Highlights

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China's August economic data outperformed. The latest data confirmed that China's infrastructure investment started to accelerate. Output of key raw materials such as ten main nonferrous metals and steel rose by 6.9% yoy and 11.3% yoy respectively in August. This will further underpin China's cyclical recovery story.

The latest sales data also confirmed that China's domestic demand is catching up albeit at a moderate pace. China's investment in high tech manufacturing continued to yield positive result. For example, output for industrial robot rose by 32.5% yoy, fastest since May 2018.

Given Chinese economy is expected to outperform most of the major economies in the world this year, China's top leaders may be satisfied about the current achievement as long as job market remains stable. China's State Council said it will shift its focus away from policy innovation to policy implementation. This hints that the room for further stimulus is likely to be limited.

China's Commerce Ministry unveiled rules on China's nonreliable entity list. The Ministry said the rules do not target any specific country or any specific entities. As no companies or individuals have been added into the list so far with the focus is mainly on the framework of new rulings, the near-term impact is limited. However, it does give China alternative avenues to influence foreign companies' decision when Chinese interests are involved.

RMB returned to the centre of stage both domestically and internationally. RMB continued to outperform last week with the USDCNY ended below 6.8 firmly. Trump Administration's announcement last Friday to ban the download of Tiktok and Wechat paused RMB strength but failed to bring the USDCNY back to above 6.80.

Given the USDCNY has traded firmly below 6.80, we think market will continue to sell USDCNY on rally, which may allow RMB to overshoot in the near term on the back of favourable yield differential. Nevertheless, given RMB index has breached 94, market should increasingly monitor China's tolerance level for recent RMB strength. Our view is that China may remain muted over recent RMB movement if RMB index stays below 95.

RMB internationalization regained the steam after six China's top financial regulators and ministries announced jointly to collect feedback on its new rulings governing cross border RMB settlement and usage. The new regulation aims to streamline the process for the usage of cross border RMB which will give corporates and individuals more avenues to receive or pay cross border RMB. This will also promote a healthy two-way movement of cross border RMB.

In addition, PBoC's plan to speed up the establishment of cross border RMB trade finance asset transfer platform will also create one more channel for RMB to flow back to onshore market.

In **Hong Kong,** the government announced the third round of HK$24 billion anti-epidemic fund to support the unemployed and the hardest-hit sectors and prepare for the possible virus resurgence in the future. With the support from several rounds of relief funds and the further easing of containment measures, we expect the economic activities to resume normalcy gradually in the coming months. However, the size of the new relief fund may not be big enough to fill the gap from the expiring Employment Support Scheme which will end in November. In fact, about 10,000 fewer employers applied for the second tranche of the ESS as some may plan to close the business or cut jobs given the still dire situation. We expect more SMEs in the hardest-hit sectors may go bust as the relief measures expire gradually. As such, we hold onto our view that overall unemployment rate may edge higher from 6.1% for June to August.

On the other hand, despite the relief funds and the relaxation of containment measures, the outlook of retail property market remains clouded. The number of vacant retail shops in the four core shopping areas and the vacancy rate (12.6%) both surged to record high during July to August. Even if the government is planning to form travel bubbles with other countries/regions, the travel will still be subject to various conditions while the transport between cities/countries may not resume normalcy anytime soon. The coronavirus-induced change in consumer behavior could also weigh on the retail property market.

