Highlights

China's equity market stole the show from the US equity correction with the benchmark CSI300 index fell by more than 10% last week beating Dow Jones' 5.2% loss. Same as the US, the sharp correction of China's equity market was partially the result of technical reasons. In China, the looming concern about tightening on share pledge financing has deepened the selloff although the overall leverage in China's equity market is much smaller than that in 2015. However, fundamentally, there are no material changes. In fact, the latest import data shows that China's growth momentum may be extended into the first quarter of 2018. Although January data was distorted by Chinese New Year effect, the absolute amount of crude oil and electronic integrated circuit products import implied a strong demand.

On currency, RMB volatility spiked last week as short covering sent the USDCNH from a low of 6.2557 to a high of 6.3774 within 24 hours. After RMB index quickly broke 97, market has been increasingly nervous about possible intervention which made the overcrowded short USDCNY trade vulnerable to any pullback. Although sign of manual adjustment of daily fixing to slow down the appreciation re-emerged last week, there is no significant sign of PBoC's intervention after the PBoC set the tone in its annual meeting early last week that it will allow market to play a bigger role in determining currency value. As such, RMB recovered most of the intra-week losses on Friday.

China's Balance of Payment returned to twin surpluses in 2017. China's non-reserve capital account recorded surplus of US$82.5 billion, first annual surplus since 2013. As RMB's one-way depreciation and disorderly capital outflows are no longer the concern, the recent roll back of previous capital control measures is in line with market expectation. In his latest article, China's currency regulator SAFE's head Pan Gongshen said all macro prudential measures to contain capital outflows have been back to neutral. In addition, Reuters also reported last week that China has revived its suspended Qualified Domestic Limited Partnership (QDLP) scheme to allow foreign fund managers to raise money onshore to invest overseas. This will help alleviate pressure for excessively appreciation of RMB.

In **Hong Kong,** during 5 Feb to 6 Feb, daily southbound equity inflows printed CNY 9.1 billion, the strongest since the launch of Shenzhen-Hong Kong stock connect. However, it was unable to reverse HK stock market's downward trend. If major central banks tighten policy at a faster pace than currently expected, capital outflows from emerging markets may cause HK stock market correction despite supports from Mainland investors. Elsewhere, secondary housing price index refreshed its record high once again while housing transactions rebounded further. Nevertheless, approved new mortgage loans dropped for the fourth consecutive month in Dec17. This indicates that affluent investors who do not rely on bank loans might have made major contribution to recent housing market frenzy. In addition, less affluent buyers might have entered the market thanks to developers' mortgage loans with high loan-to-value ratio. Wealth effect from stock market further fuelled the panic buying spree. However, such kind of housing demand is expected to shrink in the coming year (see below for details). In **Macau**, government unveiled three property control measures, which could have two implications. First, homeowners will be encouraged to lease their properties while increase in first-home buyers will lower the rental housing demand. Therefore, housing rents are likely to be suppressed. Second, apart from curbing investment demand, the cooling measures will reduce the supply in secondary market. Adding that new supply of public and private housing is set to increase moderately, an expected increase in first-home buyers could keep the property price elevated. Still, potential interest rate increase and stock market correction may help to moderate the housing market growth.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The PBoC concluded its annual work conference on 6 Feb and outlined nine key tasks for 2018.	▪ As compared to last year's key tasks, there are two notable changes in our view. ▪ First, on liquidity, it added the sentence about maintaining credit and aggregate social financing growth at a reasonable pace. This hinted a more balanced tone in our view as China is unlikely to tight excessively to derail the credit growth. ▪ Second, on currency, the PBoC said it will let market to play a bigger role in determining currency value although it reiterated to maintain RMB relatively stable at a reasonable level.
▪ In his latest article, China's currency regulator SAFE's head Pan Gongshen said all macro prudential measures to contain capital outflows have been back to neutral. ▪ In addition, Reuters also reported last week that	▪ As RMB's one-way depreciation and disorderly capital outflows are no longer the concern, the recent roll back of previous capital control measures is in line with market expectation. This will help alleviate pressure for excessively appreciation of RMB. However, one of the lessons learned from 2015 is that China is

