

Highlights:

The biggest news over the weekend is the planned setup of a new economic zone in XiongAn New Area in Hei Bei province, which is about 130KM south of Beijing. It is the 19th national new area created since 1992. However, it is the first one to be simultaneously endorsed by both the State Council and the Central Committee of the Chinese Communist Party. The New Area will help alleviate congestion pressure in Beijing and non-governmental functions of Beijing are likely to be relocated to the new area. The market talk is that universities, research centres and headquarters of SOEs are likely to be relocated to XiongAn New Area. There is also juicy story that all property sales have been suspended in the New Area to prevent from speculators which have flooded into the region over the weekend. We think China is very serious about the development of this New Area and it is likely to be the main political legacy of President Xi Jinping. As such, the development of New Area is likely to be the new growth engine for China, which might attract billions of investment.

Economic data continued to support recovery story in China with China's official PMI rose to 51.8, highest since Apr2012. On price level, input prices continued to fall in March, implying that PPI is likely to have peaked in Feb and is expected to fall gradually. On liquidity front, PBoC surprisingly net withdrew liquidity from the system in the last week of the first quarter. This shows that slightly tighter monetary policy is likely to be the new normal to press financial institutions to keep their leverage in check.

The HKEX is set to launch five-year China Ministry of Finance Treasury Bond Futures on 10 April. This will be the first futures on China's domestic government bonds in the offshore markets. This may help attract more investors to invest in China's onshore bond market with the help of more hedging tools.

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China will launch a new economic zone XiongAn New Area in Hei Bei province, which consists of three counties with initial cover of 100 square kilometres. The New Area, which is about 130KM south of Beijing, is designed to promote economic integration of Beijing, Tianjin and Hebei. It is the 19th national new area created since 1992. However, it is the first one to be simultaneously endorsed by both the State Council and the Central Committee of the Chinese Communist Party. 	<ul style="list-style-type: none"> According to the report from official Xinhua News Agency, XiongAn New Area will be lifted the same height as the successful Shenzhen Special Economic Zone and Shanghai Pudong New Area. The New Area will help alleviate congestion pressure in Beijing and non-governmental functions of Beijing are likely to be relocated to the new area. Due to limitation of water resource in the new area as well as plans to build the new city to be garden city and smart city, we think this new area is unlikely to be the industrial hub. Instead, it is likely to be the educational hub as well as innovation hub. The current market talk is that universities and research centres are likely to be relocated to there. In addition, the headquarters of SOEs may also be relocated to the new area. Over the weekend, news reported that all property sales in the New Area have been frozen after speculators flooded into three small counties for bargain hunting. Meanwhile, news that one listed property developer who has huge land bank in this area will return those lands back to government. We think China is very serious about the development of this New Area and it is likely to be the main political legacy of President Xi Jinping. As such, the development of New Area is likely to be the new growth engine for China, which might attract billions of investment.
<ul style="list-style-type: none"> PBoC net withdrew CNY260 billion in the last week of the first quarter via open market operation despite heightening liquidity pressure ahead of quarter end macro prudential assessment. 	<ul style="list-style-type: none"> The liquidity pressure was contained by two factors including release of fiscal money as well as less capital outflows. This explains why PBoC did not inject additional liquidity last week. In addition, it also shows slightly tighter monetary policy is likely to be the new normal to press financial institutions to keep their leverage in check.
<ul style="list-style-type: none"> The HKEX is set to launch five-year China Ministry of Finance Treasury Bond Futures on 10 April. This 	<ul style="list-style-type: none"> In addition to the diversified and flexible hedging tools to reduce exchange rate risk of RMB-denominated assets in the

