Highlights

The Chinese economy decelerated further as expected in the second quarter. The marginal deceleration was countered by the rebound of car sales in June and resilient property investment. Looking ahead, given the surge of retail car sales is likely to be one-off and China has increasingly tightened its grip on property market, we think China's growth is likely to decelerate further in the second half.

Fiscal policy is likely to play a main role to support the growth. Tax cut will be used to reallocate the resource to unlock China's consumption potential while the issuance of special bond will help boost the infrastructure investment to provide the bottom for the growth.

In PBoC's 2019 regional financial operation report published last week, the central bank voiced the concern about the calculated negative correlation between China's household leverage and consumption growth. This probably explained why China has stepped up its tightening on property market recently. The statistic study supported the concern that rising property prices have crowded out consumption in China. On monetary policy, we think there is still room for China to cut its reserve requirement ratio although the room for interest rate cut could be limited being constrained by property market.

China unveiled 11 measures to further open China's financial market to foreign investors. Overall, this is the most detailed framework for foreign investors so far. It will grant more access for foreign investors to participate in business such as insurance, wealth management, pension fund and investment bank other than interbank bond market, rating, security brokerage and money brokerage.

For this week, it will be an event heavy week for China despite data light. Market will take cue from China's policy direction from three events including 1) July Politburo meeting which will update the latest economic assessment from the topic policy makers and policy direction, 2) whether China will conduct the TMLF at a lower interest rate, 3) how much China will roll over the maturing CNY460 billion liquidity from the 7-day reverse repo and CNY502 billion from MLF on 23 July. Our guess is that the message could lean towards dovish bias against the backdrop of the restart of global easing cycle.

In Hong Kong, front-end HKD rates found some support and consolidated last week due to the resilient HKD demand associated with ongoing huge dividend payments and month-end window-dressing. As such, USDHKD retreated slightly to around 7.81. After month-end, we expect front-end liquidity to ease again. USDHKD may also move higher from the recent trading range of 7.80-7.83. Still, given high volatility of HKD and HIBOR and limited USD-HKD yield differential, we see little risk of the currency pair touching 7.85. On the longer-end (3M or above) HKD rates front, though the rates fell from July's highs in tandem with the front-end rates, the magnitude of decline was much smaller. This might be attributed to funding preparation for Alibaba IPO (rumored to be launched around end-September) and the upcoming quarter-end. As such, we may see HIBOR curve remaining steep in the near term. Elsewhere, HK's container throughput dropped for the sixth consecutive month by 11.3% yoy to 1.49 million TEUs in June. Due to the US-China trade war since last July, production line has been shifted gradually from Mainland China to other Asian countries. Adding on the impact of technology war, the high cost of shipping and the increasing competition from China's ports, we expect the outlook of HK's port to remain clouded. **In Macau,** though rosy tourism growth supported mass-market gaming revenue to see double-digit growth for the seventh straight quarter, it failed to offset the soft VIP revenue which fell for the second consecutive quarter by 15.6 yoy in 2Q19. Due to the relatively low betting amount of casual gamblers, gross gaming revenue may only be able to see moderate growth should VIP demand remain sluggish amid lingering trade war risks, China's renewed slowdown, a relatively weak RMB and policy risks related to anti-money laundering.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China unveiled 11 measures to further open China's financial market to foreign investors.	▪ 1) China will allow foreign rating agencies to conduct rating business in China including all the bonds in both interbank bond market and exchange market. This is not really new as S&P has been allowed to enter China's market. ▪ 2) Foreign financial institutions are encouraged to set up wealth management subsidiary or invest in the wealth management subsidiary set up by Chinese commercial banks. ▪ 3) Foreign asset management companies are allowed to set up wealth management company with Chinese banks or insurance companies. This could be a new institution providing