China has revived its suspended Qualified Domestic Limited Partnership (QDLP) scheme to allow foreign fund managers to raise money onshore to invest overseas.	unlikely to open its capital account aggressively and most of unwind of capital control measures will only be conducted at a manageable pace, which is unlikely to derail the current appreciation of RMB.
▪ One-month HIBOR plunged at a fast pace from 0.91% on 5 Feb to 0.78% on 9 Feb. It broke the support level of 0.8% we previously expected and indicates flush liquidity. As a result, the gap between one-month HIBOR and one-month LIBOR widened notable to around 80 bps, the biggest level since last September.	▪ Nevertheless, market might have already priced in the impact of wide yield differential as HKD dropped by 0.2% against the greenback since late last December. Also, the blow on HKD from a wider yield differential was cushioned by southbound equity inflows and RMB strength. Over the first two trading days of last week, the daily average of net southbound inflows (southbound netting of northbound) under two stock connects amounted to CNY15.59 billion. ▪ In the last three trading days of last week, however, the daily average of net southbound inflows turned to CNY-0.38 billion. This indicates that Mainland investors might have squared their positions before Chinese New Year. On the other hand, muted trade balance data triggered short-covering of long positions in RMB and reversed the currency's upward trend. Despite that, we expect households and corporate to increase demand for HKD before Chinese New Year. Therefore, USD/HKD is likely to find strong resistance at 7.8250/7.8300.
▪ Hang Seng Index slid 5.12% on 6 Feb 2018, the largest daily percentage fall since August 2015. This is due to spill-over effect of US stock market rout. The panic selling spree might have also been attributed to technical factors.	▪ In fact, during 5 Feb to 6 Feb 2018, daily southbound equity inflows (not netting of northbound flows) printed CNY 9.1 billion, the strongest since the launch of Shenzhen-Hong Kong stock connect. However, it just helped Hang Seng Index trim losses but was unable to reverse the downward trend. If mounting inflation risk propels the Fed or other major central banks to tighten the monetary policy at a faster pace than currently expected, capital outflows from emerging markets may cause HK stock market to correct despite supports from Mainland investors. However, as fundamental factors including flush liquidity and strong economic outlook have not yet changed, we will closely monitor if recent retreat in HK stock market is transitory.
▪ Macau's government has launched three cooling measures to tame the housing market.	▪ First, the exemption of vacant residential property tax will be cancelled. Second, on top of the existing stamp duty, buyers of second home have to pay additional 5% of the property value and those of a third property and above will need to pay an addition of 10%. Third, first-home buyers aged between 21 and 44 who hold Macao identity cards will be allowed to apply for a mortgage with loan-to-value ratio up to 90%. ▪ This could have two implications. First, homeowners will be encouraged to lease their properties while increase in first-home buyers will lower the rental housing demand. Therefore, housing rents are likely to be suppressed. Second, the new measures are likely to curb investment demand. According to the government, more than 40% of home buyers during 1Q 2016 to 4Q 2017 were non-first-time buyers while 90% of the non-first-time buyers were local residents. However, the cooling measures will also reduce the supply in secondary market. Adding that new supply of public and private housing is set to increase moderately, an expected increase in first-home buyers could keep the property price elevated as about 60% of home buyers during 1Q 2016 to 4Q 2017 were first-home buyers. Still, potential interest rate increase and stock market correction may help to moderate the housing market growth.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's FX reserve rose for 12th consecutive month in January to US$3.161 trillion from US$3.14 trillion in 2017.	▪ The rebound of FX reserve is again partially attributable to valuation effect as dollar continued to depreciate globally in January. Nevertheless, the recent strength of RMB has led to more unwind of dollar hoarding, which led to a more balanced capital flow picture.
▪ China's trade surplus shrank to US$20.34 billion in January from US$54.7 billion in December 2017. The larger than expected decline of trade surplus was mainly due to stronger than expected import, which surged by 36.9% yoy in dollar term. Export also reaccelerated slightly to 11.1% yoy in dollar term from 10.9% in December.	▪ The January trade data were partially distorted by festival effect as last year's Chinese New Year holiday fell on January while this year's Chinese New Year holiday falls on mid-February. ▪ Nevertheless, judging by the actual import volume and value, we think the strong import was not only the result of seasonal effect but also thanks to sustained upward economic cycle. China's import of crude oil by volume rose by 19.4% yoy in January to 40.64 million tons, highest in record. As a result, import of crude oil by value jumped by 44.7% yoy to US$18.77 billion. Meanwhile, imports of electronic integrated circuit surged by 59.9% yoy in January to US$25.09 billion. Although the surging year-on-year growth was due to seasonal effect, the absolute number itself was the third highest in record. As such, those data show that the growth momentum may be extended into the first quarter of 2018.
▪ China's Balance of Payment returned to twin surplus in 2017. ▪ China's current account surplus widened to US$62.2 billion in 4Q 2017, up from US$40.5 billion in 3Q 2017. For the whole year of 2017, current account surplus as % of GDP slipped to 1.4% from 1.9% in 2016. ▪ Non-reserve capital account, however, returned to deficit of US$29.6 billion in 4Q2017, first quarterly deficit in 2017. However, for 2017, China's non-reserve capital account recorded surplus of US$82.5 billion, first annual surplus since 2013.	▪ The widening current account surplus is mainly due to increase in goods trade surplus as well as stabilized service deficit. Service deficit from tourism moderated to US$53.9 billion, down by 11.9% yoy. As China continued to tighten overseas credit card spending by individuals in the beginning of 2018, we expect China's service trade deficit to be capped. As such, we expect China's current account surplus to remain sizable in 2018, which may further support RMB in the near term. ▪ For non-reserve capital account, it returned to deficit again in the last quarter of 2017 although net inflows under foreign direct investment remained strong at US$41 billion. As there is no further breakdown of data, we have to wait for more details to be published later to gauge which is the main channel for outflows under capital account.
▪ Both China's CPI and PPI moderated in January, in line with market expectation. CPI moderated to 1.5% yoy from 1.8% yoy while PPI moderated to 4.3% yoy from 4.9% yoy.	▪ The moderation was mainly due to seasonal effect as this year's Chinese New Year falls on February, one month later than last year's Chinese New Year holiday. On month-on-month reading, CPI, however, accelerated to 0.6% mom due to higher food prices. We expect January to be the last month for China's CPI to stay sub 2% in 2018 as low base effect is likely to drive CPI higher even with few additional price shocks. CPI is expected to test above 2.5% yoy in February due to Chinese New Year and is expected to stay above 2% in the coming months. ▪ The moderation of PPI is mainly due to high base effect, which is expected to cap PPI in the coming months. We expect PPI to stay below 5% yoy in the next few months despite volatile commodity prices. ▪ We think the current inflation data have limited impact on China's monetary policy decision. Nevertheless, given CPI is likely to trend higher on base effect, we think market should pay closer attention to China's inflation data from the second quarter to gauge whether there is any potential price shock.

