Highlights:

It has been relatively a quiet week in China due to dragon boat holiday except for the rollercoaster movement of RMB in the offshore market. RMB unexpectedly soared on Wednesday after China returned from two-day holiday in the offshore market due to funding squeeze on suspected state intervention. The USDCNH touched a low of 6.7236 on Thursday before recovering to around 6.78 after liquidity eased on news that both HKMA and primary liquidity provider have injected the liquidity into the market. In addition to liquidity story, the fine-tune of daily fixing mechanism also helps. The introduction of countercyclical factor in the revised daily fixing mechanism shows that China prefers a stronger Yuan when dollar weakens in the global market. This is likely to break the asymmetrical depreciation dilemma faced by RMB. We revised up our RMB forecast and expect the USDCNY to end the year before 6.9. In the near term, we think liquidity is crucial play in RMB.

On the positive note, RMB deposits in Hong Kong finally stabilized in April, up from CNY507 billion to CNY528 billion, thanks to improving RMB outlook. Although the stable outlook is partially at the expense of the development of offshore RMB market, a stable RMB outlook will eventually help rebuild the offshore RMB market. Despite stable currency, China stepped up further to tighten its monitor of overseas credit card transaction with any transaction more than CNY1000 will be reported to the SAFE effective from 1 Sep this year. This may help cover the loophole of capital outflows.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China will tighten its monitor of overseas credit card transaction.	▪ Effective from 1 September, banks are required to report overseas credit card transaction more than CNY1000 per deal, aiming to prevent cross-border money laundering. ▪ The may also help cover the loophole of capital outflows.
▪ Hong Kong government is set to launch the second batch of silver bonds with a tenor of three years on June 23 for residents aged 65 or above. The issue size will be HKD3 billion while the subscription will start on June 6.	▪ Based on the strong demand for the first batch of silver bonds launched last year, we expect that the elderly, especially who are relatively risk-averse, will still show huge interests in this product. Also, given the muted inflation, the guaranteed return of 2% per annum will make the product more attractive than traditional inflation-linked bond. Though it is likely that banks will catch up with the Fed by lifting both deposit and lending rates late this year, the hike pace may be moderate. Therefore, a coupon rate of 2% per annum could still outweigh the rates for HKD deposits. Given HK government's effort to help the aging population manage their wealth, this group is expected to increase spending and boost the growth of silver market.

Key Economic News	
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▪ China's official PMI remained unchanged at 51.2 in May.	▪ Demand remains stable with new order was unchanged at 52.3 and new export orders rebounded slightly to 50.7 from 50.6. However, from supply perspective, production fell slightly to 53.4 from 53.8. ▪ Raw material input price continued to fall to 49.5 in May from 51.8 in April, lowest since January 2016. This signals that price pressure for producer is likely to ease further. We expect the PPI to moderate to around 5.5% in May from 6.4% in April.
▪ Hong Kong: Total loans and advances (+12.9% yoy), including loans for use in Hong Kong (+12% yoy) and those for use outside of HK (+15% yoy) all registered double-digit annual growth for the third consecutive month in April. The rosy data reinforces an improving corporate sentiment amid gradual economic recovery. However, new mortgage loans approved in April retreated by	▪ With HKMA's new cooling measures from May, we expect prospective homebuyers to borrow from developers rather than banks, in turn undermining mortgage businesses. A likely moderate correction in housing market could also weigh. In comparison, strong exports may underpin the growth of loans to finance visible trade (+8.5% yoy). On the other hand, tight onshore liquidity and crackdown on leverage have translated into huge demand for offshore loans from Mainland

