Highlights

In its last Politburo meeting for 2018, China's top policy makers did not explicitly mention the downside risk for the economy as they did in October despite ongoing US-China trade war and slowing global outlook. The message from the meeting is fairly balanced in our view. The downplay of downside risk and re-iterance of three economic battles shows that China is unlikely to go back to the excessive easing path. However, the omission of de-leverage and property market explicitly show that China will remain flexible to ensure the balance between containing financial risk and stable growth. Market will watch out for the upcoming Central Economic Working Conference this week. In addition, President Xi is also expected to deliver an important speech to mark the 40th anniversary of China's reform and opening.

Risk sentiment took a U-turn last week globally on the back of five positive developments from the US-China trade talk. The release of detailed concessions China is willing to make is positive. However, most concessions reported by media are not really ground breaking in our view. It just rolled back some of the retaliation measures. As such, it could be still too early to lower the guard. With Trump's re-election campaign starts in 2019, the key question about the progress of US-China trade tension is that whether a trade deal with China is good for Trump's re-election campaign or a tough stance on China is good. This could well depend on other parameters such as the Muller investigation, US economy or US equity market performance etc. As such, we see the outcome of US-China trade talk still binary.

China's November economic data disappointed with industrial production and retail sales missed the forecast. In addition, the deceleration of M1 growth to 1.5%, second lowest in record and the widening negative gap between M1 growth and M2 growth shows that corporates may remain cautious on economic outlook. A weaker M1 growth may imply that growth may slow down further in the coming quarters.

On currency, RMB strengthened initially last week on the back of positive development of US-China trade talk. However, RMB gave up most gains on Thursday as EUR corrected following the dovish signal from the ECB. Meanwhile, Friday's weak economic data further weighed down RMB. We expect RMB movement will continue to depend on the usual factors including the development of trade war and expectation on China's monetary policy.

In **Hong Kong,** Shenzhen Stock Exchange and Shanghai Stock Exchange announced on 9th December that they have reached an agreement with Hong Kong Stock Exchange to include the dual-class shares into the stock connect schemes. This move aims to improve the stock connect scheme and promote the collaboration between the capital markets of HK and Mainland China. In **Macau,** housing transaction volume rebounded by 29.3% mom to 751 deals in October. During the same month, average housing price rallied by 9% mom to MOP116,147/square meter while approved new mortgage loan plunge by 65.2% mom to MOP 3.4 billion. Moving ahead, we hold onto our view that housing transaction volume to remain muted due to several unfavorable factors, including the concerns over US-China trade war, slowdown of gaming growth, the existing housing measures, the prospect of rising borrowing costs and stock market correction. We expect average housing price to remain resilient around MOP100,000/square meter in the near term.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In its last Politburo meeting for 2018, China's top policy makers did not explicitly mention the downside risk for the economy as they did in October despite ongoing US-China trade war and slowing global outlook. ▪ Although it did not highlight the de-leverage, the meeting reiterated the importance of carrying on three economic battles including financial risk, poverty and pollution in 2019.	▪ The latest politburo meeting will set the tone for the upcoming Central Economic Working Conference this week. The message from the politburo meeting is fairly balanced in our view. The downplay of downside risk for growth and re-iterance of three economic battles shows that China is unlikely to go back to excessive easing path despite the lingering uncertainty from the trade war. ▪ However, the omission of de-leverage and property market explicitly show that China will remain flexible to ensure the balance between contain financial risk and stable growth. This also reinforces some views that China will ease property tightening measures in 2019. ▪ Market will watch closely on the upcoming Central Economic Work Conference for detailed economic policies in 2019.
▪ Risk sentiment took a U-turn last week on the back of five positive developments from the US-China trade talk. First, the grant of bail to Huawei CFO	▪ The release of detailed concessions China is willing to make is positive. However, most concessions reported by media are not really ground breaking in our view. It just rolled back some of the

