Highlights

Is the recent emergence of green shoots in Chinese economy real? China's latest March data painted a mixed picture. China's March credit data beat market expectations again. Both on-balance sheet and off-balance sheet lending expanded strongly in March although China's top leaders have re-iterated a few times that China will not flood the economy with the excessive liquidity. In addition, the reacceleration of both M1 and M2 growth shows the revival of economic activity. China's inflation picked up in March as expected driven by higher oil prices and food prices in addition to base effect. China's CPI is expected to stay elevated in 2Q.

The stronger than expected credit expansion together with the rebound of inflation reading reinforced market concerns that China may put easing monetary policy on hold. The diminishing expectation on RRR cut has led to the sell-off of bond market recently. The weak sentiment also spread to the primary market with the latest issuance of local government bond by Inner Mongolia was priced at 50bps above the central government bond at the same tenor, 10bps above the market norm for the past few months.

On trade, China's exports increased by 1.4% yoy in 1Q while imports fell by 4.8% yoy in 1Q. China's demand for major commodities remains stable. However, China's imports of electronic integrated circuit remained weak with total imports fell by 7.8% yoy in 1Q. This is in line with the weak exports data from South Korea. The weak outlook on electronic industry may weigh down on China's export prospect in the second quarter. Meanwhile, the latest message from the upcoming Spring Canton fair was also not positive as the organizer expects the decline of number of participating purchasers. China's export sector may face uncertainty due to the global economic slowdown.

China's passenger car sales continued to fall in March. The decline of overall passenger car sales implies possible sluggish retail sales in the first quarter as car sales accounted for 26.8% of total China's retail sales in 2018. Market will watch out for major growth data in March as well as China's 1Q GDP due on 17 Apr.

In **Hong Kong,** with HIBOR rising to the highest since last Dec, USDHKD retreated to as low as 7.8305. We see two major reasons behind the rebound in HIBOR and HKD. First, risk appetite improved across the globe thanks to dovish central banks, signs of China's stabilization and progress in US-China talks. As a result, HK's stock market continued to lure capital inflows which translated into strong demand for HKD. Second, after aggregate balance fell by 29% to HK$54.2 billion within a month, market fret that HKD liquidity may tighten further should carry trade become aggressive. As a result, market players started to hoard money. The resultant uptick in HIBOR sidelined carry trade and fueled the rebound in HKD. However, as the hoarded money gradually returned to the market, HIBOR and HKD both retreated. For this week, the over HK$9 billion IPO of Shenwan Hongyuan may lock up some liquidity and lend some support to both HIBOR and HKD. Nevertheless, with aggregate balance standing above HK$50 billion, combined with seldom large IPOs ahead and low outflow risks, we expect HIBORs to show limited upside. In other words, USD-HKD yield differential could remain intact and prompt return of carry trade. Therefore, the possibility of further HKMA withdrawal cannot be ruled out in the coming months. Still, any intervention is expected to remain moderate given cautious carry trade and continuous equity inflows. On the property market front, the market continued to regain momentum owing to three factors, including the eased concerns about higher borrowing costs, the increase in wealth effect from stock market rally and the renewed fret about worsening home affordability. Nevertheless, we still need to see more clues of global economic recovery and more progress in US-China trade talks to gauge the sustainability of the recent housing market rally.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The local government bond issued by Inner Mongolia was priced at 50bps over the central government bond of the same maturity, 10bps above the market norm for the past few months.	▪ Since August 2018, China's Ministry of Finance has set the minimum spread of local government bond over central government bond at 40bps to expedite the issuance of local government bond. The minimum spread was lowered to 25-40bps range in January 2019 to lower the financing costs to local governments. Although the guided spread is the lower band rather than the upper band, the 40bps spread has been the market norm for the past few months. ▪ The unexpected rise of spread to 50bps was mainly the result of weaker demand due to falling expectations on RRR cut. The near term sentiment may
▪ China's Spring Canton trade fair will kick off from	▪ The weak prospect on the Canton fair shows that despite the

