Highlights

China's June financial and credit data showed that China's funding structure continued to change as a result of financial de-leverage. Total new Yuan loan beat market expectation increasing by CNY1.84 trillion while aggregate social financing surprised on the downside only increasing by CNY1.18 trillion, way below new Yuan loan growth. The outstanding of off-balance sheet financing fell by 0.6% yoy, first decline in record.

Despite the rebound of pork prices from the bottom, inflationary pressure remains muted. Inflation is unlikely to be the constraints for China's monetary policy. Fiscal policy has become more proactive as monetary policy is constrained by financial de-leverage. Fiscal deposit fell by CNY685.2 billion in June, in line with seasonal pattern. This is the largest single month decline in June in record, which shows a more proactive fiscal policies.

RMB continued to be driven by trade war related news. Any signs of escalation of trade wars led to sell-off of RMB such as the widening trade surplus data with US in June. This continued to drive down RMB's value against its major trading partners.

We think the risk of further escalation of trade war may diminish after China withdraw from tit-for-tat retaliation. Meanwhile, the reduction of tariff on US$200 billion from 25% to 10% also shows that the room for further US aggression is limited as it has affected the consumer goods which may lead to backfire in the US financial market should Fed hike faster than expected amid heightening inflationary pressure. As such, we think the recent sell-off of RMB could be the opportunity to accumulate RMB.

In Hong Kong, China Tower is reported to launch IPO around end of July. As China Tower is poised to raise as much as US$10 billion, the impact on HKD liquidity is expected to be notable despite a volatile and relatively bearish stock market. Besides, we will soon have month-end and large dividend payments by Mainland corporate in August. As such, market started to prepare for the possibly tighter liquidity and in turn kept the longer-end liquidity tight. We expect one-month and longer-dated HIBORs to edge higher in the near term. For example, one-month HIBOR may rebound to 1.8% or even 2% while three-month HIBOR could test 2.1% by end of July. Elsewhere, at the current stage with US$50 billion of US tariffs, the US-China trade war is likely to have limited impact on HK's trade sector and its economy in 2018. However, with US$250 billion of US tariffs, the impact is expected to be larger. Still, with the unemployment rate staying at an over two-decade low and the salary prospects remaining sanguine, the contribution of private consumption to HK's economic growth has remained strong. Exports of services have also made larger contribution to HK's growth given HK's improved tourism on Asia's resilient growth. Therefore, even if the US adds 10% tariffs onto an additional US$200 billion of Chinese imports, we expect HK's GDP growth for 2018 to slow down only moderately to 3.2% from the 3.6% expected under the base-case scenario. **In Macau**, limited supply combined with strong demand from first-home local buyers led to gradual increase in housing prices. The increasing construction costs also pushed up new home prices and exerted spill-over effect to the secondary market. Moving ahead, we expect housing transactions to remain benign and housing prices to keep elevated.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ No tit-for-tat now. Although China said it will continue to defend its own rights after the President Trump raised the stake by another US$200 billion, there is no imminent retaliation plan.	▪ We think the risk of further escalation of trade war may diminish after China withdraw from tit-for-tat retaliation. ▪ Meanwhile, the reduction of tariff on US$200 billion from 25% to 10% also shows that the room for further US aggression is limited as it has affected the consumer goods which may lead to backfire in the US financial market should Fed hike faster than expected amid heightening inflationary pressure.
▪ China Tower is reported to launch IPO around end of July.	▪ As China Tower is poised to raise as much as US$10 billion, the impact on HKD liquidity is expected to be notable even against the backdrop of a volatile and relatively bearish stock market. Besides, we will soon have month-end and large dividend payments by Mainland corporate in August. As such, market started to prepare for the possibly tighter liquidity and in turn kept the longer-end liquidity tight. We expect one-month and longer-dated HIBORs to edge higher in the near term. For example, one-month HIBOR (currently 1.74%) may rebound to 1.8% or even 2% while three-month HIBOR (currently 2%) could

	test 2.1% by end of July. The spread of three-month HIBOR on one-month HIBOR (currently 26bps) will likely narrow to around 10bps in the coming weeks.
▪ According to HK's Financial Secretary Paul Chan, the first batch of goods (US$34 billion) subject to the additional 25% tariff will affect HK$47 billion of HK's re-exports from China to the US, which accounts for merely 1.2% of HK's total exports. If taking the second batch (US$16 billion) into account, the affected re-exports will increase to HK$53 billion. In terms of China's retaliation, it will affect HK$11.7 billion of HK's re-exports from the US to China, which represents about 0.3% of HK's total exports. Based on this, Paul Chan estimates that HK's GDP will reduce by about 0.1% to 0.2% as a result of the US-China trade war.	▪ We agree that at the current stage with US$50 billion of US tariffs, the US-China trade war would have limited impact on HK's trade sector and its economy in 2018. However, with US$250 billion of US tariffs, the impact is expected to be larger. Still, with the unemployment rate staying at an over two-decade low and the salary prospects remaining sanguine, the contribution of private consumption to HK's economic growth has remained strong. Exports of services have also made larger contribution to HK's growth given HK's improved tourism on Asia's resilient growth. Therefore, even if the US adds 10% tariffs onto an additional US$200 billion of Chinese imports, we expect HK's GDP growth for 2018 to slow down only moderately to 3.2% from the 3.6% expected under the base-case scenario.

