Highlights

The latest economic data in March confirmed that Chinese economy have stabilized in the near term thanks to previous stimulus measures. For our detailed observations on Chinese economy, please refer to our article last week. Overall, we think China is on track to grow at around 6.3% in 2019.

As a result of positive development of Chinese economy, China's policy makers started to fine tune their policy stance in three top level policy making meetings last week including 1Q PBoC monetary policy meeting, regular State Council meeting and April politburo meeting. Some may find the messages from three meeting are overwhelming or confusing, however, we see the consistency from three meeting. The key takeaway from the meetings is that there is limited room for further marginal monetary easing. As such, the chance of RRR cut in the near term is slim. However, we don't see a U-turn of its monetary policy any time soon.

The recent economic recovery, together with the positive development of US-China trade talk, has bought China more time to shift their focus back to structural reform, mainly on how to solve funding difficulties faced by small and private owned companies. This is why the State Council meeting last week announced more measures to support lending to smaller companies.

As a result of fine-tune of policy stance, China's PBoC surprised the market with lower injection via MLFs. PBoC is likely to return to a more active liquidity management via short term liquidity operation. The liquidity operation is expected to be more targeted going forwards. This is also in line with the resurface of "structural de-leverage" in the politburo meeting as the excessive liquidity is likely to lead to higher leverage in state-owned sector.

Market is expected to further digest the fine-tuning of policy stance this week, which may lead to higher volatility. Both bond market and equity market may remain jittery. Small correction cannot be ruled out. However, on currency, we have turned more positive on RMB after global central banks have turned more easing in the past two months. The recent fine-tune of China's monetary policy stance further reinforce our positive outlook on RMB this year. We expect the USDCNY to test 6.68 again in the near term.

In **Hong Kong**, HIBOR and HKD continued to show high volatility last week. USDHKD moved down to 7.8378 before rallying to 7.8466. 1M HIBOR rose from 1.88% on 12th April to 2.14% on 15th April and retreated to 1.95% two days later. In the beginning, the large IPO together with the Easter Holiday resulted in very tight front-end liquidity. Nevertheless, as the application for Shenwan Hongyuan's IPO ended on 17th April, the funding squeezing faded gradually. As such, HIBOR fell across the board. Moving into this week, we expect 1M HIBOR will fall to around 1.8%. Specifically, after IPO and holiday effects abate, market will shift the focus back to fundamentals. At this juncture, we still see above HK$50 billion aggregate balance and continuous equity inflows. This means that HKD liquidity remains relatively ample. Nevertheless, given the concentrated dividend payout during May to July and the upcoming half-year end, the downside of HIBOR may be capped. As such, USD-HKD yield differential may remain intact. Despite that, given cautious carry trade and continuous equity inflows, it may be more difficult for the USDHKD to touch 7.8500. Though the possible of HKMA intervention cannot be ruled out in the coming months, any further intervention is expected to remain moderate. Should there be any further intervention, it may cause panic liquidity squeezing again. In conclusion, we expect aggregate balance to hold above HK$20 billion by end of this year. 1M and 3M HIBOR may hold above 1.5% while staying below 2.2% in the coming months. Meanwhile, USDHKD will likely hover in the range of 7.8300-7.8500. In **Macau**, the Monetary Authority is reportedly studying the feasibility of building a securities market with RMB being the settlement currency. This could be another important step in RMB internationalization.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In China's April politburo meeting, the top policy making bodies reckoned that the economy is better than expected in 1Q. It dropped the phrases on six stability (stable job, stable finance, stable external demand, stable foreign investment, stable investment and stable expectation) in the statement. ▪ Meanwhile, the wording on structural de-leverage resurfaced in the statement. And the politburo also reemphasized the housing market is not for	▪ The removal of "six stability" aim in the latest politburo meeting confirmed market view that the room for further marginal monetary easing, such as the RRR cut as speculated in April, is limited. However, as mentioned by the politburo for the first time that the economy is still facing downward pressure due to structural and systemically reasons, this implies that there is no U-turn in China's stimulative policies in the near term. ▪ Overall, we think China's top policy makers are happy to see the stronger than expected growth in 1Q as it means their

