Summary

China's top policy makers held its last monthly politburo meeting on 9 Dec, outlining the key economic tasks for 2017. The details will be discussed in the Central Economic Working Conference later this week. Based on the message from the latest politburo meeting. We expect five key focuses for the CEWC including 1) supply side reform for agriculture sectors, 2) containing risk from property market, 3) promoting consumption, 4) ongoing four basic reforms including SOE reform, fiscal and tax reform, financial reform and social security reform, 5) promoting one belt one road.

The correction in China's bond market continued with the 10-year government bond yields ended the week above 3.1% as PBoC continued to replace the short end liquidity with more expensive medium term liquidity. Concerns about inflationary pressure heightened again after PPI beat market expectation as a result of rally in commodity prices. The PPI is unlikely to peak until Feb next year, which may further weigh down fragile sentiment in the bond market.

Capital outflow continued in November although more than half of the decline of Nov FX reserve was the result of valuation effect. The pace of outflow is likely to slow in the coming months but unlikely to be reversed due to seasonal demand for dollar in January. On currency front, RMB weakened against both dollar and currency basket last week following dovish comments from the ECB President Draghi. The USDCNY broke 6.9 again in the last hours of trading. It seems buy on dips remain to be the main theme for USDCNY.

For this week, the dispute between China and G3 economies over the market economy status is likely to be the focus after Japan denied to grant the MES to China last week ahead of 15-year anniversary of China's accession to WTO on 11 Dec. China's Ministry of Commerce has warned it will take necessary measures to fight for its rights. In addition, market is also waiting for the detailed date of Central Economic Working Conference.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Average housing prices fell in November according to China Index Academy. Average prices for new property fell by 0.77% to CNY12938 psm.	▪ Since late September, China has launched two rounds of property tightening measures. The mild decline of property prices is welcomed by policy makers. ▪ The latest politburo meeting included the healthy development of property market into its task for 2017. As such, we expect China may continue to tighten its grip on property market to contain the potential financial risk. Therefore, the contribution from property market to China's GDP is likely to fall in 2017.
▪ In its monthly politburo meeting on 9 Dec, China's top policy makers reiterated that supply side reform will be the key task for 2017.	▪ The December politburo meeting is usually the preview of upcoming Central Economic Work Conference. Based on the message from the latest politburo meeting. We expect five key focuses for the CEWC including 1) supply side reform for agriculture sectors, 2) contain risk from property market, 3) promoting consumption, 4) ongoing four basic reforms including SOE reform, fiscal and tax reform, financial reform and social security reform, 5) promoting one belt one road.
▪ Japan denied to grant the market economy status to China ahead of 15-year anniversary of China's accession to WTO. ▪ China has been long arguing that it will automatically switched to market economy status on 11 Dec 2016 according to article 15 of WTO protocol.	▪ The current non-market economy status has placed China in a disadvantageous position when facing anti-dumping investigation as the western countries usually use surrogate country's cost as the reference to decide whether Chinese exporters are dumping or not instead of China's own cost. ▪ The dispute between China and G3 economies over this market economy status is likely to further raise uncertainty about the global trade in particular with the rise of protectionism following Trump's victory. ▪ China's Ministry of Commerce has warned it will take necessary measures should those countries still apply non-market economy status investigating anti-dumping cases against China after 11 Dec.

▪ The 10-year Chinese government bond yield rose to 3.1%.	▪ The correction in China's bond market continued as PBoC continued to replace the short end liquidity with more expensive medium term liquidity. PBoC net withdrew CNY535 billion liquidity from the system last week but injecting CNY339 billion via medium term lending facility. This shows that PBoC is still determined to contain financial leverage in the bond market.
▪ China's Ministry of Finance sold total CNY14 billion government bonds last week with CNY12 billion sold to institutional investors and CNY2 billion sold to retail investors.	▪ The yields for 3-year, 5-year, 10-year, 15-year and 30-year were priced at 3.4%, 3.55%, 3.85%, 4.15% and 4.4% respectively. ▪ Despite headwind faced by the offshore RMB market, the issuance shows China's commitment to reinforce Hong Kong's role as global financial centre and offshore RMB hub.
▪ After the launch of Shenzhen-Hong Kong Stock Connect on last Monday, the foreign capital has been shifted from Shanghai stock market to its Shenzhen counterpart.	▪ This may be attributed to foreign investors' higher interests in small-cap stocks and the shares of high-tech firms in Shenzhen stock market. On the other hand, HK stock market continued to lure capital inflows via the two stock links. However, the amount of flows across the border has been rather small at this point, lending limited support to both markets. The turnover in HK stock market contracted consecutively after the launch of the new stock link. This may be attributed to the pressure of capital outflows amid Trump Tantrum, which is likely to constrain the upside on the HK stock market.
▪ IMF warns that HK's housing prices which are near its peak will tumble should the Fed accelerate its rate hike pace.	▪ At this point, we expect a gradual decline of housing prices rather than a sharp correction as housing completion is likely to miss the government forecast due to slower than expected construction. If this trend continues into next year, smaller-than-expected increase in supply will help cap the downside risk. On the other hand, we believe that the Fed is more likely to tighten at a gradual pace. As such, capital inflows from Mainland investors on RMB's weakness may ease the impact of higher borrowing costs on the housing market.
▪ China's authorities were said to cut UnionPay's daily withdraw limit by half to MOP5,000, effective as of 10 Dec. Besides, it is reported that new law to be approved would stipulate that any person who bring no less than MOP120,000 in cash and / or bearer negotiable instruments should declare to the custom on entry to Macau.	▪ Both reflect a tightening of regulation on anit money-laundering in Macao and on capital outflow from Mainland China. This may hit the recovering VIP segment. Though the rumor was denied by the UnionPay, policy risks are still likely to be a potential drag on the VIP businesses in the near term. However, we believe that should any similar tightening take effect, it will have little impact on the casual gamblers who are likely to bet with small amount. Therefore, the world's largest gambling hub may remain on track for gradual recovery.