13.6% mom.	companies. Therefore, loans for use outside of HK are expected to expand. Still, policy risks exist as China's authorities said to curb offshore financing of property developers.
▪ RMB deposits in Hong Kong exhibited the first monthly increase in April since last September and recovered to CNY528 billion from CNY507 billion in March.	▪ The rebound of RMB deposits in April was mainly due to two reasons including improving RMB outlook as well as loosening policy on cross border RMB payment under current account. Meanwhile, high RMB deposit rates offered by banks may have attracted some conservative investors. We expect RMB deposits to stabilize in the coming months due to improving RMB outlook.
▪ HK's retail sales grew marginally by 0.1% yoy in April as the rebound of visitor arrivals from Mainland China decelerated to 1.8% yoy in the same month. Specifically, sales value of clothing and footwear as well as that of jewelry and watches increased merely by 1.9% yoy and 0.5% yoy respectively. This reinforces our view that March's notable growth in retail sales was mainly attributed to the revival of tourism activities.	▪ As the tourism activities are recovering at a gradual pace, the rebound in retail sales is also likely to be moderate, especially given that domestic consumption remained subdued. Decrease in the sales value of goods in supermarkets (-0.6% yoy) and that of consumer durable goods (-12.8% yoy) indicates that the retail sector barely benefited from the stable labor market amid households' preference to consume online or overseas and the impact of removal of full exemptions from first registration tax on electric cars. As such, even with low base effect, we expect low single-digit growth in retail sales this year.
▪ Macau's GDP growth accelerated to 10.3% yoy in 1Q 2017, the fastest growth since 1Q 2014. Improvement in the gaming sector and tourism activities remained to be the key driver of the recovery of the gambling hub.	▪ Specifically, exports of gaming services and those of other tourism services edged up 11.3% and 20.9% on a yearly basis respectively. Meanwhile, pick-up in external demand fueled a revival of exports of goods (+9.7% yoy) which have declined over the past five consecutive quarters. Moreover, on the back of fiscal stimulus, government consumption and public investment grew by 4.8% yoy and 75.3% yoy respectively. In comparison, private investment rose merely by 1% yoy as only one mega project is scheduled to be completed this year. On the other hand, stable labor market and festive seasonal spending helped to reverse the growth of private consumption from -0.5% yoy in 4Q 2016 to 1.6% yoy. Nonetheless, the growth remained subdued as compared to its historical average level due to a stagnant wage growth. ▪ Looking ahead, gaming sector and tourism sector are likely to gain traction at a moderate rate as lowered expectations of a strong MOP may offset the impact of China's slowdown. Besides, fiscal stimulus may continue to provide impetus for GDP growth and the impact of a slowing private investment could be eased. Exports of goods are also likely to remain resilient given improved external demand. Taken all together, economic growth is expected to sustain in the coming quarters albeit at a slower pace due to an abating effect of low base. We remain our forecast of an about 5% GDP growth for 2017 unchanged.
▪ Macau's gross gaming revenue (GGR) rose at its fastest pace since February 2014 and was up 23.7% yoy to MOP22.74 billion in May. Both the Dragon Boat festival holiday and the Labor Days holiday have lent support to the gaming sector.	▪ However, as there are barely any public holidays during June to September, we expect the festive seasonal factors to fade and lead to a deceleration in GGR growth. Furthermore, with signs showing that China's economic growth has been slowing down and China's housing markets in first and some second tier cities have been calmed by cooling measures, the revival of VIP demand may shrink again as a result. Elsewhere, the regulation to check identities of Chinese UnionPay cardholders before they withdraw money at ATMs may take effect and hit gambling demand in the mass-market segment. Though we

	believe that the resilience of tourism sector could sustain into coming months and underpin the gaming sector, policy risks and the spill-over effect of China's slowdown could limit the upside of the gaming sector. As such, the GGR's growth might have peaked in May and print about 10% yoy over 2017.
▪ Macau's total number of hotel guests increased consecutively for nearly one year and edged up 17.3% yoy in April. Clearly, hotel sector remained resilience due to the effect of the Easter Holiday.	▪ Meanwhile, the average hotel occupancy rate surged for the eleventh consecutive month by 6.4 percentage points on a yearly basis to reach 86.1%. The festival seasonal factor was the main reason behind the rebound in the number of hotel guests from Hong Kong (+44.6% yoy). Guests from Mainland China and South Korea also increased significantly by 10.4% yoy and 94.1% respectively. However, we are concerned that China's slowdown and the high costs of visiting Macau may pose downward risks to the hotel sector on top of an abating seasonality. On a positive note, as the MOP may not be as strong as we previously expected, this could be positive to the sector.

RMB	
Facts	**OCBC Opinions**
▪ RMB has finally caught up with other Asian currencies to strength against the dollar after China fined tune its daily fixing mechanism. The USDCNH touched a low of 6.7236 on Thursday due to funding squeeze but giving up part of the gain and ended the week at around 6.80 after liquidity improved in the offshore market. ▪ RMB index rebounded strongly to 93.16 last Friday from 92.26 one week ago.	▪ The sudden soar of RMB in the offshore market caught market by surprise, driving the CNY higher in the onshore market. We think the move in the offshore market was mainly driven by two factors including funding squeeze as a result of possible state intervention and change of expectation on RMB outlook. ▪ Firstly, there is market talk that China's central bank may have sold USDCNH in the offshore market, which contributed to funding squeeze. ▪ Second, the introduction of countercyclical factor in the revised daily fixing mechanism shows that China prefers a stronger Yuan when dollar weakens. This is likely to break the asymmetrical depreciation dilemma faced by RMB. ▪ With liquidity injection by HKMA and primary liquidity provider, CNH gave up some gains on Thursday afternoon and Friday. RMB is likely to be liquidity play in the near term.

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