Highlights:

During the global festival season last week, China's central bank continued to keep China watchers busy as the balancing act of financial de-leverage required constant fine-tune of monetary policy to prevent from any potential trigger of panic and systemic risk. The PBoC announced a new temporary liquidity facility in the last trading day of 2017. The new tool will allow national commercial banks including both big five banks and joint stock banks to use up to 2% of their mandatory reserve for maximum 30 days to cover the funding needs during the Chinese New Year period. The new tool is more generous as compared to the last Chinese New Year's temporary liquidity facility announced in early 2017. The setup of new liquidity facility is likely to add more than CNY2 trillion into the banking system ahead of the upcoming Chinese New Year, which fell in the middle of Feb. Together with the impact of targeted forward reserve ratio cut announced back in late September, which will take effect from 2018, we expect China's liquidity situation is likely to improve in early 2018.

China's currency regulator SAFE published the final reading of 3Q balance of payment and international investment position. Portfolio investment surplus under the capital account reached a record high of US$37.5 billion thanks to renewed interest in China's bond market with the debt inflows surged to record high of US$48.1 billion. Despite improved capital flow picture, China's currency regulator continued to clamp down the outflow channels. The SAFE announced to lower Chinese individual's overseas cash withdrawal limit in 2018. Individual is only allowed to withdraw maximum CNY100k in a calendar year with domestically issued bank cards.

RMB broke the 6.50 in the first trading day of 2018 due to weaker broad dollar. The recent rally in the past two weeks was mainly driven by thin liquidity and weaker dollar. The RMB fixing was set at 6.5073, slightly stronger than expectation. This suggests that China is comfortable with the current USDCNY movement. Should dollar weaken further in the coming days, the USDCNY is likely to test 6.45. With global markets return from the holiday gradually this week, the focus will be on the US dollar prospect, which may set the tone for the first month of trading.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The PBoC announced a new temporary liquidity facility in the last trading day of 2017. The new tool will allow national commercial banks including both big five banks and joint stock banks to use up to 2% of their mandatory reserve for maximum 30 days to cover the funding needs during the Chinese New Year period.	▪ The PBoC also offered temporary liquidity support "temporary liquidity facility (TLF)" to large Chinese commercial banks for 28 days in early 2017 ahead of lunar new year. As compared to TLF in 2017, the latest temporary liquidity support is more generous for three reasons. ▪ First, the scope of beneficiary banks has been expanded to joint stock banks other than big five commercial banks. Second, the cost of temporary tap on cash reserve is lower than any liquidity operation by the central bank. Third, there is no requirement for collateral. ▪ The setup of new liquidity facility is likely to add more than CNY2 trillion into the banking system ahead of the upcoming Chinese New Year, which fell in the middle of Feb. Together with the impact of targeted forward reserve ratio cut announced back in late September, which will take effect from 2018, we expect China's liquidity situation is likely to improve in early 2018. ▪ The expansion of the monetary tool box also shows that the PBoC is more confident in managing China's liquidity to strike the balance between stable market and de-leverage.
▪ In its 4Q monetary policy meeting, China's central bank reiterated the key message from the Central Economic Work Conference to control the floodgate of money supply.	▪ Monetary policy and macro prudential assessment measures will be the two policy pillars to keep China's overall leverage ratio in check as hinted by PBoC. This suggests that PBoC is unlikely to loosen its monetary policy stance in 2018. Nevertheless, the PBoC will also carefully manage the impact of those policies to prevent from the outbreak of any potential systemic risk.
▪ China's currency regulator SAFE lowered Chinese individual's overseas cash withdrawal limit in 2018. Individual is only allowed to withdraw maximum	▪ Previously, each bank card has the limit of CNY100K overseas cash withdrawal limit. The change from card basis to individual basis will further cover the loophole for capital