Key Economic News

Facts	OCBC Opinions
▪ China's broad money supply M2 decelerated further to record low of 8% yoy in June against the backdrop of financial de-leverage. ▪ Funding supply continued to shift from off-balance sheet to on-balance sheet. Total new Yuan loan beat market expectation increasing by CNY1.84 trillion while aggregate social financing surprised on the downside only increasing by CNY1.18 trillion, way below new Yuan loan growth.	▪ There are three key takeaways from June financial and credit data. ▪ First, financial de-leverage continued to take effect. The weaker than expected aggregate social financing is mainly the result of shrinking off-balance sheet financing. Three main off-balance sheet channels including entrusted loan, trust loan and banker's acceptance bill fell by CNY164.2 billion, CNY162.3 billion and CNY365 billion respectively. The outstanding of off-balance sheet financing fell by 0.6% yoy, first decline in record. ▪ Second, the support from real estate may have peaked. Although the new Yuan loan increased by more than expected, the medium to long term loan to household only increased by CNY463.4 billion, down from CNY483.3 billion last June. ▪ Third, fiscal policy has become more proactive as monetary policy is constrained by financial de-leverage. Fiscal deposit fell by CNY685.2 billion in June, in line with seasonal pattern. This is the largest single month decline in June in record, which shows a more proactive fiscal policies.
▪ China's total trade growth remains resilient in June. Exports grew by 11.3% yoy while imports rose by 14.1% yoy. As a result of weaker than expected import growth, trade surplus widened to US$41.6 billion from US$27.7 billion.	▪ The weaker than expected imports growth was probably attributable to pause of imports ahead of reduction of tariff effective 1 July. ▪ However, the stronger than expected trade surplus failed to support RMB as China's widening surplus with US fuelled concerns about the escalation of trade war. China's trade surplus with the US rose to US$28.97 billion.
▪ China's CPI rebounded to 1.9% yoy in June, up from 1.8% yoy. PPI reaccelerated to 4.7% yoy, highest in 2018.	▪ Despite the rebound of pork prices from the bottom, inflationary pressure remains muted. Although the impose of additional tariff on US soybean imports may affect end-consumers, the impact is still limited, which is unlikely to be the constraints for China's monetary policy. ▪ The reacceleration of PPI shows that China's industrial profit as well as fiscal revenue may remain resilient, which may provide room for more proactive fiscal policies.

▪ Hong Kong government received HK$1.7 billion from foreigners paying stamp duty in June. The amount was more than doubled and reached the highest level since October 2012 when buyers stamp duty was first introduced.	▪ According to Centaline, HK's real estate agency, Mainland buyers accounted for 15% of total transaction volume and 20.8% of total transaction value in the primary housing market in 1Q18. On the secondary market front, Mainland buyers represented 6.5% of total transaction volume and 9.3% of total transaction value. ▪ Recently, RMB's weakness might have prompted Mainland investors to increasingly tap Hong Kong's property market despite the need to pay 30% of stamp duty. Some property developers even offered to pay the stamp duty for prospective buyers. Therefore, strong local and foreign demand continued to pushed up housing prices. In this case, the new housing measures may barely help to weigh down the sky-high housing prices. On a positive note, it is reported that the government does not rule out more curbs on non-local homebuyers. If this is the case, we expect the possible correction in the stock market and the expected increase in local interest rates will help to calm the red-hot housing market.
▪ Macau's housing transactions dropped for the third consecutive month by 33.7% yoy to 1039 deals in May. During the same month, the approved new mortgage loans slid 14.7% yoy to MOP4.9 billion, ending the uptrend over the past four months. Nevertheless, average housing price rose 10% mom and 16.5% YTD to MOP113,105/square meter.	▪ Recent housing measures appeared to have been effectively dampening the demand from second-home buyers and the speculators. As a result, housing transactions remained muted. This adds to HIBOR's recent uptrend in taming mortgage demand. Nevertheless, recent housing measures have deterred homeowners from selling their property in the secondary market and encouraged first-home local buyers to enter the market. Nearly 82% of existing home transactions involved first-home local buyers. Limited supply combined with strong demand from first-home local buyers led to gradual increase in housing prices. The increasing construction costs also pushed up new home prices and exerted spill-over effect to the secondary market. Moving ahead, the government is striving to increase the supply of public housing by 7800 units on the reclaimed land. However, this will unlikely to have much impact on the private housing market in the near term. Private housing completions and housing starts dropped by 28% yoy and 68% yoy respectively to 469 units and 940 units over the first five months. We expect housing transactions to remain benign and housing prices to keep elevated.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened again after President Trump threatened second round additional tariff on US$200 billion Chinese imports. The USDCNY re-tested 6.70 while RMB index weakened to 94.67 this morning.	▪ RMB continued to be driven by trade war related news. Any signs of escalation of trade wars led to sell-off of RMB such as the widening trade surplus data with US in June. This continued to drive down RMB's value against its major trading partners. ▪ We think the recent sell-off of RMB could be the opportunity to accumulate RMB as we think the risk of further escalation of trade war may diminish after China withdraw from tit-for-tat retaliation. Meanwhile, the reduction of tariff on US$200 billion from 25% to 10% also shows that the room for US aggression is limited as it has affected the consumer goods which may lead to backfire in the US financial market should Fed hike faster than expected amid heightening inflationary pressure.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com