

Highlights

China kicked off the Year of Dog with a few surprises including the official proposal from the Communist Party of China Central Committee to remove the term limit for President, paving the way for President Xi Jinping to serve longer as the head of State, as well as takeover of Anbang insurance after the news was confirmed that its Chairman was officially charged for economic crimes. Although talks have been whispered for some time, the final drop of shoes show that China is departing from established norms from both political and economic perspectives.

Financial regulation could be the next area of focus departs from established norms. China's mastermind of President Xi's structural reform Liu He, who is expected to be Vice Premier in charge of economic and financial issues in March, is tipped to lead China's central bank by Reuters. Should Liu He become PBoC chief, China may move towards a super regulator model, which will give the central bank more power to combat the financial risk. The announcement may come as early as this week after China decides to bring forward the third plenary of 19th Party Congress to first half of this week from autumn, which again is a big surprise to market watchers.

The departure from established norms may raise concerns among some western investors whether China will dial back its political and economic reform. It seems China's commitment to deliver its promise to open its domestic market will not be derailed by the recent political development. China's banking regulator unveiled revised rules to standardize and clarify procedures for foreign banks operation and investment in China. The revised rules followed the guidance from the 19th Party Congress to further open China's financial market.

In **Hong Kong**, HIBOR decreased on a broad basis with one-month HIBOR falling towards 0.7% amid flush liquidity. A wider yield differential added renewed downward pressure to the HKD. HKD's weakness was also due to the lack of support from southbound equity inflows during Chinese New Year Holiday. Nevertheless, as we approach month-end and March FOMC, HIBOR may find some support. The return of Mainland investors may also allow some floor for HKD's weakness. Therefore, we expect USD/HKD continues to find resistance at 7.8300 in the near term. Given that banks successively launched fixed-rate mortgage plans and increased HKD deposit rates, we expect the next move is highly likely to be Prime Rate hike due to increasing cost of fund. Nevertheless, with flush liquidity across the globe and without much signs of capital outflows, we do not expect banking system to lift prime rate following March FOMC. Elsewhere, the unemployment rate stayed at a nearly two-decade low thanks to broad-based domestic recovery. However, a volatile stock market may affect consumer and investor sentiment despite a strong labour market. Finally, market will eye on the release of HK's Budget for 2018/2019 this week. Given huge fiscal revenue from strong stock market and property market, whether the government will expand the fiscal stimulus will be closely monitored. In **Macau**, the number of total visitor arrivals increased at a strong pace during Chinese New Year Holiday. We expect gaming revenue to advance by about 15% yoy in February.

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> The Communist Party of China Central Committee proposed to remove the term limit which stated the President and Vice President of the People's Republic of China shall serve no more than two consecutive terms from the country's constitutions. 	<ul style="list-style-type: none"> Although there is no term limit for the Party chief role, the term limit for President has established norm in the past three decades that China will change its leadership every ten years given Party chief is usually the President of China. The potential removal of the term limit will pave the way for President Xi Jinping to serve longer as the head of State in addition to Party chief.
<ul style="list-style-type: none"> Reuters reported quoting sources that China's mastermind of President Xi's structural reform Liu He is likely to lead China's central bank. 	<ul style="list-style-type: none"> Liu He who led the Chinese delegation in 2018 Davos Economic Forum in January is expected to be named as Vice Premier in charge of economic and financial issues in March. Should Liu He be appointed as the central bank chief, he may be drawn comparison with Premier Zhu Rongji who also head China's central bank in 1990s. In fact, there are similarities between now and 1990s when China faced complicated economic and financial conditions. As such, appointment of Liu He shows China's commitment to contain financial risk. Meanwhile, market is also waiting for the reshuffle of China's financial regulation model. Should Liu He become PBoC chief, China may move towards a super regulator model, which will give the central bank more power to combat the financial risk.

