

**Highlights:**

Tensions in the Korea Peninsula continued to build up last week after the US sent aircraft carrier to the area as well as President Trump's warning to solve North Korean problem without China in Twitter. The call between President Xi and President Trump on Wednesday, only three days after face-to-face meeting showed that the tensions have escalated at a rapid pace. Nevertheless, on the positive note, North Korea showed positive changes last week to improve foreign relationship after it invited hundreds of journalists to Pyongyang to report the celebration of 105<sup>th</sup> birth of founder King Il Sung as well as the resumption of Diplomatic Commission after 19 years' suspension. With China's involvement, we think both sides will still try to solve the difference via diplomatic ties. The focus this week will be on US's reaction towards the failed missile test on Sunday. In addition, whether North Korea will launch the sixth rounds of nuclear tests this month to celebrate the founding of North Korea army on 25 April will be another important event. The nuclear test is likely to become the catalyst for potential US military intervention.

On data front, inflationary pressure remained muted in March and producer prices index has peaked in Feb and is expected to fall gradually in the coming months. Trade data beat market expectation and trade balance returned to surplus in March. The acceleration of exports in March was mainly attributable to steady global recovery unaffected by political uncertainty while the strong imports were the result of base effect as well as strong demand for commodity and rising commodity prices. Loan data was slightly below market expectation probably due to macro prudential assessment. However, off-balance sheet lending remained strong. The financing from bond market has not fully recovered yet though net issuance of corporate bond returned to positive in March after two consecutive month's reading. The deceleration of M2 growth is probably due to slower than expected corporate deposit growth. The slowing M2 growth may cap banks' ability to expand their balance sheet in future, which may eventually slow the economic growth.

The market excitement shifted from Xiong An New Area to Greater Bay Area last week after Premier Li Keqiang reiterated government's plan to develop the "Greater Bay Area", in order to integrate Macau and Hong Kong with other nine cities in Guangdong. The government aims to develop a city cluster which could be comparable to rival bay areas in New York, and Tokyo. In addition, according to leaked document, China is considering setting up a Xiong An development bank to provide financial support.

On currency, RMB fixing has been on the stronger side for two consecutive trading days after Trump decided not to deliver his campaign promise to name China as a currency manipulator. China still experienced modest capital outflows with foreign exchange purchase in March declined further. However, sentiment has clearly improved as demand for foreign currency loan continued to improve in March. Given the pressure for potential trade conflicts between China and US eased, we think RMB may be off the spotlight again this week.

| Key Events and Market Talk   |  |
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| Facts  | OCBC Opinions  |
| <ul style="list-style-type: none"> <li>▪ Tensions in the Korea Peninsula continued to build up last week after the US sent aircraft carrier to the area as well as President Trump's warning to solve North Korean problem without China in Twitter.</li> <li>▪ President Xi Jinping called US President Trump on 12 Apr to discuss about North Korea and Syrians issues, only three days after he came back from the US.</li> <li>▪ In addition, the use of MOAB bombs against ISIS in Afghanistan last Friday one week after the Syrian strike was clearly a warning demonstration of power to North Korea.</li> </ul> | <ul style="list-style-type: none"> <li>▪ The call between President Xi and President Trump only three days after face-to-face meeting showed that the tensions have escalated at a rapid pace. Although China continued to call for peaceful solution, the recent development, such as that China sent back the coal ship from North Korea back, showed that China may take a compromise stance to press de-nuclearization in the Peninsula.</li> <li>▪ Nevertheless, there are two positive developments from North Korea side to improve foreign relations. First, North Korea has invited hundreds of journalists from major global newswire to attend the celebration of 105<sup>th</sup> birth of founder Kim Il Sung. The live broadcast of parade and performance via social media gave world's chance to look at the mystery nation in details. Second, North Korea parliament also announced to resume the Diplomatic Commission, suspended for 19 years. The new Commission chaired by former Foreign Minister Ri Su Yong aims to strengthen diplomatic ties with the western countries.</li> <li>▪ The focus this week will be on US's reaction towards the failed</li> </ul> |

