## Highlights

Risk sentiment improved last week thanks to a series of de-escalation of US-China trade war. China announced to exempt tariff on US soybean and pork and support the purchase of those products by Chinese companies in reaction to President Trump's decision to delay the tariff from 1 Oct to 15 Oct, which was inspired by the release of China's first tariff exemption list for 16 US products last week. All the movements set the positive tone for the upcoming trade talk in early October.

China's equity market outperformed bond in a holiday short week. Equity market ended the week higher on the back of China's stimulus measures and the de-escalation of the trade war. However, bond retreated as China signals its reluctance to cut the MLF rate soon to balance its prudent monetary policy stance after the RRR cut. Market will closely monitor the roll over of MLF this week and the second fixing for LPR on 20 Sep. We expect the LPR fixing to move lower due to narrowing credit spread though the MLF is expected to remain intact. China's equity market may continue to outperform its bond market.

China continued to open its domestic financial market to foreign investors undented by the uncertainty from the trade war. The QFII and RQFII quota will be scrapped. The direct impact of removal of the quota is unlikely to be significant as the current quota was only about one third filled.

RMB rebounded sharply closing the gap between the spot and fixing last week on the back of three factors including the de-escalation of trade war, China's clarity on stimulus framework which dispersed market concern on Yuan as the sole tool to fight the trade war and China's further openness of its domestic financial market. We expect the USDCNY to trade in the 7-7.2 range in the near term.

On economic data, China's inflation reading remained high due to rising pork prices. The CPI is expected to break government target of 3% in November as base effect wanes though the CPI is expected to lower in the next two months due to base effect. Nevertheless, we think the higher inflation is unlikely to be the main constraint to the monetary easing given it was mainly distorted the pork prices. China's credit expansion beat market expectation in August. Given this year's quota for local government special bond has almost been filled and the peak of local government special bond issuance last year was September, which increased by record CNY738.9bn. We think China's aggregate social financing expansion may slow in September.

In **Hong Kong,** the market has benefited from the risk appetite improvement across the globe. Hang Seng Index closed higher by 2.5% last week while AB InBev announced to resume its Asian unit's IPO application in HK. On top of quarter-end effect, year-end effect and concerns about capital outflows, the IPO news raised concerns about tighter HKD liquidity ahead. This coupled with the risk-on sentiment led to crowded unwinding of short HKD positions. As a result, USDHKD spot broke below 7.8300 to 7.8214, the lowest since early August. Going ahead, market will closely monitor the schedule of AB InBev's IPO. Meanwhile, as we approach quarter-end, the longer-tenor (3M and above) HIBORs may remain elevated while the short-end (1M and below) will likely go up with 1M HIBOR to break above 2%. With a narrower USD-HKD yield differential and contained outflow risks, USDHKD spot is expected to hover in a new range below 7.8400. Despite the revived risk appetite and the formal withdrawal of extradition bill, tourism, housing and retail sectors continued to show signs of slowdown amid lingering uncertainties at home and abroad. This will likely add downward pressure to the labour market. Rising concerns about retrenchment may dent local consumption sentiments and housing demand, in turn weighing down the already weakening retail sector and property market. In **Macau,** housing market continued to slow down in July despite the de-escalation of US-China trade war and the increased expectations of Fed's rate cut during the same month. This was probably due to subdued local economic growth, summer holiday effect and elevated local rates. Moving into the coming months, we expect the downtrend of housing market to persist due to housing control measures, diminishing effect of supportive measures and the souring investment sentiments on internal and external headwinds.

| Key Events and Market Talk | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's Commerce Ministry published the tariff exemption list for 16 US products for the first time on 11 Sep.<br>▪ Importers of 12 products will be able to applied for the refund of the previous tariff while the importers of the rest 4 products are not able to get the refund. | ▪ Although the current list only accounts for a very small fraction of total US products affected by the tariff, the move was a good gesture for China ahead of the trade talk in early October. |