	<p>The announcement may come as early as this week after China decides to bring forward the third plenary of 19th Party Congress to first half of this week from autumn.</p>
<ul style="list-style-type: none"> China's banking regulator unveiled revised rules to standardize and clarify procedures for foreign banks operation and investment in China. The revised rules followed the guidance from the 19th Party Congress to further open China's financial market. 	<ul style="list-style-type: none"> There are three notable changes from the new rule which has been effective from 13 Feb after CBRC issued the drafted rules in December 2017. First, the revisions clarified procedures and application materials for foreign banks to invest in onshore Chinese banks and will serve as the legal basis for foreign banks to acquire the ownership in Chinese banks. Second, the revisions also scrapped approval procedures for foreign banks in four areas including overseas wealth management products, custody and portfolio investment funds etc. Third, the revisions also simplified procedures for foreign banks to set up new branches, appoint executives and issue bonds. The latest move underpins China's commitment to further open up its banking sector.
<ul style="list-style-type: none"> China's insurance regulator CIRC announced to take over Anbang Insurance under the Insurance Law for one year after the regulator confirmed that its Chairman Wu Xiaohui was charged for economic crimes and some illegal operations might have seriously endangered the company's solvency. 	<ul style="list-style-type: none"> The shoe finally dropped after Anbang's Chairman Wu Xiaohui has been put in police custody since June 2017. The takeover of Anbang could set the tone for China to deal with financial risk posed by those conglomerates which expanded too fast fuelled by leverage.
<ul style="list-style-type: none"> One-month HIBOR fell towards 0.7% amid ample liquidity. As a result, the gap between one-month HIBOR and one-month LIBOR refreshed its highest level since 2008 and reached 90 bps. As a result, HKD faced renewed downward pressure. 	<ul style="list-style-type: none"> Since 2008 when global central bank loosened the monetary policy, capital continued to flow into HK market. As a proxy of capital flows, the total amount of aggregate balance, outstanding exchange fund bills and notes as well as banking system's net position in foreign currencies hovered around its record high at HK\$2.035 trillion in Nov 2017. In the near term, it is unlikely to see huge capital outflows as global central banks are still waiting for pickup in inflation to tighten the policy while Mainland investors increasingly tap into HK stock market for risk diversification. With flush liquidity, we do not expect banking system to lift prime rate following March FOMC. Nevertheless, as we approach month-end and March FOMC, HIBOR may find some support. The return of Mainland investors may also lend some support to the HKD. Therefore, we expect USD/HKD continues to find resistance at 7.8300 in the near term.
<ul style="list-style-type: none"> Hong Kong: recently, banks successively launched fixed-rate mortgage plans in order to compete for mortgage business. Also, some banks raised HKD deposit rates to meet their funding demand. 	<ul style="list-style-type: none"> Due to a sharp increase in one-month HIBOR, the interest rate of HIBOR-based mortgage plan topped its upper limit (Prime Rate minus 3.1%). As a result, approved new mortgage loans decreased for the fourth consecutive month in December 2017. This prompts banks to launch fixed-rate mortgage plans. In other words, banking system might have reached a consensus that HIBOR will tick up gradually. In fact, we also believe that one-month HIBOR will rally after recent correction to 1.4% by end of 2018 due to higher HKD loan-to-deposit ratio, reduced aggregate balance, potential capital outflow risk and potential large IPOs. As such, downside of mortgage rates may be limited while banking system's next move is highly likely to be an upward adjustment to the Prime Rate due to increasing cost of fund.

Facts	OCBC Opinions
<ul style="list-style-type: none"> HK's seasonally adjusted unemployment rate stayed at a nearly two-decade low of 2.9% during the three months through January 2018 thanks to broad-based domestic recovery. 	<ul style="list-style-type: none"> Specifically, the jobless rate of construction sector, tourism-related sector and trade sector decreased to 4.0% (lowest since early 2017), 4.2% (lowest since 4Q 2014) and 2.2% (lowest since 1998) respectively. The labor market demonstrates persistent improvement, especially in tourism-related sector and trade sector amid resilient growth of global economy and further revival of tourism activities. The continued public investment in infrastructure and aggressive construction plan of property developers are expected to keep lifting the hiring sentiments in construction sector. Nevertheless, financial sector may become more cautious about business expansion given recent increase in stock market volatility. Moving forward, should global central banks tighten the monetary policy amid pickup in inflation, we expect financial sector's employment to take a further hit. Despite that, resilient economic growth at home and abroad may help to sustain the tight labor market with jobless rate stabilizing around 2.9% in the 1H 2018. However, a volatile stock market could undermine consumer and investor confidence despite a strong labor market.
<ul style="list-style-type: none"> Macau: during the Chinese New Year Holiday, total visitor arrivals increased by 6.5% yoy while those from Mainland China rose by 12.3% yoy. 	<ul style="list-style-type: none"> This indicates that the gambling hub's tourism sector continued to benefit from Asia's (especially China) resilient growth. This might have lent some support to the mass-market segment of the gaming sector. Therefore, we expect gaming revenue to advance by about 15% yoy in February.

RMB	
Facts	OCBC Opinions
<ul style="list-style-type: none"> The USDCNY consolidated above 6.30 after the corporate dollar sale pressures ahead of Chinese New Year holiday eased. RMB index also fell to below 96 after briefly broke 97 before Chinese New Year holiday. 	<ul style="list-style-type: none"> We expect the USDCNY to consolidate further ahead of China's key political reshuffles as well as appointment of new PBoC head.

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