Highlights

The US-China trade tension has taken a backseat last week, shadowed by heightening geopolitical tensions in the Middle East as well as the possible direct military conflict between US and Russia. President Xi's opening tone in Boao forum also helped water down the tension. His particular mention about auto industry was considered as China's direct response to address President Trump's concern. Pboc Governor Yi Gang unveiled the detailed timeline on China's financial opening plan in two stages. Six measures will be rolled out by June while additional five measures will be conducted by end of the years. On monetary policy, Yi Gang also said that macro leverage ratio is one of the key concerns for monetary policy. This suggests that China is unlikely to tighten aggressively before the stabilization of leverage situation.

On economic data, most March data so far has missed the forecast. China's trade balance unexpectedly slipped to the deficit of US$4.98 billion in March due to the decline of export growth. The volatility of trade data in March was probably partially distorted by seasonal effect as exporters frontloaded exports ahead of Chinese New Year, which fell in the middle of Feb this year. The strong imports of electronic integrated circuit however showed that the global recovery story remains. China's aggregate financing missed the market expectation despite new Yuan loan is in line with expectation. The weaker than expected aggregate social financing was mainly the result of shrink of off-balance sheet financing. The rapid decline of off-balance sheet financing shows China's financial de-leverage is taking effect. However, given China's aggregate financing is a leading indicator, the weaker than expected reading implies a weaker growth prospect in the second half of 2018. This reinforce our view that China's growth is expected to slow down in the second half. For this week, market will closely watch China's 1Q GDP as well as key March economic indicators.

Reuters reported that China's central bank will remove the informal guidance on the ceiling of commercial deposit rates. Although China announced to remove the ceiling of commercial deposit rate back in 2015, marking an important step of interest rate liberalization, most of deposit rate has been capped at 50% above benchmark interest rate, which is still way below the yield offered by wealth management products. As China is fighting off balance sheet activity, the removal of informal guidance may facilitate banks to bring deposits back to balance sheet.

On currency, the rebound of RMB index to 97 may be the result of China's assurance not to use currency depreciation as the tool for trade tension. As the impact of trade tension on RMB is likely to diminish, the near term driving factor for RMB may go back to the US dollar.

In **Hong Kong,** a wide interest rate differential encouraged carry trade activities and pushed the USDHKD to 7.85 for the first time since 2005 when the trading band was introduced. During Apr 12 and Apr 13, HKMA bought a total of HKD3.258 billion, which will reduce the sizeable aggregate balance just slightly to HKD176.52 billion. In the near term, with no significant change to the fundamentals, capital flows into HK is likely to persist weighing down the HIBOR. On the other hand, LIBOR is expected to remain elevated due to increasing US government bond issuance, Fed's tightening, and repatriation of overseas cash on US tax overhaul. Therefore, yield differential will likely remain wide and continue to suppress the HKD. However, without much capital outflow pressure at this juncture, the size of short HKD positions is expected to be small. This may trigger merely moderate intervention of the HKMA. As such, we see little chance of HIBOR jumping rapidly or HKD reversing its downtrend at this juncture. Instead, HKD may stay close to the weak end. Elsewhere, given huge demand for portfolio diversification from Mainland investors, the expansion of stock connect quota starting May 1 is expected to accelerate capital inflows to HK and add downward pressure to the HIBOR. Nonetheless, around mid-2018, we may see dividend payment flow, potential large IPOs, quarter-end effect and possible June rate hike by the Fed. Combined with HKMA's intervention which gradually reduces aggregate balance, downside risks for HIBOR and HKD may be eased slightly. Still, a faster increase in HIBOR and a reversal of HKD's downtrend are not expected until capital outflow pressure intensify on synchronized global monetary tightening.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Pboc Governor Yi Gang unveiled the detailed timeline on China's financial opening plan in two stages after President Xi set China's opening tone in Boao forum. ▪ Foreign investors will enjoy the same rights as the domestic player. Nevertheless, China will only do that at its own pace as containing financial risk is still the top priority and any opening should not create new risk.	▪ President Xi's messages echoed Premier Li Keqiang's tone during the National People's Congress. China's opening will focus on four areas including lowering tariff for goods trade, opening more sectors under service trade, limiting the technology transfer for manufacturing sector as well as streamlining the procedures for foreign direct investment. Nevertheless, President Xi's particular mention of auto industries, which promises to lower auto import tariff and ease limits on foreign ownership, was considered as China's direct address to