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|  | <p>missile test on Sunday. In addition, whether North Korea will launch the sixth rounds of nuclear tests this month to celebrate the founding of North Korea army on 25 April will be another important event. The nuclear test is likely to become the catalyst for potential US military intervention.</p>   |
| <ul style="list-style-type: none"> <li>▪ The “Greater Bay Area” plan, an integration scheme announced by Premier Li Keqiang in his annual work report for 2017, has been in spotlight lately. On April 11, Premier Li reiterated the central government’s plan to develop the “Greater Bay Area”, in order to integrate Macau and Hong Kong with other nine cities in Guangdong.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ The Guangdong Development and Reform Commission director He Ningka suggested the area’s development to involve 1) strengthening internal infrastructure networks to enhance interaction; 2) spur innovation; 3) consolidating trade relations and external infrastructure networks to support “One Belt, One Road” initiative; 4) fostering an industrial value chain with shared interests; 5) building a financial center and 6) creating high-quality, environmentally friendly cities. The government aims to develop a city cluster which could be comparable to rival bay areas in New York, and Tokyo. Also, the government pins hope on the area to provide new impetus for China’s growth. However, many challenges lie ahead. The difference in the economic, political and legal systems across the border may be the major challenge. For example, due to the “One Country Two System”, some law enforcement issues emerged when the governments across the border proposed to adopt a joint Hong Kong-mainland checkpoint for the express rail link connecting Hong Kong with mainland cities. We will closely monitor the “Greater Bay Area” plan and see whether it can really help the Pearl River Delta further its growth and prosperity.</li> </ul> |
| <ul style="list-style-type: none"> <li>▪ During the first week after the launch of 5-Year MOF T-bond Futures by the HKEX, the daily average contract volume was merely 271, much lower than the daily average contract volume of 7964 in the onshore market.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ At this juncture, overseas investors are unlikely to actively trade the offshore MOF T-bond futures as their exposure to onshore bond market remains low. The low liquidity of offshore MOF T-Bond futures may also sideline the investors. On a positive note, rumors spread that the details of the Bond Connect between Hong Kong and China will be announced as soon as July. Specifically, the Bond Connect scheme may only allow northbound flows in the first place. Besides, foreign investors may be able to trade onshore bonds OTC or through HKEX. With onshore bond market opened up further, the offshore MOF T-Bond futures’ attractiveness may be improved.</li> </ul>   |
| <ul style="list-style-type: none"> <li>▪ Hong Kong fine-tuned its property tightening measures. The government announced a 15% stamp duty on home buyers who purchase multiple flats under one deal, with effect from 12 April 2017 after the number of residential property transaction deals which involved Double Stamp Duty (DSD), Buyer Stamp Duty (BSD) and Special Stamp Duty (SSD) respectively rose by 70%, 66% and 65% on monthly basis in March.</li> </ul> | <ul style="list-style-type: none"> <li>▪ This can be regarded as a top-up measure to fill the loophole of the cooling measures from last November and may to some extent tame speculative demand. However, it is possible that developers which have been taking advantage of the latest panic buying spree will offer to pay the extra stamp duty for the buyers, in turn making the measures ineffective. Moreover, new home supply freed up by the new measure may be well absorbed by the strong owner occupier demand. Therefore, housing prices are likely to hold up well.</li> </ul>  |

### Key Economic News

| Facts   | OCBC Opinions  |
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| <ul style="list-style-type: none"> <li>▪ China’s CPI grew by 0.9% yoy in March while PPI growth decelerated gradually to 7.6% yoy from 7.8% yoy in February.</li> </ul> | <ul style="list-style-type: none"> <li>▪ The still subdued CPI in March was mainly due to weaker than expected food prices, which fell by 1.9% mom. However, non-food CPI rebounded slightly by 0.1% mom. The CPI is expected to remain sub-1.5% in the coming months due to weak food prices and modest non-food prices.</li> <li>▪ Producer prices started to moderate in terms of year-on-year</li> </ul> |

