Highlights

China continued to tighten its grip on property market with the latest focus shifted from sales to financing leg. In addition to the window guidance on trust loan to property developer, China's NDRC said the offshore bond issuance by China's property developers will be only allowed to refinance the existing offshore medium to long term debt maturing within the next one year.

The US-China trade talk officially restarted on 9 July. However, uncertainty prevails. The two low hanging fruits including Huawei purchase and the removal of existing tariff remain unsettled. There is increasing risk that China has turned more hawkish in handling the US-China relationship. The latest threat to impose sanction on US companies participating in arm sales to Taiwan also complicates the US-China trade talk.

On economic data, China's June CPI was in line with expectation though PPI decelerated. We think CPI may have peaked in June and expect CPI to trend lower gradually in the second half of 2019. However, given the recent rebound of oil prices, we expect CPI to stay above 2.5% in July. As such, it may be too early to argue for deflationary pressure. The widening trade surplus in June was partially supported by the resilient demand from ASEAN though China's exports to US declined as expected. China's demand for key commodities remained stable while China's demand for electronic integrated circuit weakened further due to trade war.

Despite the strong new Yuan loan, the percentage of medium to long term loan fell to 51.9%, lowest since June 2018. This was probably due to banks' weak appetite as a result of shifting of monetary policy stance back to neutral in April. Off-balance sheet lending remained the key drag on social financing.

In Hong Kong, HIBOR came off across the board with 1M HIBOR subsiding from an over 10-year high of 2.99% to 2.18%. HKD liquidity eased notably as the demand for the AB InBev's IPO turned out to be weaker than previously expected. Owing to easing liquidity, USDHKD moved back above the mid-point of the trading band. Going forward, we expect HIBOR to remain volatile. First, as AB InBev has withdrawn its IPO, about HK$44 billion locked up by the IPO will return to the market in advance. As such, HIBOR will likely come off albeit with limited downside given the ongoing dividend payment. Second, when the dividend payment season ends, HIBOR will likely subside further. Third, quarter-end effect could push 1M HIBOR and 3M HIBOR to re-test 2% in September and December. Fourth, once the schedule of Alibaba's second listing is confirmed with the size as large as expected at US$10 billion, the market may see another round of panic liquidity squeeze and push HIBOR up again. However, in the absence of HKD demand associated with huge dividend payment, we do not expect HIBOR to touch July's highs. In conclusion, we believe that HIBOR has already peaked. Over the coming year, despite that short-term liquidity draining events may temporarily push up HKD rates, HIBOR will likely go down gradually and fall below its USD counterpart again. However, given the lingering trade war risks and bleak global economic outlook, the chance of HK market to see strong capital inflows looks slim in the near term. If this is the case, with merely HK$54 billion of aggregate balance, the downside of HIBOR may be limited. For example, 1M HIBOR may not easily drop below 1%. USDHKD may mainly hover in the range of 7.80-7.85 with low possibility of re-testing 7.85.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The US-China trade talk officially restarted on 9 July after China's Ministry of Commerce confirmed that Liu He and Commerce Minister Zhong Shan talked to Lighthizer and Mnuchin over the phone. ▪ In addition, US Commerce Secretary Ross confirmed in the press conference that officials will issue licenses to US companies to sell to Huawei where there is no threat to US national security. ▪ In addition, the White House said 110 Chinese products will be exempted from 25% tariff for a year.	▪ Despite the official restart of trade talk last week, uncertainty prevails. On Huawei's case, there is no clear definition on national security. It seems that the US government is unlikely to grant the green light to the export of high-tech components to Huawei. ▪ Meanwhile, China's demand for the US to remove all the exiting additional tariff is also not fully addressed.
▪ China said that it will impose sanctions on US companies participating in arm sales to Taiwan in reaction to US's State Department's approval of US$2.2 billion arms sale to Taiwan.	▪ There is increasing risk that China has turned more hawkish in handling the US-China relationship. This may also complicate the US-China trade talk.

