Highlights:

Bond market sentiment stabilized last week aided by hopes on reduced bond supply by China Development Bank after the bond swap to reduce duration and cancelation of 10-year issuance. 10-year government bond yield retreated to below 3.9% last week. The rate hike decision by Bank of Korea also sparked the discussion about whether China will hike interest rate. However, we think it may be too early to speculate on China's rate hike. Given market is still digesting the impact of financial regulation, the impact of supply side measures is unlikely to last long and volatility is still expected in the coming sessions.

The US rejected China's bid for "market economy status" again. The Trump administration only announced the decision last Thursday even though it has already submitted the decision to the WTO in mid-Nov. In addition, the US Commerce Department also launched the anti-dumping investigation into Chinese aluminium alloy sheet without the complaint from the domestic companies. The US's rejection of China's market economy status and the self-initiated anti-dumping investigation, first since 1991, show that the trade conflict between China and US is unlikely to go away despite warm relationship between President Trump and President Xi.

Investors should watch out for the potential impact of US tax reform news on dollar this week, which may in turn affect RMB. We see higher chance for the US to eventually pass the tax reform by end of the year after the bill cleared the hurdle in the Senate last Friday. As such, the chance of dollar overshoot cannot be ruled out, which may weigh down RMB in the near term.

In Hong Kong, one-month HIBOR topped 1% last week for the first time since late 2008 due to year-end effect and banks' preparation for Fed's Dec rate hike. We remain wary that tight liquidity condition may persist until end of this year. The possibility of one-month HIBOR testing 1.1%/1.2% cannot be ruled out. Despite a narrower interest rate gap, HKD refused to go up. This may be because market does not speculate the yield differential to narrow persistently given relatively flush liquidity at home and abroad. We also believe that ample liquidity will allow HIBOR to come off somewhat after end of this year. In October, total loans and advances rose at its strongest pace since Feb 2014 by 21.4% yoy. Tight onshore liquidity may remain loans for use outside of HK elevated in the near term. Besides, strong global growth may also continue to support loans for use in HK (non-trade). However, uptrend in HIBOR may hit some corporate loan demand and mortgage loan demand. In Macau, gaming revenue growth surprised on the upside again in November, led by high rollers. Still, policy risk and liquidity risks may hit both junket operators and the VIP segment. In contrast, with infrastructure improvement, tourism sector is likely to benefit from Asia's growth in the coming years. Therefore, mass-market may make more contribution to gaming growth in the longer-term. We expect gaming revenue growth to print 10%-15% yoy in 2018.

Key Events and Market Talk

Facts	OCBC Opinions
▪ The US rejected China's bid for "market economy status" again. ▪ The Trump administration only announced the decision last Thursday even though it has already submitted the decision to the WTO in mid-Nov. ▪ In addition, the US Commerce Department also launched the anti-dumping investigation into Chinese aluminium alloy sheet without the complaint from the domestic companies.	▪ Although the presumption that China is a non-market economy under the article 15 of the WTO protocol has expired on 11 Dec 2016, the major trading partners such as EU and US continued to refuse to grant the market economy status to China. The non-market economy status will put China in a disadvantage position in the case of anti-dumping investigation as its trading partner will use the selected third-country price as benchmark rather than China's own costs. ▪ We try not to read too much why the US only announced the decision half month after they submitted to the WTO. Given it has been the common belief that China is not yet a market economy by EU and US even in the past administration, the rejection by the Trump administration, which promoted American first policy, is not really a surprise. ▪ The US's rejection of China's market economy status and the self-initiated anti-dumping investigation, first since 1991, show that the trade conflict between China and US is unlikely to go away despite warm relationship between President Trump and President Xi.
▪ Bond market sentiment stabilized last week aided by hopes on reduced bond supply by China Development Bank after the bond swap to reduce duration and cancelation of 10-year issuance. 10-	▪ The reduced long end supply of policy bank bond temporarily calmed the market sentiment down, offsetting the shock from stronger than expected October PMI to bond market. The recent adjustment shows that the 4% government bond yield

