Highlights:

No news is good news. Chinese financial institutions managed to survive from the last week of June with no major shock. Instead of injecting liquidity, PBoC net withdrew CNY330 billion liquidity from the system last week due to increasing fiscal spending, which provided liquidity to the system. As such, money market rates fell slightly across the board last week. The net issuance of NCDs again increased showing that financial institutions are less concerned about excessive regulatory tightening. However, we think it may be too early for market to lower the guard against the regulatory tightening as we think financial de-leverage remains top policy priority for China. July will be another important month to monitor given there will be sizable maturing of MLF. Overall, we think the tug-of war between financial institutions and regulators will continue.

China will officially start its bond connect program from 3 July. Two Chinese policy banks including Agricultural Development Bank of China (ADBC) and China Development Bank (CDB) announced the issuance plan to both onshore and offshore investors to support bond connect program.

Chinese economic data remain encouraging with the official PMI recovered by 0.5 to 51.7. One caveat is that the rebound of PMI is mainly driven by large companies while PMI for medium sized companies and small companies fell by 0.8 and 0.9 respectively though both numbers still marginally stay above 50. We expect 2Q GDP to be closed to 1Q's 6.9%.

On currency, RMB rebounded strongly against the dollar last week on the back of state intervention. Meanwhile, RMB was also lifted by the rally of EUR. we suspect PBoC did not use counter cyclical factor in the daily fixing for most of last weeks, which supposedly should slow RMB's appreciation pace when dollar weakens globally. This clearly shows China's stronger currency bias in the current market environment.

<table>
<tr><th colspan="2">Key Events and Market Talk</th></tr>
<tr><th>Facts</th><th>OCBC Opinions</th></tr>
<tr><td>▪ China will officially start its bond connect program from 3 July.
▪ Two Chinese policy banks including Agricultural Development Bank of China (ADBC) and China Development Bank (CDB) announced the issuance plan to both onshore and offshore investors to support bond connect program.
▪ ADBC will kick off the program to issue up to CNY5 billion each of 1-year, 3-year and 5-year bond and up to additional CNY500 million each of 1-year and 3-year in a second round for offshore investors on 3 July.
▪ CDB will issue up to CNY5 billion each of 1-year and 3-year bonds and up to CNY10 billion of 10-year bond on 4 July.</td><td>▪ Unlike the existing CIBM program which offshore investors need to fill investment size and types of bond upfront, the bond connect is more flexible with no pre-set requirement. In addition, account opening will be less administrative under bond connect. Those are likely to attract smaller offshore investors.
▪ Given better currency hedging options, we think CIBM investors will stay. In addition, from regulatory perspective, as the purpose of bond connect is to attract fresh funds into China's bond market, we think regulators will encourage CIBM investors not to switch.
▪ As such, we expect more capital inflows into China's bond market via bond connect although the inflows in the initial stage is unlikely to be significant.
▪ However, we think the bond connect also face two key hurdles including volatile CNH funding costs and lack of hedging details. The currency hedging can only be done in the offshore market under bond connect. Although potentially investors may be able to hedge in CNY with offshore participant bank which subsequently have access to onshore interbank FX market, the lack of details on hedging may affect interest given high CNH hedging cost.</td></tr>
<tr><td>▪ China's currency regulator SAFE denied the market talk that SAFE will impose new rule on individual foreign currency purchase and remittance effective from 1 July.</td><td>▪ The rumour was previously circulated that the individual foreign currency remittance daily limit will be capped at US$10K. The SAFE reiterated the annual US$50K individual limit will not be changed.
▪ Given China's capital outflow has subsided, we think there is no urgency for regulators to tighten further. Nevertheless, China is also unlikely to unwind previous tightening measures any time soon.</td></tr>
<tr><td>▪ Hong Kong Exchange (HKEX) is planning to launch A-shares related derivative products while is</td><td>▪ Following the inclusion of China A-shares in MSCI's benchmark index, it is likely that offshore investors will increasingly</td></tr>
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waiting for the corresponding regulatory framework from HK Securities & Futures Commission of Hong Kong and China Securities Regulatory Commission. ▪ In addition, HKEX is planning to launch Belt and Road Index and has nominated China Exchanges Services Company Limited which is jointly owned by HKEX, Shenzhen Stock Exchange and Shanghai Stock Exchange to construct the index. The component stocks will be the qualified stocks under the two stock connects.	demand for A-shares related derivative products to hedge against certain risks. Also, with further development of the Belt and Road Initiative, we expect HK and Mainland China to lure more capital inflows thanks to the launch of Belt and Road Index. In a nutshell, HKEX's effort will help to consolidate HK's role as a strong international financial centre which connects Mainland China with the globe.
▪ On Jun 28, Mainland China and HK signed two bilateral agreements under the framework of Mainland China and HK CEPA. One agreement is on investment and will be effective from Jan 1, 2018 while another is on economic & technology. ▪ Under the former agreement, investors in HK are allowed to enjoy the most preferential investment access to non-service sectors beyond the "negative list" such as shipping, aircraft manufacturing, energy exploration and financial market investment tools, the same as that enjoyed by Mainland Chinese investors. On the other hand, the latter agreement stresses on Mainland China's support to HK's participation in the Belt and Road initiative.	▪ We believe that two agreements would encourage more capital flows across the border and consolidate the integration between HK and Mainland China. Also, by allowing investors in HK to invest in China's various sectors, the governments are indeed preparing for the future development of the Greater Bay Area. Furthermore, with Mainland China's support, HK is set to welcome more business opportunities associated with the Belt and Road initiative.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's industrial profit grew by 22.7% in the first five months, suggesting growth momentum is likely to stay.	▪ Industrial profit from stated own companies grew by 53.3% yoy in the first five months. The rapid growth of SOE profit is likely to alleviate the concerns about China's high corporate leverage, which more than half owed by SOEs. As such, despite high corporate debt to GDP ratio in China, we see low probability of imminent concerns on debt crisis.
▪ China's official PMI rebounded to 51.7 in June from 51.2 in May, beating market expectation.	▪ Both new orders and new export orders increased to 53.1 and 52 from 52.3 and 50.7 respectively. From supply perspective, production increased by 1 points to 54.4. Inventory stays low with finished goods inventory slipped to 46.3. The widening gap between new orders and finished goods inventory suggested room for re-stock. ▪ Input price rebounded slightly to 50.4 from 49.5. As such, the recent correction of PPI may pause for a while. We expect PPI to remain relatively unchanged at 5.5% in June. ▪ One caveat is that the rebound of PMI is mainly driven by large companies while PMI for medium sized companies and small companies fell by 0.8 and 0.9 respectively though both numbers still marginally stay above 50.
▪ HK: Growth in exports and imports decelerated further in May, registering at 4% yoy and 6.6% yoy respectively. Trade deficit expanded slightly from HKD34.1 billion to HKD35.65 billion.	▪ With commodity markets turning muted, imports are expected to increase at a slower pace. On the export front, the growth was more broad-based in May as compared to the previous month. Looking ahead, with trade protectionism in the US being downplayed, global trade activities including HK's exports are likely to brace for a brighter outlook due to improving global demand on global recovery.