▪ China's trust company confirmed that they have received the window guidance from the regulator to control the net lending to property companies. ▪ Meanwhile, China's NDRC said the offshore bond issuance by China's property developers will be only allowed to refinance the existing offshore medium to long term debt maturing within the next one year.	▪ China continued to tighten its grip on property market with the latest focus shifted from sales to financing leg. The move is part of China's balancing act to contain the financial risk and keep the housing price in check.
▪ AB InBev announced on 13th Jul to withdraw its Asian unit's IPO in HK as they had been unable to price the IPO against current market conditions.	▪ As a result, HKEX will lose the world's largest IPO so far this year. On the other hand, it may be a good news to HK's money market. It is reported that the IPO has been oversubscribed by approximately 11 times and locked up about HK$44 billion. Now the withdrawal means that the locked-up money which is supposed to return to the market on 18th Jul will be freed up in advance. As such, HKD liquidity is likely to ease with HIBOR and HKD to edge down further. ▪ Moving ahead, the market may closely monitor whether AB InBev will come back to the HKEX while also eying on the schedule of Alibaba's second listing. These two events could shock the HK money market again given the low aggregate balance and the uneven distribution of HKD liquidity across the banking system.
▪ HIBOR came off across the board with 1M HIBOR subsiding from an over 10-year high of 2.99% to 2.18%. HKD liquidity eased notably since AB InBev opened its IPO book on 5th July as the demand for the IPO turned out to be weaker than previously expected.	▪ Owing to easing liquidity, USDHKD moved back above the mid-point of the trading band. Going forward, we expect HIBOR to remain volatile. First, as AB InBev withdrew its IPO, we expect HIBOR to come off albeit with limited downside given the ongoing dividend payment. Second, when the dividend payment season ends, HIBOR will likely subside further. For example, 3M HIBOR could also fall below 2%. Third, quarter-end effect could push 1M HIBOR and 3M HIBOR to re-test 2% in September and December. Fourth, once the schedule of Alibaba's second listing is confirmed with the size as large as expected at US$10 billion, the market may see another round of panic liquidity squeeze and push HIBOR up again. However, in the absence of HKD demand associated with huge dividend payments, we do not expect HIBOR to touch July's highs. ▪ In conclusion, we believe that HIBOR has already peaked. Over the coming year, despite that short-term liquidity draining events may temporarily push up HKD rates, HIBOR will likely go down gradually and fall below its USD counterpart again. However, given the lingering trade war risks and bleak global economic outlook, the chance of HK market to see strong capital inflows looks slim in the near term. If this is the case, with merely HK$54 billion of aggregate balance, the downside of HIBOR may be limited. For example, 1M HIBOR may not easily drop below 1%. ▪ On HKD front, we expect USDHKD will mainly hover in the range of 7.80-7.85. The short-term liquidity draining events may bring USDHKD down to 7.80 temporarily while the limited USD-HKD yield differential may reduce the possibility of USDHKD re-testing 7.85.
▪ Fitch expects that HK banks' exposure to Mainland China is expected to grow at a slower pace in the near term but will still keep growing in the medium to long term.	▪ Fitch kept the rating to HK's banking system unchanged as the Mainland-related loans have been growing in tandem with the capital for the banks in HK over the recent years. The average core capital ratio in HK's banking system has exceeded 16%, which is relatively high level. ▪ HKMA's data shows that Mainland-related loans increased at

	the slowest pace since June 2016 by 0.1% yoy in March 2019. Though the percentage share of classified loans of Mainland-related lending in total Mainland-related lending rose from 0.55% in December 2018 to 0.63% in March 2019, it was much lower than the average of 0.74% during December 2015 to March 2019. We believe that the stringent regulation by the HKMA and the commercial banks' preference for high-quality assets may help to keep the risks related to Mainland businesses well contained.
▪ Last week, the subscription for the fourth batch of silver bonds started for the elderly aged 65 or above. The total issuance amount is HK$3 billon. The tenor is three-year. The yield is the higher of 3% and the inflation rate.	▪ The demand for the silver bonds has been stronger than last year when the government issued the third batch. The silver bond could be considered an alternative to fixed deposits for the elderly who normally prefer low risk investments. Against the backdrop of subdued inflation and global monetary easing, the silver bond's yield of 3% is indeed attractive as we expect the currently elevated HKD fixed deposit rate will not sustain and will be adjusted down gradually along with the retracement in HIBOR. ▪ In a nutshell, on top of the recurrent social benefits for the elderly, this also shows HK government's commitment to support the growing ageing population.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's CPI grew by 2.7% yoy in June, in line with market expectation. PPI, however, decelerated to 0% from 0.6%.	▪ Fresh fruit prices and pork prices are two main drivers to CPI, which brought up CPI by 0.71% yoy and 0.45% yoy respectively. The rise of pork prices and fresh fruit prices were offset by the vegetable prices. As such, on month-on-month basis, food CPI by 0.3% in June. ▪ Non-food prices fell by 0.1% mom, which deviated from the seasonal pattern. This was mainly due to the decline of oil prices. Fuel prices of the transportation component fell by 3.5% mom. The unexpected decline of non-food prices may point towards the disinflationary pressure. ▪ We think CPI may have peaked in June as carry over effect peaked at 1.61% yoy in June. We expect CPI to trend lower gradually in the second half of 2019. However, given the recent rebound of oil prices, we expect CPI to stay above 2.5% in July. As such, it may be too early to argue for deflationary pressure. ▪ On PPI, we think the risk for PPI to turn negative is looming. We expect PPI to fall below zero in July. Nevertheless, the widening gap between CPI and PPI may be positive for industrial profit.
▪ China's exports and imports in dollar term fell by 1.3% yoy and 7.3% yoy respectively in June. ▪ As a result of weaker than expected imports, China's trade surplus widened to US$50.98 billion in June, highest since December 2018.	▪ China's exports to US fell by 7.8% yoy due to high base as Chinese companies front loaded exports in June 2018 ahead of tariff effective from 6 July. Given the high base in the second half of 2018, we think China's export growth to US is likely to remain weak in the second half of 2019. ▪ China's exports to EU also fell by 3% in June after expanding for three consecutive months. However, demand from ASEAN and Japan remains resilient. China's exports to ASEAN and Japans grew by 12.9% yoy and 2.4% yoy respectively. ▪ China's demand for commodity remained steady in June. Imports of crude oil and iron ore in dollar term rose by 8.2% yoy and 34.6% yoy. By volume, China's imports of crude oil

