets to bring down the average asset to liability ratio for SOEs by 2% by end of 2020 from the level in 2017. The SOEs are also not allowed to invest overseas should the investment may increase the leverage ratio.	▪ Although the focus has shifted to growth and market stability, China has not lowered its guard on leverage ratio. The latest announcement is a good reminder that China is unlikely to go back to old excessive easing path.
▪ USDHKD dropped to one-month low of 7.8475 on 14 Sep as front-end liquidity tightened. One-month HIBOR jumped from 1.62% on 11 Sep to 1.7% on 14 Sep.	▪ Meituan IPO locked up HK$2.59 billion which may only return to the market on 19 Sep. Against this backdrop, Haidilao opens the order books during 12 Sep to 17 Sep. Adding that Hong Kong stock market rebounded on positive headlines about US-China trade war, market players hoarded cash in anticipation of possible improvement in IPO sentiment. As such, both USDHKD forward swap curve and HIBORs moved higher. ▪ However, US President Trump said the US is under no pressure for China trade deal. As the US and China are unlikely to reach trade agreement any time soon, last week's stock market rally is likely to be fragile. Also, Haidilao IPO may not lock up much money given its relatively small IPO size of HK$7.8 billion (vs. Meituan's HK$30 billion IPO). Once the locked-up money returns to the market, HIBOR may wipe out some of its recent gains. ▪ With Sep FOMC around the corner, expectations of wider US-HK yield differential could boost carry trade activities. Should HKMA withdraw more liquidity, this together with quart-end effect could drive HIBOR up. All in all, we expect one-month and three-month HIBORs to test 1.8% and 2.1% respectively by end of Sep. On top of higher HIBOR, higher HKD fixed-deposit rates and sharp increase in HKD fixed-deposits also increase banks' funding costs. We remain our view that banks will raise prime rate by 25bps this year.
▪ Hong Kong stock market tumbled for the sixth consecutive session into bear-market territory (down by 20% from January high) on 12 Sep. ▪ Under the stock connect schemes, southbound net inflows rebounded to RMB6.85 billion so far in Sep from Aug's net outflows of RMB9.85 billion, but are	▪ Market sentiment for HK stock market weakened due to emerging market rout, trade war fear and China's economic slowdown despite its easing monetary and fiscal policies. ▪ Lately, the slack in U.S.'s labor market has been shrinking and may allow wage growth to remain strong. The same is true to other developed economies' labor market. As such, major

far lower than the monthly average of RMB23.5 billion net inflows during Nov 2014 to Jul 2018.	central banks will likely follow the Fed to tighten the monetary policy in the near term. If this is the case, capital outflows from emerging market may weigh down HK's stock market. This will in turn hurt business, investor as well as consumer sentiments.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's aggregate financing rebounded in August to CNY1.52 trillion from CNY1.04 trillion in July beating market expectation. However, new Yuan loan increased at less than expected pace of CNY1.28 trillion. ▪ Broad money supply M2 decelerated again to 8.2% yoy from 8.5% yoy in July while M1 decelerated to 3.9% yoy, lowest since April 2015.	▪ On new Yuan loan, loan demand from household sector remained strong despite concerns that China's consumers are losing spending power due to rising uncertainty. However, loan demand from corporates remained mixed. Bill financing surged to CNY409 billion in August highest since 2009 while medium to long term loan fell to CNY342.5 billion from CNY487.5 billion. The surge of bill financing and decline of medium to long term loan show that banks remained cautious due to rising credit risks. ▪ The rebound of aggregate financing was mainly due to the rebound of corporate bond issuance as a result of easing monetary policy, which increased by CNY337.6 billion. Off-balance sheet lending activities continued to shrink with entrusted loan, trust loan and banker's acceptance fell by CNY120.7 billion, CNY68.8 billion and CNY77.9 billion respectively. Total outstanding of off-balance sheet lending fell by 3.8% yoy in August. ▪ The further deceleration of M1 growth to multi-year low is a bit worrying as the historical correlation shows that a weaker M1 growth is usually associated with weaker growth prospect as corporates. Although this correlation has been distorted by China's de-leverage campaign in the past two years to some extent. The decline of M1 growth after China has shifted away from de-leverage shows that corporates are unwilling to keep cash or demand deposit due to rising uncertainty.
▪ China's CPI reaccelerated to 2.3% yoy in August from 2.1% yoy in July while PPI decelerated to 4.1% from 4.6% in July.	▪ The slightly higher than expected CPI was mainly the result of higher food prices and rental prices. Noting that food prices increased by 2.4% mom in August with vegetable prices and pork prices increased by 9% mom and 6.5% mom respectively due to flooding in certain part of China and the spread of African swine flu in China's pig farm. In addition, the recent spike of rental prices in some cities have impacted the CPI with CPI rental prices increased by 0.6% mom, fastest growth since Feb 2017. Nevertheless, despite higher rental prices, core inflation excluding food and energy prices remains stable up mildly by 0.2%. ▪ We expect inflation to go slightly higher in the coming months due to elevated food prices. However, we don't think China's CPI will run out of control even against the backdrop of trade war as China's CPI has a low correlation with import prices historically. We expect CPI to stay below 3% for rest of the year. As such, inflation is unlikely to be the constraint to China's monetary policy. ▪ On PPI, despite the rebound of raw material prices, China's PPI started to decelerate due to base effect. We expect China's PPI to fall further in the coming months to below 3%.
▪ China's main economic indicators are largely in line	▪ Infrastructure investment remained the key drag on the growth

