Highlights

China unveiled the revised version of asset management rules after seeking public opinion for about five months with slightly easing bias. The grace period was extended to end of 2020 from previously end June 2019. In addition, during the transition period, asset managers are still allowed to roll over some existing non-compliance products though the total outstanding non-compliance products will be reduced gradually. This is in line with the latest guideline that any tightening measures should not run the risk of trigger of additional systemic risk. Nevertheless, by giving detailed definition of standard liability asset, it shows China's motivation to curb the development of non-standard liability assets. To conclude, the new asset management rule will serve the purpose of containing financial risk and breaking the implicit guarantee. Nevertheless, the extension of grace period to end of 2020 under the revised rule is likely to ease market concerns about the negative impact on market. In the longer run, we think the move is positive for the development of direct financing including equity and bond financing.

In its April CPC Politburo meeting, China's top policy makers added "expanding aggregate demand" back to the policy statement after dropping it four months ago in 2018 Central Economic and Working Conference. The recent policy shifts including re-highlight of "expanding aggregate demand", targeted RRR cut and persistent weaker than expected RMB daily fixing are all China's pre-emptive measures to offset the possible negative impact of US-China trade tension on the economy. The recent tight liquidity despite the RRR cut shows that China is unlikely to deviate from its prudent monetary policy tone.

China reopened the outflow channel under capital account by increasing quota for QDLP and QDIE as well as granting new QDII quota after suspending for more than three years. The reopening show that China is no longer worried about capital outflows. Balanced capital flows rather than encouraging one-way capital inflows will be the new guideline. On currency, the recent weaker than expected RMB daily fixing aims to slow down RMB's appreciation against its currency basket to counter the potential impact of US-China trade tension on China's growth outlook after the RMB index hit a recent high of 97.43 last Wednesday. The high RMB index suggested China is likely to continue to guide RMB weaker in the coming sessions. For this week, market will closely monitor the negotiation between US and China on trade issues during US delegation's visit to China.

In **Hong Kong,** liquidity condition has remained tight over the past week due to reduction in aggregate balance, month-end effect and Ping An Good Doctor's IPO. As a result, HIBOR rose to the highest level since 2008. USD/HKD spot rate hovered below 7.85 as tight liquidity sidelined some carry trade activities. Moving into May, with the effect of month-end and large IPO abating, we expect liquidity condition to improve and USD/HKD to reach 7.85 again. This will prompt HKMA's FX intervention and bring aggregate balance down. On top of further reduction in aggregate balance, we will see month-end effect in May, quarter-end effect in June, dividend payment flows during June to August, and potential large IPOs. These are all factors that could push up HIBOR. As a result, banks' pressure to raise prime rate will increase in 2H 2018. We expect banks to raise prime rates two times by a total of 50bps this year. Given manageable capital outflow risks, neither the housing market nor the stock market is expected to take a hard hit as a result of the gradual and moderate local rate hikes. On the other hand, a narrower yield differential may make short HKD traders more cautious and allow HKD to rally to 7.83 by end of this year. Elsewhere, HK stock market registered outflows of RMB 8.11 billion under southbound stock connect in April. However, in the near term, a new wave of large IPOs may help to encourage Mainland investors to re-enter Hong Kong's stock market. Also, the increasing demand of Mainland investors to diversify their portfolio will likely lure capital flows to HK from China in the medium to long term.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China unveiled the revised version of asset management rules after seeking public opinion for about five months following the release of drafted rules in November 2017 to regulate China's hundred trillion market.	▪ As a result of rapid accumulation of wealth by Chinese money, demand for asset and wealth management products has surged in the past decade. However, due to lack of detailed supervision, the investment of wealth management products in non-standard debt assets has become one of important loopholes for China's financial market to skirt the financial regulation, fuelling potential systemic risk. The regulation of China's asset management market is an important step for China to contain financial risk. ▪ As compared to drafted rule, one of the notable change of revised version is that it gives the market longer grace period to be adjusted to new rule. The new asset management will only take effect from end of 2020, delayed from previous July 2019.In addition, during the transition period, asset managers are still

