Highlights

What an eventful week! China's equity market was sold off due to concerns about looming trade tension while bond market rallied on the back of risk aversion and dovish money market hike by PBoC. China concluded the first plenary session of 13th National Party Congress. One of the key takeaways from Premier Li's press conference is that he offered detailed plans to ease the trade tensions, which cover four areas including goods trade, service trade, manufacturing sector and foreign direct investment. Unfortunately, Premier LI's soft message failed to change President Trump's decision to escalate the tension. In the newly released section 301 full investigation report by the USTR, the report stated that since 2010, the Chinese government has committed not to use technology transfer as a condition for market access for at least 10 times. It seems that US is losing the patience on verbal commitment from China's top leaders.

Although the plan announced by Premier Li shows soft approach remains the top option for China to ease the tension, China is also preparing for the worst. China's Commerce Ministry announced to suspend the tariff concession for total 128 US products worth US$3 billion in reaction to the steel and aluminium tariff from the section 232 investigation. China may announce more measures pending on the detailed lists from the USTR under the section 301 investigation. Whether China will target the soybean imports from the US remains to be seen.

On politics, the Communist Party of China (CPC) unveiled detailed plans on deepening reform of Party and state institutions to strengthen Party's leadership. China will depart from the notion of separation Party and government, an important change designed by Deng Xiaoping as part of China's political reform in 1980s. Looking ahead, Party is likely to play a more important role in working with various government agencies to drive China's decision making. Guo Shuqing, Chairman of the newly formed banking and insurance regulator, is reported to be the Party Secretary for PBoC. Guo is likely to play a more important role in shaping China's financial regulation while Governor Yi Gang is likely to play a leading role in driving China's monetary policy.

The looming trade tension is unlikely to derail China's plan to further promote RMB Internationalization as well as open its financial market. Today will be the first trading day for Yuan denominated oil future, which is expected to draw market attention. In addition, the inclusion of Yuan denominated bonds to the Bloomberg Barclays Global Aggregate Index shows China will further integrate its financial market with global market.

In **Hong Kong,** HKD moved a tad closer to the weak end due to a wider interest rate gap. Though HKMA followed the Fed's step to raise base rate by 25bps, the prime rate remained unchanged amid flush liquidity. With no significant change to the fundamentals including positive economic outlook and flush liquidity across the globe, HK may continue to see capital inflows and allow HIBOR to stay low for some time. Nevertheless, high HKD loan-to-deposit ratio, month-end and quarter-end effects, as well as large IPOs means that downside for HIBOR is limited. Therefore, we expect one-month HIBOR to find some support between 0.6% and 0.7%. With yield differential between USD and HKD to stabilize around 100bps, HKD may remain suppressed. Meanwhile, cautious short traders may prevent HKD from reaching the weak end in the near term. In the medium term, however, HIBOR could jump in response to fast capital outflows on global monetary tightening and US tax reform. Therefore, by end of 2018, one-month HIBOR is expected to at least reach 1.4%. If this is the case, banks will probably raise Prime Rate while HKD may also reverse its downtrend in 2H 2018. Still, fierce mortgage competition and large banks' abundant capital indicate that the prime rate hike cycle may proceed at a moderate pace. **In Macau**, visitor arrivals increased to the highest level since August 2014 at 3.07 million amid the effect of Lunar New Year Holiday. Infrastructure improvement, new project openings, weaker MOP and strong Asian growth will likely support tourism and the mass-market segment of gaming sector.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ As a reaction to the looming trade tension between US and China, China's Premier Li laid out China's plans to ease the tension during the Press conference of the conclusion of the first plenary session of 13th National People's Congress.	▪ The plans cover four areas including goods trade, service trade, manufacturing sector and foreign investment. On goods trade, Premier Li said China is willing to further reduce import tariff including zero tariff for important medicine. On service trade, China commit to further open its service sector and widen market access to China's elderly care, education, healthcare and financial service sectors. On manufacturing, Premier Li said China will fully open its manufacturing sector and there is no mandatory requirement for technology transfer to address US's concern about intellectual property rights. On foreign direct investment, Premier Li said China will further shorten its negative list and aims to merge three laws governing foreign

