Summary

President Xi Jinping's speech in Davos last week to promote the globalization ahead of Trump's inauguration has drawn favourable response globally. Compared with President Trump's nationalist inauguration speech last Friday, President Xi's remarks show China's attitude to fill in the US gap to lead globalization. In addition, China did not only talk but has acted. The State Council released its new plan to ease restrictions on foreign investment. We have separately sent a report titled <sailing against the current> last week to discuss about the recent relaxation on foreign investment. Please refer to this report if you are interested in details. China's equity market was the best performer in the global market last week with the CSI300 index ending the week up by 1.05% to celebrate Xi's speech. However, Bloomberg reported that China may have supported the equity market via intervention.

Domestically, China reported slightly better than expected 4Q GDP. This proved that China has managed to achieve its growth target for 2016. However, as we have been arguing, the recent stability came with costs. For 2017, it is time to move away from this costly stability to focus more on reform. As such, we expect China's growth to slow to about 6.4% in 2017. Please refer to our report <moving away from the costly stability> we sent out last Friday for details.

Despite upbeat growth, PBoC launched the new monetary policy tool "Temporary liquidity Facility" to inject liquidity to a few big commercial banks for 28 days to meet liquidity demand ahead of Chinese New Year holiday. There are two purposes of new liquidity tool in our view. First, it is designed to skirt around the limitation of high quality collateral. Second, PBoC clearly differentiate the new tool from RRR cut as participating banks need to pay much higher cost to access to liquidity as compared to RRR cut. We think the new temporarily liquidity facility is a policy neutral tool. As such, we see limited impact on the market.

On currency, RMB extended its gain in both onshore and offshore market as a result of weaker dollar due to unwind of Trump Trade ahead of Trump's inauguration. Despite offshore RMB liquidity has improved significantly last week, the CNH remained biddish in the offshore market. This shows that market is more rational and sentiment has clearly improved. Chinese market will be closed for one week from this Friday to celebrate the Chinese New Year holiday. As such, limited domestic events are expected but market will continue to pay attention to Trump's policy and its potential impact on the region.

Key Events and Market Talk

Facts	OCBC Opinions
▪ Bloomberg reported that China may have supported equity market during President Xi's visit in Davos for World Economic Forum.	▪ State backed funds have bought blue-chips stocks to stabilize the market. Meanwhile, CSRC has increased surveillance on transaction and stock exchanges are asked to report abnormal trading observed for this week. Window guidance on some asset managers not to sell certain stocks which may affect the equity index was also reported by media.
▪ China reacted to the emerging risk of protectionism with an open mind. The State Council approved detailed plans to relax restrictions on foreign investment. ▪ This echoed President Xi Jinping's remarks in Davos that "pursuing protectionism is just like locking oneself in a dark room: wind and rain might be kept outside but so are light and air."	▪ The new rules will ease the investment barrier for service industry, manufacturing sector and mining industry. For service sector, foreign investment curbs on banking, security company, asset management, futures, insurance and insurance brokers will be eased. In addition, restrictions on accounting, audit, architect design and rating agency will also be eased while China will gradually ease restrictions on telecom, internet, culture, education and transportation sectors. ▪ Meanwhile, foreign investors will also be allowed to participate in infrastructure investment in form of franchise investment. ▪ China will continue to improve fair treatment for foreign investors. For example, the minimum registered capital for foreign investment will be eliminated. The same land policy will be applied to domestic and foreign investors. Incentives will be given to foreign investors on use of industrial land for as low as of 70% price. ▪ On funding, China will create a supportive environment to

	improve the efficiency of capital usage and ease funding for foreign investors. China will promote two-way flows to attract MNCs to set their regional headquarters, purchasing centre and settlement centre in China. In addition, foreign investors will have the same channels as the local company to raise money via equity financing, bond financing as well as foreign debt. ▪ Last but not least, China will also give foreign investors tax discount to invest in less developed areas such as Central China, West China and North East part of China.
▪ PBoC launched the new monetary policy tool "Temporary liquidity Facility" to inject liquidity to a few big commercial banks for 28 days to meet liquidity demand ahead of Chinese New Year holiday.	▪ It was initially reported by Reuters and Caixin that PBoC cut the reserve requirement ratio by 1% for big five state banks temporarily for 28 days. However, based on the message from PBoC's social media account released later, the operation is different from reserve requirement ratio cut as the cost of borrowing via this new facility is similar to that from 28 day reverse repo, which is much higher than the RRR cut. ▪ There are two purposes of new liquidity tool in our view. First, it is designed to skirt around the limitation of high quality collateral. Since last year, China has been increasingly replied on MLF to manage its liquidity. However, the MLF operation requires collateral. The rapid increase of the outstanding balance of MLF in 2016 to CNY3.46 trillion led to the shortage of quality collateral. As such, the temporarily liquidity tool without the need for collateral will help solve this problem. Second, PBoC clearly differentiate the new tool from RRR cut as participating banks need to pay much higher cost to access to liquidity as compared to RRR cut. This signals that PBoC does not want market to misread this move as easing gesture. ▪ To conclude, we think the new temporarily liquidity facility is a policy neutral tool. As such, we see limited impact on the market.
▪ HK: According to the 2017 Policy Address, the expected supply of private residential units at 94,500 units is 45% higher than the figure at the beginning of the current-term Government.	▪ The rise in private housing supply in the coming 3 to 4 years combined with higher interest rates is likely to ease the upward risks on housing prices. Also, the housing cooling measures are expected to further reduce housing transactions. However, as the supply of public housing units still lags, this could limit the magnitude of correction in housing prices. In the coming decade, the supply of public housing is expected to account for only about 61% of total supply. Therefore, the housing market will remain distorted with a majority of lower-income households being unable to purchase a home as private homes are unaffordable and public homes are unavailable. ▪ Elsewhere, the government will continue to support innovation and technology, and the "Belt and Road Initiative" through land resources and additional investments. Finally, to support the elderly, the government plans to provide more service vouchers, increase community investment, relax the asset limits for the Old Age Living Allowance and lower the eligibility age for the Elderly Health Care Vouchers.
▪ HKEX Chief Executive Charles Li announced that they are preparing an ETF connect, bond connect and commodities connect. Specifically, the HKEX hopes to provide further details about Bond Connect this year, potentially together with their	▪ With the HKEX striving to develop new products to deepen the offshore RMB market, onshore investors will get access to a wider range of overseas financial products despite the capital controls. Also, the increasing diversity of hedging tools may help grow offshore investors' interest in RMB assets. In a long

