Highlights:

US President Trump's scheduled White House speech about China's trade practices and intellectual property last Friday was postponed with no explanation given. Nevertheless, the concerns about the trade dispute between China and US continued to rise. In addition to section 232 investigation, the US may start section 301 investigation under Trade Act of 1974 to investigate foreign government acts which discriminate against US commerce. This will give President unilateral power to impose trade tariff or other trade restrictions. President Trump may continue to use trade polices as bargaining chips to press China to tighten the grip on North Korea. The latest United Nation sanction imposed unanimously by the Security Council on North Korea may buy China more time to ease the bilateral relationship with the US.

Domestically, China's liquidity situation improved in the beginning of August after month-end effect faded away. PBoC continued to exercise its prudent monetary tone and net withdrew liquidity from the system in the last two days of the week after liquidity situation improved. For this week, massive CNY780 billion reverse repo are expected to mature. As such, market will continue to monitor PBoC's daily operation to gauge their policy tone.

In Hong Kong, RMB deposits rose slightly by 0.25% mom to 562 billion in June. Improved RMB outlook is likely to boost demand for RMB deposits and in turn add downward pressure to the HKD. After dividend payment season ended in July, HKD spot rate dropped to its lowest level since last January amid speculation on a wider interest rate differential. However, as the pair approaches HKMA's undertaking level 7.85, speculators are expected to take profit gradually and allow some floor to HKD weakness (strong support at 7.83). Elsewhere, trade-related loans and Mainland-related loans continued to grow while new applications for mortgage loans dropped amid a cooling housing market. In Macau, the gross gaming revenue was up 29.2% in July, its fastest pace since February 2014. The strong growth was mainly attributed to the VIPs' return which has been supported by China's resilient growth and the provision of credit extensions by junkets

Last but not least, China and India's month-long standoff in the disputed area between China and Bhutan may pose the potential event risk, which cannot be totally ignored by the market. The latest live drill near the disputed area by China as well as the recent serious of hawkish comments by mainstream media shows that China is ready for a small-scale conflict although dialogue is still a preferred resolution.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Speculation on China to widen its RMB trading band heightened again last week following news report in the onshore market.	▪ It is rumoured that China may widen its daily RMB spot trading band to 3% from current 2%. The move may signal China's commitment to further reform its currency system. However, this is likely to be the least relevant reform for China's currency now as 2% trading band has not been touched since the fixing mechanism reform in 2015. We see no urgency for China to widen its currency trading band.
▪ US President Trump's scheduled White House speech about China's trade practices and intellectual property last Friday was postponed with no explanation given.	▪ The concerns about trade dispute between US and China has heightened recently, in particular after Trump shared his anger over China's inaction on North Korea situation in Twitter. In addition to section 232 investigation, which is ongoing, to determine the impact of steel and aluminium imports on national security, the US may start section 301 investigation under Trade Act of 1974, which has been rarely used since 1980s, to investigate foreign government acts which discriminate against US commerce. This will give President unilateral power to impose trade tariff or other trade restrictions. ▪ President Trump may continue to use trade polices as bargaining chips to press China to tighten the grip on North Korea. The latest United Nation sanction imposed unanimously by the Security Council to ban exports of North Korea's key products as well as investment and labor may buy China more time to ease the bilateral relationship with the US. Nevertheless, market will continue to monitor the development of bilateral trade relationship and possible

	launch of section 301 investigation as early as next week.
▪ China's liquidity situation improved in the beginning of August after unexpected tightness crossing month-end of July.	▪ Interbank borrowing costs fell across the board in the last two days of the week after month-end effect faded away. The easing liquidity also supported short-end bond prices to go higher. ▪ PBoC continued to exercise its prudent monetary tone and net withdrew liquidity from the system in the last two days of the week after liquidity situation improved. For the whole last week, PBoC net withdrew CNY40 billion after net injecting CNY280 billion in the previous via open market operation. Instead of longer end MLF, it seems PBoC prefers shorter end liquidity operation via open market operation recently to keep policy flexible. ▪ For this week, massive CNY780 billion reverse repo is expected to mature. As such, market will continue to monitor PBoC's daily operation to gauge their policy tone.
▪ Hong Kong: overnight HIBOR spiked to 0.71407% on Jul 31, its highest level since 2008.	▪ This could be attributed to three possible reasons. First, it is due to the month-end effect. Second, HSBC's announcement of a share buyback of USD2 billion might have some impact on HKD liquidity. Third, net flows from HK to China under two stock connects have remained positive during Jul 26 to Jul 31. However, overnight HIBOR retreated soon after the month-end effect faded. Given a bullish stock market and the lowered expectations on Fed's third rate hike this year, HKD liquidity is unlikely to remain tight in the near term.
▪ HKD spot rate dropped to its lowest level since last January at 7.8195.	▪ After the dividend payment season ended in July, the HKD lost the supports and dropped at a fast pace amid bets on a wider interest rate differential. However, as the pair approaches HKMA's undertaking level 7.85, speculators are likely to take profit gradually. Therefore, we believe that USDHKD spot rate will find strong resistance around 7.83.

