

Highlights

China's market sentiment remains jittery despite more proactive monetary and fiscal policies. In its 2Q monetary policy meeting statement, PBoC said it will keep liquidity "reasonable and ample" from previously "reasonable and stable". The fine-tune of the wording reinforced market expectation that PBoC has turned more flexible in terms of its monetary policy against the backdrop of slowing economy and looming trade war. However, this also raises concern that the easing monetary policy may fuel another round of property boom.

On economy, China's official PMI fell slightly to 51.5 in June from 51.9 in May. External demand showed signs of fatigue with new export orders fell to 49.8, below 50, probably due to concerns about the escalating US-China trade tension.

Monetary policy alone is not panacea and fiscal policy is needed to help China strike the balance between growth and de-leverage. On the positive note, China's fiscal policy has been more proactive. China's Ministry of Finance announced to expedite the refund of value added tax retained to advanced manufacturing sectors as well as high tech industries listed in Made in China 2025 to support cash flows of those companies.

The rising uncertainties did not change China's plan to further open its market and effort contain financial risk. China unveiled the shortened negative list for foreign investment, effective from 28 July. China's commitment to further open its domestic sectors to foreign investors has not be disrupted by the recent elevating US-China trade tension. This also shows that China is treating the US-China trade tension as the isolated event. In addition, China's National Development and Reform Commission unveiled new regulation to tighten its supervision and monitor of foreign debt.

On currency, PBoC has been reported to step in to slow down the pace of depreciation last week via daily fixing and outright sale of dollar. We think PBoC's role is to keep excessive volatility in check rather than intervening to turn the table. As such, there is no urgency for excessive intervention. Market shall also closely monitor the movement of RMB index. RMB index has corrected from high of 98 to about 95.60. Should RMB index fall to 94 level in the near term, we think China may re-launch its counter cyclical factor to slow down the pace of depreciation. This could change market sentiment.

In **Hong Kong**, the government unveiled details of three property control measures last week. These measures might have several market implications. First, the public housing market may be immune to the private housing frenzy. Second, the increase supply in public housing may help to lower the demand in the private leasing market as well as the demand for nano private flats. Third, given the vacancy tax, property developers may speed up the sales of vacant properties. Nevertheless, smaller flats are highly demanded and should be little affected by the vacancy tax. As such, property developers could mainly build smaller units. Or perhaps they would pass through the tax to the buyers. Therefore, we expect vacancy tax to have limited impact on private housing prices. All in all, the new measures are expected to help improve the public housing program and accelerate the growth of new home supply. However, it may take a long time for these measures to materialize in pushing down the sky-high property prices and easing the structural imbalance between home supply and demand. Elsewhere, due to high financing costs and stock market rout amid trade war concerns, Xiaomi's IPO turned out to be less attractive than previously expected. As a result, the hoarded money returned to the market. Moving ahead, a new wave of IPOs including China Tower and Meituan will come one by one in July and August. Even though market sentiments for IPOs could remain muted due to concerns about US-Sina trade conflicts, the relatively large size of the IPOs would still lock up substantial amount of liquidity. Therefore, we do not expect HIBOR to retreat significantly after month-end and Xiaomi's IPO. Instead, one-month HIBOR and three-month HIBOR may be able to find some support around 1.5% and 1.8% respectively.

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> As planned, China unveiled the shortened negative list for foreign investment, effective from 28 July. 	<ul style="list-style-type: none"> Total number of items in the negative list will be cut from 63 to 48. China's commitment to further open its domestic sectors to foreign investors has not be disrupted by the recent elevating US-China trade tension. This also shows that China is treating the US-China trade tension as the isolated event while opening and reform will continue to the key theme for this year to mark the 40th anniversary of China's reform and opening.
<ul style="list-style-type: none"> China's National Development and Reform Commission unveiled new regulation to tighten its supervision and monitor of foreign debt. However, the NDRC denied the news that it will ban 	<ul style="list-style-type: none"> Since September 2015 after the NDRC loosened regulation on offshore debt issuance, more Chinese companies tapped the offshore market to raise fund. However, the increasing issuance of offshore bond also led to new problem. For example, the

