Highlights:

The bond market rout and deleverage campaign remained as the talk of the town. Investor sentiments have been hurt by the signals sent by authorities that indicated that more measures will come to curb the leverage levels of financial institutions and local governments. The muted sentiment of the bonds issued in the primary market last week has exerted a spill-over effect onto the secondary market. However, after the PBOC was reported to inject liquidity via MLF operation on last Thursday, the bond market found some support, with 10-year government bond yield retreating from its two-year high. The rebound of the bond market signalled that the recent sell-off might have been overdone for three major reasons.

First, the economic growth is expected to slow down from 2Q onwards due to the deleverage campaign. Second, as authorities implemented a slew of new regulations to curb leverage, the PBOC may take a backseat and have more room to hold its policy unchanged. Third, the rosy performance of the big banks' stocks reinforces that recent deleverage campaign is unlikely to result in systematic risks. All in all, we believe that after the anxiety on the tighter liquidity and intensifying deleverage campaign eases, the bond market could potentially rebound.

The bond market and stock market rout, however, barely had any spill-over effect on the RMB. Meanwhile, the PBOC fixed the USD/CNY midpoint at a level lower than expected and in turn pushed RMB index up. Given that the greenback may not be as strong as previously expected due to the waning reflationary risks and the absence of border tax adjustment reform in Trump's proposal, the RMB is likely to stay around its current level for some time. This week, China's major economic data for April and the Belt and Road Forum will be in spotlight.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The amount of bonds whose issuance were delayed or cancelled totalled over RMB 263 billion during the first four months. The yield of 1-year bond issued by the Export-Import Bank of China on May 10th was lifted to 3.79%, up from 3.04% offered by the bank on Mar 14th. Moreover, the 5-year bond issued by Ministry of Finance (MoF) on May 10th offered a yield of 3.66% which reached its highest level since 2014.	▪ Both the delay/cancellation of bonds issuance and the increase in bond yield across the primary market were due to muted demand associated with latest deleverage campaign. As a result, the spill-over effect pushed down the bond yield in the secondary market with 10-year government bond yield surging beyond 3.7%. However, after the PBOC was reported to inject liquidity via MLF operation on last Thursday and rolled over CNY459 billion medium-term lending facility on Friday, the bond market found some supports with 10-year government bond yield retreating from its two-year high. The rebound of the bond market signals that recent sell-off might have been overdone for three major reasons. ▪ First, the economic growth is expected to slow down from 2Q onwards due to the deleverage campaign. The continuous tumble in the bond market means that investors has not priced in a worsening economic condition yet. ▪ Second, as authorities implemented a slew of new regulations to curb leverage, the PBOC may take a backseat and have more room to hold its policy unchanged. The deceleration of PPI growth and muted CPI growth also indicate that the PBOC is not urgent to tighten. Therefore, the bond market should have been underpinned given no signs of further tightening monetary policy. ▪ Third, the rosy performance of the big banks' stocks reinforces that recent deleverage campaign is more likely to dampen the small banks and non-bank financial institutions. As such, systematic risks are unlikely to manifest and result in any collapse in the bond market or stock market. ▪ All in all, we believe that after the anxiety about the tighter liquidity and the intensifying deleverage campaign eases, the bond market could rebound.
▪ According to the media, authorities led by the PBOC indicated their plans to include debt-to-equity swap to the new regulation for asset	▪ Before the rumour, the subsidiary of CCB, ABC and ICBC had its company name changed by replacing "asset management" with "financial assets investment". This could be regarded as

