Highlights

The 2019 National People's Congress began from last Tuesday and will end on 15 March. As widely expected, China lowered its 2019 growth target to 6-6.5%. For details, please refer to our NPC report. Meanwhile, all the major economic planning agencies including NDRC, MoF, MoC, SASAC and PBoC have host their press conference last week sharing their insights about the 2019 government work report delivered by Premier Li Keqiang.

Clearly, the development of **trade talk** is the focus. A number of good questions have been directly to respective Ministries on trade talk. However, as the talk is ongoing, most of the answers are generic and lack of details. Based on the press conferences last week, China denies it runs any special industry subsidy exclusive to SOEs, which is one of the key discrepancies with the US right now. On currency, PBoC governor Yi Gang said both sides agree a market-based currency mechanism with no competitive devaluation. Meanwhile, China will also improve transparency about currency related data. Any meaningful detail may only come out once the deal is inked. But we probably may need to wait for a bit longer as the latest news shows that the Xi-Trump summit may be delayed to April from previously planned late March.

On economic data, China's Chinese New Year seasonality may have created the challenges for us to assess the economic momentum only based on February data alone. The combined January and February trade data was not as bad as what Fed data show. Nevertheless, the protectionism in the US and the slowdown in EU suggest a challenging outlook for China's trade. China's credit data in the first two months show that credit slowdown may have bottomed out.

On fiscal policy, China can keep fiscal deficit low despite a larger than expected planned tax cut as China will broaden its revenue this year via the transfer of profits from the state-owned financial institutions and SOEs to the central government and revitalizing the assets in local government level. China's massive net assets owned by the State, CNY109 trillion in 2017, will help fiscal policy to play a bigger role.

On monetary policy, PBoC governor Yi Gang shed light on the current monetary policy framework. It seems that the room for RRR cut is much smaller than initial market expectation given that the combined mandatory RRR and excessive RRR in China is similar to those in most advanced economies. On the question about lower real interest rate, he implied that the focus is mainly on the funding costs to the real economy. China will look at two important parameters including the lower nominal risk-free rate such as 10-year government bond yield and credit spread. Overall, we think Yi's elaboration may be positive for bond market as a lower government bond yield is clearly an important first step for China to achieve a lower real interest rate to the real economy.

In **Hong Kong,** The HKMA intervened for the first time since August 2018 after the USDHKD touched 7.85. The fret about possible liquidity withdrawal drove up HIBOR. Since the HKMA has not taken any action so far, the upside to HIBOR seems to be limited at this juncture. Before quarter-end effect tightens HKD liquidity, we expect HKD to remain suppressed and stay very close to the weak-end of the currency peg amid the broad dollar strength and the persistently wide USD-HKD yield differential. However, given the very cautious carry trade, even if the USDHKD touches 7.8500, it may not necessarily trigger any liquidity drainage or may only lead to very moderate intervention. As such, we hold onto our view that aggregate balance will hold above HK$50 billion in the coming months. **On the retail sector front,** retail sales growth surprised to the upside at 7.1% yoy in Jan. The number might have been distorted by the Chinese New Year effect. Therefore, we may need more data to gauge the outlook of the sector and remain wary of the headwinds including global economic slowdown, strong HKD and lingering trade war risks. **On property market front,** the property price index rebounded by 0.1% mom in Jan. In the near term, three factors including China's stimulus, dovish central banks and continuous trade truce may lend moderate support to the asset prices including property prices. However, global economic slowdown (World Bank, IMF and OECD all cut forecast on 2019 GDP growth), lingering trade war risks and the prospect of increasing public housing supply (100,400 units of public housing is estimated to be available for the next five years) may cap the upside to the property market. Any further slowdown in domestic growth may also cloud the wage growth outlook and sideline potential homebuyers.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Premier Li said in today's speech that China will use tools of reserve requirement ratio and interest rate to guide financial institutions to expand their credit support to the real economy. In addition, Premier Li also said China wants to lower the real interest rate.	▪ China has refrained from touching its benchmark interest rate since 2015 due to constraints from the higher housing prices and de-leverage campaign. However, given China has shifted its focus to smooth the transmission mechanism from easing money to easing credit, a benchmark interest rate is no longer treated as a merely simulative tool but a possible tool to support