<p>sale of 364-Day dollar bond in the offshore market.</p>	<p>massive issuance of offshore bond by property developers may have weakened China's property tightening measures. In addition, the debt issuance by some low rating local government funding vehicles also led to concerns about local government debt.</p> <ul style="list-style-type: none"> ▪ Going forward, the NDRC is likely to optimise the structure of foreign debt via tightening the use of offshore bonds by developers and local government funding vehicles with the proceeds are only allowed to use pay its existing debt.
<ul style="list-style-type: none"> ▪ It was reported that China Development Bank is reviewing its support for shantytown re-development plan. Meanwhile, the local newswire reported that approval authority has been transferred from local level to headquarter. 	<ul style="list-style-type: none"> ▪ There is concern that the latest shantytown re-development plan supported by CDB backed by central bank's longer term PSL has contributed to the recent price rally in the lower tier cities. The tightening funding shows that China's property investment, which is the key supporter to growth this year, may decelerate in the coming months.
<ul style="list-style-type: none"> ▪ PBoC fine-tuned its wording in its 2Q monetary policy meeting statement. The central bank said it will keep liquidity "reasonable and ample" from previously "reasonable and stable". 	<ul style="list-style-type: none"> ▪ The latest fine-tune of wording reinforced market expectation that PBoC has turned more flexible in terms of its monetary policy against the backdrop of slowing economy and looming trade war.
<ul style="list-style-type: none"> ▪ China's Ministry of Finance announced to expedite the refund of value added tax retained to advanced manufacturing sectors as well as high tech industries listed in Made in China 2025 to support cash flows of those companies. 	<ul style="list-style-type: none"> ▪ Against the backdrop of slowing economy and looming US-China trade tension, China has been shifting to more proactive monetary and fiscal policies. However, as a result of concern that easing monetary policy may fuel property price rally again, investors are more comfortable with a proactive fiscal policy.
<ul style="list-style-type: none"> ▪ China's Ministry of Finance (MOF) announced to sell combined RMB 10 billion Dim Sum Bonds this year in two batches. The issuance size fell nearly 30% yoy to the lowest since 2010. In addition, the MOF will issue US\$3 billion sovereign bonds in Hong Kong in 2018. 	<ul style="list-style-type: none"> ▪ In fact, the issuance of dim sum bonds has remained subdued due to higher borrowing costs in the offshore market. Recently, the renewed downward pressure on the RMB may also reduce the overseas demand for RMB assets. Besides, the launch of bond connect has created opportunities for offshore investors to hold onshore sovereign bonds. Therefore, the MOF does not have to rely on offshore market to raise funds. Nevertheless, the MOF insists to issue dim sum bonds. This signals that the top levels will continue to make efforts to support RMB internationalization.
<ul style="list-style-type: none"> ▪ Hong Kong government unveiled details of three property control measures last week. 	<ul style="list-style-type: none"> ▪ First, the pricing of subsidized housing will be de-linked from private market rates and instead be linked to the median monthly income of the applicants. In this case, the subsidized housing prices will become more relevant to a household's affordability. This may help to immune the public housing from the private housing frenzy. ▪ Second, public housing will be built on nearly nine prime sites originally reserved for private property projects. The resultant increase in public housing by about 10 thousand units may help to reduce the waiting time for the applicants. Also, it could help to lower the demand in the private leasing market as well as the demand for nano private flats. ▪ Third, vacancy tax will be levied on primary residential properties that are unoccupied for more than six months. The tax will be set at 200% of the "rateable value" of the vacant property. As such, property developers may speed up the sales of vacant properties. Nevertheless, smaller flats are highly demanded and should be little affected by the vacancy tax. This may prompt property developers to mainly build smaller units. Or perhaps they would pass through the tax to the buyers. Therefore, we expect vacancy tax to have limited impact on private housing prices. All in all, the new measures are expected to help improve the public housing program and accelerate the