management.	part of the deleverage campaign and may hurt market sentiment.
▪ HKEX chief executive Charles Li stated that the details of the Bond Connect Scheme may be announced in the coming weeks.	▪ This is expected to bring capital flows into the onshore bond market which has been hit by the latest deleverage campaign. In fact, given that the two stock links together have continued to bring net southbound inflows into the Hong Kong stock market since 2 May while net northbound inflows also reached above RMB 2 billion since 9 May. Given the rosy performance, the opening up of more new cross-border investment channels could be expected in the foreseeable future.
▪ USD/HKD spot rate rose to its highest level since Feb 2016 and approached 7.80. In addition, the spread between 3-month LIBOR and 3-month HIBOR climbed to its highest level since early 2009 at 34 bps.	▪ However, there are little signs of capital outflows as banking system's aggregate balance and outstanding exchange fund bills and notes remained stable at around USD157.5 billion. Therefore, instead of capital outflows, the main driver of recent decline in USD/HKD spot rate has been the increasing arbitrage trades based on speculation on the widening interest rate differential between USD and HKD. As the market believes that the rise in HIBOR will continue to lag as compared to the increase in USD LIBOR due to flush HKD liquidity, HKD spot rate is expected to depreciate towards 7.80 while HKD swap points may also oscillate around their eight-year low.
▪ Macau government announced that Mainlanders who withdraw cash with their Union pay Cards must show their identification cards and have their identities verified through a facial recognition system at ATMs.	▪ This is a step-up effort on anti-money laundering. However, high-rollers who contributed largely to the gaming sector's latest rebound has relied more on credit extensions offered by junket operators rather than cash withdrawn from ATMs. Therefore, the new rules are likely to have a transitory impact on sentiments but may not reverse the upward trend of the gaming sector. Still, we are concerned that the sector could be vulnerable to policy risks.

Key Economic News

Facts	OCBC Opinions
▪ China's 1Q 2017 current account surplus expanded to US$19 billion from US$11.8 billion in 4Q 2016.1Q 2017 current account surplus accounts for0.7% of 1Q GDP. On the other hand, capital account balance marked its first deficit of US$19 billion since 2Q 2016.	▪ The increase in current account surplus was attributed to the sizable goods trade surplus (US$81.7 billion) which well offset the huge service trade deficit (US$60.1 billion). It is also the first time since 2Q 2015 that both goods imports and exports registered year-on-year growth due to improved external and internal demand. ▪ On the other hand, overseas direct investment continued to shrink by 64% yoy and 43% mom to US$20.9 billion in 1Q 2017, owing to the tightening measures on capital outflows and easing concerns about RMB risks. Despite that, a capital account deficit was registered due to subdued foreign direct investments which dropped from US$69.6 billion to US$32.4 billion. Overall, the Balance of Payment data for 1Q 2017 is resilient and may support the stabilization of the RMB.
▪ China's export grew by 8% yoy in dollar term while import grew by 11.9% yoy in April. Trade surplus widened to US$38.05 billion from US$23.93 billion in March.	▪ The widening trade surplus was mainly the result of faster than expected deceleration of imports. China's imports of crude oil growth slowed to 5.6% while imports of iron ore fell by 2% yoy. The recent sharp correction of commodity prices shows that China's restocking activity may have come to an end. This, together with waning base effect from commodity prices, suggest that import growth may slow down further in