	the lending to the real economy. ▪ Nevertheless, we think there is no urgency for China to cut its benchmark interest rate as China's easing monetary policy has taken effect and monetary condition in China has eased since 4Q 2018. PBoC reported a 31bps decline of weighed average loan rate in the last quarter of 2018 in its 4Q monetary policy report. In addition, loans priced below benchmark interest rate increased to 16.27% up from 9.59% in July, signalling easing monetary condition.
▪ **Ministry of Finance Press Conference:** China's Finance Minister Liu Kun said the marginal increase of 0.2% fiscal deficit target to 2.8% in 2019 is proactive and prudent. ▪ On local government special bond, Liu said that China has issued CNY307.8 billion special bond by end of Feb. The average cost is lower with the average yield in January fell by 55bps from 2018 level. Meanwhile, the average tenor increased by 1 year to 7-year to better match the liability.	▪ There have been discussions in the market that how China can keep fiscal deficit low despite a larger than expected planned tax cut. As mentioned by Minister Liu that China will broaden its revenue this year via the transfer of profits from the state owned financial institutions and SOEs to the central government and revitalizing the assets in local government level. ▪ Despite the concern about China's debt problem, China's state owned sectors have massive net assets. The latest national survey released late 2018 shows that despite CNY345 trillion liabilities, China's SOEs own CNY454.5 trillion assets. The CNY109.2 trillion net assets will supplement China's fiscal shortfall to support Chinese government's initiative such as tax cut.
▪ **National Development and Reform Commission press conference:** on boosting consumption: it said that China is drafting the new policy to recycle the old cars and old home appliances. The targeted investment by government suggests that there is no need to flood the economy with the excessive liquidity.	▪ The number of passenger cars has reached 200 million in China. The upgrade demand is likely to become a new source of growth engine to China's domestic consumption.
▪ **PBoC Press conference:** Governor Yi Gang said the fundamental concept of prudent monetary policy has not changed although the word "neutral" was not mentioned this time. ▪ On US-China trade talk, Yi said the consensus has been reached between two countries on the issues such as market driven mechanism, no competitive devaluation and increasing transparency on data. Meanwhile, both sides will respect the independency of monetary policy. ▪ On lower interest rate, Yi said a lower risk-free rate such as 10-year government bond yield is helpful to lower the nominal interest rate. Meanwhile, he said China will work to lower the credit spread for smaller private owned companies. ▪ On reserve requirement ratio, Yi said although China's mandatory RRR is much higher than that in most developed countries, the excessive RRR is much smaller. Taking both mandatory RRR and excessive RRR into account, China's current RRR is about 12%, similar to those in Europe and US and much smaller than that in Japan. As such, the room for RRR cut is not as big as before. ▪ In addition, Yi said China's monetary policy setting will mainly depend on the domestic factors such as the development of domestic economy. Currency does not play an important role in domestic issues.	▪ PBoC's press conference gave us good insights about the central bank's thinking process on monetary policy against the backdrop of rising uncertainties in the global stage. The most notable insight is from Governor Yi's comments on possible RRR cut. It seems that the room for RRR cut is much smaller than initial market expectation given that the combined mandatory RRR and excessive RRR in China is similar to those in most advanced economies. ▪ In addition, Governor Yi's elaboration on the question about lower real interest rate also implied that the focus is mainly on the funding costs to the real economy. It may not be directly linked to China's benchmark interest rate. However, in order to achieve this, China will look at two important parameters including the lower nominal risk-free rate such as 10-year government bond yield and credit spread. Overall, we think Yi's elaboration may be positive for bond market as a lower government bond yield is clearly an important first step for China to achieve a lower real interest rate to the real economy. ▪ Although China is working towards removing the benchmark lending deposit rate to merge together with the market based interest rate system as part of China's interest rate reform, we think the near term chance of benchmark interest rate cut is getting higher pending on the catalysts such as the funding costs to the real economy and credit spread etc. ▪ On currency, Yi's answers to a few currency related questions are quite generic with limited details. As such, we may probably need to wait for the announcement of the final trade deal for the details of currency pact between two countries.

