Highlights

The concern on U-turn of China's simulative monetary policy eased after PBoC conducted its TMLF last week. The message from PBoC press conference confirmed that China is moving away from universal easing to structural easing to better support the funding demand from the small and micro companies. This significantly lowered the probability of RRR cut in the near term.

In addition, the elaboration on the timing of TMLF operation will help contain unnecessary rumors or speculation on China's monetary policy operation in future. The next window for TMLF is likely to be late July. The rollover of four batches of CNY1.35 trillion in June and July is likely to done in form of reverse operation and smaller MLFs.

China concluded its second Belt and Road Forum of international cooperation announcing 283 deliverable concrete results from the forum. China's Ministry of Finance will work with its BRI counterparties to enhance debt management and promote sustainable financing under Debt Sustainability Framework. The move is helpful to address the concern that China's BRI may lead to higher debt in emerging markets.

On currency, RMB weakened against the dollar as a result of unexpected broad dollar rally. Nevertheless, we are still positive on RMB as China's move from universal monetary easing to structural easing is likely to be supportive of the currency. President Xi's re-iterance of no competitive devaluation in the BRI forum may not have significant impact on the currency. However, the stronger than expected RMB fixing on Friday provide the floor to RMB. We will continue to monitor the fixing this week other than April PMI.

In Hong Kong, ever since aggregate balance decreased to HK$54.4 billion, HKD and HIBOR have braced for higher volatility as market became more and more sensitive to potential funding squeezing events. Last week, market participants started to prepare for month-end and Labor Day Holiday, which pushed 1M HIBOR up by 20bps to 2.12% in two days. With a raft of liquidity draining events approaching one by one, HIBORs have remained elevated. This in turn sidelined carry trade and kept USDHKD in the range of 7.8400-7.8460. Moving ahead, we will soon see dividend payment during May to July which could translate into higher HKD demand. Besides, commercial banks may hoard money for window dressing ahead of half-year end. Against this backdrop, even if month-end and Labor Day Holiday effects wane, HKD liquidity may continue to be relatively tight. 1M HIBOR and 3M HIBOR are expected to be volatile and hover in the range of 1.5%-2.2% during the second quarter. If this is the case, and carry trade gets increasingly cautious, the chance of USDHKD spot touching 7.85 looks slim in 2Q. Elsewhere, the HKEX and China Securities Regulatory Commission has reached an agreement to include the shares with weighted voting rights in the stock connects in July. This may help to attract more high-growth new economy companies to get listed in HK and lure more equity inflows to HK, in turn allowing HK to sustain the flushed liquidity. **In Macau,** visitor arrivals grew strongly by 24% yoy in March, mainly led by the 40.8% yoy growth in same-day visitors. Moving into April and May, on top of new infrastructure, Easter Holiday and Labor Day Holiday would have provided more impetus for the tourism sector. China's economic stabilization may also bolster the country's outbound tourism in the coming months.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's central bank shed light on the direction of monetary policy via the conduction of CNY267.4 billion targeted medium term lending facility (TMLF) and joint press conference. ▪ PBoC said in its press conference that it will not neither tighten nor ease monetary policy further. ▪ Meanwhile, it also said the TMLF will usually be conducted in the fourth week of first month of each quarter.	▪ The second conduct of TMLF last week together with the rhetoric from PBoC shows that there will not be imminent U-turn of monetary policy although it is confirmed that there is limited room for further marginal easing. ▪ Clearly, China is moving away from universal easing to structural easing to better support the funding demand from the small and micro companies. A structural easing means the resource will be re-allocated from some sectors to smaller private owned companies. This is also in line with the message on structural de-leverage sent by the politburo meeting recently. As such, the structural easing is likely to keep overall leverage ratio intact. ▪ In addition, the elaboration on the timing of TMLF operation will help contain unnecessary rumors or speculation on China's monetary policy operation. The next window for TMLF is likely to be late July. ▪ Given there will be four batches of CNY1.35 trillion MLFs