	wealth management services. ▪ 4) Foreign financial institutions are allowed to set up or invest in the pension fund management company. ▪ 5) Foreign institutions are allowed to set up or invest in money brokers. Most of China's current money brokers are joint-ventures. ▪ 6) Foreign investors are allowed to fully own the life insurance company from 2020, cutting short from previous 2021. ▪ 7) Foreign investors are allowed to hold more than 25% of insurance asset management firm. ▪ 8) Lower the entry barrier for foreign insurance company to enter China's market. ▪ 9) The removal of restrictions on foreign ownership of security brokerage, asset management company and futures company will be effective from 2020 earlier than previously 2021. ▪ 10) Foreign financial institutions are allowed to apply for bond underwriting license in China's interbank bond market. This is positive for foreign banks' investment banking business. ▪ 11) To further facilitate foreign investor's investment in China's interbank bond market. It was reported that China may consider removing the QFII quota. ▪ Overall, this is the most detailed framework for foreign investors so far. It will grant more access for foreign investors to participate in business such as insurance, wealth management, pension fund and investment bank other than interbank bond market, rating and security brokerage and money brokerage.
▪ The US-China trade talk continued last week with deputy Premier Liu He with Commerce Minister Zhong Shan talked to Lighthizer and Mnuchin. ▪ Several Chinese companies were reported to file tariff exemptions application for some US agriculture products.	▪ This could be a good gesture from China. China may increase its purchase of US agriculture products should US give more clarity on Huawei purchase.
▪ China's Premier Li Keqiang said last week that the Chinese economy is still facing the downward pressure in the second half of the year and China will use counter cyclical measures to fine tune its policy precautionary to lower the real interest rate.	▪ Fiscal policy is likely to play a main role to support the growth. Tax cut will be used to reallocate the resource to unlock China's consumption potential while the issuance of special bond will help boost the infrastructure investment to provide the bottom for the growth. However, given the funding constraints, we think monetary policy will continue to play its role in the second half. We think there is still room for China to cut its reserve requirement ratio although the room for interest rate cut could be limited. ▪ For this week, it will be an event heavy week for China despite data light. Market will take cue from China's policy direction from three events including 1) July Politburo meeting which will update the latest economic assessment from the topic policy makers and policy direction, 2) whether China will conduct the TMLF and whether China will lower the interest rate for TMLF, 3) how much China will roll over the maturing CNY460 billion liquidity from the 7-day reverse repo and CNY502 billion from MLF on 23 July. Our guess is that the message could lean towards bias against the backdrop of the restart of global easing cycle.
▪ In China's central bank's latest 2019 regional financial operation report published last week, the PBoC voiced the concern about the calculated negative correlation between China's household	▪ This probably explained why China has stepped up its tightening on property market recently. The study shows that China's rising housing price has crowded out household's consumption. This suggests that the recent property

leverage and consumption growth.	tightening measures may not be temporary. This also reinforces our view that an outright interest rate is still quite unlikely at the current juncture.
▪ 1M HIBOR rebounded to 1.91% after sliding consecutively for nine trading days.	▪ Front-end HKD rates found some support and consolidated last week due to the resilient HKD demand associated with ongoing huge dividend payments and month-end window-dressing. As such, USDHKD retreated slightly to around 7.81. After month-end, we expect front-end liquidity to ease again given the much smaller size of dividend payments and the absence of large IPOs. USDHKD may also move higher from the recent trading range of 7.80-7.83. Still, due to the high volatility of HKD and HIBOR and limited USD-HKD yield differential, we see little risk of the currency pair touching 7.85. ▪ On the longer-end (3M or above) HKD rates front, though the rates fell from July's highs in tandem with the front-end rates, the magnitude of decline was much smaller. This might be attributed to funding preparation for Alibaba IPO (rumored to be launched around end-September) and the upcoming quarter-end. As such, we may see HIBOR curve remaining steep in the near term.
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Key Economic News	
Facts	**OCBC Opinions**
▪ China's economic growth decelerated further in the second quarter to 6.2% yoy, in line with market expectation. ▪ The main growth data in June beat market expectation. In particular, retail sales growth re-accelerated to 9.8% yoy from 8.6% yoy. ▪ Industrial production rebounded to 6.3% from 5% in May while fixed asset investment growth reaccelerated to 5.8% yoy in the first half from 5.6% yoy in the first five months.	▪ The stabilization of the economy was mainly supported by the rebound of retail sales backed by car sales and resilient property market. Car sales rebounded strongly to 17.2% yoy in June due to low base effect and car dealers' promotion to clear inventory before new emission standard would take effect in July. In addition, property investment rose by 10.9% yoy in the first half. ▪ Fixed asset investment in manufacturing sector and infrastructure sector remained weak growing by 3% yoy and 4.1% yoy respectively in the first half of 2019. ▪ Looking ahead, given the surge of retail car sales is likely to be one-off and China has increasingly tightened its grip on property market, we think China's growth is likely to decelerate further in the second half. ▪ Nevertheless, the issuance of special bond is likely to support the infrastructure investment which may bring the infrastructure investment growth back to above 5%. As such, we think China's slowdown in the second half is likely to be marginal with growth is expected to remain above 6%.
▪ The Chinese banks net purchased US$19.3 billion foreign currency in June, highest since June 2017.	▪ This was probably due to the concerns about the re-escalation of trade war in particular in the first half of June.
▪ HK's container throughput dropped for the sixth consecutive month by 11.3% yoy to 1.49 million TEUs in June.	▪ Due to the US-China trade war since last July, production line has been shifted gradually from Mainland China to other Asian countries. As a result, Hong Kong's trade sector took a hard hit. The technology war has also weighed heavily on HK's trade sector which mainly ships high-tech products. Specifically, HK's exports and imports dropped for the seventh and the sixth consecutive month in May 2019. ▪ On top of the trade war, the increasing competition from