year government bond yield retreated to below 3.9% last week.	and 5% CDB bond yield could be the level appealing to investors. ▪ However, PBoC remained caution in its regular open market operation. The central bank net withdrew CNY40 billion from reverse repo operation last week. ▪ Given market is still digesting the impact of financial regulation, the impact of supply side measures is unlikely to last long and volatility is still expected in the coming sessions.
▪ One-month HIBOR topped 1% last week for the first time since late 2008. The rapid increase is due to banks' hoarding cash to window-dress their balance sheets by year-end and to prepare for capital outflow risks which may stem from Fed's Dec rate hike.	▪ We are wary that tight liquidity condition may persist until end of this year. The possibility of one-month HIBOR testing 1.1%/1.2% cannot be ruled out at this juncture. Meanwhile, banks may be prompted to lift HKD deposit rates. ▪ Nevertheless, we believe that HIBOR will come off after end of this year given relatively flush liquidity at home (aggregate balance totaled about HK$180 billion) and abroad (major central banks have remained relatively cautious about tightening). 12-month USD/HKD forward points, came off to -380 after jumping to -207. This also indicates that market does not speculate on a persistently narrow interest rate gap. ▪ Still, it is undeniable that aggregate balance has dropped to HK$180 billion from this July's HK$260 billion. Therefore, even if HIBOR comes off after year-end, it may not return to its recent trough. For example, 1-month HIBOR is unlikely to go back to a level below 0.5%. Instead, HIBOR is expected to edge higher moderately on expectations of Fed's gradual rate hike in 1H 2018. Also, any large IPOs may cause temporary tightening of liquidity in the coming year.
▪ It is reported that China Securities Regulatory Commission will suspend the approval of new mutual funds, which plan to allocate more than 80 per cent of their portfolio to Hong Kong-listed equities, for sale in the onshore market. Only funds that allocate less than half of their portfolio to Hong Kong will be approved.	▪ During the three months through November, southbound net flows under the two stock connects have increased gradually from RMB13.56 billion to over RMB 50 billion. Strong capital inflows from China have led the Hang Seng Index to hit its highest level since 2007. Therefore, any curbs on equity inflows from China may weigh down HK's stock market.

Key Economic News

Facts	OCBC Opinions
▪ China's industrial profit growth remained strong in October with the growth accelerated to 23.3% in the first ten months from 22.8% in the first nine months.	▪ The solid industrial profit was mainly attributable to improving macro backdrop as well as the declining costs and fee expense. Meanwhile, industrial profit in commodity space also benefitted from ongoing rising material prices due to environmental protection. The steady data show that the slowdown in China as a result of financial de-leverage and environmental protection is likely to be gradual and manageable in the near term.
▪ China's official PMI rebounded to 51.8 in November from 51.6 in October.	▪ Both supply and demand improved. Output increased to 54.3 from 53.4 while new order and new export order improved to 53.6 and 50.8 respectively from 52.9 and 50.1. ▪ Purchasing price index slipped further to 59.8 from 63.4, implying China's PPI may have peaked in October. We expect PPI to fall to around 5.7% in November from 6.9% in October due to fading low base effect. The PPI is expected to fall below 5% in December. ▪ Although the rebound of PMI in November reinforced our belief that China together with other Asian economies has benefited from the improving global demand and is expected

	to benefit further from upward business cycle in 2018, it did not change our view about slowdown in China due to tighter credit quota in the last quarter and negative impact of China's financial deleverage.
▪ HK's exports and imports both grew at a slower pace in October 2017 and were up by 6.7% yoy and 7.9% yoy respectively. As a result, trade deficit improved slightly from September's HK$44.7 billion to HK$44 billion.	▪ Growth of exports to major Asian countries slowed down on a broad basis. Overseas shipments to China and the US increased at a softer pace by 6.4% yoy and 0.2% yoy respectively. Meanwhile, imports from some major Asian trading partners also dropped. This is in line with the weaker trade activities in October in China, probably due to impact of environmental policy. Nevertheless, exports and imports of "electrical machinery, apparatus and appliances, and electrical parts thereof" increased by 6.8% yoy and 14.5% yoy respectively. This indicates that the manufacturing and trade of electrical products across Asia remained supported by global recovery. In the run-up to Christmas Holiday, we expect strong external demand to continue supporting HK's trade activities. However, due to a fading low base effect, growth in both imports and exports is likely to moderate further in the coming months. This also signals deceleration in GDP growth in the fourth quarter. In the longer term, exports to China are likely to be underpinned by China's lower import tariff on 187 consumer goods, effective from 1 Dec. However, we remain wary of the rise of China's ports and protectionism, which may cloud the outlook of HK's trade sector.
▪ HK's retail sales growth softened to 3.9% yoy in October 2017 after reaching its strongest level since Feb 2015 in the preceding month.	▪ Sales of jewelry, watches and other luxurious goods increased for the fourth consecutive month by 8.4% yoy. Meanwhile, sales of clothing, footwear and allied products grew at its strongest pace since Feb 2015 by 6.3% yoy. The growth of sales in these two sections may be attributed to rebound in tourism activities. China's resilient growth and the effect of golden week holiday might have together help to bolster China's outbound tourism in October. ▪ On the other hand, sales of food, alcoholic drinks and tobacco jumped for the second straight month by 8.5% yoy while sales of goods in supermarkets also rose for the fifth consecutive month by 0.7% yoy. Moderate real wage growth and wealth effect from stock market continued to underpin local consumer sentiment. All in all, we expect total retail sales to edge higher by 1.5%-2% in 2017. However, we do not see much upside on the retail sector due to the change in spending behavior from offline to online, especially overseas online shopping. Also, the slash of import tariff on 187 consumer goods by China's Ministry of Finance will have some negative effect on Hong Kong's retail sector. Therefore, even with favorable base effect, retail sales are expected to only mark single-digit growth in 2018.
▪ HK's total loans and advances rose at its strongest pace since Feb 2014 by 21.4% yoy in October 2017. Notably, loan for use in HK (non-trade) increased robustly by 23.9% amid improved corporate sentiment on global recovery and strong asset markets. Also, IPO loans straddling the end of October contributed to the remarkable growth.	▪ Meanwhile, growth in loans for use outside of HK accelerated to 19.2% after sliding in the previous two months. This is attributed to tight onshore liquidity (average onshore government bond yield rose to 3.7% in October from 3.5% in the previous month) and loosened policy on overseas financing of Mainland companies. Strong increase in these two sections well offset the slowdown in trade finance growth and further decline in approved new mortgage loans. Trade finance growth moderated to 4.7% yoy as total exports and imports grew at a slow pace by 7.3% yoy (previously 9.5%

