Highlights

Despite the positive headlines from the trade talk such as possible extension of March deadline, the lack of details suggests that the trade talk will remain the event risk for the global market. Areas such as industrial subsidy policies and enforcement will be the main focus.

China's economic data in January are generally positive. It could be premature to conclude that China's trade prospect improves simply based on January's trade data alone as it may be distorted by the Chinese New Year effect. Nevertheless, the stronger than expected credit data show that all easing measures in China are taking effect. The rising medium to long term loan benefits from the easing monetary policy while the weaker than expected increase of fiscal deposit shows fiscal policy has turned more proactive. In addition, the rebound of off balance sheet lending shows that China has been loosening its grip on shadow banking activity. On inflation, despite the further deceleration of CPI and PPI, it is still too early to call for deflation risk in our view.

On liquidity, RMB liquidity remained very flushed in both onshore and offshore markets. The extremely flushed liquidity drove CNH swap points to discount level last week. This may make RMB assets more appealing to foreign investors due to positive carry. As such, we expect more capital inflows to China's onshore market. This may provide some supports to RMB in the near term.

In Hong Kong, last week, all eyes were on HKD Overnight Index Average (HONIA), the proposed alternative reference rate to HIBOR. As LIBOR will likely be phased out by 2021, HK as an international financial market may have to follow the step of the US and the UK to adopt a more transparent rate. However, it may still take a very long time for a smooth transition from HIBOR to HONIA as there would be three key issues to be addressed. First, like its overnight peer HIBOR, HONIA is much more volatile than longer-tenor HIBORs. How to build a curve for HONIA will be a key issue to be addressed. Second, how to popularize HONIA among market players and improve the liquidity of the market for longer-tenor rates based on HONIA will be another key issue. Third, how to persuade clients to use HONIA and how to deal with the tremendous amount of outstanding derivatives and loans priced with HIBOR also needs to be resolved. On housing market front, the housing transaction volume rebounded significantly by 120.5% mom in Dec 2018. The rebound was mainly due to the easing rate hike expectations, limited public housing supply, reduced offer price of private homes, and improved sentiments on trade truce and China's monetary stimulus. These factors may continue to support housing market sentiments and keep transactions resilient in the near term. However, it is still too early to call it a bottom on the housing market given faltering global growth, lingering trade war risks, muted wage outlook and the prospects of increasing public housing supply. On currency front, to avoid loss from HKD's sharp rally on possible liquidity withdrawal, short HKD traders tend to be more cautious when USDHKD gets closer to 7.85. As such, USDHKD is expected to grind slowly towards 7.85.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ PBoC managed to auction CNY20 billion 3-month and 1-year PBoC bill in Hong Kong. The 3-month PBoC bill was priced at 2.45%, 134bps below the same issuance in November 2018, while 1-year PBoC bill was priced at 2.8%, 140bps below the similar issuance in November. The PBOC bills were oversubscribed more than 6 times.	▪ The sharp decline of PBoC bill yields was the result of flushed RMB liquidity. As a result, RMB swap points flipped to discount level in the offshore market, lowest in 7-year. ▪ Besides, on the back of the improved prospect of RMB, demand for RMB assets in the offshore market rebounded. ▪ Given the lower rates of offshore PBOC bills, commercial banks in HK may cut the RMB fixed-deposit rates in the near term. Nonetheless, we expect HK's RMB deposits will remain resilient in the near term. On one hand, as for time deposit, RMB rates are higher than those for USD or HKD. On the other hand, RMB outlook has improved somehow from late 2018.
▪ Northbound equity flows under the two stock connects registered a net inflow of RMB60.69 billion in January 2019, the highest since the stock connect scheme was launched in November 2014.	▪ The strong equity inflows from HK to China may be attributed to the rebound in global risk appetite, the improved outlook of RMB, the pre-positioning for the expected weight increase of A-shares in the MSCI indices and the upcoming inclusion of A-shares into FTSE Russell's global indices. The PBOC's launch of stimulus measures and the ongoing trade talks between the US and China might have also helped to revive offshore investors' interests in China's financial market. In the near term, the equity inflows may lend some support to the RMB.