Key Economic News

Facts	**OCBC Opinions**
▪ China's PMI softened slightly to 51.4 in July. PMI for big companies remains steady while PMI for both medium sized companies and small companies dipped below 50.	▪ On demand side, both new orders and new export orders fell to 52.8 and 50.9 respectively from 53.2 and 52. On supply side, production also fell slightly to 53.5 from 54.4. ▪ However, purchasing prices jumped to 57.9 from 50.4. This signalled that PPI may rebound in July. We expect PPI to grow by 5.6% yoy in July, up from 5.5% in June.
▪ HK's total loans and advances grew strongly by 14.9% yoy in June given improved business sentiment on global recovery. Specifically, loans for use in Hong Kong rose by 13.8% yoy as loans to finance visible trade increased for the tenth consecutive month by 5.1% yoy, in tandem with the robust exports and imports growth. In addition, approved new mortgage loans expanded by 5.6% mom (97.7% yoy), which also contributed to the strong growth of local loans.	▪ Nevertheless, in terms of residential mortgage loans, the number of new applications received in June dropped by 1.2% mom. We expect growth in new mortgage loans to decelerate given a cooling secondary housing market. On the other hand, loans for use outside of Hong Kong climbed for the seventh straight month by 17.4% yoy. As China's authorities will continue to crack down on financial leverage, we expect onshore liquidity to remain tight and therefore keep shifting loan demands from Mainland China to Hong Kong. In conclusion, total loans and advances are likely to expand further in the foreseeable future.
▪ RMB deposits in HK rose slightly by 0.25% mom to 562 billion in June. On a yearly basis, the decline of RMB deposits narrowed to its smallest level since last October.	▪ As RMB's outlook has been improving, we believe that offshore RMB deposits will continue to rebound despite a slight cut in CNH deposit rates. Therefore, RMB liquidity in the offshore market is likely to improve further. On the other

	hand, an increase in demand for RMB deposits will translate into downward pressure on the HKD.
▪ **HK:** Growth in retail sales missed expectations and marked a muted 0.1% yoy in June. A 1.9% year-on-year decrease in visitor arrivals is to blame. Tourists from Mainland China decreased by 3.4% yoy.	▪ As there is no public holiday in June, Mainlanders were less enthusiastic in visiting Hong Kong. Retreat in sales of jewellery, watches and other luxurious goods (-0.8% yoy) and a further decline in sales of clothing, footwear and allied products (-1.9% yoy) also reinforce that fewer visitors and sluggish tourist spending have resulted in the weakness in the retail sector. On the other hand, sales of consumer durable goods dropped for the twentieth straight month by 0.2% yoy. Besides, sale of goods in supermarkets and department stores grew merely by 0.4% and 0.8% on yearly basis respectively. This indicates that local consumers are reluctant to spend at physical stores given the prevalence of online shopping. Therefore, a low base effect, a bullish stock market and a solid labor market are unlikely to support a notable rebound in retail sales this year.
▪ Macau's gross gaming revenue (GGR) surprised on the upside and was up 29.2% yoy to MOP 23 billion in July, the highest level since this February. The gain in GGR marked the largest print since February 2014 due to the huge growth in VIP revenue. China's resilient growth and the provision of credit extensions by junkets supported the return of VIPs.	▪ This indicates that the impact of China's crackdown on corruption has been waning. Also, new hotels and casinos opened over the past two years have successfully attracted both high-rollers and recreational gamblers. Furthermore, visitor arrivals might have increased at a stronger pace during the summer holiday and render support to the mass-market segment of the gaming sector. However, it is still likely that the cooling housing markets in China's top-tier cities and tighter regulation on money laundering could weigh on the VIP segment. We expect that GGR growth will print 12% to 15% yoy in 2017.

RMB	
Facts	**OCBC Opinions**
▪ RMB extended its gain against the dollar riding on the broad dollar weakness.	▪ RMB Index rebounded slightly despite weaker dollar index ahead of Friday's non-farm payroll data.

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