Highlights

China's bond market was supported by rising financial market volatility triggered by trade tension last week. The decline of bond yield has been a global phenomenon in the past few weeks with 10-year US Treasury yield dipped to 2.75%. The falling global bond yields, in our view, were mainly the result of rising suspicious about the global synchronized recovery. The upbeat PMI over the weekend clearly showed that China's recovery remains on track. Interestingly, PMI for small business jumped to 50.1 in March from 44.8, highest since June 2017. The volatile small business PMI shows that the reading might be distorted by Chinese New Year effect. As such, it may still be too early to conclude a strong growth outlook.

However, market sentiment may be put to the test again this week after China's Central Comprehensively Deepening Reforms Commission approved the new asset management rules. It is tipped that the details of new asset management rule will be unveiled this week ahead of Qingming Festival on Thursday. The market has been preparing for the launch of new asset management rule since the PBoC unveiled the draft rule to seek public feedback in November 2017. could be one of the important event risks to China's financial market this week as investors are concerned about the potential impact on liquidity should new rule trigger early redemption. Market will closely watch at details such as the grace period etc.

China successfully launched Yuan denominated crude futures in Shanghai Futures Exchange last week. This is the first China listed commodity futures, among 49 future products, open to foreign investors directly. The Yuan denominated future will serve the purpose of promoting RMB Internationalization. However, the direct impact on RMB in the near term is likely to be limited as foreign investors are allowed to use foreign currency as margin for future contract. The sharp appreciation of RMB early last week shows that market believed that China is likely to compromise in the trade tension. The history shows that the US-initiated trade tension always ended with dollar depreciation. The movement of RMB may reflect market's view about China's position in the looming trade tension.

China will be out for holiday on Thursday and Friday. Nevertheless, market will continue to monitor the development of trade tension. China has released the details on removal of tariff concession to 128 US products this morning. Market is waiting for details about Trump Administration's Chinese tariff and investment restriction, which will be due by end of this week.

In **Hong Kong,** driven by the high base effect and calendar effect of Chinese New Year, the performance of trade activities slowed down in Feb. HK's exports rose by 1.7% yoy while the imports decreased by 3.2% yoy in February 2018. In addition, loan growth in Hong Kong remained strong. In **Macau,** unemployment rate increased slightly to 1.9% while the total employed population ticked up for the fourth consecutive three-month period to 378,300 in the three months through February. Labor force participation rate surged to 70.2%. Moving forward, given a positive economic outlook, the labor market is likely to remain steady. Specifically, a weaker MOP and the scheduled opening of new entertainment projects may promote the persistent improvement in tourism sector. As such, we expect that a further rebound in labor force participation rate and higher labor demand in tourism-related industries may be observed.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China successfully launched Yuan denominated crude futures in Shanghai Futures Exchange last week. ▪ This is the first China listed commodity futures, among 49 future products, open to foreign investors directly. ▪ In addition, Reuters reported that China may launch a pilot program for crude imports payment in Yuan as early as the second half of this year.	▪ As the Shanghai crude future is open to foreign investors directly, this will give the world's largest crude importer tool to challenge benchmark Brent and WTI. In addition, the participation of foreign investors also signals further openness of China's financial market, which will also help reinforce Shanghai's position as the global financial centre. ▪ Meanwhile, the Yuan denominated future will also serve the purpose of promoting RMB Internationalization. However, the direct impact on RMB in the near term is likely to be limited as foreign investors are allowed to use foreign currency as margin for future contract. In the longer run, the size of crude market may eventually attract more RMB inflows into China.
▪ China's Central Comprehensively Deepening Reforms Commission approved the new asset management rules. ▪ In addition, a news financial court in Shanghai will also be set up.	▪ It is tipped that the details of new asset management rule will be unveiled this week ahead of Qingming Festival on Thursday. The market has been preparing for the launch of new asset management rule since the PBoC unveiled the draft rule to seek public feedback in November 2017.The new rule will provide a more holistic supervision on financial risk via clamping down on