	direct investment to one. ▪ Unfortunately, Premier LI's soft message failed to change President Trump's decision to escalate the tension. In the newly released section 301 full investigation report by the USTR, the report stated that since 2010, the Chinese government has committed not to use technology transfer as a condition for market access for at least 10 times. It seems that US is losing the patience on verbal commitment from China's top leaders. ▪ Nevertheless, the four detail plans laid out by Premier Li could still be used as important reference for China to ease trade tensions in future.
▪ Following the conclusion of Section 301 investigation by the US Trade Representative, President Trump announced three measures including WTO dispute, 25% additional tariff on US$50 billion worth of imports from China (product lists to be announced) and investment restrictions in industries or technologies. ▪ In reaction, China's Commerce Ministry announced to suspend the tariff concession for total 128 US products worth US$3 billion.	▪ The direct impact of current bill on China's economic growth is likely to be limited as US$50 billion only accounted for about 2% of China's total export in 2017. ▪ The misunderstanding in the market is that China's US$3 billion retaliation bill is too small relative to US's 50 billion. However, this US$3 billion list was in reaction to US's tariff on steel and aluminium as a result of section 232 investigation. As the detail lists of section 301 is not out yet, China is only likely to announce the additional list after US unveiled the detail lists. ▪ The possible target is likely to be soybean, which is US's second largest export item to China.
▪ The Communist Party of China (CPC) unveiled detailed plans on deepening reform of Party and state institutions following the announcement about government restructuring one week ago.	▪ This is an important move, in our view, to strengthen CPC's central leadership. However, this also means that China will depart from the notion of separation Party and government, an important change designed by Deng Xiaoping as part of China's political reform in 1980s. Looking ahead, Party is likely to play a more important role in working with various government agencies to drive China's decision making.
▪ It was reported by media that the Chairman of newly formed banking and insurance regulator Guo Shuqing has been named as the Party Secretary for PBoC.	▪ As China has strengthened Party's leadership, the appointment of Guo as the Party Secretary for PBoC suggests Guo is likely to play a more important role in shaping China's financial regulation while Governor Yi Gang is likely to play a leading role in driving China's monetary policy.
▪ The PBoC hiked its 7-day reverse repo rate by 5bps this morning in its open market operation (OMO), in reaction to overnight Fed rate hike. This is the first money market rate hike in 2018 and the fourth money market rate hike since 2017.	▪ The 5bps money market rate hike is a symbolic move to narrow the gap between market rate and reference rate but it can still serve the purpose of warning signal to financial leverage. ▪ China may try to downplay the impact of the Fed rate hike on its rate decision. No guarantee that China will follow each time. ▪ There is no urgency for China to maintain favourable yield differential between China and US as currency stability is not a concern now. ▪ It is a dovish hike. We see limited impact on bond and currency markets.
▪ China will officially start its first Yuan-denominated oil futures listed on the Shanghai International Energy Exchange.	▪ The move will help China gain influence on oil pricing. In addition, it will also further support China's RMB internationalization.
▪ HKD moved a tad closer to the weak end of the peg due to a wider interest rate gap. Fret about a hawkish Fed and the quarter-end effect pushed USD LIBOR up rapidly, in turn widening the gap between LIBOR and HIBOR. 3-month LIBOR was over 110bps higher than 3-month HIBOR. ▪ HKMA followed the Fed's step to raise base rate by 25bps on 22 Mar. However, the banking system remained prime rate unchanged amid flush liquidity.	▪ On the one hand, with no significant change to the fundamentals including positive economic outlook and flush liquidity across the globe, HK may continue to see capital inflows. As a result, HIBOR may stay low for some time. Nevertheless, high HKD loan-to-deposit ratio means that downside for HIBOR is limited. Several factors including month-end and quarter-end effects as well as large IPOs are poised to add short-term upward pressure onto the HIBOR. Therefore, one-month HIBOR is likely to find some support between 0.6% and 0.7%. ▪ On the other hand, as the Fed is not expecting four rate hikes in

