Highlights

Opening was the key word for the past week. PBoC Governor Yi Gang laid out China's plan to further open its financial market over the weekend, though most of points echoed the messages from the National People's Congress. Nevertheless, he also added that China's open of financial market will go hand in hand with RMB currency mechanism reform. A flexible currency will be an important auto stabilizer to China's macro economy and balance of payment amid China's financial opening.

It was reported that Bank of Beijing plans to set up a joint venture with Dutch's ING bank with ING would hold 51% shares. The new joint venture, if approved, will be the first foreign controlled bank in China. China's banking and insurance regulator vowed to further lower the entry barrier for foreign financial institutions and broaden the approved business scope for foreigners.

On market, China's bond rallied while equity consolidated. The outperformance of bond was supported by two factors including expectation on still reasonable flush liquidity domestically and dovish global central banks externally. Those factors may continue to support both bond and equity markets. On currency, It seems that market is unwilling to bet on the direction without clear signal from the US-China trade talk. The pair may continue to be the dollar play in the near term.

On trade talk, the trade talk will continue with US trade delegation led by Lighthizer and Mnuchin is expected to visit Beijing this week while Vice Premier Liu He will visit the US in early April. However, the last minutes call off of the inter-American Development Bank's (IDB) annual assembly in Chengdu for 28-31 March shows the tension may come from any angle.

On Greater Bay initiative, China stepped up efforts to support the free flow of talents across the bay area by loosening the tax regulation on HK, Macau and Taiwan residents who work or live in Mainland China. Besides, the pilot service for cross-border account opening was launched in HK, which is a very important step in the bay area's financial integration.

In **Hong Kong,** last week, the HKMA had intervened in the market for three consecutive days to defend the currency peg. As the aggregate balance (a gauge of interbank liquidity) shrank by 15.1% to HK$64.75 billion in two weeks and the quarter-end effect started to materialize, front-end liquidity tightened notably. As a result, carry trade chose to stay away from the market for some time and in turn allowed the HKMA to take a break. Moving into the end of this month, we expect 1M HIBOR and 3M HIBOR to try higher towards 2%. Nevertheless, once the quarter-end effect abates, liquidity will return to the market. Combined with the absence of large IPOs and the expected capital inflows to HK on the pause in global monetary tightening, it suggests that HKD liquidity will remain flushed in the coming months. USD-HKD yield differential is expected to remain wide and continue to boost carry trade. As such, it is possible to see further and moderate liquidity withdrawal by the HKMA, which however may have little impact on the sizeable monetary base (over HK$1.6 trillion). In conclusion, we expect aggregate balance will fall to around HK$50 billion by end-June and hold above HK$20 billion by end of this year. Given the flushed liquidity and the expectation of no Fed hike this year, we see little chance of prime rate hike in HK in 2019.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ PBoC Governor Yi Gang laid out China's plan to further open its financial market over the weekend.	▪ Governor Yi's points on opening echoed his views as well as other top policy makers' points on financial reform from the National People's Congress. Nevertheless, he also added that China's open of financial market will go hand in hand with RMB currency mechanism reform. A flexible currency will be an important auto stabilizer to China's macro economy and balance of payment amid China's financial opening. In addition, he also said China's central bank has stopped intervening the currency market on the daily basis.
▪ China's banking and insurance regulator said China will further lower the entry barrier for foreign financial institutions and broaden the approved business scope for foreigners. ▪ It was reported that Bank of Beijing plans to set up a joint venture with Dutch's ING bank with ING would hold 51% shares. The new joint venture is subject to regulatory approval.	▪ The new joint venture between Bank of Beijing and ING, if approved, will be the first foreign controlled bank in China. This is in line with China's strategy to further open its domestic financial market to attract more foreign investors. We expect to see more foreign controlled financial institutions in China going forwards.
▪ On US-China trade talk, the trade talk will continue	▪ The IDB's decision to cancel their China meeting came after