initiative on Mainland Ministry of Finance T-bond futures. In addition, Charles Li reiterated the plan to roll out a USD/CNH contract in late March this year, subject to market readiness.	term, we believe that the HKEX's efforts will support the internationalization of the RMB.
▪ The Chinese Academy of Social Sciences forecasts that the number of total visitor arrivals in Hong Kong will fluctuate slightly and that of Mainland visitors may be flat in 2017.	▪ With some countries loosening the visa requirements for Mainland visitors, Hong Kong is losing its appeal to Mainlanders. As the once-a-week limit on Shenzhen visitors to Hong Kong remains effective, Mainland visitors are unlikely to increase notably this year. A stronger HKD China's slowdown may hit Hong Kong's tourism sector and visitors' expenditure.

Key Economic News

Facts	OCBC Opinions
▪ China's GDP growth edged up slightly to 6.8% yoy in December after a steady reading of 6.7% yoy for three consecutive quarters. The economy grew by 6.7% yoy in 2016, well on track to achieve its growth target of 6.5-7%. ▪ Industrial production growth slowed slightly to 6% yoy in December from 6.2% yoy in November while fixed asset investment also decelerated to 8.1% yoy for the whole year, down from 8.3% in the first eleven months. ▪ Retail sales, however, beat market expectation and reaccelerated to 10.9% yoy in December.	▪ Despite the deceleration of fixed asset investment in December, private investment continued to recover to 3.2% yoy in 2016, up from 3.1% in the first eleven month, signalling the return of business confidence. Infrastructure investment clearly is the key support, growing by 17.4% yoy in 2016, thanks to proactive fiscal policies. ▪ As we highlighted before, the stable growth in 2016 despite uncertain global environment was mainly attributable to three factors including booming property market, easing monetary policy and proactive fiscal policy. However, the stability came with costs as risk of assets bubbles has emerged in both property and bond market after the burst of equity bubble in 2015. As such, containing financial risk has been the key task for this year. Since September, China has tightened in both property and bond markets. ▪ The change of focus to contain asset bubbles in 2017 shows that the economy is likely to find less support from the property market and monetary policy. Chinese policy makers have increasingly shown higher tolerance for a slower growth. As such, China is likely to lower its growth target to around 6.5% in 2017 from 6.5-7% range. We expect the economy to decelerate to about 6.4% but the proactive fiscal policy is likely to provide the floor to the growth.
▪ The improvement in economy due to China's stabilization and optimism about global recovery has supported HK's labour market. Employment and labour force grew by 0.8% and 0.9% respectively on yearly basis over 2016. The seasonally adjusted unemployment rate held stable at 3.3% in 4Q 2016.	▪ The major sectors also saw decrease in their unemployment rate. Jobless rate of the trade and wholesale sector and that of the retail, accommodation and food services sector dropped to 2.7% and 4.9% from 2.9% and 5.2% in 4Q respectively. This was attributed to the two sectors' moderate rebound in the quarter. In addition, with the launch of the second stock link, the resultant increase in labour demand pushed the financial sector's unemployment rate down to 2.4%, the lowest since September 2015. The resilient labour market would have warranted a moderate economic growth in 4Q. However, downward risks to the labor market have yet to be eliminated as global uncertainty looms.
▪ As junket operators resumed credit extension to VIP gamblers and the rooms for the premium players re-opened for the first time in two years in last November, genuine VIP demand has since returned. Adding onto the effect of low base, revenue from the VIP segment rose significantly by 12.7% yoy to MOP 33.3 billion in 4Q 2016, marking its first growth since 1Q 2014. This also drove the	▪ In comparison, the mass market appeared to have stabilized. Revenue from the mass market segment increased for the third consecutive quarter and was up by 7.8% yoy to MOP 24 billion (39.8% of total revenue). Based on this, we remain cautiously optimistic about the gaming sector. On one hand, the VIP segment's vulnerability to policy risks may make its revival unsustainable. On the other hand, the mass-market segment could lose some momentum should a stronger MOP

share of VIP revenue up to the highest since 2Q 2015 at 55.2%.	and China's slowdown trim some upward risks from the tourism sector. As neither segment could fuel a V-shaped rebound in gaming revenue, we expect gaming revenue to grow moderately by 5% yoy to 7% yoy over 2017.

RMB	
Facts	**OCBC Opinions**
▪ RMB extended its gain in both onshore and offshore market as a result of weaker dollar due to unwind of Trump Trade ahead of Trump's inauguration.	▪ Clearly, sentiment has improved in January. Despite offshore RMB liquidity has improved significantly last week, the CNH remained biddish in the offshore market. This shows that market is more rational and no longer bet on the one-way depreciation after RMB has shown two-way volatility in January thanks to weaker dollar and tighter currency purchase restrictions. ▪ In addition, Trump's protectionism tone is also supportive of RMB as market feared that President Trump may press RMB to appreciate to support domestic manufacturing.

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