Summary

China continued to keep all the observers busy in a data-light week with the wave of policy fine-tune and regulation update. We kicked off last week with the news that PBoC has fine-tuned its RMB fixing mechanism effective from last Monday. Although there is no official confirmation given, it is believed that market makers have started to submit the daily fixing using the new method. For details, you may refer to our special report last week. We think the revised fixing mechanism is likely to reduce volatility in the daily fixing.

In addition, the drafted rules issued by PBoC about regulation on wealth management products issued by financial institutions including banks, trusts, brokers, funds, futures companies and insurers were circulated in the market last week. We think this is quite important as the new rule serves three key purposes in our view, including breaking the implicit guarantee of wealth management products, standardized terms and leverage ratio to contain financial as well as the trial of super regulator model to avoid regulatory arbitrage. The unified approach taken by China's top financial regulators will help close the policy vacuum to better contain the financial risk. We expect more unified approaches in future from regulators though it is still not clear whether China will eventually move to the super regulator model.

Other than that, PBoC chief economist's comments about further opening of onshore bond market is encouraging to offshore investors. Despite drawbacks from currency risk and funding risk, we think China will gradually solve those challenges to attract more foreign investors. As a result, we think the foreign ownership of bond will gradually increase.

In Hong Kong, government released a prudent budget for 2017-18 despite much larger than expected surplus last year due to stronger revenues from land sales and stamp duties on property. The surplus will be used to increase expenditure on infrastructure, education, social welfare and healthcare.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Bloomberg reported that China's central bank injected liquidity via targeted reverse repo agreements with some banks.	▪ The sentiment in China's bond market for the past month has been largely dominated by the news and rumours on PBoC operation. From no roll-over of TLF to targeted reverse repo, the confusing signal shows that China will still try to strike the balance between maintaining liquidity stable and containing financial risk via its prudent and neutral monetary policy.
▪ Bloomberg reported quoting Chairman from Guotai Junan International that the brokerage firm has started to provide service for mainland and Hong Kong stocks.	▪ The relatively cheap valuation and Hong Kong dollar's peg to USD have become two most appealing factors to attract investors from mainland China to invest in Hong Kong's equity market, which is likely to support Hong Kong's stock market.
▪ The drafted rules issued by PBoC about regulation on wealth management products issued by financial institutions including banks, trusts, brokers, funds, futures companies and insurers were circulated in the market last week.	▪ The new rule serves three key purposes in our view, including breaking the implicit guarantee of wealth management products, standardized terms and leverage ratio to contain financial as well as the trial of super regulator model to avoid regulatory arbitrage. ▪ For example, asset management products are banned from investing in non-standard credit assets such as loans or beneficiary rights. Meanwhile, asset management products need to set aside 10% of fees as risk reserve. For structured wealth management products, senior-tranche to junior-tranche ratio will be capped at 3 times for fixed income products, 1 time for equities products and 2 times for other products. ▪ It seems that China's financial regulators will take a more unified approach to curb credit risk. There are four main financial regulators in China including PBoC, banking regulator CBRC, security regulator CSRC and insurance regulator CIRC. The competition between regulators has resulted in the rapid development of financial market and became one of the key sources driving financial innovation. However, it also created

	policy vacuum in some areas. The unified approach is the first step to remove policy arbitrate by financial institutions. Whether China will eventually move to the super regulator mode remains to be seen.
▪ PBoC chief economist Ma Jun said China's currency regulator SAFE is studying the option to allow non-central bank type foreign institutional bond investors to participate in the onshore currency derivative market to hedge the currency risk.	▪ As we highlighted in last week's report, the current volatility in China's bond market is unlikely to stop China from further opening its onshore bond market. Meanwhile, Ma Jun also said that PBoC is planning to extend the trading hours in the onshore interbank bond market. ▪ China is committed to improve efficiency and convenience of trading experience for foreign investors. Despite drawbacks from currency risk and funding risk, we think China will gradually solve those challenges to attract more foreign investors. As a result, we think the foreign ownership of bond will gradually increase.
▪ HK: 2016-17 recorded a fiscal surplus of HK$92.8 billion, as compared to the forecast of HK$36.8 billion due to the huge surplus from the much higher-than-expected land revenue and stamp duties on properties.	▪ The fiscal stimulus for 2017-18 did not expand significantly but rather remained prudent as the increase in government revenue in 2016 may not be sustainable. Still, the surplus is used to increase expenditure on infrastructure, education, social welfare and healthcare. The set of tax and short-term relief measures will amount to HK$35.1 billion for 2017-18, down from HK$38.8 billion from last year. Despite the decrease in the total amount, the relief measures, together with other spending initiatives in the Budget, are expected to boost GDP for 2017 by 1.1%. As the measures mainly support the elderly, the disabled, the poor and the salaried workers, we expect domestic consumption to grow moderately. Elsewhere, the government continues to support the emerging IT sector. This will create more jobs and warrant a strong labor market. Finally, given the increased spending on infrastructure and the expected improvement in domestic consumption on the back of fiscal stimulus, the government forecasts 2017 GDP growth to be at 2% to 3%, compared to our forecast of 2.2%. GDP growth slowed slightly to 1.9% in 2016 from 2.4% in 2015.