Finally, given the very busy IPO pipeline and the quarter-end effect, HKD interest rates and exchange rate may remain elevated. As such, further increase in aggregate balance could be expected, which may in turn cap 1M HIBOR around 0.6%-0.65%.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Commerce Ministry unveiled rules on China's nonreliable entity list. The Ministry said the rules do not target any specific country or any specific entities.	▪ The rules on China's nonreliable entity list has been long overdue after China first flashed the idea in May 2019 amid US-China trade war. Foreign companies, organizations and individuals will be banned to trade with or invest in China should their actions are deemed as harm China's national security, violate market rules, halt contractual obligations with Chinese companies or individuals or take discriminatory measures against Chinese interest. ▪ Nevertheless, as no companies or individuals have been added into the list so far with the focus is mainly on the framework of new rulings, the near term impact is limited. However, it does give China alternative avenues to influence foreign companies' decision when Chinese interests are involved.
▪ China's central bank together with NDRC, Commerce Ministry, CBIRC and SAFE is seeking feedback to further optimise RMB usage in cross border settlement to support foreign trade.	▪ The new regulation aims to streamline the process for the usage of cross border RMB which will give corporates and individuals more avenues to receive or pay cross border RMB. This will also promote a healthy two-way movement of cross border RMB which will build an eco system. ▪ For example, the new proposed ruling no longer ban the cross border RMB receivables under capital account from investing in onshore wealth management product. ▪ Meanwhile, the relative lower quota utilization may also give onshore companies incentive to borrow foreign debt in RMB when the price is right. In addition, the low quota utilization for onshore companies to lend to offshore in RMB will also help build up offshore RMB liquidity pool.
▪ China's central bank said it will speed up the establishment of cross border RMB trade finance asset transfer platform to further streamline the process of cross border RMB trade finance.	▪ The move serves two purposes. First, it will help standardize the format of letter of credit, building the same playing field for both domestic and international LC. Second, by optimising the platform to transfer RMB trade finance to foreign banks, it also creates one more channel for RMB to flow back to onshore market although the use of this avenue may well hinge on the funding costs of offshore RMB.
▪ China's State Council reiterated that China is expected to deliver a positive growth this year. China will shift its focus on policy implementation away from policy innovation.	▪ Given Chinese economy is expected to outperform most of the major economies in the world this year, China's top leaders may be satisfied about the current achievement as long as job market remained stable. As such, the room for further stimulus is likely to be limited while China will focus more on how to implement current stimulus which has already been announced.
▪ Hong Kong: following the six companies which started public offering last week, more including Ant Group are set to come in the coming 1-2 months. ▪ Aggregate balance grew by HK$15 billion last week to HK$221.3bn as HKD spot kept touching 7.75. 1M HIBOR rose to the highest since June of 0.47% while 3M HIBOR climbed up to the highest since July of 0.6% last Friday.	▪ Going forward, given the very busy IPO pipeline and the quarter-end effect, HKD demand may remain strong and in turn keep HKD interest rates and exchange rate elevated. As such, further increase in aggregate balance could be expected in the coming months. With the increasing interbank liquidity, HIBOR may show limited upside while the uptrend of HKD rates may not sustain. We expect 1M HIBOR to be capped around 0.6%-0.65%. Meanwhile, we remain wary of sharp retracement in HIBOR after the short-term factors wane.
▪ Hong Kong government announced the third round of HK$24 billion anti-epidemic fund. This	▪ The fresh relief fund includes four parts. First, HK$4.5 billion will be dedicated towards supporting the unemployed and the

together with the previous relief measures involve more than HK$300 billion in total, which is equivalent to about 10%-11% of Hong Kong's GDP and will give a slightly more than 5% buffer to the GDP growth. ▪ The government further eased the containment measures by relaxing the measures on Karaoke, theme park, party room, night club and swimming pool. Also, dining-in at restaurants will be allowed till 12am (relaxed from the previous 9pm). The relaxation is effective from 18th September.	23 hardest-hit sectors. Second, HK$6 billion will be earmarked for rental concessions, waivers of fees and charges and enhanced rates concession. Third, about HK$13 billion will be allocated to buy Covid-19 vaccines and support the Hospital Authority. Finally, the SME Financial Guarantee Scheme will be enhanced. ▪ Taking into account the new relief fund, the consolidated deficit for 2020-21 is estimated to be over HK$300 billion. This will reduce fiscal reserve to about HK$800 billion, equivalent to around 12-13 months of government expenditure which is close to the level after the SARS epidemic in 2003. As compared to other major economies, the sizeable fiscal reserves and the prudence of Hong Kong government have allowed them to support the economy at manageable costs and in the meantime save ammunition for any further virus resurgence or the next crisis. ▪ Going forward, with the support from several rounds of relief funds and the further easing of containment measures, we expect the economic activities to resume normalcy gradually in the coming months. ▪ However, the size of the new relief fund may not be big enough to fill the gap from the expiring Employment Support Scheme which will end in November. We expect the outlook of business, labour market and the economy to remain sluggish before effective vaccine is widely available. We hold onto our view that GDP will contract 6%-7% this year.

Key Economic News

Facts	OCBC Opinions
▪ Chinese banks net purchased US$3.828 billion worth foreign currency in August. ▪ Nevertheless, Chinese banks net received US$12.7 billion worth foreign currency on behalf of customers in August.	▪ Despite strong RMB, China's banking sector net purchased foreign currency for two consecutive months in July and August. The demand for foreign currency under current account rose again in August with Chinese banks net purchased US$2.885 billion due to rising current transfer as a result of dividend payment. ▪ Nevertheless, in the forward market, Chinese banks net sold US$11.26 billion foreign currency on behalf of customers, signaling higher willingness to covert foreign currency to RMB. ▪ On cross border receivable and payment, foreign currency inflows remained strong after net foreign currency receipts rose for more than US20 billion per month for four consecutive months.
▪ China's August economic data outperformed. Industrial production rose by 5.6% yoy while retail sales rose by 0.5% yoy. ▪ The contraction of fixed asset investment narrowed to 0.3% in the first eight months down from a contraction of 1.6% in the first seven months.	▪ The latest economic data confirmed that China's infrastructure investment start to accelerate. The contraction of infrastructure investment year to date narrowed to 0.3% from 1% in the first seven months. In addition, output of key raw materials such as ten main nonferrous metals and steel rose by 6.9% yoy and 11.3% yoy respectively in August, a sign of strong infrastructure investment. Those will further underpin China's economic recovery in the second half of 2020. ▪ The latest sales data also confirmed the trend showed by both manufacturing and non-manufacturing PMIs that China's domestic demand is catching up albeit at a slower pace.