▪ **Ministry of Commerce press conference:** On trade war, China's deputy trade negotiator Wang Shouwen said the enforceable of the trade deal should be two-way, fair and equitable. He feels hopeful for both sides to reach the deal even though Commerce Minister said a few days ago that the negotiation is very difficult. ▪ Meanwhile, Minister Zhong also said China will continue to push ahead with the RCEP negotiation this year. 7 chapters out of 15 chapters have been concluded.	▪ China's push for increasing multi-national engagement is likely to continue via the RCEP and WTO reform unaffected by the US-China trade war.
▪ **State-owned Assets Supervision and Administration Commission of the State Council Press conference:** On US-China trade talk, the head of SASAC denied that China runs special subsidy exclusive to SOEs. ▪ On SOE reform, he said China will continue to push ahead with mixed ownership reform with more than 100 companies will be announced soon.	▪ The pace of mixed ownership reform is important for the sentiment in China's capital market.
▪ **Interesting data from the NPC conferences.** ▪ China's macro leverage ratio has declined by 1.5% in 2018 to 249.4% according to the PBoC data. ▪ Default rate in China's bond market was at 0.79%, lower than the 1.2%-2.15% default rate in the global bond market. ▪ Foreign direct investment in China increased by 1.3% in 2018 despite the total investment flow fell by 19% globally. ▪ China's overseas direct investment reached US$130 billion in 2018 creating 1.7 million jobs globally.	▪
▪ The HKMA intervened for the first time since August 2018 after the USDHKD touched 7.85. The HKMA bought HK$1.507 billion HKD last Friday.	▪ As the market frets that the HKMA will come out to withdraw liquidity very soon, the pre-positioning move drove HIBOR higher with 1M HIBOR rising from 0.91% on 26th Feb to 1.35% on 8th Mar. Nevertheless, since the HKMA has not taken any action so far, liquidity remained flushed. This suggests that the upside to HIBOR is limited at this juncture. ▪ Before quarter-end effect tightens HKD liquidity, we expect HKD to remain suppressed and stay very close to the weak-end of the currency peg amid the broad strength of the USD and the persistently wide USD-HKD yield differential. However, given the very cautious carry trade, even if the USDHKD spot touches 7.8500, it may not necessarily trigger any liquidity withdrawal or may only lead to very moderate intervention by the HKMA. As such, we hold onto our view that aggregate balance (HK$76 billion) will hold above HK$50 billion in the coming months and 1M HIBOR will stay below 1.5% before quarter-end. ▪ Elsewhere, HK's equity market recently retrieved net inflows under the stock connect schemes. This may help to sustain the flushed HKD liquidity and in turn continue to encourage carry trade. As such, the equity inflows may do little to help reverse the downtrend of the HKD any time soon.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's export fell by 20.7% yoy in dollar term in Feb, more than expectation. Import fell by 5.2%.	▪ The large drop of Feb export data was distorted by Chinese New Year effect. Putting January and February data together, China's