with market expectation though fixed asset investment growth from January to August decelerated further to 5.3% yoy from 5.5% yoy in the first seven months. ▪ Industrial production growth rebounded slightly to 6.1% yoy in August from 6% in July. ▪ Retail sales growth also rebounded to 9% yoy from 8.8% yoy in July.	in August, slowing down to the record low of 4.2% yoy from 5.7% yoy despite more proactive fiscal policies due to funding constraints of local government and shrink of off-balance sheet lending. Nevertheless, given local government has accelerated issuance of local government special bond, we expect infrastructure investment to bottom out soon. ▪ Property related data remained stable. Fixed asset investment in property grew by 10.1% yoy from January to August, down slightly from 10.2% yoy in the first seven months. In addition, retail sales of renovation material and furniture grew by 7.9% yoy and 9.5% yoy respectively in August. ▪ On the positive note, despite rising uncertainty from the US-China trade war, there is limited impact on China's manufacturing sectors. Manufacturing output grew by 6.1% yoy in August in line with headline industrial data. Meanwhile, fixed asset investment in manufacturing growth rebounded to 7.5% yoy in the first eight months from 7.3% yoy.
▪ HK: In tandem with the housing market slowdown, housing transactions involving Buyer's Stamp Duty, Special Stamp Duty and Double Stamp Duty dropped for the second consecutive month in Aug to five-month lows. Transaction volume slid 11.1% mom to 3154 deals while transaction value fell 8.9% mom to HK$2.578 billion.	▪ More notably, housing transaction volume and value involving Double Stamp Duty dropped by 14.3% mom and 13% mom respectively to 2831 deals and HK$1.87 billion. This indicates that investor sentiment started to soften due to prospect of higher borrowing costs, trade war concerns, muted economic outlook and bearish stock market. As such, we expect housing transactions to fall further and housing prices to retreat in the coming months. If this is the case, stamp duty for property transactions is likely to decrease in the coming quarters and in turn drag down the government's tax revenue for 2017-18. This may impede the government from further fiscal stimulus. ▪ In contrast, transaction volume involving Buyer's Stamp Duty (for non-local individuals and companies) rose by 36.8% mom to 275 deals. This suggests that foreign demand for HK residential property remains strong despite the government's control measures. If the government unveils more measures to curb foreign homebuyers, both the housing market and the stamp duty for property transactions could drop further.
▪ Macau: housing transaction volume dropped by 6.8% mom to 973 deals in Jul. Approved new residential mortgage loans dropped 29.3% mom or 9.4% yoy to MOP5.23 billion. Average housing price slid by 10% mom but still increased by 8.5% YTD to MOP105,332/square meter.	▪ Due to housing measures from Feb 2018, speculative demand took a hit with non-first-home purchases representing no more than 4% of total transactions, compared with about 30% in 2017. As a result, the monthly average of housing transaction volume dropped to 935 deals during Mar to Jul 2018 from 1078 deals during the same period last year. ▪ More notably, the effect of supportive housing measures on local first-home buyers started to abate as overall housing demand have been hit by the concerns about higher borrowing costs and economic slowdown. ▪ Moving forward, we may see housing demand weaken gradually due to three unfavorable factors. First, HIBOR and prime rate are likely to rise gradually as major central banks are set to tighten the monetary policy. Second, global monetary tightening and trade war concerns may deepen the stock market correction and reduce wealth effect. Third, Macau's economic growth may slow down given China's economic slowdown and Asia's muted economic outlook on prolonged trade war. All in all, we expect housing transactions to remain muted. However, given slow increase in housing supply (housing completions and housing starts dropped by 42% yoy and 69% yoy during Jan to Jul 2018),

	housing prices may oscillate around HK$100,000/square meter.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY remained bidded despite the weaker broad dollar. Although, RMB received the support from the positive development of trade war in the middle of the week but ended the week still above 6.8500. ▪ As such, RMB index fell to 93 level from previous week's 93.50 level.	▪ RMB continued to be stuck between trade war development and China's monetary policy direction. The renewed hopes on trade talk boosted RMB temporarily, but the optimism was capped by China's restart of its reverse repo operation, which injected liquidity into the banking system again. ▪ Watch out for China's reply to US's invitation on trade talk. It may be the key factors driving the USDCNY this week.

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