	Demand for big ticket items improved with car retail sales rose by 11.8%. In addition, part of demand for luxury consumption was retained domestically in the absence of international travel. ▪ China's investment in high tech manufacturing continued to yield positive result. For example, output for industrial robot rose by 32.5% yoy, fastest since May 2018.
▪ Hong Kong: the number of vacant retail shops in the four core shopping areas including Tsim Sha Tsui, Mong Kok, Causeway Bay and Central nearly doubled to a record high of 945 during July to August as compared to the same period last year. Meanwhile, the vacancy rate rose to a record high of 12.6%. ▪ Hong Kong's visitor arrivals dropped over 95% for the seventh consecutive month and were down by 99.9% yoy in August.	▪ The government is discussing with some 11 countries to form travel bubble and the health code to facilitate resumption of travel between Mainland China and Hong Kong is almost ready. In other words, once local pandemic is brought under control, the cross-border travel may resume gradually. However, the travel will still be subject to various conditions while the transport between cities/countries may not resume normalcy anytime soon. Taking Macau as an example, after Guangdong resumed visa approvals to Macau in late August, the daily average of visitor arrivals increased to about 15,000 as compared with less than 1,000 before the forming of travel bubble between Mainland China and Macau. However, it is still far from the pre-virus level which is about 100,000. ▪ Since it may still take quite some time for inbound tourism to show strong recovery, we expect the retail shop market in the core areas to remain sluggish especially given the Covid-19 induced change in consumer behavior.
▪ Hong Kong's unemployment rate remained static at 6.1% for the three-month to August, better than expected. ▪ On one hand, the unemployment rate of the consumption- and tourism-related sectors (10.9%, the highest level since the SARS outbreak), financial and professional services sectors (3.8%) and public administration and social services sectors (3.2%) all rose slightly by 0.1 percentage point. On the other hand, the jobless of manufacturing (6.4%), construction (11.1%), trade (5%) and transportation (5.7%) all dropped.	▪ Though economic activities were largely disrupted by the virus resurgence since mid-July, the unemployment of the hardest-hit sectors did not worsen significantly thanks to the relief measures including the Employment Support Scheme (ESS). However, the devil is in the details. Specifically, overall underemployment rate rose by 0.3 percentage point to 3.8%, the highest since 3Q 2003, led by the F&B, transportation, insurance and education sectors. Besides, the number of bankruptcy petitions presented during January to August surged by 13.2% yoy to 5940. Also notable is that about 10,000 fewer employers applied for the second tranche of the ESS as some may plan to close the business or cut jobs given the still dire situation. We expect more SMEs in the hardest-hit sectors may go bust as the relief measures expire gradually. As such, we hold onto our view that overall unemployment rate may edge higher. ▪ On a positive note, any further increase could be moderate given the easing of containment measures, the receding local pandemic and global recovery, all of which may even support a gradual improvement in labour market in the medium term. However, as the pandemic may have had long-term impact on some sectors including tourism, aviation, etc., it may not be easy for the labour market to return to the pre-virus level.
▪ Hong Kong: the value of credit card transactions dropped by 15.7% qoq or 24.3% yoy in 2Q 2020. That related to retail sales took up 93.1% of total transaction value dropped by 24.7% yoy with retail spending in Hong Kong and overseas down by 17.7% yoy and 56.4% yoy respectively.	▪ The sharp decline in credit card transaction related to retail spending reflects the reduced spending overseas amid travel restrictions and the subdued local spending amid virus concerns, soft labor market outlook and containment measures. On a positive note, promotions offered by retailers and the easing of containment measures may help to revive local consumption as local pandemic showed signs of

	slowdown.

RMB	
Facts	**OCBC Opinions**
▪ RMB continued to outperform last week with the USDCNY ended below 6.8 firmly after breaking 6.75 for a short while.	▪ Trump Administration's announcement to ban the download of Tiktok and Wechat in the US last Friday sent the USDCNY higher back to 6.78 range. However, the pair retreated slightly this morning after Trump hinted over the weekend that he will approve the Tiktok Oracle deal. Given the USDCNY has stood firmly below 6.80, we think market will continue to sell USDCNY on rally, which may allow RMB to overshoot in the near term on the back of favourable yield differential. ▪ Nevertheless, given RMB index has breached 94, market should increasingly monitor China's tolerance level for recent RMB strength. Our view is that China may remain muted over recent RMB movement if RMB index stays below 95.

Treasury Research & Strategy

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