speculative. ▪ However, the meeting also said the pressures on slowing economy is not only due to cyclical reasons but also due to structural and systemically reasons.	counter cyclical measures are working. However, they are also hesitate to roll out more measures to repeat the mistakes made 10 years ago. The recent recovery has bought China more time to continue their structural reform. In financial sector, one of the most important structural reforms is supporting funding demand from the private owned enterprises. This is in line with the resurface of "structural de-leverage" as the excessive liquidity is likely to lead to higher leverage in state-owned sector. ▪ As such, we think China is likely to manage its liquidity more carefully. This suggests a lower probability of RRR cut in the near term.
▪ In the latest regular State Council meeting, China's Premier Li announced more measures to lower the funding costs for smaller and micro enterprises. The outstanding of loan to small and micro enterprises will be at least 30% higher in 2019 while funding costs to MSEs will be lowered by another 100bps this year.	▪ As a result of stabilization of Chines economy in 1Q due to easing policy, there is no urgency for China to roll out additional easing measures. As such, the monetary policy is expected to return to neutral level. Therefore, we think China is likely to focus back on its previous commitment to solve the funding difficulties faced by small and micro companies.
▪ In its 1Q monetary policy meeting, China's central bank reiterated that it will control the flood gate of total liquidity.	▪ The resurface of phrase on "controlling the flood gate of total liquidity" shows that the room for additional easing is limited. We think the chance of RRR cut is low now.
▪ PBoC restarted its open market operation last week after suspending for 18 days. ▪ PBoC injected CNY300 billion liquidity via 7-day reverse repo and CNY200 billion liquidity via MLFs to replace the maturing CNY366.5 billion MLFs last week. ▪ China's interbank tightened initially with overnight repo rose to above 2.9% but eased subsequently in the latter part of the week.	▪ The lower than expected MLF volume surprised the market. It seems that PBoC will return to a more active liquidity management via short term liquidity operation as China is shifting their focus back to structural reform from stimulating the growth.
▪ HIBOR and HKD continued to show high volatility last week. USDHKD moved down to 7.8378 before rallying to 7.8466. 1M HIBOR rose from 1.88% on 12th April to 2.14% on 15th April and retreated to 1.95% two days later.	▪ Given the improved sentiment, investors might have shown some interests in Shenwan Hongyuan's nearly HK$10 billion IPO. The IPO in turn locked up some HKD liquidity. Adding on the Easter Holiday, front-end liquidity tightened notably with overnight HIBOR, 1-week HIBOR and 1-month HIBOR rising by 31.6bps, 33bps and 15.3bps respectively to top 2%. Nevertheless, as the application for Shenwan Hongyuan's IPO ended on 17th April, the funding squeezing faded gradually. As such, HIBOR fell across the board. ▪ Moving into this week, we expect 1M HIBOR will fall to around 1.8%. Specifically, after IPO and holiday effects abate, market will shift the focus back to fundamentals. At this juncture, we still see above HK$50 billion aggregate balance and continuous equity inflows (southbound equity flows continued to see net inflows since 29th March). This means that HKD liquidity remains relatively ample. ▪ Nevertheless, given the concentrated dividend payout during May to July and the upcoming half-year end, the downside of HIBOR may be capped. As such, USD-HKD yield differential may remain intact. Despite that, amid cautious carry trade and continuous equity inflows, it may be more difficult for the HKD to touch the weak-end of the currency peg. Though the possible of HKMA intervention cannot be ruled out in the coming months, any further intervention is expected to remain moderate. Should there be any further intervention, it may cause panic liquidity squeezing again.

	▪ In conclusion, we expect aggregate balance to hold above HK$20 billion by end of this year. 1M and 3M HIBOR may hold above 1.5% while staying below 2.2% in the coming months. Meanwhile, USDHKD will likely hover in the range of 7.8300-7.8500.
▪ It is reported that Macau's Monetary Authority (AMCM) is studying the feasibility of building a securities market with RMB being the settlement currency.	▪ Despite the relatively small financial market of Macau, the development of such a securities market will still be an important step in RMB internationalization. Specifically, the build-up of RMB liquidity pool and the launch of RMB-denominated financial products in Macau may pave the way for the promotion of RMB usage in the Portuguese-speaking countries and support the AMCM's set-up of a financial services platform connecting China and Portuguese-speaking countries.
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Key Economic News	
Facts	**OCBC Opinions**
▪ China reported a stronger than expected March economic indicators and 1Q GDP. For details, please refer to our article last week.	▪ A strong turnaround story in March, but surprisingly net export is the key contributor to China's growth in 1Q. ▪ There is mismatch between supply story and demand story. ▪ Property market is not the weakest link in 2019. ▪ More measures needed to boost domestic demand. Real income growth and wealth effect from equity rally are positive for consumption story. ▪ Infrastructure investment remains sluggish but may pick up soon. ▪ China is on track to grow at around 6.3% in 2019.
▪ HK's unemployment rate kept static at an over two-decade low of 2.8% during the first quarter of 2019.	▪ Despite that, the unemployment rate increased across major industries. Trade sector's unemployment rate jumped to 2.2% in 1Q 2019 from 1.9% during the previous three-month period. As total trade shrank for the fourth consecutive month in February, the sector's hiring sentiment weakened. On the retail sector front, its unemployment rate rose from 3.4% to 3.6%. Albeit robust inbound tourism and tight local labor market, retail sales remained subdued amid cautious consumption sentiment on concerns about global economic slowdown. This as a result dented the labor demand of retail sector. In terms of the financial sector, its unemployment rate increased to 2.1% from 2.0%, probably due to the employers' cautious outlook about the financial market. At this juncture, we remain wary of the external headwinds to HK's labor market. On a positive note, the US is on the track to reach a trade deal with China while risky asset prices have been supported by major central banks' dovish tone. Furthermore, green shoots emerged in Chinese economy. Whether these positive factors could lend support to HK's economy and its labor market will be closely monitored.

RMB	
Facts	**OCBC Opinions**
▪ RMB rallied last week with the USDCNY broke 6.70 briefly but failed to stand firm below 6.70 handle and the pair ended the week above 6.70 due to	▪ We have turned more positive on RMB after global central banks have turned more easing in the past two months. The recent fine-tune of China's monetary policy stance further

rebound of broad dollar. However, RMB index extended the gain rising to 95.5.	reinforce our positive outlook on RMB this year. We expect the USDCNY to test 6.68 again in the near term.

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