	President Trump's concern. This may help ease the recent trade tension between US and China. ▪ On financial reform, Six measures will be rolled out within next few months. First, foreign ownership cap in banks and asset management companies will be removed. Second, foreign ownership cap in security firm, mutual fund, futures brokerage and life insurance company will be lifted to 51% and will be removed in three years. Third, it is no longer mandatory for at least one local security firm to be the shareholder of the brokerage joint ventures. Four, the daily quota for Shanghai and Shenzhen stock connect will be quadrupled from current CNY130 bn to CNY520 bn. Five, qualified foreign players are allowed to set up insurance agency and insurance assessment business. Six, foreign insurance company will have the wider business scope same as the domestic one. ▪ On top of those six measures, additional five items will be opened by the end of this year. First, encourage foreign investors to participate in China's trust, financial leasing, car financing, money brokerage and consumer financing areas. Second, newly setup of investment and wealth management company by commercial banks will not be subject to foreign ownership cap. Third, business scope for foreign banks will be expanded. Fourth, joint venture brokerage will enjoy the same status as the local one in terms of business scope. Fifth, foreign insurance company is no longer to be required to set up a rep office at least two years before formally setting up the company. ▪ On monetary policy, Yi said the current interest rate differential between China and US is in a comfortable range and China is well prepared for the normalization of global monetary policy. Meanwhile he also said that macro leverage ratio is one of the key concerns for monetary policy. This suggests that China is unlikely to tighten aggressively before the stabilization of leverage situation. ▪ On currency, PBoC Governor Yi Gang said last week that China will not use currency depreciation to counter the impact of higher tariff.
▪ The US-China trade tension has not escalated further last week. US Treasury did not name China as the currency manipulator in its latest semi-annual report despite the report said the US is strongly concerned by lack of progress by China in correcting the bilateral trade imbalance.	▪ The recent announcement of opening by President Xi is likely to bring the US back to negotiating table. We doubt the USTR will come out the lists of additional US$100 billion Chinese products any time soon. As such, market will continue to watch out for the recent hearing for the US$50 billion products.
▪ To celebrate China's 40th anniversary of reform and openness, China came out a new idea of free trade port. President Xi unveiled China's plan to turn Hainan island to a free trade port by 2025.	▪ Free flows of capital and goods are expected to be one of the key features of the free trade port. Hainan will become the world's largest free trade port by size. The strategic location means that Hainan will also be the bridge for China's belt and road initiative. In addition, China will also use Hainan as the test bed for new energy car as well as service sectors such as sports betting though China is unlikely to grant the casino licenses.
▪ Reuters reported that China's central bank will remove the informal guidance on the ceiling of commercial deposit rates.	▪ Although China announced to remove the ceiling of commercial deposit rate back in 2015, marking an important step of interest rate liberalization, most of deposit rate has been capped at 50% above benchmark interest rate, which is still way below the yield offered by wealth management products. As China is fighting off balance sheet activity, the removal of informal guidance may facilitate banks to bring deposits back to balance sheet.

▪ The PBOC's Governor Yi Gang announced to expand the daily southbound quota under stock connect schemes to RMB42 billion from RMB10.5 billion and increase the daily northbound quota from RMB13 billion to RMB 52 billion starting May 1.	▪ In fact, the existing daily quota has never been used up since the launch of the stock connect schemes. Still, the announcement signals that China is striving to further liberalize the capital account and promote RMB internationalization. We note that southbound equity flows under two stock connects have registered net inflows consecutively since September 2017. With Mainland investors' increasing needs to diversify their portfolio, it is possible that capital flows into HK's stock market will increase further following the quota expansion. If this is the case, it will help to sustain the flush liquidity in Hong Kong market and in turn add downward pressure to HIBOR. On the other hand, the inclusion of China A-shares in the MSCI Emerging Markets Index together with a stable RMB will likely lure more foreign investors to tap Mainland China's stock market.
▪ A wide interest rate differential encouraged carry trade activities and pushed the USDHKD to 7.85 for the first time since 2005 when the trading band was introduced. During Apr 12 and Apr 13, HKMA bought a total of HKD3.258 billion to defend the currency peg system, which will reduce the sizeable aggregate balance just slightly to HKD176.52 billion. In terms of market reaction, 12-month USDHKD forward points just increased a tad from -630 to -520.	▪ We expect HIBOR to stay low for some time. With no significant change to the fundamentals including positive economic outlook and flush liquidity across the globe, HK may continue to see capital inflows. In contrast, LIBOR may remain elevated due to three major factors including 1) increasing US government bond issuance to finance fiscal deficit, 2) repatriation of overseas cash on US tax overhaul and 3) the Fed's unwinding of balance sheet and rate hikes. Therefore, we expect the yield differential to remain wide and continue to weigh on the HKD. ▪ Without much capital outflow pressure at this juncture, even though carry trade activities push USD/HKD to repeatedly test 7.85, the size of short HKD positions is expected to be small. This may trigger merely moderate intervention of the HKMA. As such, we see little chance of HIBOR jumping rapidly or HKD reversing its downtrend at this juncture. Instead, HKD may stay close to the weak end. ▪ Moving forward, the possible increase in capital inflows following the expansion of stock connect quota starting May 1 will add downward pressure to the HIBOR. Nonetheless, around mid-2018, we may see dividend payment flow, potential large IPOs, quarter-end effect and possible June rate hike by the Fed. Combined with HKMA's intervention which gradually reduces aggregate balance, downside risks for HIBOR and HKD may be eased slightly. Still, a faster increase in HIBOR and a reversal of HKD's downtrend are not expected until capital outflow pressure intensify on synchronized global monetary tightening.
▪ The Financial Secretary of Macau stated that Macau government is set to sign an agreement on a RMB 2 trillion cooperative development fund with Guangdong government, in an effort to bolster the development of the Greater Bay Area. It is also reported that the development plan of Greater Bay Area will be announced soon.	▪ Moving forward, we expect to see further collaboration between Hong Kong, Guangdong and Macau, which will likely help Chinese companies expand overseas and integrate capital and human resources to boost the development of high-tech sector and advanced manufacturing in the area.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's aggregate financing missed the market expectation despite new Yuan loan is in line with expectation. ▪ New Yuan loan increased by CNY1.12 trillion in March, up from CNY893.3 billion while aggregate	▪ The weaker than expected aggregate social financing was mainly the result of shrink of off-balance sheet financing. All three off-balance sheet financing items reported a decline with entrusted loan fell by CNY185 billion, largest single month decline. Meanwhile, trust loan also fell by CNY35.7 billion, first decline