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| ▪ Shortly after President Trump's announcement to delay the tariff to 15 Oct from 1 Oct, China announced on 13 Sep to exempt tariff on US soybean, pork and other agriculture products. Meanwhile Chinese government will also support the purchase of those products. | ▪ China's purchase of US agriculture product is always the key focus of this trade war and it has been an important bargaining chips for China. Although the purchase has swung back and forth for a few rounds in the past one year, the latest announcement by China is a good gesture setting a positive tone for the upcoming trade talk in early October.<br>▪ We think the purchase of US pork is a good move as it may help alleviate the higher inflationary pressure from the supply side driven pork inflation. |
| ▪ China's currency regulator SAFE announced to remove the quota for both QFII and RQFII. | ▪ The direct impact of removal of the quota is unlikely to be significant as the current quota was only about one third filled. Nevertheless, it does show China's commitment to further open its domestic financial market to attract long term foreign investors to participate in China's market. |
| ▪ Last week, AB InBev announced to resume its Asian unit's IPO application in Hong Kong with a smaller size of US$5 billion.<br>▪ USDHKD spot fell to the lowest since early August at 7.8247. | ▪ Back in July, a combination of large IPO, dividend payment and concerns about capital outflows pushed HKD rates to the highest since 2008. This prompted AB InBev to withdraw its Asian unit's US$10 billion IPO in Hong Kong, citing unfavourable market conditions.<br>▪ Lately, after the official withdrawal of extradition bill, USDHKD forward swap points came off across the curve. HIBORs also subsided and remained below July's highs thanks to the end of concentrated dividend payment. More importantly, risk appetite improved lately amid the eased risk of no-deal Brexit, the scheduled resumption of US-China trade talk, the PBOC's RRR cut and the rising expectation of global monetary easing. Hang Seng Index has rallied by over 9% from August's lows. As such, it looks reasonable for AB InBev to return for HK IPO.<br>▪ Against the backdrop of low aggregate balance, market has already been very cautious about potential liquidity draining events including quarter-end, year-end and potential capital outflows. Now, the return of the large IPO raised concerns about tighter HKD liquidity ahead. This combined with improved risk appetite has prompted market players to square their short HKD positions, in turn supporting a notable rally in the HKD.<br>▪ Going ahead, market will closely monitor the schedule of AB InBev's IPO. Meanwhile, as we approach quarter-end, the longer-tenor (3M and above) HIBORs may remain elevated while the short-end (1M and below) will likely go up with 1M HIBOR to break above 2%. With a narrower USD-HKD yield differential and contained outflow risks, USDHKD spot is expected to hover in a new range below 7.8400. |
| ▪ Both Hong Kong Cyberport Management Company Limited and the Hong Kong Science and Technology Parks Corporation unleashed relief measures to support the high-tech companies. Both will cut the rentals by 50% for six months. | ▪ Lately, with US Congress starting to discuss Hong Kong Human Right and Democracy Act, market is concerned that this will ultimately result in the suspension of application to the US-HK Policy Act. If this is the case, HK will lose its status of separate customs territory and its rights to import sensitive technologies from the US. This might have weakened foreign investors' confidence in HK's businesses. Going forward, unless the social unrest eases off and revives business sentiments, the relief measures may only temporarily ease the financial burden of the high-tech companies as well as the start-ups. |

▪ Key Economic News

| ▪ Facts | ▪ OCBC Opinions |
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| ▪ China's CPI grew by 2.8% yoy in August, higher than market expectation.<br>▪ The decline of PPI widened to 0.8% in August, up from 0.3% in July, in line with market expectation. | ▪ The higher than expected CPI was mainly the result of higher food prices driven by pork prices. The pork prices rose by 23.10% mom, the highest single month increase in record, due to the swine flu. This brought the food prices to increase by 3.2% on month-on-month basis. For 2.8% CPI reading in August, pork prices contributed 1.08%. Non-food prices, however, remained stable growing by 0.1% mom.<br>▪ Looking ahead, due to base effect, we think China's CPI may decelerate slightly to below 2.5% in the coming months despite higher pork prices. However, the CPI is expected to break 3% government target in November as base effect wanes. Nevertheless, we think the higher inflation is unlikely to be the main constraint to the monetary easing given it was mainly distorted the pork prices. |
| ▪ China's credit expansion beat market expectation in August.<br>▪ Aggregate social financing increased by CNY1.98 trillion, up from CNY1.01 trillion in July.<br>▪ Total new Yuan loan increased by CNY1.21 trillion.<br>▪ M2 growth reaccelerated slightly to 8.2% yoy from 8.1% yoy. | ▪ The stronger than expected aggregate social financing was mainly the result of stronger off-balance sheet lending. Although both entrusted loan and trust loan continued to fall by CNY51.3bn and CNY65.8bn respectively, new banker's acceptance increased for the first time in the past five months.<br>▪ Local government special bond increasesd by CNY321.3bn. However, given this year's quota for local government special bond has almost been filled and the peak of local government special bond issuance last year was September, which increased by record CNY738.9bn. We think China's aggregate social financing expansion may slow in September.<br>▪ On new Yuan loan, medium to long term loan increased by CNY428.5 billion, up from CNY367.8 billion last year. This was partially due to front-loading activities by banks which want to lock in higher interest rates ahead of the LPR reform.<br>▪ Overall, we think September credit data could be distorted by the local government special bond. However, given China has cut the RRR in September, we think the general easing bias will be supportive of the growth. |
| ▪ Hong Kong's tourism-related sectors continued to take a hard hit despite the formal bill withdrawal. | ▪ According to the Travel Industry Council of Hong Kong, during the first ten days of September, the number of tour groups from Mainland China dropped by 90% yoy after falling 63% yoy in August. Besides, Paul Chan, the Financial Secretary of Hong Kong, wrote in a note that visitor arrivals decreased by nearly 40% in August. This could be the largest decrease since 2003 SARS period. Worse still, it is reported that the occupancy rate of the hotels in some areas more than halved while the hotel room rate also slumped by 40%-70%. With the tourism-related sectors taking a hard hit and RMB remaining relatively weak against the HKD, we expect tourist spending to soften further. On the other hand, the weak performance of tourism-related sectors, trade sectors, retail sectors and financial sectors will likely further dent the hiring sentiments and add downward pressure to the labour market. Rising concerns about retrenchment, negative effect from housing market correction and ongoing social unrest together might have continued to sour local consumer sentiments. Therefore, it is possible for retail sales to drop at a faster pace in the coming months. |
| ▪ With Hong Kong's property market slowing down, the total value of buyer's stamp duty (BSD), double stamp duty (DSD) and seller's stamp duty (SSD) | ▪ Specifically, the total value of BSD and DSD plunged by 34% mom and 35.9% mom respectively. Besides, CCL index which tracks secondary housing prices fell by 1.75% mom as of 1st |