	<p>growth of new home supply. However, it may take a long time for these measures to materialize in pushing down the sky-high property prices and easing the structural imbalance between home supply and demand.</p>
<ul style="list-style-type: none"> Xiaomi's IPO appeared to have been less attractive than previously expected due to high financing costs. Hong Kong's stock market rout amid trade war concerns also sidelined prospective investors from Xiaomi's debut. 	<ul style="list-style-type: none"> As a result, the hoarded money returned to the market. One-month HIBOR subsided to 2.01% on 29 June after jumping to 2.13% on 25 June. With front-end liquidity turning flushed, the HKD faced renewed downward pressure. Moving ahead, a new wave of IPOs including China Tower and Meituan will come one by one in July and August. Even though market sentiments for IPOs could remain muted due to concerns about lingering US-Sino trade conflicts, the relatively large size of the IPOs would still lock up substantial amount of liquidity. Therefore, we do not expect HIBOR to retreat significantly after month-end and Xiaomi's IPO. Instead, one-month HIBOR and three-month HIBOR may be able to find some support around 1.5% and 1.8% respectively in the near term. On the HKD front, ample front-end liquidity is possible to push USDHKD spot rate up to 7.85 once again. Nonetheless, concerns about funding crunch associated with several large IPOs in 3Q18 may keep those short HKD traders cautious. Increasing dividend payment flows in July and August could also translate into a cushion for any HKD weakness. Therefore, we hold onto our view that aggregate balance (currently HK\$109.4 billion) will hold above HK\$80 billion in the coming two months.

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's official PMI fell slightly to 51.5 in June from 51.9 in May, but still well above the threshold line of 50. 	<ul style="list-style-type: none"> Domestic demand remains resilient with new orders remained high at 53.2 albeit down from 53.8 in May. However, external demand showed signs of fatigue with new export orders fell to 49.8, below 50, probably due to concerns about the escalating US-China trade tension. On price, purchasing price index rebounded further to 57.7 in June, up by 1 points. This implied that China's producer price index may edge higher in June. A higher PPI may be supportive of fiscal revenue growth may provide more room for China to implement more proactive fiscal policies.
<ul style="list-style-type: none"> China's industrial profit growth accelerated to 16.5% yoy in the first five months from 15% yoy in the first four months. 	<ul style="list-style-type: none"> Although the huge disparity between reported growth and calculated growth raised concerns about the data quality, the strong industrial profit is in line with profitability data reported by Ministry of Finance as well as VAT tax growth rate. This showed that large companies remained healthy.
<ul style="list-style-type: none"> HK: The growth of total loans and advances grew slowed down to 12% yoy in May from 17.1% yoy in April. 	<ul style="list-style-type: none"> Zooming in, loans for use in Hong Kong (excluding trade finance), which account for 64% of total loans and advances, expanded by 12.8% yoy. The growth is much slower than the 19.3% yoy gain in the previous month. Apart from the waned effect of April's large IPO, higher financing costs might also have weighed down local loans demand. Moving forward, we expect commercial banks to raise prime rate at least once by 25bps this year. Though the rate hike pace could be gradual, prime rate would continue on its uptrend along with Fed's fund rate. Any further increase in financing costs combined with muted corporate sentiments amid trade war concerns may continue to dent local loans demand. In terms of loans for use outside of Hong Kong, their growth also

