### Market Overview

The CNH stabilized at 7.07 level on easing trade war risk and USD decline. China-US trade talks remained on track. White House Economic Advisor Kudlow said the phase one trade deal was moving ahead very well, with opportunities for rolling back tariffs by year-end. Media reported that Chinese buyers were returning to the US soybeans market after granting a new round of tariff waivers amounting 10mn tons of US soybeans. In his long-awaited speech on China, US Vice President Pence criticized China on human right issues in Hong Kong but assured that the US seeks engagement with China rather than decoupling the two countries. Yet, US Commerce Secetary Ross downplayed the significance of signing the phase one deal at the APEC Summit.

Market participants paid off short-term offshore and onshore RMB rates amid the tax payment season. Overnight CNH HIBOR ranged between 2.6% and 3.1% over the week. In order to keep liquidity condition ample, the PBoC continued the reverse repo operations for 6 straight days, net injecting CNY 330bn of liquidity. So far, the PBoC was reluctant to cut the Medium Lending Facility (MLF) yields and Loan Prime Rates (LPR), while scaling up its liquidity injection via additional MLF and reverse repo operations. 7-day interbank repo rate dipped to 2.6% from 2.8%.

The CNH is expected to range between 7.04 and 7.10 level in the coming week. Despite the optimism over China-US trade talks, investors appear to remain skeptical about the trade negotiations before hammering out the deal at the APEC Summit in mid-November and such uncertainties will likely keep a lid on CNH gains. We hold an optimistic view on the phrase one deal as the cancellation of US tariffs and China’s purchase of US agriculural goods are mutually beneficial. In addition, the deteriorating China and US growth momentum is pressuring Chinese and US leaders to agree a truce at this moment. Meanwhile, the highly-anticipated 4th Plenary Session of the 19th Central Committee will be held next week (28-31 Oct), Top leaders will convene to discuss key issues about maintaining and improving China’s socialist system and national governance. Any new policy guidance, reform measures and leadership amendment will be closely watched. Datawise, China manufacturing PMIs for October are expected to hold steady on positive development i China-US trade talks.

### Data & Policy Updates

Chinese banks refrained from lowering the Loan Prime Rate (LPR), leaving the 1Y and 5Y LPRs unchanged at 4.2% (vs. 4.15% expected) and 4.85% (vs. 4.65% expected), respectively. Despite the policy guidance to lower real interest rate to support small and micro enterprises, we argue that banks are reluctant to cut the rates aggressively, which narrows interest rate margin and hurts profitability. Moreover, the PBoC sent a relative neutral policy signal after the recent liquidity injection. It is worth noting that the PBoC conducted a new 1Y Medium Lending Facility (MLF) operation in the prior week but kept the yield unchanged at 3.3%. Perhaps PBoC intends to keep the RMB exchange rate stable with neutral monetary policy stance before signing the partial deal, with the possible inclusion of currency pact.

### Last week’s review and forecasts

The CNH stabilized at 7.07 level on easing trade war risk and USD decline. China-US trade talks remained on track. White House Economic Advisor Kudlow said the phase one trade deal was moving ahead very well, with opportunities for rolling back tariffs by year-end. Media reported that Chinese buyers were returning to the US soybeans market after granting a new round of tariff waivers amounting 10mn tons of US soybeans. In his long-awaited speech on China, US Vice President Pence criticized China on human right issues in Hong Kong but assured that the US seeks engagement with China rather than decoupling the two countries. Yet, US Commerce Secetary Ross downplayed the significance of signing the phase one deal at the APEC Summit.

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### Forex

RMB stabilized on easing trade war risk and USD decline.

### Interest Rates

The PBoC injected liquidity via OMOs while refrained from lowering LPRs.

### Equity

Shanghai Composite held up at above 2,900.