will be the first futures on China's domestic government bonds in the offshore markets.	offshore market, offshore investors will soon be able to manage RMB interest rate risk with the first onshore government bond futures in the offshore markets. This is also paving way for the opening up of the onshore bond market, such as the launch of bond connect this year. For details, please refer to our Chinese weekly report.
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Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's official PMI rose further in March to 51.8, highest since Apr 2012. 	<ul style="list-style-type: none"> Demand continued to improve with both new orders and new export orders rose to 53.3 and 51 respectively due to stable growth recovery despite political uncertainty in the global market. From supply perspective, production index increased to 54.2. Both demand and supply factors support further recovery of Chinese economy. The stronger than expected PMI reinforced our expectation that the 1Q economic growth is expected to accelerate to around 7%. On price level, input prices continued to fall in March to 59.3 from 64.2. This will help alleviate price pressure for PPI. As such, PPI is likely to peak in Feb and fall gradually to below 7.5% in March.
<ul style="list-style-type: none"> HK's total exports and imports jumped significantly by 18.2% and 25.4% on yearly basis in February. 	<ul style="list-style-type: none"> This is attributed to the different timing of the Lunar New Year between this year and last year. Besides, the trade deficit widened to HKD56.27 billion. By region, overseas shipment to Taiwan, Vietnam, the Mainland China, the Philippines, Korea and India all showed notable yearly growth. However, exports to most of the developed countries, including Germany, the UK and the USA, dropped. Taking January and February as an aggregate, total exports exhibited positive growth of 6.7% yoy, which indicates an improved external demand. Still, a stronger HKD as well as external shocks, such as China's slowdown, disappointment about Trump's policy and the rise of protectionism, could hit HK's exports in the medium term.
<ul style="list-style-type: none"> Over the first two months, HK's retail sales dropped by 3.2% yoy, extending the declining trend since Mar 2015. Here, we use the data prints for the first two months, to mitigate the base effect resulting from the different timing of the Lunar New Year between this year and last year. 	<ul style="list-style-type: none"> On one hand, the sales value of goods in supermarkets (-3.5% yoy) and that of consumer durable goods (-15.3% yoy) continued to fall. Though a strong labor market and fiscal stimulus are supporting domestic consumption, households tend to consume online or overseas. On the other hand, the sales value of clothing and footwear as well as that of jewelry and watches dipped by 6.8% yoy and 1.2% yoy respectively. The rebound in tourism activities appeared to have lent little support to the retail sector as a stronger HKD continues to weigh. As such, even with low base effect, we expect low single-digit growth in retail sales this year. Elsewhere, low base effect may also lead to a mild increase in retail shop rents and prices which had decreased for a year.
<ul style="list-style-type: none"> Total loans and advances in HK rose by 10.5% yoy in February. Specifically, loans for use in Hong Kong grew by 10.3% yoy as new residential mortgage loans increased markedly by 116% yoy on the latest housing frenzy. 	<ul style="list-style-type: none"> Also, property developers at home and from Mainland China might have shown increased needs for funds for land purchases. Given the Fed's dovish tone in March, tight home supply and a panic buying spree of residential units, we expect housing market to remain resilient this year, in turn underpinning demand for loans to be used in HK. On the other hand, loans for use outside HK (+11% yoy) rose at the fastest rate since Aug 2015 in February. The PBOC's tightening bias and Mainland policy support are likely to induce more loan demand from Mainland companies to HK's banking sector.

	<p>Furthermore, controls on capital outflows by China's authorities have encouraged Mainland corporates to raise funds overseas for M&A deals. Therefore, we expect mainland-related loan business to continue to expand in the coming months.</p>
<ul style="list-style-type: none"> RMB deposits in HK were down for the 18th consecutive month by 36.4% yoy to the lowest level since April 2011 in February. 	<ul style="list-style-type: none"> China's tightening measures on cross border RMB payments continued to weigh while concerns about RMB risks propelled investors to stay away from RMB-denominated assets. We expect CNH liquidity to remain tight in the near term. As such, the gap between CNH and CNY may persist. Elsewhere, despite a shrinking CNH liquidity pool, CNH swap points continued to move to the left as CNH funding needs have been reducing following the opening up of onshore FX derivative market.
<ul style="list-style-type: none"> Macau's jobless rate remained static at 2.0% while total employed population decreased for the fifth consecutive three-month period to 379,100 in the three months through February. Labor force participation rate also dropped to its seven-year low at 70.9%. 	<ul style="list-style-type: none"> Due to the steady recovery of the tourism sector, hiring sentiments remained relatively upbeat in the sector with employment in Hotels & Similar Activities increasing by 1.7% mom. Despite that, employment of other major industries all showed a month-on-month decrease. Jobs in the wholesale and retail sector dropped marginally by 0.2% mom while remaining near its multi-year high, probably due to policy supports and a better prospect on the back of increased visitor arrivals. However, with only one new hotel scheduled to be opened this year, employment in the construction sector decreased to its lowest level since July 2013. Moving forward, following the recruitment spree associated with a slew of new casino and hotel openings last year, we expect that the fewer new hotel openings this year may translate into limited new labor demand. Therefore, employment may oscillate around current levels and unemployment rate is likely to print about 2% this year.
<ul style="list-style-type: none"> The number of hotel guests in Macau increased in tandem with overnight visitors and was up for its 19th consecutive month by 8.1% yoy in February. Furthermore, average occupancy rate edged up 5.7 percentage points on yearly basis to 84.9%. 	<ul style="list-style-type: none"> Though the number of hotels and guesthouses in operation grew to 108 and guest rooms totaled 36,000, room glut has not become a drag on the hotel sector. However, the number of hotel guests from Hong Kong edged down notably by 7.7% yoy in February. As 5-star hotels accounted for 60.2% of total hotels, the lack of budget hotels combined with high cost of transportation and a stronger MOP may hinder tourists from other regions from revisiting the gambling hub. If this is the case, hotel room glut may manifest and weigh on the hotel sector.

RMB	
Facts	OCBC Opinions
<ul style="list-style-type: none"> RMB was fairly stable against both USD and currency basket last week. 	<ul style="list-style-type: none"> RMB index touched a low of 92.68 last Tuesday before rebounding to end the week at 92.93.

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