Highlights:

In a data-light week, focus shifted back to more volatile liquidity in China's money market as we are approaching quarter-end. The recent volatility in China's money market was the result of two factors including tight bias monetary policy as well as seasonality due to quarter-end macro prudential assessment. A smaller rural commercial bank was reported to miss the interbank payment in the beginning of the week, which led to rumoured liquidity injection by PBoC. This subsequently eased the pressure. However, the divergence between repo rate and Shibor rate, which latter continued to climb up, showed that smaller banks are most vulnerable to liquidity shock this round due to the inclusion of wealth management product into MPA assessment.

In addition, the MSCI is considering an alternative measure to include China's A-share into its benchmark index. Instead of originally proposed 448 companies, the refreshed proposal will only consider 169 companies while A-share's weight in EM index will be reduced to 0.5% from 1%. We think the revised proposal is likely to increase the probability for China's A-share to be included in the global benchmark index this year. This may lead to more capital inflows though at a marginal pace due to water-down version.

Interestingly, currency for MSCI index calculation under the revised proposal will be changed from CNY to CNH to minimize currency drag and potential tracking error due to divergence of CNH and CNH. This shows currency risk is still one of the concerns for global investors. The continuous decline of RMB index to below 93 last week shows that RMB is still trapped in the familiar loop that RMB remains stable against currency basket when dollar strengthens but remaining stable against dollar when dollar weakens. Should RMB index continue to weaken, we are concerned that RMB depreciation expectation may build up again in the market. The Hong Kong Exchange launched the RMB option last week, providing additional hedging tools to offshore investors.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's liquidity turned tighter in the beginning of last week as banks started to hoard cash in preparation for the quarter end macro prudential assessment (MPA). ▪ A smaller rural commercial bank was rumoured to miss the interbank payment while PBoC was reported to injected liquidity on Tuesday to ease the tensions in the money market. ▪ Liquidity improved slightly in the later part of week, which resulted in the cancelation of open market operation on Friday. ▪ Repo rate fell in the later part of the week, however, shibor continued to climb higher despite improving liquidity.	▪ The recent volatility in China's money market was the result of two factors including tight bias monetary policy as well as seasonality due to quarter-end macro prudential assessment. ▪ As we have mentioned in last week's report that the tug of war between central bank and commercial banks to contain leverage is likely to continue. And the expectation on tighter monetary policy is likely to be the key weapon used by central bank to press financial institutions to de-leverage. ▪ In addition, the liquidity concern was also exaggerated by the revised MPA which expanded the definition of loan to include wealth management products for the first time. The impact of new MPA on smaller banks is more pronounced as smaller banks were the key driver behind the recent boom in China's wealth management sectors. ▪ This explains the divergence between repo rate and shibor rate as smaller banks as liquidity demand from smaller banks surged to meet quarter-end MPA.
▪ The MSCI is considering an alternative measure to include China's A-share into its benchmark index.	▪ Instead of originally proposed 448 companies, the refreshed proposal will only consider 169 companies after excluding mid cap securities, 61 A-shares with H-shares constituents and 40 stocks suspended for more than 50 days. Meanwhile the initial weight of A-share in the MSCI emerging market index will be reduced to 0.5% from 1% in the original proposal. ▪ The accessibility through two stock connects without the need for licences and new trading suspension policies are two main reasons for MSCI to reconsider the inclusion of A-share into its index. ▪ We think the revised proposal is likely to increase the probability for China's A-share to be included in the global benchmark index this year. This may lead to more capital inflows though at a marginal pace due to water-down version.