▪ Hong Kong's secondary housing price index rose by 14.8% yoy in December 2017 and refreshed its record high for the fourteenth consecutive month. Meanwhile, housing transactions rebounded for the second straight month by 60.4% yoy in January 2018. Nevertheless, approved new mortgage loans dropped for the fourth consecutive month by 14.4% yoy in December 2017, partially due to surge in one-month HIBOR in late 2017.	▪ This indicates that affluent investors who do not rely on bank loans might have made major contribution to recent housing market frenzy. Transaction volume of private homes priced at or above HK$10 million rose for the second consecutive month by 88% yoy in January 2018. In addition, less affluent buyers might have entered the market with the help of property developers who offer mortgage loans with high loan-to-value ratio. Transaction of private flats priced between HK$5 million and HK$10 million rose by 86% yoy. Wealth effect from stock market further fuelled the panic buying spree. As a result, housing market frenzy returned despite higher HIBOR. ▪ However, such kind of housing demand is expected to shrink in the coming year. First, global monetary tightening is likely to prompt capital rotation from emerging markets to developed markets and in turn cause stock market correction and reduce wealth effect. Second, mortgage loans (with reference to prime rate) offered by property developers will become less attractive as prime rate hike cycle is expected to begin this year. Against this backdrop, increase in new home supply may be able to weigh down the overheated housing market. Therefore, we hold onto our view that housing transactions will remain tepid while secondary housing price growth will moderate this year.

RMB	
Facts	**OCBC Opinions**
▪ Although the USDCNY ended the last week largely unchanged, the intra-week volatility spiked with the USDCNH from a low of 6.2557 to a high of 6.3774 within 24 hours after RMB index quickly broke 97. ▪ RMB index retreated last Friday below 97 to 96.92.	▪ After RMB index quickly broke 97, market has been increasingly nervous about possible intervention which made the overcrowded short USDCNY trade vulnerable to any pullback. Although sign of manual adjustment of daily fixing to slow down the appreciation re-emerged last week, there is no significant sign of PBoC's intervention after the PBoC set the tone in its annual meeting early last week that it will allow market to play a bigger role in determining currency value. As such, RMB recovered most of the intra-week losses on Friday. ▪ Again, 97-97.50 level could still be important level to watch out for ahead of Chinese New Year holiday break.

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