▪ Growth in HK's retail sales remained muted at 0.5% yoy in May. On the one hand, the sales of clothing, footwear and allied products retreated by 0.8% yoy after increasing for two consecutive months. Sales of jewellery, watches and other luxurious goods (1.4% yoy) continued to increase, albeit at a tepid pace.	▪ This is due to a slowing recovery of tourism activities as well as sluggish tourist spending. On the other hand, sales of consumer durable goods dropped for the 19th consecutive month and edged down 6% yoy. Furthermore, sales of goods in the supermarkets edged down at a faster pace by 1.1% yoy. This reinforces our view that the resilient domestic demand on a stable labor market, a bullish stock market and the housing boom has not benefited the retail sector as local households tend to consume online or during their overseas tour. Therefore, even with low base effect, we expect low single-digit growth in retail sales this year.
▪ HK: Total loans and advances (+13.8% yoy) registered double-digit annual growth for the fourth consecutive month in May due to the strong increase in loans for use in Hong Kong (+12% yoy) and those for use outside of HK (+18% yoy).	▪ Though new mortgage loans approved rebounded by 30.6% mom, we believe that mortgage loans will reduce in the coming months. The reason is that decrease in secondary market transactions amid new wave of cooling measures could have translated into lower demand for bank mortgage loans. Still, we expect loans for use in Hong Kong to grow further as resilient exports may result in higher demand for loans to finance visible trade (+10.7% yoy). Furthermore, loans for use outside of HK are likely to expand further as Mainland companies have been raising funds overseas amid tight onshore liquidity and capital controls. However, downward risks on Mainland-related loans are still in play as media reported that Chinese authorities curbed offshore financing of property developers.
▪ Macau's unemployment rate held static at 2% during the three months through April while total employed population rose slightly from 381,500 to 381,800. This indicates that the labor market remains resilient.	▪ By sector, employment in the gaming sector rose by 1.1% on monthly basis due to further improvement in the sector's performance. On the other hand, employment in construction sector retreated by 4.5% mom (-26.5% yoy) as fewer mega projects are under construction as compared to the past two years. As the only mega project to be launched this year has not been completed yet, the employment in the hotel and restaurants sector reduced by 0.9% mom (-2.7% yoy). Finally, as the retail sector continued to gain traction amid improved tourism activities, employers increased headcounts with employment growing 0.1% mom (9.7% yoy). Looking ahead, we expect overall hiring sentiments to remain upbeat in the gaming and retail sectors amid the revival in these sectors. On the other hand, tourism-related sectors will increase their labor force demand as the number of projects scheduled to be completed is set to increase in the coming years. This complements the government's plan to increase housing supply which will also boost employment in the construction sector. Therefore, unemployment rate is likely to remain around 2% this year.

RMB	
Facts	**OCBC Opinions**
▪ RMB strengthened against dollar with the both onshore and offshore RMB closed at 6.78 last Friday.	▪ The sudden rebound of RMB in the beginning of the week was due to suspected state intervention. Meanwhile, the currency was also lifted by the stronger Euro after Draghi's turn of inflation rhetoric. ▪ Meanwhile, we suspect PBoC did not use counter cyclical factor in the daily fixing for most of last weeks, which supposedly should slow RMB's appreciation pace when dollar

	weakens globally. This clearly shows China's stronger currency bias in the current market environment. ▪ We think market will increasingly accept the fact of RMB's two-way volatility. As such, we expect RMB bear to remain quiet at the current stage as risk-reward dos not in favour of shorting RMB.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com