	▪ In addition, one of the interesting changes from the revised proposal is that currency for index calculation will be changed from CNY to CNH to minimize currency drag and potential tracking error due to divergence of CNH and CNH according to MSCI.
▪ According to Hong Kong's media, the UnionPay has guided Hong Kong banks to ban mainlanders from using card to buy Hong Kong properties.	▪ Strong investment demand from Mainland China have intensified the housing frenzy in Hong Kong and raised Chinese authorities' concern about capital outflows. We will closely monitor the impact of the new guidance given by the UnionPay on the housing market and the banking system in Hong Kong.
▪ The Asian Infrastructure Investment Bank's (AIIB) board announced on March 23 that Hong Kong was one of 13 new applicants approved for membership.	▪ As the AIIB is established to finance infrastructure project across Asia and facilitate the One Belt One Road (OBOR) initiative, joining the AIIB may help Hong Kong reinforce its role as an international financial center to provide professional and financial services. Demand for infrastructure in Asia averaging at US$730 billion (HK$5,660 billion) each year. In addition, the RMB funding needs associated with the OBOR initiative may allow the HK's offshore RMB market which has been sluggish lately to regain some momentum.
▪ The HKEX launched the USD/CNH option product on 20 March.	▪ Average daily turnover of the global OTC USD/CNH options market expanded to USD18 billion in 2016, up significantly from USD7.0 billion in 2013. As compared to the USD/CNH option traded in the OTC market, the option product traded in the exchange will be better regulated. This could help reduce the counterparty risks. More flexible hedging tools in the offshore yuan market could facilitate cross-border capital flows in the long term.
▪ Southbound flows via the two stock links have amounted to over RMB 1 billion on daily basis since March 7 and even surged beyond RMB 3 billion during March 17 to March 21. Adding on risk-on sentiment in the first half of last week, Hang Seng Index closed at its highest level since August 2015 at 24,593.12.	▪ Though Hang Seng China AH Premium Index has dropped to its lowest level since December 2014, it stays high as compared to the daily average of 97.98 over 2014. This means that the valuation of H-shares remains attractive. We expect southbound flows to continue to underpin HK's stock market. However, external shocks, like Trump policy disappointment, may trim some upward risks on the stock market. Elsewhere, HK's chief executive election on March 26 will barely have any impact on the market.

Key Economic News

Facts	OCBC Opinions
▪ Hong Kong: with the launch of a slew of new housing projects, real estate agents estimated that total transactions in the primary market will reach 3600, the highest print in four years. In addition, the Centa-City Leading Index (CCL), which monitors sales in the secondary market, refreshed its new high on 12 March.	▪ Clearly, housing market frenzy is escalating in Hong Kong. Given huge demand, the home sellers in the secondary market raised prices along with the property developers, as a result driving the prices of second-hand homes up significantly. The Fed's dovish tone in March boosted housing demand further. Moreover, housing completions dropped by 9% yoy to 181 units in January. Though private home supply is expected to reach 94,000 units in the coming three to four years, any delays in private home projects could translate into upward pressures on the home prices. Therefore, despite the high chance for HK banking system to lift Prime Rate in 2H, home prices are still likely to hold up well.
▪ Macau visitor arrivals decreased by 5.6% yoy in February, mainly led by the huge year-on-year decrease in the number of Mainland visitors (-7.5%	▪ On a positive note, a slew of new hotels opened during the past two years have attracted an increased number of visitors from Japan (+29.5% yoy) and South Korea (+31.3% yoy).

yoy) and tourists from Hong Kong (-8.6% yoy). The base effect resulted from the different timing of the Lunar New Year between this year and last year was to blame for the decline.	Despite that, visitors from HK and Mainland China still accounted for over 85% of total visitors. As such, the expected China's slowdown in 2H is likely to weigh. Moreover, the sustainability of the new hotels' attractiveness is uncertain in the long term. Given limited choice of cheap accommodation and a stronger MOP, tourist re-visitation is unlikely. Data also shows that the share of overnight visitors dropped below 50% for the second consecutive month in February. Therefore, we will closely monitor the tourism sector and see if it could sustain its recovery and lend support to the mass-market segment of the gaming sector.

RMB	
Facts	**OCBC Opinions**
▪ RMB gained slightly against the dollar with the USDCNH ended the week below 6.88 due to correction of broad dollar as a result of increasing political risk in the US. ▪ However, RMB failed to outperform other major currencies. As such, RMB index fell further to below 93.	▪ The continuous decline of RMB index to below 93 shows that RMB is still trapped in the familiar loop that RMB remains stable against currency basket when dollar strengthens but remaining stable against dollar when dollar weakens. ▪ Should RMB index continue to weaken, we are concerned that RMB depreciation expectation may build up again in the market.

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