	▪ Nevertheless, whether such strong inflows could sustain may hinge on the effectiveness of China's stimulus measures and the development of the trade war.
▪ Last week, all eyes were on HKD Overnight Index Average (HONIA), the proposed alternative reference rate to HIBOR.	▪ Hong Kong's Treasury Markets Association (TMA) will conduct consultation in 1Q19 on proposed adopting HONIA as a more transparent alternative reference rate, the HKMA states in its presentation to the legislature. The HKMA also confirmed that HIBOR will not be eliminated. LIBOR submissions will be voluntary after 2021 and LIBOR will likely be phased out. HK as an international financial market may have to follow the step of the US and the UK to adopt a new rate. ▪ However, it may still take a very long time for a smooth transition from HIBOR to HONIA as there would be three key issues to be addressed. First, though HONIA moves in tandem with its overnight peer HIBOR, it is much more volatile than longer-tenor HIBORs. How to build a curve for HONIA will be a key issue to be addressed as most of the residential mortgage loans are priced with one-month HIBOR while corporate loans are priced with three-month HIBOR. Second, how to popularize HONIA among market players and improve the liquidity of the market for longer-tenor rates based on HONIA will be another key issue. Third, how to persuade clients to use HONIA and how to deal with the tremendous amount of outstanding derivatives and loans priced with HIBOR also needs to be resolved. In conclusion, before the key issues are well addressed, HIBOR will remain the more preferred reference rate in the near term.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's Jan trade data surprised the market on the upside. Export in dollar term rebounded by 9.1% yoy after contracting 4.4% yoy in December 2018. The decline of imports in dollar term narrowed to 1.5%, stronger than market expectation. ▪ Trade surplus, however, narrowed to US$39.15 billion from US$57.05 billion due to stronger than expected import data.	▪ Exports to US fell by 2.8% yoy in January, down for the second consecutive month, due to the ongoing trade war. However, demand from EU, Japan and ASEAN recovered with exports to those three regions rising by 14.5%, 5.6% and 11.5% respectively. ▪ On imports, demand for commodity softened in January with imports of crude oil and iron ore by value falling by 0.5% and 2.1% respectively. Meanwhile, imports of electronic integrated circuit also fell by 7.5% albeit the pace of decline slowed. ▪ Overall, we think it could be pre-mature to conclude that China's trade prospect improves just based on January trade data alone given the still softening global PMI and weak Korea trade data. The upside surprise from January data could also be due to Chinese New Year effect as this year CNY came earlier as compared to last year. As such, we may need to wait for more data to gauge the impact of trade war on China's trade.
▪ China's inflation softened further in January. CPI decelerated to 1.7% yoy from 1.9% yoy, slightly below market expectation while PPI decelerated to 0.1% yoy from 0.9% yoy.	▪ Despite the deceleration of the yoy reading, CPI expanded by 0.5% month-on-month on the back of rising food prices ahead of festive season and the rebound of non-food prices. Food prices rose by 1.6% mom though the reading is lower than expectation. However, non-food prices rebounded after shrinking for two consecutive months. We think it may still be too early to call for disinflation at the moment. ▪ CPI is expected to weaken further in February to probably around 1% due to base effect before rebounding to around 2% in March.