Key Economic News

Facts	OCBC Opinions
▪ Average new home prices in 70 major cities continued to edge up by 0.2% mom in January albeit at a slower pace.	▪ The deceleration of price gain is the result of recent property tightening.
▪ HK Tourism Board expected total visitor arrivals and Mainland tourists to decrease by 2.2% yoy and 3.7% yoy respectively over 2017.	▪ Moreover, given the lingering global uncertainties, the Tourism Board expected that inbound tourists will be cautious about spending and the overnight visitors' average expenditure may drop 5.2% yoy this year. We also believe that a stronger HKD may tame HK's tourism activities and tourist spending.
▪ HK's seasonally adjusted jobless rate held static at 3.3% in the three months through January. Unemployment rate in financial and trade sectors remained unchanged at 2.4% and 2.7% respectively. More notably, recent improvement in the tourism sector due to Lunar New Year Holiday has led to a further decline in the jobless rates of	▪ However, we are still concerned that a stronger HKD may pose renewed downward risks to the tourism-related sectors. Adding onto the looming global uncertainties, HK's labor market slack could widen again. This may undermine domestic consumption and lower-end housing demand in the coming quarters.

the retail, accommodation and food services sector from 4.9% to 4.8%.	
▪ Macau has been telling its recovery story throughout 2016 with its GDP rebounding further by 7% in 4Q. In 2016, strong improvement in the gaming and tourism sectors during the 2H has helped to narrow the GDP contraction from -21.5% to -2.1%. Specifically, exports of gaming services grew in tandem with the gaming revenue, up notably by 8.1% yoy in 4Q. Continuous increases in overnight visitors, on the other hand, have driven exports of other tourism services up by 8.4 yoy in 4Q.	▪ Moving forward, policy support and China's stabilization could be boosts to the tourism and gaming sectors. However, a stronger MOP, policy risks faced by the VIP segment and diminishing attractiveness of the new hotels together are likely to constrain the improvement in these two sectors. Elsewhere, the government's plan to increase expenditure by 12.0% for fiscal year 2017 is expected to underpin government expenditure (+0.1% yoy in 4Q) and revive growth in the tepid government investment (-13.7% yoy in 4Q). In contrast, as the boost from lower inflation is thwarted by a stagnant wage growth, private consumption (-0.5% yoy in 4Q) is likely to remain benign. In addition, the rise of protectionism may continue to tame exports of goods (-21.2% yoy in 4Q). All in all, a 3.0 - 5.0% growth is expected for 2017 as we only expect an annual growth of 5% to 7% in gaming revenue over 2017 (gaming sector accounts for around 60% of Macau's GDP).
▪ Macau: As the Lunar New Year was in January this year instead of February last year, the resultant base effect led to a surge in the number of visitor arrivals (+17.6% yoy) in January.	▪ Mainland visitors and those travelling under the Individual Visit Scheme increased 20.4% and 43.8% respectively, reinforcing that the improvement in tourism activities in January was mainly driven by the effect of Lunar New Year Holiday. With the seasonality abating, a 16.4% growth in same-day visitors will likely to prove unsustainable. Moreover, visitors from Taiwan and Japan, the other two major sources of tourists, decreased by 2% and 0.2% respectively. This increases our concern that the new hotels opened over the past two years may show diminishing attractiveness. A stronger MOP is also likely to hinder the city's tourism recovery.

RMB	
Facts	**OCBC Opinions**
▪ RMB was traded in a narrow range in both onshore and offshore market last week as dollar was stuck due to lack of clarity on Trump's economic policy. ▪ RMB index fell slightly to 93.84 last Friday from previous Friday's 94.21.	▪ Based on our observation last week, the fine-tune of RMB fixing mechanism has clearly helped alleviate the volatility of the daily fixing when dollar strengthened. This may provide some stability to onshore spot trading. ▪ In the offshore market, traders continued to trade on Trump's rhetoric. CNH strengthened against the dollar last Thursday after Trump called China grand champion of currency manipulator despite newly appointed US Treasury Secretary Mnuchin said there is no urgency to label China as the currency manipulator.

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