social financing increased by CNY1.33 trillion, short of consensus of CNY1.8 trillion. ▪ M2 decelerated to a low of 8.2% yoy from 8.8%.	since Nov2015. The rapid decline of off-balance sheet financing shows China's financial de-leverage is taking effect. However, given China's aggregate financing is a leading indicator, the weaker than expected reading implies a weaker growth prospect in the second half of 2018. This reinforce our view that China's growth is expected to slow down in the second half. ▪ The only bright spot from March financial data is that the funding function of China's bond market recovered with total bond financing increased by CNY344.1 billion, highest since Dec2016 as liquidity improved in March. Given China has been moving towards a structural de-leverage model which targets local government financing and SOE debt, China's bond finaning is expected to revive as PBoC is likely to strike the balance to safeguard the overall liquidity.
▪ China's trade balance unexpectedly slipped to deficit of US$4.98 billion in March, down from a surplus of US$33.75 billion in March. ▪ Export in dollar term fell by 2.7% while import in dollar term rose by 14.4%.	▪ The volatility of trade data in March was probably partially distorted by seasonal effect after China reported an unusually strong Feb trade data as exporters may frontload ahead of Chinese New Year in the mid-Feb in 2018. Combining Feb and March data together, China's export rose by 15% yoy while imports rose by 10.9% yoy, within a reasonable range. As such, we suggest investors not to over-read the weaker than expected March trade data. ▪ On the positive note, import of electronic integrate circuit jumped by 43.3% yoy in dollar term. In the first quarter, imports of electronic ICs rose by 38.9%, signalling that China continues to benefit from the global recovery story. As such, we expect export growth to recover in the coming months after the dissipation of seasonal effect. ▪ China's commodity demand remains steady. Imports of crude oil hit US$18.29 billion, up by 19.1% yoy. However, demand for iron ore fell with imports of iron ore fell by 19.3% yoy by value and 10.2% yoy by volume.
▪ Both China's consumer prices and producer prices decelerated at a faster than expected pace in March. ▪ CPI slowed down to 2.1% in March after touching a high of 2.9% in Feb. PPI decelerated further from 3.7% to 3.1%.	▪ Both CPI and core CPI fell month-on-month due to seasonal effect as the Chinese New Year effect faded away in March. However, the 1.1% mom decline is still higher than expectation, signalling that inflationary pressure is unlikely to be concern at the moment. We expect China's CPI may have peaked in Feb at 2.9%. ▪ However, China's inflation outlook may also depend on the development of US-China trade tension. Should negotiation fail, China's tariff on major US imports such as soybean may create additional price pressure. ▪ In general, we think the current inflationary pressure is unlikely to change China's monetary policy outlook, which is expected to remain prudent.
▪ Macau's housing transactions increased by 177.5% yoy or 3.6% mom to 1518 deals in February.	▪ In the first half of February, market fret that housing prices would have increased notably following a slew of new measures unveiled by the government. Therefore, the buying spree accelerated and pushed up the transactions. However, in the second half of February, the new measures started to take effect in taming investment demand and reducing secondary housing supply. Therefore, growth in approved new mortgage loans slowed down to 0.3% yoy in February. We hold onto our view that housing transactions could remain muted in the coming months. Nevertheless, new measure together with a stable labor market and persistently low borrowing costs will likely support first-home buyers to enter the market and in turn boost

	mortgage loans demand. Combined with scarce supply in both secondary and primary markets, housing prices (+24.7% yoy to MOP110,243/square meter) are expected to remain elevated. Still, prospects for interest rate increase and stock market correction in the medium term may help to moderate the housing market growth.

RMB	
Facts	**OCBC Opinions**
▪ RMB rebounded against both dollar and currency basket after PBoC said China will not use currency depreciation to counter the impact of higher tariff.	▪ The rebound of RMB index to 97 may be the result of China's assurance not to use currency depreciation as the tool for trade tension. As the impact of trade tension on RMB is likely to diminish, the near term driving factor for RMB may go back to the US dollar.

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