Highlights

Risk sentiment improved further last week as China announced more supportive measures including more proactive fiscal policy and easing of macro prudential assessment. Against the backdrop of collapse of social financing growth and rising uncertainty due to US-China trade war, China has focused more on downside growth risk. The fine-tune of MPA is in line with recent wave of policy changes to reboot the credit growth in the aggregate level to sustain the economic growth. On the positive note, the latest data shows that China's leverage ratio for industrial companies has been falling. This could give China's policy makers some leeway to shift their focus on the downside risk amid deteriorating trade war.

On trade tension, market should closely monitor any potential retaliation from the US side after the US semiconductor Qualcomm failed to secure the approval from the Chinese regulator. On currency, the latest news about US-EU trade truce and Qualcomm's abandon of its acquisition of NXP may revive the concerns about the further escalation of trade war, which may further weigh down on RMB prospect. The further decline of RMB index shows that RMB is likely to underperform amid heightening trade tension.

In Hong Kong, all eyes were on China Tower IPO which however failed to attract much prospective investors amid bearish stock market on trade war concerns. Market players who have over-prepared for the IPO released some money to the market. As a result, HIBOR and HKD retreated slightly. Despite that, China Tower deal will continue to take investor order until 31 July. As such, we still expect HIBOR to rebound as we get closer to the month-end. Mainland companies' dividend payouts would also translate into large demand for HKD and tighten the HKD liquidity. Therefore, we hold onto our view that 1M and 3M HIBORs will test 2% and 2.1% respectively in the next one to two weeks. USD/HKD spot rate may stay below 7.85 in the near term. After China Tower launched its IPO on 8 Aug, liquidity will likely loosen gradually with HIBOR to subside. In this case, the possibility of HKD touching the weak end of the currency peg again cannot be ruled out. Elsewhere, HK's exports and imports grew at a much slower pace by 3.3% and 4.4% respectively in June, due to high base effect. Also, it is possible that trade activities halted ahead of China's reduction of tariff on some Asian countries effective 1 July. However, June's numbers have not yet reflected the impact of US-China trade war which officially started in early July. With the US and China imposing new tariff on each other effective 6 July, we expect HK's trading activities to remain sluggish with imports and exports to see single-digit growth in the coming months. Lately, US and EU reached an agreement to calm trade war fears. However, this could further cloud the outlook of the trade sector of both China and HK.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's State Council said in its regular meeting last week that a more proactive fiscal policy will be pursued to ensure stable economic development.	▪ China has focused more on downside growth risk recently against the backdrop of collapse of social financing growth and rising uncertainty due to US-China trade war. However, China is unlikely to go back to old path of strong fiscal stimulus. Instead, this round of fiscal measures will mainly comprise of tax cut, refund of value added tax as well as bringing down the administrative costs. In addition, the Ministry of Finance also said that local government will be allowed to issue CNY1.35 trillion special bonds at a faster pace to support the existing infrastructure projects. This also fuelled the rally of infrastructure related stocks in earlier weeks.
▪ It was reported by onshore media that China has lowered the structural parameter for the calculation of macro prudential capital adequacy ratio for some banks.	▪ Under China's macro prudential assessment framework (MPA), the macro prudential capital adequacy ratio (CAR) will be calculated based on a number of parameters such as structural parameters. The reduction of this parameter from 1 to 0.5 will alleviate pressure on banks' CAR. This may give banks more space to lend to the real economy. The fine-tune of MPA is in line with recent wave of policy changes to reboot the credit growth in the aggregate level to sustain the economic growth.
▪ The US semi-conductor firm Qualcomm abandoned its bid for the Dutch chipmaker NXP after the deal failed to clear Chinese regulator ahead of deadline.	▪ Although Chinese regulator has mentioned that the decision not to grant the approval ahead of deadline is based on anti-monopoly issue, most market players tend to link this incident to the latest US-China trade war. This raises concerns that China's