with US trade delegation led by Lighthizer and Mnuchin is expected to visit Beijing this week while Vice Premier Liu He will visit the US in early April. ▪ However, the last minutes call off of the inter-American Development Bank's (IDB) annual assembly in Chengdu for 28-31 March shows the tension remains.	the US Vice President Pence written that China has refused to grant the visa to Venezuela representative to the multinational organisation named by the self-claimed President. ▪ The tension may come from any angle with Venezuela being the focus.
▪ China's central bank conducted CNY110 billion reverse repo operation last week to counter the impact of the decline of MLF, which matured on 18 March.	▪ For the whole week, China net withdrew CNY237 billion liquidity from the system. Overall we think China is likely to keep liquidity flush at a reasonable level in the interbank market.
▪ Last week, the HKMA had intervened in the market for three consecutive days and bought a total of HK$6.15 billion, pushing the aggregate balance down to HK$64.75 billion.	▪ As the aggregate balance (a gauge of interbank liquidity) shrank by 15.1% in two weeks and the quarter-end effect started to materialize, front-end liquidity tightened notably. 1M HIBOR and 3M HIBOR both rose to the highest since January and reached 1.77% and 1.84% respectively. As a result, carry trade which shorts HKD for higher-yielding USD chose to stay away from the market for some time and in turn allowed the HKMA to take a break. Moving into the end of this month, we expect 1M HIBOR and 3M HIBOR to try higher towards 2%. Meanwhile, USDHKD spot may retreat further towards 7.8400. ▪ Nevertheless, once the quarter-end effect abates, liquidity will return to the market. Combined with the absence of large IPOs and the expected capital inflows to HK on the pause in global monetary tightening, it suggests that HKD liquidity will remain flushed in the coming months. USD-HKD yield differential is expected to remain wide and continue to boost carry trade. As such, it is possible to see further and moderate liquidity withdrawal by the HKMA, which however may have little impact on the sizeable monetary base (over HK$1.6 trillion). ▪ In conclusion, we expect aggregate balance will fall to around HK$50 billion by end-June and hold above HK$20 billion by end of this year. Given the still flushed liquidity and the expectation of no Fed hike this year, we see little chance of prime rate hike in HK in 2019. On HIBOR, we expect 1M HIBOR and 3M HIBOR to top 2% every quarter-end and to fall below 1.5% and 2% respectively in the rest of this year. On currency, USDHKD spot is believed to oscillate in the weak range of 7.84-7.85 for most of the time in 2019.
▪ After the announcement of the Greater Bay Area Development Plan, China stepped up efforts to support the free flow of talents across the bay area by loosening the tax regulation on HK, Macau and Taiwan residents who work or live in Mainland China. The regulation will be effective from 1st January 2019 and supersede the existing tax policy in Hengqin, Zhuhai and Qianhai, Shenzhen.	▪ Specifically, the government will grant Individual Income Tax ("IIT") exemption treatment for the subsidies of overseas (including Hong Kong, Macao and Taiwan) high-level and urgently-needed talents working in the GBA. If an individual without domicile stays in the Mainland China for (1) 183 days or more in a year and (2) in any one of the preceding six consecutive years (adjusted from the previous requirement of five consecutive years) the individual stays less than 183 days or leaves the Mainland China for more than 30 days in one occasion, the individual's overseas-sourced income will be exempted from IIT. More notably, the way of management will be changed from approval to filing, in order to simplify the process and improve the efficiency. ▪ In fact, the tax rate in the Pearl River Delta was 21.6% while that in HK was 13.1% in 2017. This has discouraged talents from working or living in Mainland China to avoid additional