CNY100k in a calendar year with domestically issued bank cards.	outflows.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's official PMI slowed at lower than expected pace in December to 51.6 from 51.8 in November.	▪ On demand, new order softened slightly to 53.4 from 53.6. However, new export order jumped to a high of 51.9, signalling that China will continue to benefit from the global recovery. ▪ Purchasing price index rebounded to 62.2 from 59.8 probably due to the rise of commodity prices in December. This may create the pressure for PPI to stay elevated.
▪ China's currency regulator SAFE published the final reading of 3Q balance of payment and international investment position.	▪ Current account surplus was revised up slightly to US$40.5 billion. Portfolio investment surplus under the capital account reached a record high of US$37.5 billion thanks to renewed interest in China's bond market with the debt inflows surged to record high of US$48.1 billion. ▪ China's net international investment position fell slightly to US$1.706 trillion in 3Q from US$1.751 trillion as the increase of liability outpaced the increase of assets. Demand for external loan and trade credit improved as a result of stable RMB outlook.
▪ HK's exports and imports both grew at a faster pace in November 2017 and increased by 7.8% yoy and 8.6% yoy respectively. Trade deficit narrowed from October's HK$44 billion to HK$39.7billlion.	▪ Specifically, exports to the Mainland China, Japan, India and Vietnam grew by 10.1% yoy, 14.6% yoy, 17% yoy and 11.6% yoy. The rosy data suggests that the strong demand from major Asian countries has contributed to HK exports' robust performance. However, exports to Taiwan dropped by 2.5% yoy. Meanwhile, the overseas shipment to the USA rose for the 2nd consecutive month at 7.4% in November. By commodity, exports of electrical machinery, apparatus and appliances, and electrical parts increased by 15.6% yoy while imports of electrical machinery, apparatus and appliances, and electrical parts climbed by 12.8% yoy. The data indicates that the trade of electrical products across Asia remained supported by the resilience of global demand. Moving forward, the growth pace of exports and imports is likely to decelerate in December amid the fading low base effect. In the run-up to Chinese New Year in February 2018, we expect that strong external demand may continue to support HK's trade activities in the coming months.
▪ Hong Kong's total loans and advances continued to grow by 16.6% yoy in November 2017.	▪ Firstly, trade finance grew by 9.8% yoy, amid the strong growth in total exports and imports (+8.2% yoy in November 2017). Trade finance is expected to expand further as the resilience of global demand continues to support Asian exports. Secondly, loan for use in HK (non-trade) increased by 15.2% % amid the improved business sentiment on global recovery and robust asset markets. However, any negative shocks on the overheated asset market may weaken the loan demand given global uncertainties, geopolitical tensions and the Fed's future monetary uncertainty. ▪ On the other hand, growth in loans for use outside of HK accelerated to 20.8% yoy in November. This is caused by the tight onshore liquidity (the average onshore government bond yield increased to 3.79% in November from 3.719% in October). Given the de-leveraging campaign stays the main theme of Chinese government's economic work plan in 2018,

	onshore liquidity is expected to remain tight. Including the financing needs associated with the Belt and Road Initiative, we expect growth of loans for use outside of HK to remain strong in the coming months. ▪ Elsewhere, CNH deposits in HK grow notably by 3.5% mom to RMB 559.2billion in November 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 visitor arrivals increased by 9.4% yoy in November as the Grand Prix Macau attracted tourists from Asia.	▪ As Grand Prix Macau was a four-day event, attendees were encouraged to stay overnight in Macau. Therefore, overnight visitors grew by 10% yoy in November. Specifically, the number of visitors from Mainland China jumped by 16.1% yoy in November after growing by 12.8% yoy in the previous month. Besides, tourists from Republic of Korea, Japan and Taiwan increased by 16.9% yoy, 1.1% yoy and 0.7% yoy respectively. On the other hand, the visitors from Hong Kong dropped for the seventh consecutive month by 6.8% yoy as the opening of new entertainment projects has been postponed and deterred Hong Kong visitors from revisiting Macau. Despite that, as several new projects are scheduled to commerce operation and the construction of Hong Kong-Zhuhai Macau Bridge is likely to be completed this year, tourism activities are poised to sustain growth momentum in 2018.

RMB	
Facts	**OCBC Opinions**
▪ RMB rallied in the last two weeks of 2017 driven by both thin liquidity and weaker dollar. Dollar index ended the year at 94.85, up slightly from 94.66 on 22 Dec.	▪ RMB surged in the early part of last week due to thin liquidity as most market closed for Christmas holiday. It was subsequently supported by rising Euro. The RMB fixing was set at 6.5073, slightly stronger than expectation. This suggests that China is comfortable with the current USDCNY movement. Should dollar weaken further in the coming days, the USDCNY is likely to test 6.45.

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