Trade balance shrank to US$4.1 billion from US$39.16 billion in January. ▪ China's customs said export rebounded significantly in the beginning of March.	export fell by about 5.2% yoy, a better reflection of the impact of trade war on China's growth. ▪ Although trade data may rebound in March due to low base effect, the trade outlook remains challenging for China as China's two largest trading partners are facing rising challenges such as rising protectionism in the US and slowdown risk in EU.
▪ China's CPI decelerated further to 1.5% yoy in Feb, lowest since January 2018 while PPI remained intact at 0.1% yoy in Feb.	▪ The deceleration of consumer prices is partly due to base effect. On sequential basis, CPI rebounded by 1% mom in Feb driven by both core CPI and food prices, which grew by 3.2% mom. Given pork prices are expected to go higher due to the decline of pig inventory as a result of African swine flu, China's CPI may bottomed out soon. ▪ However, China's PPI is likely to swing around zero as a result of volatile raw material prices due to global economic slowdown and rising uncertainty from trade policies.
▪ China's total new Yuan loan increased by CNY885.8 billion, short of market expectation. ▪ Aggregate social financing disappointed the market by only increased by CNY703 billion. ▪ Broad money supply M2 decelerated again to 8%.	▪ The Chinese New Year seasonality makes February data hard to be digested. Nevertheless, from an aggregated perspective, the combined January and February expansion remains strong. For example, aggregate social financing increased by CNY5.34 trillion, CNY1.08 trillion higher than the same period in 2018. ▪ The volatility in social financing was mainly due to bill financing, which has been one of the key focuses recently after Premier Li sounded his concern about the arbitrage activities from the bill financing in one of the state council meetings. Although PBoC has said that majority of bill financings were supportive of the real economy, it is likely to tighten its supervision on the bill financing. As such, bill financing may remain a swing factor to the social financing data in the coming months. ▪ Overall, due to seasonal effect, the reading of data based on single month figures may not be holistic. Even for the March data, a perspective of the whole first quarter could be more indicative.
▪ HK's retail sales growth surprised to the upside and printed at 7.1% yoy in January 2019.	▪ As the Lunar New Year came earlier this year than last year, the number might have been distorted. Zooming in, as households brought forward consumption ahead of Chinese New Year, the sales of food, alcoholic drink and tobacco surged by 13% yoy while those of goods in supermarket and department stores jumped by 8.6% yoy and 15.1% yoy respectively. On the other hand, the recent rally in RMB and risky asset prices might have lent renewed support to visitors' purchasing power. As such, with new infrastructure projects luring more visitors (total visitor arrivals grew by 27.2% yoy in January 2019), the sales of clothing, footwear and allied products as well as those of jewelry, watches and clocks advanced by 5.5% yoy and 4.7% yoy respectively. Nevertheless, the sales of consumer durable goods dropped further by 4.6% yoy. This suggests that it is premature to conclude that the retail sector has bottomed out. We may need more data to gauge the outlook of the sector and remain wary of the headwinds including global economic slowdown, strong HKD and lingering trade war risks.
▪ HK's property price index rebounded by 0.1% mom in January 2019, ending the downtrend throughout the past five months. During the same month, approved new mortgage loans rallied by 19% mom after declining month on month over the past four months. Combined with the sharp rebound in the monthly growth of housing transaction in January,	▪ The rebound in early 2019 could be attributed to eased concerns about higher interest rates, stock market rally, limited short-term supply and the lowered prices of private homes. Nevertheless, it is still premature to call it a bottom in the property market. In February, housing transaction volume (-10% mom) and fell for the sixth consecutive month by 25.4% yoy to 4089 deals in February. For the private homes priced no less

it shows some signs of rebound in the property market.	than HK$10 million, the transaction volume retraced January's gain of 55% yoy and fell by 52% yoy in February. Besides, news surrounding the property market have been mixed with some property developers and homeowners selling the flats at discount while others raising the offering prices. ▪ In the near term, three factors including China's stimulus, dovish central banks and continuous trade truce may lend moderate support to the asset prices including property prices. However, global economic slowdown (major central banks, World Bank, IMF and OECD all cut forecast on 2019 GDP growth), lingering trade war risks and the prospect of increasing public housing supply (100,400 units of public housing is estimated to be available for the next five years) may cap the upside to the property market. Any further slowdown in domestic economic growth may also cloud the wage growth outlook and sideline potential homebuyers. ▪ In conclusion, we expect housing transaction volume to average below 4000 deals per month in 2019, down from the monthly average of 4771 deals in 2018. Overall housing price index is expected to fall further by 6.5% yoy in 2019.

RMB

Facts	OCBC Opinions
▪ RMB weakened against the dollar last week with the USDCNY went up marginally to 6.72 level after the broad dollar recorded the largest surge since August last year. However, RMB strengthened against its major trading partners with the RMB index rose to 95.42.	▪ Market momentum to drive the USDCNY further lower after breaking 6.70 handle has weakened recently. We see limited catalyst for a self-engineered RMB appreciation at the current stage. As such, RMB is likely to be a dollar play in the near term. Nevertheless, RMB may find some supports from the new round of re-pricing of global central bank policy.

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