	<p>moderated from April's 13.2% to May's 10.4%. As the PBOC is shifting to an easing bias and striving to alleviate funding stress for SMEs, we expect Mainland companies' offshore loans demand to shrink moderately. Also, China's curb on irrational overseas investment as well as higher funding costs in the offshore market might have deterred some loans demand from Mainland companies. All in all, we expect total loans and advances to grow albeit at a slow pace in 2H18.</p>
<ul style="list-style-type: none"> HK's RMB deposits increased at the fastest pace since December 2014 and were up 14.5% yoy to RMB600.9 billion in May. 	<ul style="list-style-type: none"> Though RMB depreciated slightly in May, the outlook of RMB remained positive. Adding that commercial banks continued to offer high RMB deposit rates, the rebound in RMB deposits sustained into May. However, since late June, the outlook of RMB turned a bit negative due to heightening concerns about US-Sino trade tensions. The CNH depreciated by more than 3% month-to-date against the greenback. As such, HK's RMB deposits may retreat slightly if not stabilizing at the current level in the coming months.
<ul style="list-style-type: none"> HK's exports and imports rose on a broad basis respectively by 15.9% yoy and 16.5% yoy in May. This indicates that the trading activities remained resilient, in line with the strong performance of China's trade sector in the same month. 	<ul style="list-style-type: none"> Notably, imports from China and the US increased by 18.4% yoy and 6.6% yoy respectively. Meanwhile, overseas shipments to China and the US advanced by 19.2% yoy and 12.5% yoy respectively. However, as market fret that US-Sino trade conflicts will materialize in the second half of this year, trading activities might have been front-loaded. From July onwards, the data would paint a clearer picture as new tariff will take effect starting 6 July. As Trump administration targets at China's high-tech industry, the escalating trade tensions could gradually take a toll on the whole electronic value chain of Asia. This would in turn threaten HK's trade sector which is concentrated in shipments of high-tech products. Exports and imports of electrical machinery, office machines and telecommunications accounted for 64.3% of total exports and imports. We are wary that possible slowdown in trade expansion would translate into a moderate drag on the economy in the medium term.
<ul style="list-style-type: none"> Macau's visitor arrivals increased for the fourth consecutive month by 5.2% yoy in May with those from Mainland China growing 9.3% yoy. 	<ul style="list-style-type: none"> Nevertheless, tourists from Hong Kong, Taiwan, South Korea and Japan dropped by 2.1%, 5.6%, 10% and 0.5% respectively on a yearly basis. Despite that, overnight visitors increased for the 34th consecutive month and were up 5.3% yoy. As a result, the share of overnight visitors increased to the highest since January at 53.6%. With a slew of mega entertainment projects to commence operation successively this year, we expect overnight visitors will continue to increase. The upcoming completion of Hong Kong-Zhuhai-Macau Bridge will also likely support inbound package tours. Therefore, we expect inbound tourism to remain elevated on the back of Asia's resilient economic growth. Despite that, the World Cup betting would have dented Macau's gaming revenue during June and July.
<ul style="list-style-type: none"> Macau's unemployment rate dropped to the lowest level since early 2018 at 1.8% over the three months through May 2018. Labor force participation rate rebounded to 70.8%, a level last seen in late 2017. Besides, the employed population grew for the fifth three-month periods to 383,100. Taken all together, it reflects that labor demand has held up well over the past few months. 	<ul style="list-style-type: none"> Zooming in, the employment of retail sector increased further by 2.8% mom, supported by robust retail growth on the back of upbeat local consumer sentiment and sustained revival of inbound tourism. Meanwhile, gaming sector's employment increased 1.5% mom given the upcoming openings of new mega projects. Also, the employment of construction industry edged up 2.1% mom amid strong labor demand of infrastructure projects. Moving forward, the labor market is likely to remain tight. As the government plans to increase investment in infrastructure, we expect demand for construction workers will remain elevated. A new wave of mega project openings will also

	<p>keep supporting the hiring sentiments across gaming- and tourism-related sectors. With a tight labor market and sanguine economic outlook, wage growth is expected to accelerate gradually in the coming quarters and in turn bolster domestic spending.</p>
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RMB	
Facts	OCBC Opinions
<ul style="list-style-type: none"> RMB weakened further with the USDCNY broke 6.60 handle with limited resistance. RMB index fell to 95.65 last Friday. The 2200 bps move (about 3.5% depreciation against the dollar) within two weeks has caught most investors by surprise. 	<ul style="list-style-type: none"> PBoC has been reported to step in to slow down the pace of depreciation last week via daily fixing and outright sale of dollar. We think PBoC's role is to keep excessive volatility in check rather than intervening to turn the table. As such, there is no urgency for excessive intervention. We think PBoC is still comfortable with the current USDCNY level for two reasons. First, despite the recent rapid depreciation, RMB still outperformed most Asian currencies. Second, RMB remains strong against its major trading partner. RMB index still gained about 0.7% year to date. The near-term outlook of RMB will depend on the US dollar movement as well as progress of US-China trade war. Should both side cool down as most investors hope, the pressure for RMB to weaken may alleviate. Market shall also closely monitor the movement of RMB index. RMB index has corrected from high of 98 to about 95.60. Should RMB index fall to 94 level in the near term, we think China may re-launch its counter cyclical factor to slow down the pace of depreciation. This could change market sentiment.

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