	expiring in June and July and the TMLF in late July will not be enough to replace, China is likely to further reply on reverse repo operation and MLFs to manage liquidity.
▪ China concluded its second Belt and Road Forum of international cooperation. China announced 283 deliverable concrete results from the forum.	▪ In the list, China's Ministry of Finance will work with its BRI counterparties to enhance debt management and promote sustainable financing under Debt Sustainability Framework. The move is helpful to address the concern that China's BRI may lead to higher debt in emerging markets.
▪ Last week, HKD and HIBOR continued to show high volatility.	▪ Ever since aggregate balance decreased to HK$54.4 billion, HKD and HIBOR have braced for higher volatility as market became more and more sensitive to potential funding squeezing events. Around mid-April, there was large IPO and Easter Holiday. This once drove 1M HIBOR to 2.14% (highest since last December). Last week, market participants started to prepare for month-end and Labor Day Holiday, which also pushed 1M HIBOR up by 20bps to 2.12% in two days. With a raft of liquidity draining events approaching one by one, HIBORs have remained elevated. This in turn sidelined carry trade and kept USDHKD in the range of 7.8400-7.8460. ▪ Moving ahead, we will soon see dividend payment during May to July which could translate into higher HKD demand. Besides, commercial banks may hoard money for window dressing ahead of half-year end. Against this backdrop, even if month-end and Labor Day Holiday effects wane, HKD liquidity may continue to be relatively tight. 1M HIBOR (2.1% on 26th April) and 3M HIBOR (2.06% on 26th April) are expected to be volatile and hover in the range of 1.5%-2.2% during the second quarter. If this is the case, and carry trade gets increasingly cautious, the chance of USDHKD spot touching 7.85 looks slim in 2Q.
▪ The Secretary for Hong Kong Financial Services and the Treasury, James Lau stated that HKEX and China Securities Regulatory Commission has reached an agreement to include the shares with weighted voting rights (WVR) in the stock connects in July.	▪ Seven companies including two WVR companies Xiaomi and Meituan (two of the three largest IPO in HK in 2018) had listed in HK under the new IPO rules by end-2018, according to HK government. The inclusion of WVR shares in the stock connects may help to attract more high-growth new economy companies to get listed in HK. ▪ Meanwhile, the inclusion may help to lure more equity inflows to HK, in turn allowing HK to sustain the flushed liquidity. Specifically, as Hang Seng China AH premium index rebounded to an over one-year high at 126.2, the attractiveness of H-shares increased. As such, southbound equity flows saw strong inflows of HK$20.6 billion (highest since Feb 2018) in March and HK$13.3 billion month-to-date in April.
▪ Last week, the HKMA and China Export & Credit Insurance Corporation (Sinosure, the official export credit agency of Chinese government), signed a Memorandum of Understanding (MoU). It aims to establish a strategic framework of co-operation to facilitate the financing for and investments in infrastructure projects via the Infrastructure Financing Facilitation Office (IFFO) platform.	▪ Official data shows that with the support from Sinosure, the exports to and investments in the countries along the Belt and Road by Mainland companies totaled US$712.43 billion during 2013 to Feb 2019. According to the HKMA, Sinosure will closely collaborate with the IFFO to continue developing a wide range of products, including project financing insurance, overseas investment insurance, guarantee, and credit rating, in an effort to encourage HK-based financial institutions to participate in the infrastructure financing activities. Meanwhile, Sinosure and IFFO will work together to attract more Mainland companies to leverage on Hong Kong's platform for their investments in overseas infrastructure projects. The HKMA expects this to facilitate the implementation of the Belt and Road Initiative. Besides, we

	believe that the agreement between HKMA and Sinosure will help to promote the collaboration between HK and Mainland China and enhance HK's role as a financing hub for Mainland companies.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's March industrial profit rebounded to 13.9% yoy, up from -14% in February.	▪ The rebound of industrial profit data was in line with positive data set released recently, partially supported by the seasonal effect. On the positive note, the industrial profit may imply a recovery of investment in manufacturing sector in the coming months.
▪ China still reported a mild capital outflows in March despite the recent outperformance of RMB. China's banks net purchased US$6.1 billion dollar on behalf of clients in March.	▪ Despite a small deficit on capital flows, corporate's willingness to sell foreign currency receivable remains stable. Overall, we still see a balanced capital flow picture in the near term.
▪ Macau's visitor arrivals continued to grow strongly by 24% yoy to 3.4 million in Mar, mainly led by the 40.8% yoy growth in same-day visitors (1.8 million).	▪ Besides, visitors from Greater Bay Area grew by 16.6% yoy to 1.4 million while tourists by land jumped by 62.4% yoy to 2.5 million (20.1% via HK-Zhuhai-Macau Bridge). This shows that even though the effect of Lunar New Year subsided, Macau's inbound tourism remained robust owing to the new infrastructure. ▪ On the other hand, overnight visitors rose by 9.1% yoy or 4.9% mom to 1.6 million. As a result, the percentage share of overnight visitors in total visitor arrivals rebounded from 42.6% in Feb to 46.7% in Mar. Meanwhile, overnight visitors' average length of stay advanced from the lowest since Apr 2018 of 2.1 days in Feb to 2.2 days in Mar. Moving into April and May, Macau's tourism sector may continue to gain momentum on the back of Easter Holiday and Labor Day Holiday. China's economic stabilization may also bolster the country's outbound tourism in the coming months. ▪ Nevertheless, after the holiday effect abates, whether overnight visitors could sustain strong growth remains uncertain due to several reasons. First, if China's stabilization fails to help revive global growth, concerns about persistent global slowdown may cap the upside for the tourism sector. Second, a relatively strong MOP and the high cost of staying overnight may curb the growth of overnight visitors. Third, as most of the new mega entertainment projects have commenced operation, it gets harder and harder for the gambling hub to lure overnight visitors with new projects. ▪ In conclusion, should overnight visitors fail to sustain the strong growth in the medium term, the resilient tourism activities led by the growth of same-day visitors may barely benefit the gaming sector or the retail sector.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened against the dollar last week due to unexpected jump of US dollar as a result of weak European data. However, RMB strengthened slightly against its currency basket with RMB index rose to 95.69 last Friday.	▪ RMB's weakness against the dollar last week was mainly the result of strong broad dollar. RMB weakness paused last Friday as a result of stronger than expected daily fixing. It might be too early to call for any signal from the fixing.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Co.Reg.no.:193200032W