	allowed to roll over some existing non-compliance products though the total outstanding non-compliance products will be reduced gradually. The extension of the grade period is in line with the latest guideline that any tightening measures should not run the risk of trigger of systemic risk. ▪ The revised rule also provides detailed definition of standard debt asset. A standard debt asset should have five features including 1) dividable and tradable, 2) transparent information, 3) Central booking and independent custody, 4) properly price with improved liquidity mechanism and 5) traded in authorized exchange such as interbank market etc. The detailed definition shows China's motivation to curb the development non-standard debt asset. ▪ Two highlights from the asset management rules. First, it is designed to break so called implicit guarantee. Asset management product should be priced based on fair value methodology. The cost of product will be allowed to amortize should product meet certain criteria. The fair value methodology rather than fixed price will help China break the implicit guarantee. Nevertheless, as compared to drafted rule, the penalty for implicit guarantee is eased under the revised rule, which may help ease pressure for asset manager. ▪ Second, other than breaking implicit guarantee, containing financial risk is another important driver to this new rule. Asset liability mismatch will be prohibited for asset management products and capital pool will also be banned. In addition, investors can only invest in the asset management products with their own fund. ▪ To conclude, the new asset management rule will serve the purpose of containing financial risk and breaking the implicit guarantee. Nevertheless, the extension of grace period to end of 2020 under the revised rule is likely to ease market concerns about the negative impact on market. In the longer run, we think the move is positive for the development of direct financing including equity and bond financing.
▪ In its April CPC Politburo meeting, China's top policy makers added "expanding aggregate demand" back to the policy statement after dropping it four months ago in 2018 Central Economic and Working Conference.	▪ The tweak of policy statement together with the recent targeted reserve requirement ratio cut fuelled easing expectation again. However, the recent tight liquidity despite the RRR cut shows that China is unlikely to deviate from its prudent monetary policy tone. ▪ To recap, "appropriately expanding aggregate demand" was one of the key guidelines in 2017. However, the phrase was dropped in the later part of 2017 as Chinese economy outperformed. The recent policy shifts including re-highlight of "expanding aggregate demand", targeted RRR cut and persistent weaker than expected RMB daily fixing are all China's pre-emptive measures to offset the possible negative impact of US-China trade tension on the economy. As such, we think market should be cautious on interpretation.
▪ China's State Council announced fresh measures of tax cut to support innovation and boost the development of small and micro business. The new measures will bring total tax burden down by CNY60 billion.	▪ As China usually runs a combination of policy tools as supply measures including industry policy and structural tax cuts, China is unlikely to opt for a universal rate cut, similar to Trump tax rate cut. Structural tax cut is one of China's key measures to expand aggregate demand.
▪ China reopened the outflow channel under capital account. The SAFE expanded the quotas for two pilot outbound investment programs. Quotas for	▪ The reopening of outflow channels show that China is no longer worried about capital outflows. Balanced capital flows rather than encouraging one-way capital inflows will be the new