▪ China's State Administration for Market Regulation (SAMR) said in a statement on Friday that it hopes to continue to communicate with Qualcomm to resolve the issue within the review period which would expire on 15 Aug. ▪ US Treasury Secretary Mnuchin said he is disappointed about the decision.	decision may lead to further escalation of the tension. Market will closely monitor any reaction from Trump administration after US Treasury secretary Munchin said he is disappointed.
▪ All eyes were on China Tower IPO which however failed to attract much prospective investors amid bearish stock market on trade war concerns.	▪ The situation looks similar to what we saw in late June when sentiment for Xiaomi IPO was much more subdued than expected. Therefore, similarly, market players who have over-prepared for the IPO released some money to the market. Adding that USD rebounded and RMB retreated, USDHKD moved up from 7.8447 to 7.8486. HIBOR also subsided slightly. ▪ Despite that, China Tower deal will continue to take investor order until 31 July. As such, we still expect HIBOR to rebound as we get closer to the month-end. Mainland companies' dividend payouts would also translate into large demand for HKD and tighten the HKD liquidity. Therefore, we hold onto our view that 1M and 3M HIBORs will test 2% and 2.1% respectively in the next one to two weeks. USD/HKD spot rate may stay below 7.85 in the near term. ▪ After China Tower launched its IPO on 8 Aug, liquidity will likely loosen gradually with HIBOR to subside. In this case, the possibility of HKD touching the weak end of the currency peg again cannot be ruled out.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's industrial profit growth remains strong despite the rising uncertainty due to trade tension. Industrial profit grew by 17.2% yoy in the first half of 2018. Meanwhile, leverage ratio in those companies fell slightly with debt to asset ratio for SOEs fell to 59.6%, down by 1.2% from same time last year.	▪ The improving industrial profit was mainly attributable to rebound of producer price index as upstream companies continued to benefit from rising raw material prices. ▪ In addition, the decline of debt to asset ratio is encouraging and shows that China's de-leverage is bearing the fruits. This could give China's policy makers some leeway to shift their focus on the downside risk amid deteriorating trade war.
▪ Hong Kong's exports and imports grew at a much slower pace by 3.3% and 4.4% respectively in June, due to high base effect. Also, it is possible that trade activities halted ahead of China's reduction of tariff on some Asian countries effective 1 July. ▪ As a result, the growth of exports to Mainland China decelerated from 18.4% yoy to 1.2% yoy while that of imports from Mainland China moderated from 19.2% yoy to 2.9% yoy.	▪ However, June's numbers have not yet reflected the impact of US-China trade war which officially started in early July. By commodity, exports and imports of "electrical machinery, apparatus and appliances, and electrical parts thereof" (+11.5% yoy and +9.7% yoy respectively) and "office machines and automatic data processing machines" (+5.6% yoy and +12.1% yoy respectively) remained resilient. Imports from the US also registered double-digit growth (+10.3% yoy) for the third consecutive month. ▪ With the US and China imposing new tariff on each other effective 6 July, we expect HK's trading activities to remain sluggish with imports and exports to see single-digit growth in the coming months. Lately, the EU and the US reached an agreement and eased the trade tensions between the two regions. This could further cloud the outlook of the trade sector of both China and HK.

▪ HK: The growth of private units under construction decelerated to 71.8% yoy in 1H 2018 from 124% yoy in 1Q 2018. Private units under construction totaled 14600 units in 1H 2018. During the same period, the completed private units dropped by 30% yoy to 6200 units. The government estimates that some 93000 units will be available in the coming three to four years.	▪ However, the new housing measures announced lately will reduce private housing supply by about 10000 units in the medium term. Also, it is possible for the property developers to slow down their construction pace in order to avoid paying vacancy tax. ▪ Therefore, we fret that housing supply will grow at a slower pace than estimates in the coming years. If this is the case, the imbalance between supply and demand will remain intact and help to cap any housing market correction caused by higher interest rates or stock market correction.
▪ Macau's visitor arrivals increased for the fifth consecutive month and were up by 9.4% yoy in June 2018. The number of overnight visitors (55.5% of total visitors) rose 7.2% yoy while that of same-day visitors (44.5% of total visitors) grew 12.4% yoy.	▪ This indicates that tourism activities have been holding up well on the back of sustained growth across Asia. The recent opening of new projects might have also encouraged re-visitation and attracted new visitors. As such, we see broad-based improvement in inbound tourism. ▪ Specifically, the number of tourists from Mainland China, Hong Kong, Taiwan and Japan edged higher by 13.5% yoy, 2% yoy, 7.8% yoy and 9.8% respectively. Due to high base effect, the number of visitors from South Korea dropped for the third straight month by 13.4% yoy. Nevertheless, the decline is unlikely to sustain. ▪ In the coming months, with a slew of new projects to open and the Hong Kong-Zhuhai-Macau Bridge to commence operation, we expect inbound tourism to continue growing on a broad basis. As such, both retail sales as well as the mass-market of the gaming sector are likely to be well supported.
▪ Macau: Unemployment rate remained at 1.8% in 2Q 2018. Labor force participation rate rebounded to 71% while the employed population rose to the highest level since late 2016 at 385400.	▪ With a series of new entertainment and infrastructure projects under construction, the employment of construction industry increased for the fifth consecutive month by 2.8% mom in June. Supported by the successive openings of new mega projects, the gaming sector's employed population also grew by 3% mom. ▪ Moving forward, as the government plans to increase investment in infrastructure, the construction industry and its employment may remain supported. Meanwhile, with a slew of new projects to open and the Hong Kong-Zhuhai-Macau Bridge to commence operation in 2H 2018, the outlook of Macau's tourism sector and its gaming industry is likely to be buoyant, in turn bolstering the hiring sentiments. Given the sanguine economic outlook and the tight labor market, we expect wage growth to pick up in the coming quarters (median monthly employment earnings remained unchanged at MOP 16,000 in 2Q 2018).

RMB	
Facts	**OCBC Opinions**
▪ The sharp recovery of RMB from 6.84 to 6.74 on the back of weaker broad dollar last week failed to sustain as concerns about the escalation of US-China trade war heightens. ▪ RMB index ended the week below 93 at 92.94 with spot RMB index approaching 92.50.	▪ The latest round of RMB depreciation since mid-June was mainly driven by two factors including trade war and China's easing expectation. The latest news about US-EU trade truce and Qualcomm's abandon of its acquisition of NXP may revive the concerns about the further escalation of trade war, which may further weigh down on RMB prospect. The further decline of RMB index shows that RMB is likely to underperform amid heightening trade tension.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com