helped contain the escalation of further tension. Second, Trump's comments that he may intervene Huawei case if it is good for US-China trade talk. Third, Reuters reported China restarted to purchase the US soybean. Fourth, China put the US auto tariff hike on hold. And fifth, the Wall Street Journal reported that China may revamp the "Made in China 2025" plan to allow more foreign access to China's high-tech manufacturing sector.	retaliation measures. As such, it could be still too early to lower the guard. ▪ With Trump's re-election campaign starts in 2019, the key question about the progress of US-China trade tension is that whether a trade deal with China is good for Trump's re-election campaign or a tough stance on China is good. This could well depend on other parameters such as the Muller investigation, US economy or US equity market performance etc. As such, we see the outcome of US-China trade talk still binary.
▪ China's economic planning agency National Development and Reform Commission (NDRC) unveiled new plan to support qualified companies to issue corporate bond. ▪ Big companies with minimum asset size from CNY100 billion to CNY150 billion in 17 sectors will benefit from this new rule.	▪ Property sector is also included in NDRC's new rule. Nevertheless, the threshold for qualification is quite high with four criteria to be met including minimum CNY150 billion asset size, minimum CNY30 billion revenue, AAA rating and no more than 85% asset liability ratio. As such, only those big players will qualify. ▪ Meanwhile, the NDRC also set the negative list for the use of proceeds from the bond issuance. For example, the proceeds are not allowed to invest in property and excessive capacity etc. Therefore, the bond issuance may not be good enough to support developer's business expansion but it will help alleviate the liquidity risk which in turn help contain the financial risk in 2019.
▪ Shenzhen Stock Exchange and Shanghai Stock Exchange announced on 9th December that they have reached an agreement with Hong Kong Stock Exchange to include the dual-class shares into the stock connect schemes.	▪ This move aims to improve the stock connect scheme and promote the collaboration between the capital markets of HK and Mainland China. In the foreseeable future, Mainland investors will be allowed to buy dual-class shares under Shenzhen-Hong Kong stock connect and Shanghai-Hong Kong stock connect hopefully from mid-2019. This could attract more high-growth and innovative companies to get listed on Hong Kong Stock Exchange. In fact, due to global market rout and trade war concerns, southbound net inflows under the two stock connects averaged RMB7.45 billion during April to November 2018, far below the average of RMB32.6 billion during January 2016 to March 2018.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's credit data rebounded in November after the seasonal effect faded. New Yuan loan increased by CNY1.25 trillion after collapsing to CNY697 billion in October. Meanwhile, aggregate social financing also rebounded to CNY1.519 trillion from CNY743 billion in October. ▪ M2 growth, however, remained unchanged at 8% while M1 growth decelerated further to 1.5%.	▪ Despite the rebound of monthly aggregate social financing, the growth of outstanding aggregate financing decelerated further to 9.9% yoy from 10.2% yoy led by the shrinking off balance sheet lending activity. Entrusted loan, trust loan and banker's acceptance continued to shrink in November albeit at a smaller pace. Total outstanding of three off-balance sheet items fell by 9.1% yoy, largest decline in record. On the positive note, corporate bond issuance rebounded significantly as a result of supportive policies to solve funding difficulties faced by private owned companies. ▪ On new Yuan loan, China's medium to long term loan to corporate rebounded to CNY329.5 billion in November from CNY142.9 billion in October, but still the lowest in 2018. This shows a weak prospect for investment. On the positive note, China's fiscal deposit fell by CNY664.3 billion, signalling a more proactive fiscal spending. This might provide the floor for the deceleration of the growth. ▪ The most worrying sign from November credit data is the deceleration of M1 growth to 1.5%, second lowest in record. As

	M1 growht, which comprised of current account and cash, is usually associated with the economic activity, the widening negative gap between M1 growth and M2 growth shows that corporates may remain cautious on economic outlook. A weaker M1 growth may imply that growth may slow down further in the coming quarters.
▪ China's November production and consumption data surprised on the downside. Industrial production decelerated to 5.4% yoy in November, lowest since financial crisis. Retail sales also decelerated to 8.1%, down by 0.5% from October level. ▪ The only bright spot is fixed asset investment, reaccelerating to 5.9% in the first eleven years from 5.7% in the first ten months.	▪ The deceleration of industrial production shows that China has started to feel the impact of trade war. The sharp deceleration of industrial production by foreign owned companies to 1.9%, lowest since financial crisis, implies a weak outlook as foreign companies are more sensitive to foreign shocks as a result of the impact of trade war on global supply chain. ▪ Meanwhile, the decline of big item purchase such as car and tele communication equipment in November is also a bit worrying as it may imply a weak consumer sentiment into 2019. ▪ On the positive note, manufacturing investment remains resilient up by 9.7% in the first eleven years despite trade war. In addition, property investment also increased by 9.5%. The steady manufacturing investment together property investment may provide floor to the economic growth.
▪ Macau's housing transaction volume rebounded by 29.3% mom to 751 deals in October. During the same month, average housing price rallied by 9% mom to MOP116,147/square meter while approved new mortgage loan plunge by 65.2% mom to MOP 3.4 billion.	▪ This suggests that housing market sentiments picked up a bit after Typhoon Mangkhut. The launch of new home projects also bolstered the rebound in both housing transactions and prices. Nonetheless, housing market sentiments are clearly weaker than a year ago as transaction volume dropped for the second consecutive month on a yearly basis in October. The softer demand may be attributed to the housing measures announced early this year which tamed speculative demand. Also, HK stock market rout, US-China trade war escalation and prime rate hike together have weighed on the housing market. ▪ Moving ahead, we hold onto our view that housing transaction volume to remain muted due to several unfavorable factors. Though US and China announced temporary trade war truce, we remain wary of renewed trade tensions should both sides fail to make any meaningful agreement in 90 days. If this is the case, the lingering trade war risks will continue to hit investor sentiments including Macau's housing sentiments. On top of this, slowdown of gaming growth, the existing housing measures, the prospect of rising borrowing costs and stock market correction could also weigh on overall housing demand. Nonetheless, we expect average housing price to remain resilient around MOP100,000/square meter in the near term given the still tight labor market, the measures supporting first-home local buyers (taking up 82% of total transaction in October) and the slow increase in housing supply (housing completions and starts dropped by 3% yoy and 52% yoy respectively during the first ten months of 2018).

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY consolidated around 6.90 last week with no major catalyst. RMB index, however, rose slightly tracking the appreciation of dollar index.	▪ RMB strengthened initially last week on the back of positive development of US-China trade talk. However, RMB gave up most gains on Thursday as EUR corrected following the dovish signal from the ECB. Meanwhile, Friday's weak economic data further weighed down RMB. We expect RMB movement will

	continue to depend on the usual factors including the development of trade war and expectation on China's monetary policy.

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