	regulator arbitrage. This could be one of the important event risks to China's financial market this week as investors are concerned about the potential impact on liquidity should new rule trigger early redemption. Market will closely watch at details such as the grace period etc. ▪ The planned setup of a dedicated finical court in Shanghai shows China is on the right track to moving towards a more transparent financial system.
▪ China's State Council announced to lower value added tax (VAT) for manufacturing sector by 1% to 16% from 17% effective from 1 May. Meanwhile, VAT for transportation, construction, telecommunication service and farm produce will also be lowered to 10% from 11%.	▪ The tax cut is expected to reduce the burden for corporates as well as supporting China's advanced manufacturing sector. However, the impact of 1% tax cut is unlikely to be significant.
▪ China plans to launch inspection on steel excessive capacity from May to June.	▪ The inspection is in line with China's direction to eliminate ineffective steel capacity. This may also help ease trade tension between US and China.
▪ The North Korea leader Kim made a surprise visit to Beijing.	▪ It was reported by the media that the meeting was requested by North Korea and accepted by China. The bilateral meeting is good for risk sentiment as it eased the concern that North Korea could be a wild card in the region due to China's diminishing influence in the regime.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's official PMI rebounded in March to 51.5 from 50.3.	▪ Both supply and demand recovered post Chinese New Year. Production increased to 53.1 from 50.7. New order and new export orders rose to 53.3 and 51.3 respectively from 51 and 49. Interestingly, PMI for small business jumped to 50.1 from 44.8, highest since June 2017. The volatile small business PMI shows that the reading might be distorted by Chinese New Year effect. As such, it may still be too early to conclude a strong growth outlook. ▪ Purchasing price remained unchanged at 53.4 in March. As price pressure remains weak, we probably need more data to gauge China's growth prospect.
▪ China's currency regulator SAFE released the final reading of 2017 Balance of Payment and International Investment Positions data. ▪ China's net international assets fell to US$1.814 trillion in 2017 down from US$1.95 trillion in 2016.	▪ China recorded twin surpluses in both current account and financial account in 2017. Financial account returned to surplus of US$148.6 billion from a deficit of US$416.1 billion in 2016 due to stabilized overseas direct investment and return of foreign interest in China's financial assets. Total inflows to China's financial market increased by US$116.8 billion with debt investment accounting for 71%. ▪ The decline of net international assets in 2017 was mainly due to two factors including rising external debt as a result of stable currency outlook and return of foreign interest in China's financial assets. ▪ Despite increase in foreign debt, it is unlikely to create concern at the current stage as China's external position remains strong and healthy.
▪ HK's exports rose by 1.7% yoy while the imports decreased by 3.2% yoy in February 2018. However, trade deficit widened to HK$42.7 billion.	▪ Due to the high base effect and calendar effect of Chinese New Year, the performance of trade activities, including exports and imports, slowed down in Feb. The external demand from Asian trading partners was mixed. Specifically, exports to Mainland China and Vietnam dropped by 10.5% yoy and 26.8% yoy

	respectively while exports to India and Taiwan rose by 3.2% yoy and 3.7% yoy. On the other hand, imports decreased on a broad basis, excluding the imports from Malaysia. Moving forward, positive economic outlook across the globe and a weaker HKD may lend some supports to Hong Kong's trade activities, leading to a moderate economic growth. Instead, we remain wary of the rising trade conflicts between US and China, which may cause some adverse impacts on Hong Kong's trade outlook.
▪ HK's total loans and advances continued to grow by 15% yoy in February 2018, exhibiting double-digit annual growth consecutively for the thirteenth months.	▪ Firstly, the trade finance grew at a faster pace and printed at 13.9% yoy on the back of still moderate trade activities. However, the trade finance is likely to be suppressed in the coming months should trade tension between US and China worsen. ▪ Secondly, the growth in loan for use in HK (non-trade) decelerated slightly to 16%. Despite the business sentiment to remain positive, the loan demand was affected by the recent fluctuation of asset markets, leading to a slowdown in the growth. Moving forward, any corrections of the overheated asset markets and the rising of global geopolitical uncertainties may further dampen the local loan sentiment. ▪ Thirdly, the growth in loans for use outside HK slowed down to 17.1 % yoy in February. As the average onshore government bond yield decreased to 3.801% in February from 3.919% in January, the tight onshore liquidity has relieved temporarily. Despite that, de-leveraging campaign has remained the major focus of China's authorities in 2018, meaning that the onshore liquidity is likely to linger on a tighter position. As such, the demand for loans for use outside of HK may remain strong. ▪ Elsewhere, CNH deposits in HK picked up by 0.7% mom to RMB550.4 billion in February 2018. Higher interest rate offered by CNH deposits and a stronger RMB again HKD may be the reason driving up the CNH deposits in HK. All in all, CNH deposits may maintain a moderate growth in the coming months as the CNH liquidity is likely to remain relatively tight.
▪ Macau's unemployment rate increased slightly to 1.9% while the total employed population ticked up for the fourth consecutive three-month period to 378,300 in the three months through February. Labor force participation rate surged to 70.2%.	▪ Supported by the further improvement in the tourism sector and higher labor demand associated with the business commencement of new mega projects, the employment of hotels, restaurants and similar activities sector picked up by 3.37% mom. Despite that, the employment of the wholesale and retail trade sector maintained the downtrend for the third straight three-month period and fell by 0.4% mom. Instead, as the economic growth of China has remained resilient, with the calendar effect of Chinese New Year, the employment of gaming sector surged by 2.5% mom. Moving forward, given a positive economic outlook, the labor market is likely to remain steady. Specifically, a weaker MOP and the scheduled opening of new entertainment projects may promote the persistent improvement in tourism sector. As such, we expect that a further rebound in labor force participation rate and higher labor demand in tourism-related industries may be observed. Due to the construction of new projects to be completed progressively, the hiring sentiment of construction sector is likely to linger on a weaker position. Under this circumstance, the jobless rate may stabilize around the current level in the coming months.

RMB	
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▪ RMB played according to the script book although the sudden jump still caught market by surprise. The USDCNH touched a low of 6.2361 in the offshore market last week. ▪ RMB also appreciated against the currency basket with RMB index rose to 96.72 last Friday.	▪ The sharp appreciation of RMB early last week shows that market believed that China is likely to compromise in the trade tension. The history shows that the US-initiated trade tension always ended with dollar depreciation. The movement of RMB may reflect market's view about China's position in the looming trade tension.

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