	yoy). Besides, October's approved new residential mortgage dropped for the second consecutive month by 15.2% yoy (-1.6% mom), given a rather muted secondary housing market. ▪ As liquidity is likely to remain tight in onshore market in the rest of 2017, we expect loans for use outside of HK to remain elevated. Besides, strong growth at home and abroad may also continue to support loans for use in HK (non-trade). However, moving forward to 2018, uptrend in HIBOR may hit some corporate loan demand and mortgage loan demand. This may add to an unfavorable base effect in moderating total loan growth in 2018. ▪ Elsewhere, CNH deposits in HK rose for the second consecutive month by 0.9% mom to RMB540.3 billion in October 2017. Eased concerns about sharp depreciation in RMB and higher CNH deposit rates are expected to support moderate rebound in RMB deposits in the coming months.
▪ Macau's gaming revenue growth surprised on the upside again and marked 22.6% yoy in November, even though November is normally the off-season month for the gaming sector. High rollers might have continued to contribute to the rosy performance of the gaming sector.	▪ Macau regulators are reported to plan to tighten standards for licensing junket operators in January 2018. As junket operators have extended credit to support VIP demand, we doubt the sustainability of VIP revenue growth in the coming year. Policy risk related to anti-money laundering as well as higher funding costs (liquidity risks) could also weigh down the VIP segment. Therefore, we expect VIP segment to contribute less to gaming growth in the coming years. On the other hand, with the completion of Hong Kong-Zhuhai-Macau Bridge and the opening of new mega entertainment projects, tourism sector is likely to benefit from Asia's growth in the coming years. Therefore, mass-market may make more contribution to gaming growth in the longer-term. Still, gaming growth led by mass-market segment may be slower than that driven by high rollers. Adding to a high base effect, we expect gaming revenue growth may decelerate to 10%-15% yoy in 2018.
▪ Macau's unemployment rate reduced a tad from 2.0% in 3Q to 1.9% over the three months through October 2017. However, the labor market condition appeared to have been slackening with total labor force and total employed population sliding to 387,200 (lowest since this Feb) and 379,800 (lowest since this Mar) respectively. Besides, labor force participation rate dropped to 70.8%, a level last seen in the three months through Jan 2010.	▪ By industry, only employment in the gaming sector rose slightly by 0.4% mom, due to rosy performance of the sector. For other major industries, including wholesale and retail, construction, hotel and restaurants, saw its employment decreasing by 3.4%, 1.8% and 2.9% on a monthly basis respectively. Successive completion of entertainment projects resulted in layoffs in the construction sector. In addition, as the opening of one mega projects is delayed from 4Q 2017 to 1Q 2018, labor demand has remained subdued in both retail as well as hotel and restaurant sectors. Nevertheless, we expect labor market slack to shrink. As a slew of mega projects are scheduled to commerce operation in the coming years, hiring sentiments are set to recover, especially given positive domestic economic outlook.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened against the dollar with the USDCNY ended the week above 6.60 despite broad dollar softened slightly in the global market. As a result, RMB index fell slightly to 94.38 last Friday.	▪ The recent retreat of dollar against both dollar and currency basket was probably driven by flows in the absence of significant catalyst. We expect the RMB index to stay in the range between 94-95 in the near term. ▪ Investors should watch out for the potential impact of US tax reform news on dollar, which may in turn affect RMB. We see

	higher chance for the US to eventually pass the tax reform by end of the year after the bill cleared the hurdle in the Senate last Friday. As such, the chance of dollar overshoot cannot be ruled out, which may weigh down RMB in the near term.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Co.Reg.no.:193200032W