	▪ PPI continued to slow in both yoy and mom reading. The risk for China's factory gate inflation to go to negative cannot be ruled out. However, given the recent stabilization of China's input prices, we think the concern about deflation is overdone.
▪ China's January credit and monetary data surprised the market on the upside. Chinese banks net lent CNY3.23 loans. Meanwhile, aggregate social financing also hit a record high of CNY4.64 trillion. ▪ The growth of broad money supply M2 reaccelerated to 8.4% yoy from 8.1% yoy though M1 growth decelerated to 0.4% yoy, lowest in record.	▪ January's credit data are very positive as it shows that all easing measures including monetary easing, fiscal easing and administrative easing are taking effect. ▪ There are three key takeaways from January's credit data. First, medium to long term loan as percentage of total new Yuan loan recovered to 64.9%, benefiting from easing monetary policy. ▪ Second, fiscal deposit only increased CNY533.7 billion in January, much lower than the increase of CNY980.9 billion in January 2018. Given that local government has issued more than CNY400 billion local government bonds in January, the slower than expected increase of fiscal deposit shows that China has stepped up fiscal spending. This may help stabilize the fixed investment. ▪ Third, off balance sheet lending started to recover. With trust financing retrieving positive month-on-month growth, it shows that China may ease its grip on shadow banking to support those reasonable shadow banking activities.
▪ According to the HKMA, HK's household debt to GDP ratio fell from record-high of 71.2% in 2Q18 to 70.7% in 3Q18.	▪ This was due to the tamed demand for residential mortgage loans (which accounted for 67.7% of total household debt) as the increased speculation on higher local rates led to housing market correction and stock market correction in 3Q18. The escalation of trade war also dented households' loan demand. ▪ Moving ahead, we expect household debt to GDP ratio would stabilize around current level as both household debt and GDP may grow only moderately. Specifically, despite the eased concerns about higher local rates, neither housing market nor stock market is expected to show strong performance this year due to faltering global growth and lingering trade war risks. As such, households' loan demand is likely to stay muted while GDP growth is expected to slow down in 2019. ▪ Elsewhere, though household debt to GDP ratio hovers around historical high, we believe that the relevant risks to the banking system remain well contained given limited upside risks to local rates and the HKMA's counter-cyclical measures. According to the HKMA, by end of 2018, the average loan-to-value ratio of approved new residential mortgage reduced to 46% from the 64% reached before the HKMA rolled out the first round of counter-cyclical measure in September 2009. Besides, the average debt servicing ratio (DSR) also dropped to 34% from the 41% seen before the HKMA firstly tightened DSR limits.
▪ Hong Kong's housing transaction volume dropped for the fifth consecutive month by 13.8% yoy to 4543 deals in January. On a monthly basis, the transaction volume rebounded significantly by 120.5%.	▪ More notably, the transaction volume of homes prices no less than HK$10 million rose by 55% yoy to 1599 deals, the highest since July 2018. The rebound was mainly due to the easing concerns about rising interest rates, the currently limited supply of public housing, the reducing offer price of secondary and primary homes, and the improved sentiments on US-China trade truce and China's monetary stimulus. These factors may continue to support housing market sentiments and keep transactions resilient in the near term. Adding that major commercial banks adjusted the cap on HIBOR-based mortgage rates from 2.475% to 2.375% following the retreat of one-month HIBOR, approved new mortgage loans (-15.4% yoy to HK$23.5 billion in last December) are expected to rebound in early 2019.

	▪ However, it is still too early to call it a bottom on the housing market given several reasons below. First, wealth effect may continue to wane as faltering global growth and lingering trade war risks would likely weigh on risky assets. Second, the outlook of wage growth would be clouded by local economic slowdown and external uncertainties. Third, Mainland investors' demand for HK residential property may soften amid China's slowdown and tight capital controls. Fourth, the shifting of housing demand from private to public sector may continue on the back of government's promise to increase public housing supply. In conclusion, we expect housing transaction volume to average below 4000 deals per month in 2019, down from 4771 deals per month over 2018. Overall housing price index, which already dropped by 9.2% from all-time high by end-2018, is expected to fall further by 6.5% yoy in 2019.
▪ In December 2018, Macau's housing transactions dropped for the fourth consecutive month and was down by 47.3% yoy to the lowest since February 2016 at 417 deals.	▪ Sluggish housing transactions were partially attributed to the fewer home project launches, limited supply and the tamed speculative demand (the percentage share of homebuyers with more than one residential property remained low at 3.75% in December 2018). Nevertheless, approved new mortgage loans rose by 16.2% yoy or 2.2% mom to MOP$3.67 billion. Average housing price also rose for the second straight month by 4.3% yoy to MOP101,228/square meter. This was due to limited home supply and resilient demand from first-home buyers who took up 79% of total homebuyers in December 2018. ▪ Moving into early 2019, housing transactions may rebound slightly on the back of the eased concerns about higher interest rates as well as the eased trade tensions. Adding that demand from first-home buyers remain solid and new home supply stays inadequate (housing completions and housing starts fell by 4% yoy and 52% yoy respectively in 2018), we expect housing prices to hover around MOP100,000/square meter. Nevertheless, in the medium term, we see limited upside to the housing transactions or prices as overall housing demand may be dampened by local economic slowdown and lingering trade war risks while the marginal support from first-home buyers may diminish.

RMB	
Facts	**OCBC Opinions**
▪ RMB outperformed its major trading partners last week with the RMB index rising to 94.37.	▪ In the near term, RMB's outlook will continue to hinge on the dollar movement. We expect the pair to remain in the rage of 6.7-6.9.

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