Highlights: Downbeat growth prospect but upbeat RMB outlook

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China's property market softened further in September. Property prices in both tier-1 tier-2 cities and lower tier cities fell mom and property investment growth decelerated further.

China's top leaders and regulators reassured the support to reasonable funding demand in property space. China's Vice Premier Liu He said reasonable funding needs in the property sector are being satisfied while China's banking regulator also said banks will support genuine demand for housing with favorable loan to value and mortgage rate for first time buyers.

However, the reassurance from the top leaders does not mean the rollback of property tightening measures. The endorsement by the Standing Committee of the National People's Congress on Saturday to pilot new round of property tax is likely to weigh down the fragile sentiment further in the near term.

Market will be eagerly to find out the details about the property tax, which is expected to be announced by the State Council towards the end of the year. The higher holding costs for property investors in some pilot cities may reshuffle supply and demand matrix.

The fresh new wave of delta variants outbreak in some provinces may put a brake in the recovery of consumption and service sectors after capital city Beijing and other four provinces announced to halt cross province tourism.

On the positive note, thermal coal future prices in China corrected by more than 20% last week as China moved swiftly to tackle production bottleneck. Coal mines in China will operate at full capacity to achieve daily output of at least 12 million tons.

The disappointed Chinese growth data in the third quarter failed to derail RMB appreciation. The USDCNY broke 6.4 last week. In its latest press conference, China's currency regulator SAFE attributed recent RMB appreciation to two reasons including retreat of strong dollar and post golden week sale of foreign currency due to strong goods trade surplus.

Demand for RMB remained strong in September. Willingness to sell foreign currency rose further to 67.3% from 65.8% while willingness to buy foreign currency fell to 62.6% from 64%.

We agree with the assessment. We think RMB is likely to remain supported due to three factors including sizable goods trade surplus, persistent portfolio inflows due to supportive yield differential and flushed dollar liquidity in the onshore market.

The SAFE also remains upbeat on the outlook of bond inflows citing four factors including low foreign ownership, yield differential, diversification benefit due to low correlation with international bond market and inclusion into world bond index. Those factors are in line with market expectation.

In **Hong Kong,** the HKMA announced that a total of 19 eligible banks would be allowed to start providing services under the cross- boundary Wealth Management Connect Scheme on 19 Oct. A total of 180 transactions in Northbound (15.38million yuan) and 128 transactions in Southbound (17.73million yuan) were recorded on the first day of the Wealth Management Connect program. As of Oct 21, total inflows under northbound was at CNY30.7 million and outflows under the southbound was at CNY32 million. On data front, Hong Kong's jobless rate for the three months ended in September fell to 4.5% from 4.7%, the lowest level in 2021. More notably, decrease in unemployment rate was seen in all sectors with construction sector (down 0.6 percentage point to 6.8%), consumption and tourism-related sectors (down 0.2 percentage point to 7.2), as well as entertainment and recreation sectors (down 1.1 percentage point to 2.2%) leading the decline, owing to the gradual economic recovery and the well-contained local epidemic. Elsewhere, Headline CPI in Hong Kong decelerated to 1.4% yoy in September versus expected 3.0%, mainly dragged down by the upward adjustment associated with rental waiver of public housing in the same month of 2020.