the Qualified Domestic Limited Partnership (QDLP) in Shanghai and the Qualified Domestic Investment Enterprise (QDIE) in Shenzhen will be increased to US$5 billion each from previously US$2 billion and US$2.5 billion respectively. Meanwhile, China resumed granting the Qualified Domestic Institution Investors (QDII) quota after suspending for more than three years. Total QDII quota increased by US$8.34 billion in April to US$98.33 billion.	guideline.
▪ One-month HIBOR and three-month HIBOR climbed respectively from 0.97% and 1.36% on April 20 to and 1.31% and 1.58% on Apr 27, the highest level since 2008. HIBOR surges on the back of tight liquidity with a 28.5% reduction in aggregate balance, month-end effect, and Ping An Good Doctor's IPO. The IPO is said to have locked-up HK$376.8 billion and registered an oversubscription by over 650 times.	▪ With liquidity returning to the market after month-end and the IPO, we expect HIBOR to subside and widen its gap with its US counterpart in early May. As such, USD/HKD may reach 7.85 again and prompt FX intervention by the HKMA, which has not taken any action since 19 April. This will bring aggregate balance down from the current HK$128.5 billion. ▪ On top of further reduction in aggregate balance, we will see month-end effect in May, quarter-end effect in June, dividend payment flows during June to August, and potential large IPOs (like Xiaomi, Ant Financial, Grail Inc.,). These are all factors that could push up HIBOR. As a result, banks' pressure to raise prime rate will increase in 2H 2018. We expect banks to raise prime rates two times by a total of 50bps this year. Given manageable capital outflow risks, neither the housing market nor the stock market is expected to take a hard hit as a result of the gradual and moderate local rate hikes. On the other hand, a narrower yield differential may make short HKD traders more cautious and allow HKD to rally to 7.83 by end of this year.
▪ Hong Kong Exchanges & Clearing (HKEX) announced proposed rules which will allow companies with dual class share structures to list in Hong Kong as early as in June or July.	▪ We expect more renowned Chinese high-tech companies to launch their IPO on HKEX. A new wave of large IPOs will add to month-end effect, quota-end effect, small-scale of capital outflows in keeping HIBOR elevated in the rest of this year.
▪ HK's stock market registered outflows of RMB 8.11 billion under southbound stock connect in April, after marking 29 consecutive months of net southbound inflows. In the meantime, month-to-date net northbound inflows totaled about RMB 35 billion.	▪ We note that capital has been flowing from HK to China under the stock connect program. A stable RMB, expectations on an easing bias of the PBOC and the upcoming inclusion of A-shares to MSCI emerging market index have been encouraging capital flows to Mainland stock market. Besides, Hang Seng China AH Premium Index slid from a recent high of 137.8 on 6 February to 121 on 27 April. This means that the valuation of H-shares becomes less attractive as compared to few months earlier. However, in the near term, a new wave of large IPOs may help to encourage Mainland investors to re-enter Hong Kong's stock market. Also, the increasing demand of Mainland investors to diversify their portfolio will likely lure capital flows to HK from China in the medium to long term.
▪ China is planning to build Hainan into a pilot international free-trade zone. Hainan will strengthen the collaboration with Hong Kong in ten areas.	▪ Firstly, Hong Kong will collaborate with Hainan in building Hainan into an international tourism and consumption center. Secondly, Hainan companies will be encouraged to expand their overseas business via Hong Kong. Thirdly, Hainan companies will be supported to issue bonds, get bank loans and launch IPO in Hong Kong. Furthermore, two cities will cooperate with each other in areas like healthcare, technology and innovation, as well as conferences and exhibitions. We expect this will bring more business opportunities to Hong Kong, especially the financial sector, and pave way for more capital flows across the border between Hong Kong and China.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's industrial enterprise total profit growth decelerated to 11.6% yoy in the first quarter from 16.1% yoy in the first two months. Profit growth in March slowed down to 3.1% yoy.	▪ The deceleration of industrial growth was partially due to seasonal effect as the end of Chinese New Year celebration ended in early March, which led to shorter working days. Nevertheless, total finance cost surged by 15.1% yoy in March due to forex loss as a result of RMB appreciation, which may also contribute to slower profit growth.
▪ HK's trade activities rallied strongly in March after the calendar effect wanes. Exports grew by 8% yoy amid a weaker HKD and strong external demand. Imports edged up 10.7% yoy on buoyant internal demand and higher commodity prices.	▪ Despite rising trade tension between US and China, overseas shipments to Mainland China and the US rebounded by 60.3% yoy and 17.7% yoy respectively. Imports from Mainland China and the US also jumped by 2.7% yoy and 11.5% yoy respectively. More notably, imports and exports of high-tech products have regained growth momentum. Still, we are worried about the trade conflicts between the US and China. Trade sector' contribution to HK's economy reached 18% in 2016. HK's exports to China and US accounted for 62.2% of total exports while imports from these two regions took up 51.8% of total imports in 2017. Furthermore, imports and exports of "electrical machinery, apparatus and appliances, and electrical parts thereof", "telecommunications and sound recording and reproducing apparatus and equipment" and "office machines and automatic data processing machines" represented 65% of total imports and exports. In short, Hong Kong' trade sector and economy will highly likely take a hit should trade tension intensify.
▪ Macau's total visitor arrivals continued to increase by 9.3% yoy in March 2018. Besides, the share of overnight visitors (+10.2% yoy) rebounded to 53.1% after the effect of Lunar New Year Holiday drove it down to a two-year low of 45.5% in February.	▪ Tourism sector registered broad-based improvement as compared to the same month last year. By source of inbound tourists, visitors from Mainland China, Hong Kong, Taiwan, South Korea and Japan increased by 9.8%, 9.3%, 6.9%, 7.9% and 3.1% on a yearly basis respectively. More notably, tourists from Hong Kong marked two consecutive months of growth and exhibited the strongest year-on-year growth since April 2017, probably due to a low base effect caused by the different timing of Easter Holidays between this year and last year. This indicates that the year-on-year growth of HK tourists could decelerate in April. Despite that, we hold onto our view that Macau's overall tourism activities will continue to gain growth momentum in the coming months given a weaker MOP, transportation infrastructure improvement and a new wave of mega project openings. This will in turn benefit both retail sector and mass-market segment of gaming sector.

RMB	
Facts	**OCBC Opinions**
▪ The RMB daily fixing was set at persistent weaker than expected level last week despite the rebound of broad dollar index. This drove the USDCNY to test high of 6.3450. However, RMB index remained elevated above 97 level.	▪ The recent weaker than expected RMB fixing is probably one of China's pre-emptive measures to slow down RMB's appreciation against its currency basket to counter the potential impact of US-China trade tension on China's growth outlook after the RMB index hit a recent high of 97.43 last Wednesday. The high RMB index suggested China is likely to continue to guide RMB weaker in the coming sessions.

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