	also increased by 15.2% yoy. However, China's imports of electronic integrated circuit fell by 3.5% yoy in dollar term, down for the eighth consecutive months as a result of trade war.
▪ China's credit expansion beat market expectation. Total new Yuan loan increased CNY1.66 trillion. However, the percentage of medium to long term new Yuan in total new Yuan loan fell to 51.9%. ▪ Aggregate social financing increased by CNY2.26 trillion in June, up from CNY1.395 trillion in May. ▪ China's broad money supply growth remained unchanged growing by 8.5% yoy in June.	▪ Despite the strong new Yuan loan, the percentage of medium to long term loan fell to 51.9%, lowest since June 2018. This was probably due to banks' weak appetite as a result of shifting of monetary policy stance back to neutral in April. ▪ Aggregate social financial growth reaccelerated to 10.9% yoy in June from 10.6% in May, driven by the issuance of special government bond. Aggregate social financing grew by 9.8% yoy excluding the special government bond issuance. Corporate bond issuance remained weak in June, up by CNY129.1 as credit appetite has not fully recovered from the Baoshang bank takeover incident. ▪ Off-balance sheet lending remained the key drag on social financing as entrusted loan and banker's acceptance bill continued to shrink though trust loan returned to positive expansion. Nevertheless, given the recent window guidance to limit the trust loan support to property market, we think China's off-balance sheet lending is likely to remain weak.
▪ Macau's housing transaction volume rose by 3.7 yoy in May (the first yoy increase since August 2018) to the highest level since February 2018 at 1077 deals. The average housing price increased for the third consecutive month by 0.5% yoy to MOP 113,715/square meter in May. Also, the approved new mortgage loans surged by 55.5% mom to MOP 3.94 billion, the second highest level since 2019.	▪ The rosy housing data was mainly supported by three favorable factors, including eased concerns about higher borrowing costs, limited housing supply (housing completion and housing start decreased by 83% yoy and 92% yoy during the first five months of 2019) and the policies supporting local first-home buyers (representing 83.7% of local home buyers in May). ▪ Moving into June, we expect the housing market growth to slow down, mainly reflecting the shock from US-China trade war escalation. After that, however, housing market may rebound again thanks to the rising expectations of Fed rate cuts and eased US-China trade tension which has helped to improve investment sentiments. ▪ Nevertheless, we see little room for both housing price and housing transaction volume to go up further in the rest of this year against the backdrop of uncertain economic outlook and lingering US-China trade war risks. Besides, the control measures may continue to tame speculative demand (the percentage share of local buyers holding more than one property in total local buyers remained low at 2.5% in May). The effect of measures supporting local first-home buyers may also subside gradually.

RMB	
Facts	**OCBC Opinions**
▪ RMB consolidated last week with the USDCNY traded in a narrow range. RMB index also hovered around 93.	▪ RMB's consolidation was the result of slow progress of US-China trade talk. Market will continue to search for clues from the bilateral talk. Nevertheless, the recent currency war theme in the global market may keep RMB supported in our view.

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