	other container ports in Mainland China and the higher cost of shipping through HK may also continue to cloud HK's trade sector outlook in the longer term.
▪ HK's unemployment rate remained unchanged at a more than one-year low of 2.8% during 2Q19.	▪ Despite that, the employment situation of the major industries remained mixed. The jobless rate of financial sector fell from 2.4% to 2.2%, probably due to the stock market's rebound in June on hopes of US-China trade war de-escalation. On the flip side, the unemployment rate of trade sector increased to 2.6%, a level unseen since Feb-Apr 2018. The trade war escalation in May has weighed heavily on the trade sector where imports and exports continued to show negative growth. Besides, retail sector's unemployment rate was unchanged at 3.9%, the highest level since 3Q18. This was mainly attributed to the sluggish retail sales on cautious consumption. ▪ In fact, the overall jobless rate normally lags other economic indicators like retail sales by six months to one year. As of May 2019, HK's exports and retail sales have respectively dropped for seven and four consecutive months. As such, the possibility of slight increase in overall unemployment rate cannot be ruled out in the coming months. We hold onto our view that overall jobless rate will move towards 2.9% in late 2019.
▪ Macau's gross gaming revenue dropped for the second quarter in a row by 0.5% yoy in 2Q19, mainly dragged down by the weaker high-roller demand.	▪ During April to May 2019, holiday effect and infrastructure improvement have helped to push total visitor arrivals up by 20.5% yoy. This in turn has lent strong support to the mass-market segment whose revenue registered double-digit growth for the seventh straight quarter in 2Q19. The percentage share of mass-market revenue increased to a record high at 47.7%, outweighing that of VIP revenue (47.2%). ▪ However, the strong growth of mass-market segment failed to offset softer VIP demand. Specifically, VIP gaming revenue fell for the second consecutive quarter by 15.6 yoy. This could be attributed to several unfavorable factors including lingering trade war risks, China's renewed slowdown, a relatively weak RMB and policy risks related to anti-money laundering. Going forward, the factors may continue to weigh on the VIP segment. ▪ Moving ahead, due to the relatively low betting amount of casual gamblers, gross gaming revenue may only be able to see moderate growth should VIP demand remain sluggish. In a nutshell, we hold onto our view that gross gaming revenue growth will be around 0% in 2019.

RMB

Facts	**OCBC Opinions**
▪ RMB continued to consolidate in a narrow range with RMB index hovered around 93.	▪ The stability of RMB despite the rising volatility of US dollar due to re-emergence of expectation on 50bps cut in July FOMC meeting shows that investors are waiting for more cues from the US-China trade talk.

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