Highlights:

China's bond sell-off deepened last week with 10-year government bond yield exceeded 4% and 10-year policy bank CDB bond yield touched 5%. Market is digesting the new drafted rules from PBoC on asset management products. We think the proposed new regulation is likely to further differentiate good quality name from bad quality name as China is determined to breaking the so called implicit guarantee. In the longer run, the demand for high quality assets such as government bond and policy bank bonds is likely to increase. However, in the near term, as market started to prepare for the worst, we might have seen some unwind of liquid assets such as government bonds and policy bank bonds, which pushed those yields to multi-years high.

China continue to push its reform agenda post 19th Party Congress including containing financial risk and boosting imports. As part of de-leverage campaign, China's State Asset Supervision and Administration Commission (SASAC) unveiled news rules last week to tighten regulation on SOE's participation in public private partnership (PPP) to prevent PPP from being abused to become conduit for SOE to channel money from banks to local government projects for the positive interest rate carry, which may indirectly increase the leverage. In addition, China's Ministry of Finance announced to lower import tariff on 187 consumer goods, effective from 1 Dec. The slash of import tariff is in line with China's intention to transform itself to a consumption driven economy. Meanwhile, it also shows that China is ready to further openness to the global economy to act as a true global leader to contribute towards global recovery.

In Hong Kong, Hang Seng Index closed at its highest level since 2007 On Nov 22 due to strong equity inflows from China. Meanwhile, USD/HKD dropped below 7.81 amid broad weakness of the greenback and the rebound of HIBOR on month-end effect. We expect 1-month HIBOR to stay above 0.6% amid year-end effect and high odds of Fed's Dec rate hike. As such, USD/HKD may hover in the range of 7.800-7.813 before year-end. In the medium term, we remain wary of the tipping point of global liquidity, as this could trigger capital outflows from emerging markets. The resultant increase in local interest rates may in turn weigh down the overheated housing market. In Macau, economic growth softened to 6.1% yoy in 3Q 2017 as strong exports and public investment failed to offset muted private investment and domestic consumption. Two typhoons had also been a drag on the economic activities. Looking ahead, Asia's growth may continue to support Macau's exports of services. Internally, the increased budge for public investment for the next fiscal year will translate into a boost to the economy. With several mega projects scheduled to be completed in the coming year, private investment may regain some traction. The resultant increase in job opportunities could also buoy household spending. All in all, we expect GDP to expand by 8%-10% yoy in 2017 and grow by 7% approximately in 2018 amid a fading low base effect.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In a rare case, the Shanghai stock exchange issued a statement to criticize equity analyst from Essence Securities to be too bullish on the hot Kweichow Moutai stocks after the analyst raised the price target to 900.	▪ Although China's major stock index painted a nice slow-bull picture this year, the divergence of underlying stock performance deepened with 80% small stocks suffered from losses while gains mainly concentrated in blue chips and industry leaders. The over crowded trade in blue chips and those popular counters has clearly led to concerns about potential bubbles even though the headline index looks ok. ▪ The recent correction in those blue chips stocks due to warnings from government as well as spill over effects from the bond rout may be good to prevent overheating in stock market.
▪ China's Ministry of Finance announced to lower import tariff on 187 consumer goods, effective from 1 Dec. The average tax rate will be lowered to 7.7% from 17.3%.	▪ The slash of import tariff is in line with China's intention to transform itself to a consumption driven economy. Meanwhile, it also shows that China is ready to further open to the global economy to act as a true global leader to contribute towards global recovery. This should be good news to support global business cycle going into 2018. ▪ The move will also be used to press domestic producers to move up the value chain for global competition. ▪ RMB weakened on Friday as knee jerk reaction to this news. In the longer run, the stronger imports may further narrow China's current account surplus, which be less supportive of RMB.