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| shrank notably by 30% mom to HK$1.29 billion in August. During the same month, the volume of housing transactions which involved these three types of stamp duty dropped by 15% mom to 1730 deals. | September, the largest decrease since 3rd February while housing transaction volume shrank by 15.3% yoy or 15% mom in August. This confirms the slowdown in housing market due to a raft of unfavourable factors including prolonged trade war, China's economic slowdown, HK's ongoing social unrest, concerns about retrenchment, elevated local rates (some banks lifted the prime cap of HIBOR-based mortgage rates to 2.625%) and negative wealth effect from stock market correction. As the government is moving on vacancy tax bill, the front-loading of new project launches has also increased short-term supply and add downward pressure to the housing market.<br>▪ On a positive note, with home owners and property developers proactively reducing asking prices by over 10%, some potential buyers have been attracted to re-enter the market on speculation that economic outlook could improve amid local fiscal stimulus, global monetary easing and resumption of US-China trade talks. This may cap the correction in housing market. As such, we still expect to see a 0% to 5% growth in housing prices in 2019. Since government's revenue from stamp duty is expected to be benign for 2019/20 while government unleashes off-cycle fiscal stimulus measures, it is possible for HK to see the first fiscal deficit since 2003/04. |
| ▪ Macau's average housing price retraced lower from the highest level since Oct 2018 and dropped by 3.6% mom to MOP109,992/square meter in Jul 2019. During the same month, the approved new mortgage loans dropped for the sixth consecutive month by 8.8% yoy to MOP4.77 billion and housing transaction volume decreased for the second month in a row by 7.7% yoy to 898 deals. | ▪ Despite the de-escalation of US-China trade war and the increased expectations of Fed's rate cut in July, Macau's housing market continued to slow down. This was probably due to subdued local economic growth, summer holiday effect and elevated local rates.<br>▪ Moving into the coming months, we expect the downtrend of housing market to persist with housing transaction volume and average housing price to fall gradually. Firstly, despite the prospects of lower borrowing costs, housing investment sentiments may be dented by bleak economic outlook, re-escalation of US-China trade war and concerns about the spill-over effect of HK's social unrest. Secondly, housing control measures may continue to trim the speculative demand (the percentage share of local buyers holding more than one property in total local buyers remained low at 3.9% in July). Thirdly, growth momentum from the measure supporting first-home local buyers, who took over 81.1% of total local buyers in July, will likely diminish gradually. That said, we expect any correction of housing market to be moderate amid the persistent housing supply shortage. Housing completion and housing start dropped by 95% yoy and 83% yoy respectively during the first seven months of 2019. |
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| ▪ **RMB** | |
| ▪ Facts | ▪ OCBC Opinions |
| ▪ RMB rallied last week with the USDCNY ended the week at below 7.05 last Friday in the absence of onshore market due to Mid-Autumn Festival. RMB index rebounded to above 91. | ▪ The sharp rebound of RMB was mainly the result of the de-escalation of trade war. In addition, as we argued in the past two weeks, China's clarity on its stimulus framework to support growth in particular the return to traditional monetary easing also alleviated the pressure on RMB depreciation as market believed that currency policy is no longer the key policy tool to support the growth. |

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| | ▪ In addition, China's opening attitude to attract more foreign investors to participate in the onshore capital markets may also help though we think it is unlikely to be the main driver in the near term.<br>▪ Looking ahead, the outlook of RMB may continue to depend on the progress of trade talk. |

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