In Macau, visitor arrivals increased by 40.1% yoy in September, thanks to the ease of travel restrictions during the Mid-Autumn Festival holiday. The number of visitor arrivals increased by 53.7% compared to the prior month, while overnight visitors rosed by 76.1% yoy, supported by the temporary lifted of border control with mainland China. Looking ahead, as Macau has seen travel restrictions again in the late September following by several of new local confirmed cases just before China's National Golden week, we expect this may translate it to a sharp drop in visitor arrivals in October.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's top legislature the Standing Committee of the National People's Congress approved to authorize the State Council to pilot property tax reforms.	▪ Since 2011, China has rolled out the trial of property tax in Shanghai and Chongqing. The latest move is the expansion of the trial of property tax. ▪ Where, when and how will the State Council start the new round of trial of property tax will be subject to the decision from the State Council. It is expected that the State Council will announce the details at the end of the year with those red hot tier-1 and tier-2 cities are likely to be added into the list. ▪ Property tax will be levied on all types of residential and non-residential property in the pilot areas. The trial will last for five-years before becoming a nationwide law. ▪ The new pilot, which is under the framework of common prosperity, aims to increase the holding costs of property investors. The impact on home dwellers is likely to be limited. Nevertheless, it will continue to affect the already fragile sentiment in China's property space.
▪ In the weekly State Council meeting, China's Premier Li Keqiang called for all efforts to ensure coal production and transportation to meet the demand for winter.	▪ China's economic planning agency NDRC has rolled out a few measures covering the areas of quantity, price and administrative controls. ▪ Coal mines in China will operate at full capacity to achieve daily output of at least 12 million tons. According to the NDRC, daily output of coal has reached 11.6 million tons on 18 Oct. ▪ Coal inventories will also be ramped up in power plants to a minimum required level before 15 Nov. Coal inventories at power plants nationwide have been increased by 9 million tons to 88 million tons which can be used for 16 days. ▪ China also rolled out more interventions in coal prices. Effective from Tuesday, coal prices from the coal mines in Shanxi Province, Shaanxi Province and Inner Mongolia are required to cut prices by CNY100 per ton. In addition, the Zhengzhou Commodity Exchange also announced on Wednesday that it will set a transaction limit on thermal coal futures. ▪ The National Energy Administration also approved the construction of three new mines in Guansu Province.
▪ China reiterated to ensure the funding support for reasonable needs in China's property market.	▪ China's Vice Premier Liu He said that property risks are controllable despite individual problems and reasonable funding needs in the property sector are being satisfied. ▪ In addition, China's banking regulator also said banks will support genuine demand for housing with favorable loan to value and mortgage rate for first time buyers. 90% of mortgage loan goes to first time buyers.
▪ In its latest press conference, China's currency regulator SAFE attributed the recent RMB strength to retreat of broad dollar and post golden week sale of foreign currency due to strong goods trade surplus.	▪ In addition, the SAFE remains positive on portfolio inflows into China's domestic RMB bond market for four reasons. First, the relative low foreign ownership in China's bond market and good liquidity in domestic RMB bond market means ample room for foreign investors to allocate more money into China's bond market. Second, the relatively higher yields are attractive to foreign investors. Third, the low correlation between RMB bond and international bond markets provides the benefit of diversification to foreign investors. Fourth, the

	internationalization of China's RMB bond market and inclusion of major bond index will attract more passive allocation. ▪ Despite the strong momentum of RMB appreciation, the SAFE continued to encourage corporates to increase awareness of FX hedging. On positive note, China's hedge ratio has increased to 22.1% in the first three quarters, up by 7.9% from the same time last year. Meanwhile, the transition volume of RMB derivatives including forward and option jump by 80% yoy.
▪ Chief Executive Carrie Lam proposed her most ambitious plan, the Northern Metropolitan under policy address on October 6, in a hope of resolving Hong Kong's housing problem.	▪ According to the latest interview with local media last week, Lam said the government will use its power to take control 2,000 hectares of wetland with a goal of building three conservation areas. This "Ground-breaking" move may help the city to accelerate economic and social developments. ▪ We think there are two key messages here. First, housing and land supply have been always the top priority in Hong Kong. Second, with the increasing measures introduced from the Beijing government this year, Lam might be encouraged to take on more aggressive move as to align with the goal of common prosperity.
▪ HKMA announced a total of 19 eligible banks would be allowed to start providing services under the cross- boundary Wealth Management Connect Scheme on 19 Oct.	▪ A total of 180 transactions in Northbound (15.38million yuan) and 128 transactions in Southbound (17.73million yuan) were recorded on the first day of the Wealth Management Connect program. As of Oct 21, total inflows under northbound was at CNY30.7 million and outflows under the southbound was at CNY32 million. Having said that, most banks noted that the differences between the preferences in both markets. While mainland investors are keen to interest in multi asset tracking funds and other products focusing on oversea and US markets, Hong Kong investors do pay more attention to further diversify their portfolio through onshore fixed income. While the latest production curbs and factory shutdowns have raised concerns over the China economy growth, the yield differential and resilient CNY may continue to attract the offshore investors. All in all, despite the restrictions that some of clients could not open an account in person given the current epidemic situation, the potential for growth continue to stay high especially for Hong Kong to further enhance the Hong Kong's status as an international asset management center.