▪ China's State Asset Supervision and Administration Commission (SASAC) unveiled news rules last week to tighten regulation on SOE's participation in public private partnership (PPP).	▪ Under the new rule, the SOEs should set quota for PPP investing in PPP projects. In addition, the accumulative net spending in PPP should not exceed 50% of SOE's net assets reported in the previous year. Leverage ratio should not increase due to participation in PPP. ▪ PPP has been tried as the alternative funding channel to support China's massive infrastructure demand in the past few years. However, as a result of lack of standardized practice, PPP may have been abused to become the conduit for SOE to channel money from banks to local government projects for the positive interest rate carry. ▪ In addition, SOE's deep participation in PPP could also create the hurdle for private companies to participate in PPP as local government may be more willing to work with SOEs. As such, the restriction of SOE's participation in PPP may also encourage more involvement of private companies. ▪ The latest announcement to cap SOE's role in PPP is in line with China's grand de-leverage plan to contain financial risk.
▪ China's bond sell-off deepened last week with 10-year government bond yield exceeded 4% and 10-year policy bank CDB bond yield touched 5%.	▪ The bond rout was extended last week as market is digesting the new drafted rules from PBoC on asset management products. We think the proposed new regulation is likely to further differentiate good quality name from bad quality name as China is determined to breaking the so called implicit guarantee. As such, the funding costs for weaker credit names are likely to increase should the new rules in effect. In the longer run, the demand for high quality assets such as government bond and policy bank bonds is likely to increase. ▪ However, in the near term, as market started to prepare for the worst, we might have seen some unwind of liquid assets such as government bonds and policy bank bonds, which pushed those yields to highest level in 2017.
▪ Hang Seng Index closed at its highest level since 2007 On Nov 22.	▪ The robust performance may be attributed to strong equity inflows from China. During the first 16 trading days of November, net flows from China to HK under two stock connects amounted to CNY48.05 billion, close to the highest level of CNY56.32 billion for September 2016 as a whole. Should the stock market remain elevated, the resultant wealth effect may continue bolstering domestic consumption and investor sentiment in the housing market. Still, we remain wary of the tipping point of global liquidity in the medium term, as this could trigger capital outflows from emerging markets and in turn lead to stock market correction.
▪ After the Low-income Working Family Allowance (LIFA) Scheme was introduced in May 2016, it did not help to reduce poverty rate which rose by 0.2 percentage points on a yearly basis to 19.9% in 2016.	▪ According to the government, as at the end of September 2017, only 36,000 families (about 130,000 persons) are receiving LIFA, far below the expected 200,000 families (or about 700,000 persons). LIFA merely helps to alleviate poverty rate by 0.3 percentage points in 2016. This year, the new government proposed to introduce improvement measures on the LIFA scheme, in an effort to increase the number of beneficiaries. We will closely monitor the effect of the improvement measures. ▪ On the other hand, poverty rate of the elderly (aged 65 or above) edge up by 1.5 percentage points from 2015 to 31.6% despite the introduction of Old Age Living Allowance scheme from 2013. Given the worsening ageing problem (the share of population aged above 65 in total population rose from 13.7% in mid-2012 to 16.5% in mid-2017), recent social welfare is

	insufficient to ease the financial burden of the elderly. Government may better adjust the retirement age and offer more training programs to help the elderly adapt to the ever-changing working places. In fact, the share of labor force over 65-year-old rose notably from 1.5% in 2011 to 2.8% in 2016. The labor force participation rate of those aged 65 or over also jumped from 6.2% in 2011 to 9.9% in 2016. Furthermore, the government may need to accelerate the pace of public housing construction. As at end-September 2017, the average waiting time for elderly one-person applicants for public rental housing was 2.6 years.
▪ Macau's Budget for 2018 was passed unanimously in the Legislative Council. The revenue for next fiscal year is expected to increase by 15.8% yoy to MOP119.1 billion. Specifically, government expects tax revenue from gaming sector to reach MOP80.5 billion, MOP10.5 billion more than that of previous fiscal year.	▪ In terms of expenditure, the amount is expected to rise by 14.5% yoy to MOP109.6 billion. This is mainly due to the increased budge for public investment and development (+38.6% yoy to MOP21.1 billion) and for the government's investment company (+40.7% yoy to MOP5.7 billion). As such, we expect public investment to remain robust in the coming year and continue its contribution to the local economic growth.
▪ Macau government is considering removing tax exemptions for unoccupied properties.	▪ If this comes true, it will add to the cooling measures from May 2017 in further damping investment demand in the housing market. As such, housing market will become quieter. However, any cooling measures are unlikely to lead to collapse in the housing market. A tight labor market, limited public and private housing supply and strong economic growth together are expected to allow some floor to any housing correction.

