Highlights

China concluded its 2019 National People's Congress. In his closing press conference, China's Premier Li further elaborated China's fiscal position amid the tax cut cycle that the central government has already raised CNY1 trillion funds from the transferred profits from SOEs and banks. China's massive net assets owned by state sector will empower China's fiscal policy.

As expected, China's NPC approved the new foreign investment law which will take effect from 1 Jan 2020. Clearly, the US-China trade war expedites the endorsement of new foreign investment law as it only took about three months for the law to be first examined in December 2018 to eventual approval. In particular, the off-cycle NPC meeting in January 2019 for the second examination shows that China's commitment to fairer treatment to foreign investors.

On economy, China reported a mixed growth data for the first two months of 2019. The weaker than expected industrial production was in line with the picture painted by the PMI that supply weakened probably due to the concerns about the US-China trade war and slowdown in the global economy. The reacceleration of fixed asset investment shows that China's proactive fiscal policy is taking effect.

In Hong Kong, the HKMA intervened twice last week by buying a total of HK$5.432 billion to defend the currency peg. As a result, aggregate balance (a gauge of interbank liquidity) dropped to HK$70.9 billion. Similar to last year, the HKMA may have to intervene for several times before successfully curbing the carry trade. We expect USDHKD to continually touch 7.85 and trigger further liquidity withdrawal by the HKMA in the coming sessions. Different from last year, the short HKD traders have become more careful amid higher HKD's volatility. Besides, banks' willingness to take long HKD positions has increased thanks to the improved appetite for HKD assets. Taken all together, we believe that any further liquidity drainage by the HKMA would remain moderate. As such, we hold onto our view that aggregate balance will hold around HK$60 billion by end of March. When we approach quarter-end, the reduction in the aggregate balance together with the upcoming quarter-end effect may push 1M HIBOR and 3M HIBOR up to 2% again and drive USDHKD down towards 7.8400. However, the uptick in HIBOR and HKD is expected to be only temporary as liquidity could stay flushed amid three reasons. First, liquidity withdrawal resulted from carry trade activities will likely remain moderate and have little impact on the sizeable monetary base of HK$1.64 trillion. Second, thanks to dovish central banks, eased trade tension and China's stimulus, capital flows have been returning to emerging markets including HK. Third, there is no large IPO in the foreseeable future. Elsewhere, with foreign investment in China's A-share market continuing to grow, the future contracts for MSCI A-share index to be launched by the HKEX will help to meet the increasing hedging demand.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China concluded its 2019 National People's Congress. In his closing press conference, China's Premier Li further elaborated China's fiscal position amid the tax cut cycle that the central government has already raised CNY1 trillion funds from the transferred profits from SOEs and banks. ▪ In addition, as expected, China's NPC approved the new foreign investment law which will take effect from 1 Jan 2020.	▪ As we mentioned in last week's report that China's fiscal position will play a bigger role in dealing with the slowdown. China's massive net assets owned by state sector will empower China's fiscal policy. ▪ On the new foreign investment law, it is designed to level domestic playing field for foreign investors. It will address concerns about the forced technology and theft of secret with the addition of criminal penalties. Clearly, the US-China trade war expedites the endorsement of new foreign investment law as it only took about three months for the law to be first examined in December 2018 to eventual approval. In particular, the off-cycle NPC meeting in January 2019 shows that China's commitment to fairer treatment to foreign investors. Together with the opening of China's domestic capital market, the return of capital inflows via FDI and portfolio flows are likely to underpin RMB as well as overall risk sentiment in China.
▪ It was reported by that China's Shanghai and Shenzhen stock exchange have relaxed the rules for the issuance of corporate bond for local government funding vehicle. ▪ The LGFVs with more than half of their revenue from local government are also allowed to roll over their maturing debt (within six month maturity) via	▪ As corporate bond only accounted for a small fraction of total local government funding vehicle debt, the relaxation of corporate bond issuance rule is unlikely to be the game changer. However, the latest relaxation shows the support to LGFVs debt from government level. It will help contain the tail risk ahead of massive maturing debt of LGFVs this year.