Key Economic News

Facts	OCBC Opinions
▪ China's banks net sold US$26.8 billion foreign currency on behalf of clients in September.	▪ Demand for RMB remained strong in September. Willingness to sell foreign currency rose further to 67.3% from 65.8% while willingness to buy foreign currency fell to 62.6% from 64%.
▪ China's housing prices softened in September. Prices for new launch in tier-1, tier-2 and tier-3 cities fell by 0.4% mom, 0.3% mom and 0.5% mom respectively.	▪
▪ Hong Kong's jobless rate for the three months ended in September fell to 4.5% from 4.7%, the	▪ More notably, decrease in unemployment rate was seen in all sectors with construction sector (down 0.6 percentage point

lowest level in 2021.	to 6.8%), consumption and tourism-related sectors (down 0.2 percentage point to 7.2), as well as entertainment and recreation sectors (down 1.1 percentage point to 2.2%) leading the decline, owing to the gradual economic recovery and the well-contained local epidemic. However, by comparing the data of 2019, the unemployment rate of F&B and manufacturing industries, which were the hardest-hit sectors, remain much higher than the pre-pandemic level. In other words, without border reopening, labor market's recovery is likely to be constrained. Going forward, we continue to expect the decline of unemployment rate to slow down as border remains close for the 2H21, while the overall jobless rate to stay above 4% in the near term.
▪ Macau's visitor arrivals increased 40.1% yoy in September, thanks to the ease of travel restrictions during the Mid-Autumn Festival holiday.	▪ The number of visitor arrivals increased by 53.7% compared to the prior month, while overnight visitors rosed by 76.1% yoy, supported by the temporary lifted of border control with mainland China. Looking ahead, as Macau has seen travel restrictions again in the late September following by several of new local confirmed cases just before the China's National Golden week, we expect this may translate it to a sharp drop in visitor in October.
▪ Macau's CPI growth accelerated further to 0.83% in September 2021 led by the growth of transport inflation (7.51% yoy growth) and low base effect.	▪ Nevertheless, part of the rise was offset by the declines in the price index of clothing & footwear and communication, which went down by 2.76% yoy and 3.72% yoy respectively. Looking forward, as the city remain operating low in term of capacity, the upside of the inflation growth may remain capped. In other words, we hold our view that CPI growth will print around 0.5% in 2021.
▪ Headline CPI in Hong Kong decelerated to 1.4% yoy in September versus expected 3.0%, mainly dragged down by the upward adjustment associated with rental waiver of public housing in the same month of 2020.	▪ The price index of utility, clothing and transport all showed remarkable growth due to low base effect and general improved in local consumption sentiment. Going forward, with the combination of supply chain bottleneck, low base effect and rebound in local consumption may put some inflationary pressure in the near term. However, given the weaker than expected of the CPI data and the ongoing travel restrictions, we cut our full year CPI growth from 1.7% to 1.5% in 2021.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY breached the key support level of 6.40 and RMB index stood firmly above 100.	▪ China's currency regulator SAFE attributed recent RMB appreciation to two reasons including retreat of strong dollar and post golden week sale of foreign currency due to strong goods trade surplus. ▪ We agree with the assessment. We think RMB is likely to remain supported due to three factors including sizable goods trade surplus, persistent portfolio inflows due to supportive yield differential and flushed dollar liquidity in the onshore market.

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