	2018 as widely speculated, the increase in USD LIBOR may slow down after quarter-end effect abates. Therefore, yield differential may stabilize around 100bps and continue to suppress the HKD. Meanwhile, cautious short traders may prevent HKD from reaching the weak end. ▪ However, should inflation risk mount on synchronized global recovery and propel global central banks to tighten momentary policy in 2H 2018, this will add to US tax reform in draining liquidity out of emerging markets. Then we will see a faster increase in HIBOR and a tumble in HKD as a knee-jerk reaction to fast capital outflows. If HKD tries to break the weak end of the peg, the resultant intervention of HKMA will push up the HIBOR further and narrow HIBOR's gap with its US counterpart and the prime rate. By end of 2018, one-month HIBOR is expected to at least reach 1.4%. Historically, when the gap between Prime Rate (5%) and 1-month HIBOR narrowed to around 350 bps, banks were prompted to lift the Prime Rate. Therefore, we expect HKD to reverse its downtrend and banks to raise Prime Rate probably in 2H 2018. ▪ Still, fierce mortgage competition and large banks' abundant capital indicate that the prime rate hike cycle may proceed at a moderate pace. As such, we are wary that small to medium banks will continue to suffer from high funding costs and see the Net Interest Margin suppressed.
▪ HK government is reported to give cash handouts to the low income class. Specifically, for those aged between 18 and 65 and earn less than median monthly wage (HK$15,500) and do not receive any government allowance, they may be eligible for up to HK$2000-HK$3000 of cash handouts.	▪ After the government announced 2018/19 Budget, it stirs up social discontent and propels the government to reconsider some possible adjustments to the budget. Though cash handouts may help to slightly ease the financial burden of some low income class or lend some support to domestic consumption, the benefit is more likely to be short-lived. In fact, budget surplus to GDP ratio reached 5.2% in 2017, which is lower than the 7.5% in 2007. As global economy is approaching the late-cycle phase of the expansion, HK government should prepare for the worse. In other words, when increasing expenditure to support the short-term economic growth, the government should better find new ways to increase revenue. The proposal of Singapore's government to raise GST some time between 2021 and 2025 could be a good example.

Key Economic News	
Facts	**OCBC Opinions**
▪ China recorded a small deficit of net sell of foreign currency in February. Banks net purchased US$1.6 billion foreign currency on behalf of clients.	▪ Despite the net purchase of foreign currency, corporate's willingness to sell foreign currency remained high at 65.7%. As such, the capital flow in China is still relatively balanced.
▪ HK's unemployment rate remained at a two-decade low of 2.9% during the three-month period through February 2018.	▪ Trade sector's unemployment rate rose to 2.3% from the lowest level since 1998 of 2.2%. The rise of trade protectionism is posing downside risks to the trade sector and may weigh on its employment. Besides, we are wary that global monetary tightening could cause capital flight from emerging markets and hit HK's property market and financial market. As such, downside for the unemployment rate of construction sector and financial sector is expected to be limited. In comparison, a weak HKD and strong economic growth across Asia will likely bolster further recovery in tourism-related sectors and support its employment (jobless rate remained unchanged at lowest since 4Q 2014 of 4.2%). All in all, though the labor market may remain

	tight on the back of resilient economic growth, overall unemployment rate could edge up slightly in the second half of this year.
▪ Macau's visitor arrivals increased to the highest level since August 2014 at 3.07 million in February 2018, due to the effect or Lunar New Year Holiday. The number of same-day visitors and that of overnight visitors jumped significantly by 32.6% yoy and 13.3% yoy. As a result, the share of same-day visitors inched up to the strongest since February 2016 at 54.5%.	▪ By country of residence, the number of visitors from Mainland China increased by 37% yoy, mainly led by a 51% yoy growth in same-day visitors. In contrast, visitors from Hong Kong only increased by 0.1% yoy while those from Taiwan, Japan and South Korea even dropped by 8.4% yoy, 26.4% yoy and 13.4% yoy respectively. The increase in visitor arrivals will likely slowdown in the coming month due to an abating calendar effect. However, we do not expect the tourism sector to lose momentum. Rather, infrastructure improvement and a new wave of mega project openings are expected to lend some support to the tourism activities. A weaker MOP and strong growth of Asia could also boost the tourism sector. If this is the case, mass-market segment of the gaming sector may remain elevated throughout this year.

RMB	
Facts	**OCBC Opinions**
▪ RMB strengthened slightly against the US dollar riding on broad dollar weakness. RMB index, however, remained relatively stable at around 96.	▪ Again, the looming trade tension may be viewed by market as the catalyst for RMB to appreciate further. However, we think China should resist appreciation pressure as part of trade remedy packages amid trade tension.

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