the issuance of corporate bond.	
▪ The HKMA intervened twice in a week by buying a total of HK$5.432 billion to defend the currency peg. As a result, aggregate balance (a gauge of interbank liquidity) dropped to HK$70.9 billion.	▪ Similar to last year, the HKMA may have to intervene for several times before successfully curbing the carry trade. With one-month LIBOR and HIBOR spread remaining wide around 100bps, we expect USDHKD to continually touch 7.85 and trigger further liquidity withdrawal by the HKMA in the coming sessions. Different from last year, the short HKD traders have become more careful as HKD's volatility increased after aggregate balance shrank by over 50%. Besides, banks' willingness to take long HKD positions has increased thanks to the improved appetite for HKD assets. Taken all together, we believe that any further liquidity drainage by the HKMA would remain moderate. As such, we hold onto our view that aggregate balance will hold around HK$60 billion by end of March. ▪ When we approach quarter-end, the reduction in the aggregate balance together with the quarter-end effect may push 1M HIBOR and 3M HIBOR up to 2% again and drive USDHKD down towards 7.8400. However, the uptick in HIBOR and HKD is expected to be only temporary as liquidity could stay flushed amid three reasons. First, liquidity withdrawal resulted from carry trade activities will likely remain moderate and have little impact on the sizeable monetary base of HK$1.64 trillion (as at 14th Mar). Second, thanks to dovish central banks, eased trade tension and China's stimulus, capital flows have been returning to emerging markets including HK. Under the stock connects, southbound equity flows saw net inflows of HK$10.7 billion YTD in March, after registering net outflows over the previous two months. Third, there is no large IPO in the foreseeable future.
▪ HK's government proposed to unveil vacancy tax last June and it is reported that the proposal will be submitted to the Legislative Council next month. Specifically, the vacancy tax will be levied on primary residential properties that are unoccupied for more than six months. The tax will be set at 200% of the "rateable value" of the vacant property, approximately 5% of property price. If the vacant property is rented out for no less than six of the previous 12 months, the tax could be exempted.	▪ In addition, the government also tried to fix the loophole in the vacancy tax measure. Specifically, for those property developers who sell the vacant flats to their subsidiaries, they will not be eligible for vacancy tax exemption. This may discourage property developers from hoarding the vacant flats for better prices. ▪ Elsewhere, in January 2019, the total value of buyer's stamp duty (BSD), double stamp duty (DSD) and seller's stamp duty (SSD) amounted to HK$0.95 billion, down by 54.5% mom. Also, the volume of housing transactions which involved these three types of stamp duty dropped by 41.5% mom to 1,234 deals. Specifically, the total value of BSD and DSD as well as the total transaction involving these two types of stamp duty fell notably. This indicates that the speculative demand has remained subdued in the housing market. Since the property control measures remain in effect and the outlook of global economy remains clouded, we expect the property market to see limited upside this year. In addition, the launch of new public housing supply (around 5000 units) in mid-2019 may shift some housing demand to the public market and in turn hinder property market growth. If this is the case, government's revenue from stamp duty is expected to remain subdued this year.
▪ The HKEX announced that they have agreed with the MSCI to launch future contracts for MSCI A-share index.	▪ In early March, MSCI announced to increase the weight of A-shares in its indices by expanding the inclusion factor from 5% to 20% in three steps in May, August and November 2019. Before that, offshore investors have already pre-positioned and driven the northbound equity net inflows up to a record of RMB$121.08 billion over the first two months of 2019. Moving ahead, MSCI's expansion is expected to attract more than US$60 billion new allocation to A-shares from foreign investors. In the

	longer term, China will likely further open up its capital market with the launch of more connect schemes. The opening-up will then help support China's plans to increase its equity foreign ownership probably to 10% from the 3.2% as of end-2018. With foreign investment in China's A-share market continuing to grow, the future contracts for MSCI A-share index will serve as an alternative to SGX FTSE China A50 Index Futures and help to meet the increasing hedging demand.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's industrial production in the first two months of 2019 slowed further to 5.3% yoy from 5.7% yoy in December 2018. However, according to the National Bureau of Statistics, industrial production after adjusting for Chinese New Year effect grew by 6.1% yoy. ▪ Fixed asset investment reaccelerated to 6.1% in the first two months from 5.9% in 2018. ▪ Retail sales grew by 8.2%, intact from the growth in December 2018. ▪ Surveyed unemployment rate increased to 5.3%, up from 4.9% in 2018.	▪ The weaker than expected industrial production was in line with the picture painted by the PMI that supply weakened probably due to the concerns about the US-China trade war and slowdown in the global economy. In addition, it may also be partially distorted by the Chinese New Year effect as mentioned by the National Bureau of Statistics. On the positive note, demand looks still resilient for now. ▪ The reacceleration of fixed asset investment shows that China's proactive fiscal policy is taking effect. I think there is a good chance that fixed asset investment growth may have bottomed out. Private investment grew by 7.5% yoy. Although it decelerated from 2018 pace but still outgrew the headline number. ▪ Property market is unlikely to be the weakest link for China's growth this year. Despite the deceleration of property sales, the jump of land purchases last year is expected to support the property investment this year.
▪ Macau's housing transaction volume rebounded by 18.7% mom to 495 deals in January 2019, ending the downtrend over the past two months. During the same month, average housing price rose by 1% mom to MOP102,101/square meter while approved new mortgage loans surged by 20.2% mom or 21.5% yoy to MOP4.4 billion.	▪ This was probably due to the improved market sentiments on the back of eased trade tension and dovish central banks. Besides, the limited housing supply might have been another favorable factor to the property market. Specifically, private housing starts dropped for the third consecutive year by 52% yoy to 1493 units in 2018 and fell by 56% yoy to 14 units in January. Meanwhile, public housing supply will likely remain tight as only 1590 public units are expected to be available in the near term. ▪ Nevertheless, the upside to the housing market may be limited this year. Average housing price and housing transaction volume were down by 18% yoy and 66.2% yoy respectively in January, indicating that the rebound was not strong. Moving ahead, several unfavorable factors may cap the upside of the property market. First, speculative demand has been tamed by property control measures from last February. The percentage share of home buyers with more than one residential property in total home buyers dropped from 44.9% in February 2018 to 2.51% in March 2018 and remained low at 3.4% in January. Second, we are wary that the marginal support from first-home local buyers (took up over 80% of total homer buyers) will diminish gradually as the supportive measures have already taken effect for a year. Third, against the backdrop of global economic slowdown and lingering trade war risks, we doubt the sustainability of the recent rebound in market sentiments. In conclusion, we expect average housing price to oscillate around MOP100,000/square meter and housing transaction volume to remain subdued in 2019.

RMB	
Facts	**OCBC Opinions**
▪ RMB continued to consolidate in the narrow as market is waiting for the Trump Xi Summit, which has been postponed to April.	▪ There is lack of catalyst for RMB's move given lack of details from US-China trade talk and stabilized rate differential between China and US. China's 10-year government bond yield has been stuck at around 3.15%.

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