Key Economic News

Facts	OCBC Opinions
▪ China's FX reserve fell further to US$3.051 trillion in November, down for the fifth consecutive month.	▪ The decline was mainly attributable to two factors including negative valuation effect and persistent outflows. The sharp rally of dollar index and the tumble of US Treasuries following Trump's victory are likely to account for more than half of the decline of FX reserve. ▪ However, the outflows remain as evidenced by the decline of FX reserve denominated in SDR term. ▪ Given China has tightened capital outflows again in late November, we expect the pace of outflows to slow further though it is unlikely to be reversed given the upcoming seasonal demand for dollar in January.

▪ China's export unexpectedly rebounded by 0.1% yoy in dollar term in November while import also grew by 6.7% yoy in dollar. ▪ China's trade surplus shrank further to US$44.6 billion from US$49.06 billion in October as a result of acceleration of import growth.	▪ External demand from advanced economy improved notably despite unexpected outcome of US Presidential election with China's exports to G3 increased by 5.6% yoy, which overshadowed still falling demand from ASEAN. The better than expected demand is probably due to upcoming Christmas holiday season. ▪ The recovery of imports growth is mainly due to rebound of commodity prices in our view. Imports of oil and iron ore by value rebounded by 16% and 17.4% respectively.
▪ China's CPI growth accelerated to 2.3% yoy in November, in line with market expectation. ▪ However, producer prices continued to increase at a faster than expected pace with PPI grew by 3.3% yoy in November, up from 1.2% in October.	▪ On a sequential basis, CPI grew mildly by 0.1% mainly driven by vegetable prices due to cold weather, which rose by 5.5% mom. The CPI is expected to accelerate further in the coming months due to festival season. We expect the CPI to test 3% in January as 2017 Chinese New Year comes earlier in January. However, the CPI may fall below 2% again in February after the Spring Festival effect. ▪ The spike of PPI is mainly attributable to recent rally in commodity prices, in particular metals and nonferrous. November reading is unlikely to be the peak for PPI. Given the steel and copper prices continued to climb higher, PPI is expected to exceed 4% in the coming months. PPI is unlikely to peak until February next year. ▪ The heightening concern about inflation is likely to further weigh down fragile sentiment in bond market.
▪ Hong Kong: Residential property transaction volume recorded 6,739 units in November.	▪ Overall residential property price registered the first positive yearly growth of 0.5% during the past 10 months in October. Prices of smaller residential units (below 100 sq.m.) grew 0.36% yoy while those of the larger units (above 100 sq.m.) rose 2.73% yoy. Residential property transaction volume recorded 6,739 units in November, remaining on an upward trend. On a yearly basis, residential property transactions more than doubled, printing 138% yoy. By segment, sales of housing units priced between HKD 3 million and HKD 5 million were rather strong, which registered 2,360 units and took up 35% of total transaction. Housing units priced over HKD 10 million also recorded 1,240 units, taking up 18%. ▪ However, property transaction may start to ease again in the coming quarters due to additional tightening measures as well as increasing expectation on Fed rate hike.

RMB	
Facts	**OCBC Opinions**
▪ The recovery of RMB against the dollar failed to sustain. RMB weakened against both dollar and currency basket last week. The USDCNY broke 6.9 again in the last few minutes trading, ending the week at 6.9005 for 4:30pm closing and 6.9081 for 11:30pm closing. The RMB index fell slightly to 94.68 from 94.91.	▪ RMB's weakness last week was mainly due to the rebound of dollar with the dollar index rose back above 101.50 from previous week's closing of 100.77. ▪ The predictability of daily USDCNY fixing has come back recently. This shows that RMB index rather than 6.9 is the key target. We expect PBoC to maintain RMB index stable in the coming weeks while allowing a more flexible USDCNY. Should dollar continue to strengthen in the global market, the USDCNY is likely to stay above 6.9. ▪ In the offshore market, the spread between CNH and CNY turned negative in the beginning of the week as a result of tight offshore liquidity. However, the spread normalized again in the second half of the week after liquidity improved.

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