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|  | <p>growth although PPI continued to grow by 0.3% mom. However, given commodity prices started to fall in April, we expect PPI to decline further to below 7%.</p> <ul style="list-style-type: none"> <li>As a result of muted inflationary pressure, we expect China's monetary policy to remain intact in the coming months.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Both export and import beat market expectation in March. Exports in dollar term grew by 16.4% yoy while imports in dollar term grew by 20.3% yoy.</li> <li>Trade balance returned to surplus again at US\$23.92 billion after a seasonal deficit in Feb.</li> </ul>                 | <ul style="list-style-type: none"> <li>The acceleration of exports from 4% yoy in the first two months of 2017 to 16.4% yoy in March was mainly attributable to steady global recovery unaffected by political uncertainty. This is also in line with the improvement in global manufacturing PMIs.</li> <li>The rebound of exports was across board with external demand from both advanced economies and emerging market improved. Exports to US, EU and Japan increased by 19.7% yoy, 16.6% yoy and 8.5% yoy respectively while exports to ASEAN grew by 11.9% although exports to Hong Kong fell by 4.8%.</li> <li>The strong imports in the first quarter was mainly the result of base effect and rising commodity prices. Imports growth from US remained steady in March at 12.8%. We think the demand for US goods may remain strong in the coming months as a result of trade deal between China and US.</li> </ul>   |
| <ul style="list-style-type: none"> <li></li> </ul>   | <ul style="list-style-type: none"> <li></li> </ul>  |
| <ul style="list-style-type: none"> <li>New Yuan loan increased by CNY1.02 trillion in March, below market expectation. However, aggregate social financing beat market expectation increasing by CNY2.12 trillion.</li> <li>Broad money supply M2 decelerated further to 10.6% in March down from 11.1% in Feb.</li> </ul> | <ul style="list-style-type: none"> <li>The below expected new Yuan loan is probably due to quarter-end macro prudential assessment as banks faced pressure to slow down the asset expansion to meet the assessment. Nevertheless, medium to long term loan to both corporate and household remained steady growing by CNY548 billion and CNY450 billion respectively. Again, the demand for long term loan from corporate sector was probably the result of booming PPP projects. Interesting to note, short term loan to household sector increased to CNY344.3 billion in March. This is probably due to the launch of new lending products by financial institutions to offset the slowing mortgage growth as a result of tightening property measures.</li> <li>Off-balance sheet lending remained strong in March. Entrusted loan, trust loan and undiscounted bankers acceptance increased by CNY203.9 billion, CNY311.2 billion and CNY238.7 billion respectively.</li> <li>The net issuance of corporate bond turned positive in March after two consecutive negative reading. However, the absolute number remained low at CNY22 billion. This suggested market remained cautious on bond market after regulatory driven de-leveraging campaign.</li> <li>Demand for foreign currency loan continued to improve increasing by CNY28.8 billion. This was mainly attributable to improving outlook on RMB.</li> <li>On money supply, despite capital outflows moderated in the first quarter, the deceleration of money supply was mainly the result the slowing corporate deposits. The slowing M2 growth may cap banks' ability to expand their balance sheet in future, which may eventually slow the economic growth.</li> </ul> |
| <ul style="list-style-type: none"> <li>According to the HKMA, household debt to GDP ratio rose from 51% in 2008 to 67% in 2016 while the income-gearing ratio jumped to 72.0%, much higher than the long-term average of about 50%. Furthermore, loans for property development and</li> </ul>                             | <ul style="list-style-type: none"> <li>According to mReferral Mortgage Brokerage Services, the percentage of buyers relying on developer mortgages to purchase new homes increased from 14.09% in last December to about 20% in 1Q. To control the rising credit risks faced by the banking system amid the latest housing frenzy, the HKMA</li> </ul>  |

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| <p>investment and for the purchase of private homes as percentage of total loans and advances for use in HK rose in December 2016 to the highest level at 32% since December 2010 (the government implemented the first batch of cooling measures in November 2010).</p>  | <p>is expected to guide banks to reduce credit extension to developers and therefore indirectly hinder developers from offering high loan-to-value mortgages.</p>  |
| <ul style="list-style-type: none"> <li>▪ Macau's housing transactions dropped by 22.8% mom to 547 deals in February. New residential mortgage loans approved decreased by 25.8% mom to MOP2.59 billion. Furthermore, housing prices dipped for the second consecutive month by 1% mom in February and has edged down 14.8% so far this year.</li> </ul> | <ul style="list-style-type: none"> <li>▪ In fact, potential homebuyers tend to be less active during Lunar New Year Holiday which was in January this year. However, February's indicators performed worse than January's, indicating that the improvement in the housing market might have been decelerating. Given a modest increase in Prime Rate is expected in 2H, housing demand may not be strong enough to sustain the growth traction in the housing market due to moderate domestic economic growth, stagnant wage gain and increasing home supply. In this case, we expect average house price to drop by around 5% yoy in 2017.</li> </ul> |

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| Facts   | OCBC Opinions   |
| <ul style="list-style-type: none"> <li>▪ RMB strengthened against dollar last week after RMB fixing were stronger than expectation for the last two trading days after Trump declined to name China as a currency manipulator.</li> <li>▪ RMB index remained relatively stable ending the week at 93.18.</li> </ul> | <ul style="list-style-type: none"> <li>▪ It is not clear whether the stronger than expected RMB fixing was China's friendly gesture towards Trump's decision not to deliver his campaign promise to name China as a currency manipulator.</li> <li>▪ Given the pressure for potential trade conflicts between China and US eased, we think RMB may be off the spotlight again this week.</li> </ul> |

**OCBC Greater China research****Tommy Xie**[Xied@ocbc.com](mailto:Xied@ocbc.com)**Carie Li**[Carierli@ocbcwh.com](mailto:Carierli@ocbcwh.com)

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