Key Economic News

Facts	OCBC Opinions
▪ In Hong Kong, according to information from the Central Plains Real Estate Research Department, the turnover of primary private residential properties reached HK$211.73 billion year to date, hitting a record high since it was recorded in 1996.	▪ Primary housing market has been less sensitive to cooling measures and movement of the HIBOR. This is due to a slew of sweeteners including mortgages with high loan-to-value ratio offered by property developers. Wealth effect from stock market also helped to boost investment demand in the primary housing market. ▪ However, we note that the oversubscription of new home projects fell to about 5 times lately from over 25 times in the first three quarters of 2017. As property developers continued to raise prices, the prices of new homes have become less acceptable to prospective homebuyers. Should global monetary tightening start in late 2018 and prompt banks in HK to adjust prime rate for the first time since 2006, developers' provision of mortgages, which is based on prime rate, will become less attractive. On the other hand, global monetary tightening could probably lead to stock market correction and in turn reduce wealth effect. This will also hit investment demand in the housing market. Therefore, we expect not only secondary but also primary housing market will witness moderation of growth in late 2018.
▪ Macau's GDP growth softened to 6.1% yoy in 3Q 2017. Tourism and gaming sectors remained the key growth engines. Specifically, exports of gaming services rose by 18.4% yoy. This is in line with the resilient gain of 21.8% yoy in gross gaming revenue during the same quarter on the back of resilient growth in China. Exports of other tourism services	▪ However, strong exports and public investment failed to offset the sharp decline in private investment (-32.2% yoy) amid successive completion of mega entertainment projects. In addition, private consumption growth moderated to 0.5% yoy in 3Q from 2.7% yoy in 2Q 2017 due to stagnant wage growth, higher underemployment rate and lower participation rate. Also, two typhoons had been a drag on the economic activities

expanded by 9.4% yoy as visitor arrivals and total visitor spending increased by 2.1% yoy and 8.8% yoy respectively in 3Q 2017. Given a raft of infrastructure projects under construction, public investment rose remarkably by 79% yoy. Furthermore, improved external demand pushed exports of goods up by 18.9% yoy.	in the third quarter. ▪ Moving forward, exports of services are likely to remain elevated on Asia's growth. Internally, the government is set to increase investment in infrastructure post-typhoons. Therefore, we expect public investment to sustain its momentum and continue to bolster economic growth. With several mega projects scheduled to be completed in the coming year, private investment may regain some traction. The resultant increase in job opportunities could also buoy household spending. All in all, we expect GDP to expand by 8%-10% yoy in 2017 and grow by 7% approximately in 2018 amid a fading low base effect. Still, we will closely monitor the policy risks and liquidity risks which may add some downward pressure to the crucial gaming sector.

RMB	
Facts	**OCBC Opinions**
▪ RMB strengthened against the dollar last week with the USDCNY broke down 6.57 before ending the week around 6.60.	▪ RMB's appreciation against the dollar was mainly attributable to weaker broad dollar due to dovish inflation expectation from the latest FOMC minutes. In addition, the tight liquidity in the offshore market also supported CNH, which in turn support CNY. ▪ However, RMB weakened against its basket currency as corporate demand for dollar provided the floor for USDCNY. As we expect limited downside for RMB index, we think the downward bias for the USDCNY to test 6.55 remains. Nevertheless, we think the pair is likely to be traded in the range of 6.50-6.70 for rest of the year.

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