	the coming months. As such, trade surplus may widen further. This may be supportive of a stable RMB. ▪ To breakdown further, demand from advanced economies remained strong. Exports to EU, Japan and US increased by 4%, 13.3% and 11.7% respectively. However, exports to Hong Kong fell by 15.3%. Given global PMI remained steady in April at 52.8, we think China's export growth is likely to remain stable in the coming months. ▪ Last but not least, China's trade surplus with US in April widened again. This may again draw attention from the Trump administration. Market will closely monitor any reaction from the US government.
▪ China's CPI growth accelerated slightly to print 1.2% yoy in April while PPI growth decelerated notably to 7.6% yoy from 6.4% yoy.	▪ The rebound in CPI growth was led by a 0.2% mom increase in non-food prices. The rise of non-food prices was due to the effect of Tomb-sweeping Day and Labor Day and the impact of regional healthcare reform. On the other hand, food prices fell 0.6% mom. After seasonality and carryover effects abate, CPI is expected to remain sub-1.5% given subdued food prices and mild growth in non-food prices. ▪ Elsewhere, the year-on-year growth of producer prices moderated notably from 7.6% to 6.4%. On a monthly basis, PPI dropped by 0.4%, its first decline since last July. The bearishness of the commodity market amid oversupply and sluggish demand was to blame. As commodity prices will likely plummet further due to an expected decrease in China's demand on the deleverage campaign, we expect the deceleration of PPI's growth to continue in the coming months. ▪ In this case, muted inflationary pressure means that China's monetary policy could remain unchanged in the coming months.
▪ Both new Yuan loan and aggregate social financing beat market expectation, increasing by CNY1.1 trillion and CNY1.39 trillion respectively in April. ▪ Broad money supply M2 grew at a slower pace by 10.5% as compared to a 10.6% increase in the previous month.	▪ Medium to long term loan to both corporate and household grew further by CNY444.1 billion and CNY522.6 billion respectively. However, as a result of housing cooling measures and Ministry of Finance's regulation 50, we believe the loan demand of corporate and household is likely to shrink in the coming months. ▪ The latest develerage campaign appeared to have effectively curb off-balance sheet lending with entrusted loan decreasing by CNY4.8 billion and trust loan and undiscounted bankers acceptance increasing at a slower pace by CNY147.3 billion and CNY34.5 billion respectively. ▪ Furthermore, the net issuance of corporate bond remained low at CNY43.5 billion as market remained cautious about policy risks on the bond market. ▪ On money supply front, the deceleration of money supply growth was mainly due to decrease in household deposits and the slowing corporate deposits.
▪ HK's GDP growth surprised on the upside and accelerated to print 4.3% yoy in 1Q 2017, the fastest pace since 2Q 2011.	▪ The robust growth was owing to resilient private consumption (+3.7% yoy), strong government expenditure (+3.7% yoy) and investment (+18% yoy), buoyant good exports (+9.2% yoy) and the robust investment of the private sector on building and construction (+5.3% yoy). Low base effect also contributed to the better-than-expected growth in GDP. Due to the waning base effect and an expected deceleration of China's growth, we expect HK's growth to peak in 1Q and slow down gradually in the coming quarters. For 2017, our forecast on GDP growth

	remains unchanged at 2.2% yoy.
▪ HK: Total housing transactions rose by 57% yoy to a seven-month high at 7060 deals in April despite the latest cooling measures. In the meantime, housing prices continued to soar with overall price index (+17.8% yoy) refreshing its record high for the fifth consecutive month in March. The number of residential property transaction deals which involved Double Stamp Duty (DSD) and Buyer Stamp Duty (BSD) respectively rose by 19% and 33% on monthly basis in April.	▪ The growth in housing transactions was led by increased sales of private homes prices at or above HKD5 million. Persistently low mortgage rates and increased mortgages with high loan-to-value ratios offered by developers have supported investment demand and owner-occupier demand. Moving forward, we believe that growth in the market is likely to peak in 1H and moderate in 2H. This is because banks may have to raise Prime rates following Fed's two more rate hikes, on top of an expected slowdown in China's growth. However, given tight home supply (housing completions fell by 66% yoy to 329 units in the first two months) and a stable labour market, correction of the housing market will likely be moderate. ▪ Therefore, for 2017, overall housing prices are likely to grow by 0%-5%. In the longer term, an expected supply of 96,000 units in the coming 3 to 4 years according to the Transport and Housing Bureau may drag on housing prices.
▪ Macau: housing transactions rose by 93% mom to 1057 deals in March after exhibiting monthly decline for three consecutive months. New residential mortgage loans approved also rebounded by 59.6% mom to MOP4.1 billion. Furthermore, average housing price resurged by 4% mom.	▪ Housing market's growth was due to economic recovery and persistently low borrowing costs. However, average home price has dropped by 11.6% so far this year. Also, both housing transactions and new mortgage loans approved were below their levels in late 2016. Moving forward, we expect a moderate hike in prime rate late this year, which may hit the housing market sentiment. Housing demand may also be constrained by stagnant income growth. On the other hand, supply has been increasing with housing completions and starts rising 304% yoy and 26% yoy respectively in 1Q. Therefore, housing boom is unlikely despite the gradual economic recovery. Home prices may fall around 5% yoy by end of 2017.

RMB

Facts	OCBC Opinions
▪ The USDCNY remained relatively stable. On the other hand, RMB index rebounded to above 93.0.	▪ The bond market and stock market rout resulting from the deleverage campaign barely had any spill-over effect on the RMB. Meanwhile, the PBOC fixed the USD/CNY midpoint at a level lower than expected and in turn pushed RMB index up. Given that the greenback may not be as strong as previously expected due to the waning reflationary risks and the absence of border tax adjustment reform in Trump's proposal, the RMB is likely to stay around its current level for some time.

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