this week. According to the spokesperson of the fair that the number of visiting international purchasers may fall this year. This was also confirmed by the data such as the hotel room and air ticket reservations.	emergence of greenshoots in China, China's export sector may face uncertainty due to the global economic slowdown.
▪ On US-China trade talk, the US trade representative Lighthizer will hold two calls with Chinese Vice Premier Liu He next week. Meanwhile, Mnuchin said "we are hopeful that we are getting close to the final round of concluding issues."	▪ It was reported last week quoting Mnuchin that the US-China may reach the deal on enforcement issue, which is one of the key hurdles for the bilateral trade talk. Should the deal on enforcement be reached, it shows a formal agreement between US and China may be reached soon.
▪ 1M HIBOR and 3M HIBOR rallied to 2.11% and 1.99% respectively on 11 Apr from 1.65% and 1.75% on 1 Apr. USDHKD stayed further away from 7.8500 and retreated to as low as 7.8305. ▪ However, on 12 Apr, 1M HIBOR and 3M HIBOR retraced lower to 1.88% and 1.9% respectively while USDHKD rebounded to as high as 7.8471.	▪ We see two major reasons behind the rebound in HIBOR and HKD. First and foremost, after several bouts of HKMA intervention since early Mar, aggregate balance shrank from HK$76.3 billion towards HK$50 billion within a month. Market fret that HKD liquidity may tighten further should carry trade become aggressive. As a result, market players started to hoard money which drove up HIBOR. This in turn sidelined carry trade and fueled the rebound in HKD. Second, risk appetite improved across the globe thanks to dovish central banks, signs of China's stabilization and progress in US-China talks. As a result, HK's stock market continued to lure capital inflows which translated into strong demand for HKD. Southbound equity flows saw net inflows of HK$10.9 billion YTD in Apr following the strong net inflows of HK$20.6 billion in the previous month. However, as the hoarded money returned to the market, HIBOR and HKD both retreated last Friday. ▪ For this week, the over HK$9 billion IPO of Shenwan Hongyuan may lock up some liquidity and lend some support to both HIBOR and HKD. Nevertheless, with aggregate balance standing above HK$50 billion, combined with seldom large IPOs ahead and low outflow risks, we expect HIBORs to show limited upside. In other words, USD-HKD yield differential could remain intact and prompt return of carry trade. Therefore, the possibility of further HKMA withdrawal cannot be ruled out in the coming months. Still, any intervention is expected to remain moderate given cautious carry trade and continuous equity inflows. ▪ Should there be any further intervention, it may cause panic liquidity squeeze again. This combined with the dividend payout period during May to July as well as the upcoming half-year end will likely cap the downside for HIBOR. In conclusion, we expect both HIBOR and HKD to show high volatility in the coming months.

Key Economic News

Facts	OCBC Opinions
▪ China's passenger car sales fell by 12.1% yoy in March although new energy car sales doubled in March ahead of government's plan to reduce the subsidy to new energy car.	▪ Even after taking the sale of new energy car into account, the decline of overall passenger car sales implies possible sluggish retail sales in the first quarter as car sales accounted for 26.8% of total China's retail sales in 2018 according to China's Ministry of Commerce. This may weigh down on growth in the first quarter. ▪ We expect China to launch more measures to support auto sales, which is one of the important pillars of the growth.

▪ China's CPI reaccelerated to 2.3% yoy in March in line with market expectation. ▪ PPI increased by 0.3% yoy in March, up from 0.1% yoy in February.	▪ CPI fell by 0.4% mom in March, in line with seasonal pattern, as both food prices and non-food prices declined after the Chinese New Year holiday. Food CPI fell by 0.9% mom while non-food CPI fell by 0.2% mom. Despite the rise of petrol costs due to higher oil prices, the non-food prices were dragged down by the decline of travel costs after the end of Chinese New Year holiday season. ▪ On food prices, however, the magnitude of decline of food prices post festival season was smaller than historical average due to the rise of pork prices as a result of swine flu. The rebound of pork prices on year-on-year basis for the first time in 26 months brought the CPI up by 0.12% on yoy reading. ▪ Looking ahead, as Chinese New Year effect fades in the second quarter, China's CPI may face upward pressure due to rise of pork prices and oil prices. In addition, the contribution to CPI from low base effect will continue to go up in the second quarter and will only peak in June. We expect CPI to test 2.5% in April and may remain elevated around 2.5% in 2Q before coming off in the second half. ▪ For PPI, as a result of the rebound of commodity prices
▪ China's March credit expansion beat market expectation. Total new Yuan loan increased by CNY1.69 trillion. ▪ Aggregate social financing jumped by CNY2.86 trillion driven by off-balance sheet lending and corporate bond issuance in addition to strong on-balance sheet lending. ▪ The net corporate bond issuance increased by CNY327.6 billion. ▪ The broad money M2 growth reaccelerated to 8.6% in March from 8.0% yoy in February while M1 growth reaccelerated to 4.6% yoy from 2%.	▪ The loan demand may not be as good as what headline numbers show. China's total new Yuan loan increased by CNY5.8 trillion in the first quarter, up by CNY946.5 billion as compared to 1Q 2018. However, the marginal increase of lending was mainly driven by the short term loan and bill financing, which increased by CNY2.26 trillion, CNY1.16 trillion more than that in 1Q 2018 while the medium to lending loan increased by CNY3.94 trillion, only CNY204 billion above that in 1Q 2018. The surge of short term financing and bill financing shows that the credit expansion was mainly driven by flush liquidity. ▪ In addition, off-balance sheet lending continued to recover with trust loan increased by CNY52.8 billion in March together with the rebound of undiscounted bill though entrusted loan fell further. The recent recovery of off-balance sheet lending activity was the result of marginal easing regulation. ▪ The reacceleration of both M1 and M2 is positive as it implies that return of confidence in economic activity. ▪ Looking on-balance sheet lending and off-balance sheet lending together, although the credit data could be distorted by short term lending, the mild marginal increase in medium to long term loan shows that there is no urgency for China to roll out more measures at the current stage. We think the chance of RRR cut in April is much smaller. The next window could be June as there will be total four tranches of CNY1.3535 trillion MLFs expiring in June and July.
▪ China's March export growth reaccelerated to 14.2% yoy in dollar term while import growth decelerated further to -7.6% yoy. ▪ Trade surplus, however, widened to US$32.6 billion due to weaker than expected imports. ▪ On aggregate level, exports increased by 1.4% yoy in 1Q while imports fell by 4.8% yoy in 1Q.	▪ The recovery of export in March is in line with market expectation due to seasonal effect. Demand from major trading partners rebounded. Exports to EU and Japan rose by 23.7% yoy and 3.7% yoy respectively while exports to US also rebounded to 3.7% yoy. ▪ On imports, China's demand for major commodities remains stable with imports of iron ore and crude oil by volume rose by 0.7% yoy and 0.4% yoy respectively. However, China's imports of electronic integrated circuit remained weak in March falling by 6.1% yoy by value. For the first quarter of 2019, China's total imports of electronic ICs fell by 7.8% yoy.

