**Summary**

China's credit data again surprised the market on the upside. Mortgage loan remains sizable though it started to show the trend of declining. The eye-catching part is clearly on the loan to corporates. Both on-balance sheet and off-balance sheet lending to corporates surged strongly in December. The recent rebound of corporate loan was mainly attributable to two factors including return of confidence and increasing participation in PPP projects. It remains to be seen whether the surge of PPP projects will start to fuel concern about asset quality after banks channelled the money into PPP projects via SOEs.

On price level, both CPI and PPI are likely to increase further in January. The pass-through effect from higher PPI to CPI remains to be seen. With the widening gap between PPI and CPI, the mid-stream and down-stream manufacturers are likely to feel the pain as their profit margin may be squeezed by the rising raw material prices.

On currency, RMB's gain against the dollar last week was mainly supported by two factors including weak dollar as well as tightening measures on individual's foreign currency purchase. The daily trading volume in the onshore CNY fell to average USD21.7 billion last week, down from average US$28.7 billion in the first week of 2017, signalling less than expected demand for foreign currency. The predictability of RMB fixing has come back and our forecasting errors for the daily USDCNY fixing normalized. This shows that there is no structural breakdown of current fixing mechanism.

| Key Events and Market Talk | |
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| **Facts** | **OCBC Opinions** |
| ▪ PBoC injected CNY305.5 billion liquidity via MLF on 13 Jan with funding costs for both 6-month and 1-year remain unchanged at 2.85% and 3% respectively. | ▪ The liquidity injection ahead of Chinese New Year holiday shows that the PBoC will continue to safeguard the stability of liquidity.<br>▪ The focus has shifted to interest rate for MLF operation as market is still trying to digest the implication of shift of monetary policy tone from prudent to prudent and neutral. |
| ▪ The mortgage rate in Hong Kong was further cut to HIBOR plus 1.33% or even 1.3% by some banks to attract potential home loan borrows. | ▪ As the 1-month HIBOR rose substantially to 0.75% in early January, the mortgage rates rose to 2.1% (1-month HIBOR plus 1.35% previously) and got closer to the cap of 2.15%. With adequate aggregate balance in the banking system and sizable foreign exchange reserves, the banks show little concern about tight liquidity and rising rates on expectations of a faster rate hike pace of the Fed. However, we believe that the banking system will be prompted to raise the Prime rate and deposit rates around mid-2017. As a result, there is little room for a further cut in the mortgage rates and the reduction trend will not last beyond 2H of this year. |

| Key Economic News | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's consumer prices decelerated to 2.1% yoy in December from 2.3% yoy in November. However, producer prices accelerated further to 5.5% yoy. | ▪ The slight deceleration of CPI is largely in line with market expectation due to weaker than expected growth of food prices. However, PPI surprised the market on the upside. The pickup of PPI growth was the result of recent rebound of commodity prices.<br>▪ The pass-through effect from higher PPI to CPI remains to be seen though there is sign that non-food CPI started to pick up. With the widening gap between PPI and CPI, the mid-stream and down-stream manufacturers are likely to feel the pain as their profit margin may be squeezed by the rising raw material prices.<br>▪ CPI is likely to rebound in January due to Chinese New Year effect however it is expected to fall again in February after the Chinese New Year holiday. PPI is expected to go higher in the |

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| | coming months, which may only peak in February. |
| ▪ China's credit growth surprised the market on the upside in December.<br>▪ Total new Yuan loan increased by CNY1.04 trillion. Aggregate social financing increase by CNY1.63 trillion.<br>▪ M2 decelerated slightly to 11.3% yoy and M1 grew by 21.4%. | ▪ The stronger than expected RMB loan growth was mainly supported by the return of loan demand from corporate sector. Medium to long term loan to corporate increased by CNY695.4 billion, signalling the return of private sector confidence. This is probably also the result of accelerating PPP investment. Medium to long term loan to household sector fell to CNY421.7 billion, down by CNY147.5 billion from November level. The decline was the result of property tightening measures. Given China is likely to continue its tighten its grip on property market, the loan to household sector is likely to fall further in 2017.<br>▪ In addition to strong on-balance sheet lending, off balance sheet lending also accelerated to CNY730 billion. This is probably the result of tightening property measures, which divert loan demand from on-balance sheet to off-balance sheet. Corporate bond net issuance fell by CNY104.7 billion as a result of heightening volatility in the bond market in December. |
| ▪ China's export in dollar term fell by 6.1% in December while import in dollar term increased by 3.1%. Trade surplus narrowed further to US$40.8 billion. | ▪ The larger than expected decline of export in December was mainly due to weaker demand from emerging market despite demand from the US remained steady. Exports to US increased by 5.1% while exports to non-G3 fell.<br>▪ China's import of commodity remained strong in December with import of crude oi hit a record high of 36.38 million tons. In addition, the rise of commodity prices also boosted import by value.<br>▪ As a result of weaker than expected export level, China's trade surplus narrowed in December though it remained sizable. |
| ▪ HK: The volume of residential property transaction involving Double Stamp Duty (DSD), Buyer Stamp Duty (BSD) and Special Stamp Duty (SSD) respectively dropped by 84.1%, 70.6% and 54.6% on monthly basis in December. | ▪ The housing cooling measures from November appeared to have taken effect. Given China's curb on individuals' investment in overseas property and prospects for higher rates, we expect the housing transaction to drop by another 50% in 1Q after dipping by 47% mom to 3550 units last December. |
| ▪ Lands Department of HK issued a total of 36 pre-sale consents for residential developments involving around 17,008 units in 2016. This is the highest level in the past five years. Out of the 17,008 units, 6,016 units and 9,013 units are expected to be completed in 2017 and 2018 respectively. | ▪ The increasing supply may add to more pressures on the housing market. However, in terms of the consents issued for home projects involving 2,388 units in last December, only 826 units have been pre-sold. Based on this, the developers look set to hold off on project launch and wait till the market rebounds. If this is the case, lower-than-expected growth in supply may provide some floor for the correction in housing prices. |
| ▪ As Macau's economy bottomed out, investor sentiments have been picking up. Therefore, housing transaction rose on a broad basis and was up by 164% yoy to 1,296 units in November. Also, housing prices continued to grow by 20.9% yoy in November to MOP 90,428 per square meters. In addition, new residential mortgage loans approved increased significantly by 84.9% yoy to MOP4.5 billion. | ▪ Given a gradual rebound in the gaming sector and the economy, the housing market is likely to continue stabilizing in 1H. But the market may see renewed downward pressure from higher rates and stagnant wage growth in the second half of the year. Elsewhere, the government plans to build around 12,600 public housing units in short to-medium term. Moreover, private housing starts surged by 220% yoy over 2015 whereas private housing completion tumbled by 88% yoy during January to November in 2016. As such, new home supply looks set to increase substantially in the coming years and may add downward risks to the private housing market. |

| RMB | |
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| **Facts** | **OCBC Opinions** |
| ▪ RMB strengthened against the dollar in both onshore and offshore market last week due to broad dollar weakness. The USDCNY ended the week around 6.9000.<br>▪ RMB index, however, fell slightly to 94.78 from previous Friday's 95.25. | ▪ RMB's gain against the dollar last week was mainly supported by two factors including weak dollar as well as tightening measures on individual's foreign currency purchase. The daily trading volume in the onshore CNY fell to average USD21.7 billion last week, down from average US$28.7 billion in the first week of 2017, signalling less than expected demand for foreign currency.<br>▪ The predictability of RMB fixing has come back and our forecasting errors for the daily USDCNY fixing normalized. This shows that there is no structural breakdown of current fixing mechanism. |

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