	This is in line with the weak exports data from South Korea. The weak outlook on electronic industry may weigh down on China's export prospect in the second quarter.
▪ HK's housing transaction volume saw year-on-year growth for the first time in seven months and was up by 22.7% yoy to the highest since Jul 2018 at 5231 deals in Mar. Property price index exhibited month-on-month growth for the second consecutive month and grew by 1.3% mom in Feb.	▪ Taken all together, it reveals that the property market continued to regain momentum owing to three factors. First, the Fed's updated dot plot shows that the central bank expects no rate hike for 2019, as compared to two hikes expected in last Dec. This further eased market concern about higher borrowing costs in HK where the monetary policy mirrors the US's. Second, thanks to major central banks' dovish tone, US-China trade talks and China's stimulus measures, risk appetite have been upbeat across the globe. The resultant rally in stock markets in turn increased HK households' wealth effect. Third, to take advantage of the upbeat sentiment, the property developers gradually lifted the selling prices. This sparks the renewed fret about worsening home affordability. ▪ In the coming months, these factors may continue to bolster the property market. Nevertheless, we still need to see more clues of global economic recovery and more progress in US-China trade talks to gauge the sustainability of the recent housing market rally. Besides, around 5000 units of public housing will be available during mid-2019 while the property developers may keep bringing forward the launch of new projects to avoid the upcoming vacancy tax. As such, the increase of short-term supply may help to cap the upside to the property market. Furthermore, the downside to local interest rates seems to be limited due to the reduction in aggregate balance. This may also sideline some prospective homebuyers.
▪ Macau's housing market data disappointed in Feb. Average housing price dropped by 3% mom or 10.5% yoy to MOP98,618/square meter in Feb, the lowest since Dec 2017. Housing transaction volume fell for the sixth consecutive month by 79.4% yoy to a three-year low of 312 deals in Feb. Worse still, approved new mortgage loan dropped by 58.8% mom or 30% yoy to a seven-year low of MOP1.82 billion in Feb.	▪ The weakness of the housing market could be attributed to several factors. First, investment sentiment might have been muted around Lunar Near Year. Second, last year prospective homebuyers brought forward their home purchase plan in anticipation of the unveil of new control measures from late Feb 2018. This results in high base effect. Third, speculative demand has been dented by the housing control measures. Local homebuyers with more than one residential property took up 2.2% (record-low) of total local home buyers in Feb. Fourth, the demand of first-home local buyers (representing 89% of total local home buyers in Feb) may shrink gradually, signaling diminishing effect of the supportive measures. Moving ahead, after high base effect abates, we expect the housing market to regain some momentum in tandem with its HK counterpart thanks to upbeat sentiments and low housing supply (housing completion and start continued to drop by 99% yoy and 28% yoy during the first two months). However, in the medium term, the diminishing effect of supportive measures and the control measures may cap the upside for the housing market.
RMB	
Facts	**OCBC Opinions**
▪ The USDCNY continued to be traded in a narrow range and 6.7 remained a strong barrier for RMB to	▪ Our view on that RMB remains a dollar play in the near stays intact.

break. In addition, RMB index also remained stable at around 95.2 level.	

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