	tax burden. Now, the new regulation will likely help the Pearl River Delta attract more talents from HK, Macau and Taiwan.
▪ Following the announcement of Greater Bay Area Development Plan, the Bank of China Hong Kong is approved to launch pilot service for Mainland account opening. Hong Kong applicants will only be required to open the account at any Bank of China (HK) branch with their HK ID and Mainland Travel Permit. HK applicants will not be required to provide any proof of residence in Mainland China. More importantly, the opened account could be linked to Mainland China's mobile e-payment systems.	▪ On top of some HK digital wallets that allow cross-border payment, the launch of cross-border account opening is another very important step in the bay area's financial integration. This may in turn encourage people to work or even reside in the Pearl River Delta. ▪ However, customers are still not allowed to buy wealth-management products or make investment with the account. The daily upper limit of deposit and withdrawal is RMB10 thousand and RMB2 thousand respectively while the yearly upper limit is RMB200 thousand and RMB50 thousand respectively. In the longer term, we expect to see China to gradually loosen the grip on capital flows between HK, Macau and the rest of the Greater Bay Area. Besides, the unveil of wealth management connect could also be expected in the coming years given the Mainland high-net-worth individuals' rapidly growing demand for diversified wealth management services.

Key Economic News

Facts	OCBC Opinions
▪ The Chinese banks net purchased US$15 billion on behalf of its clients and themselves in February.	▪ The flip from surplus to deficit again last month shows that the still strong demand for foreign currency despite recent appreciation of RMB against both dollar and currency basket. It may also be due to seasonal demand due to rising outbound travels during the Chinese New Year holiday period.
▪ HK's unemployment rate remained static at an over two-decade low of 2.8% during the three months through Feb.	▪ However, the change in jobless rates varied across industries. Despite weak trade activities, the unemployment rate of trade sector dropped to 1.9%, the lowest since 1994. Meanwhile, the unemployment rate of retail sector edged down to a decade-low of 3.4%, mainly due to the robust inbound tourism on the back of infrastructure improvement. On the flip side, the unemployment rate of financial sector rose to 2% from 1.9%, probably attributable to the cautious outlook about stock market and property market. Moving forward, we doubt the sustainability of the tight labor market, amid two factors. Firstly, the worsening global economic outlook may dent the overall hiring sentiments. Secondly, as US-China problems remain unsolved, the outlook of trade sector and financial market may remain uncertain.
▪ Macau's visitor arrivals grew for the thirteenth consecutive month by 15.5% yoy to 3.55 million in Feb, owing to Chinese New Year holiday and the infrastructure improvement.	▪ Specifically, same-day visitors saw double-digit growth for the fifth consecutive month and grew by 21.5% yoy to a record-high of 2.04 million. The growth was stronger than the 8.2% yoy increase in overnight visitors. As such, the percentage share of same-day visitors in total visitor arrivals surged to 57.4%, the highest level since Feb 2015. By mode of transport, visitors by land (19.7% by HK-Zhuhai-Macau Bridge) jumped by 30.9% yoy. By place of residence, visitors from Mainland China and those from HK continued to increase by 11.9% yoy and 31% yoy respectively. Taken all together, it reinforces that the Hong Kong-Zhuhai-Macau Bridge has lent strong support to Macau's tourism sector. ▪ In the near term, even though tourism sector could hold up well on infrastructure improvement, neither the gaming sector nor the retail sector may benefit much from the robust

	tourism due to two reasons. First, the length of stay dropped significantly from 1.4 days in last September to 1.0 day. In the absence of new mega entertainment projects and the high cost of staying overnight, the gambling hub might have failed to attract overnight visitors who have been made main contribution to gaming and retail sectors. Second, visitor spending has been curbed by a strong MOP, concerns about trade tensions as well as persistent global slowdown. ▪ On a positive note, the Greater Bay Area Development Plan has proposed to further improve the infrastructure across the area. This would pave way for long-term development of Macau's leisure and entertainment industries.

RMB	
Facts	**OCBC Opinions**
▪ RMB failed to stand firm below 6.68 handle and ended the week at around 6.72. RMB index weakened slightly to marginally above 95.	▪ RMB's rally against the dollar ahead of FOMC meeting with no clear catalyst caught the market by surprise. The rally was subsequently fuelled by the dovish Fed, sending the USDCNY down to as low as 6.6674. However, the pair rebounded tracking the recovery of broad dollar. ▪ It seems that market is unwilling to bet on the direction without clear direction from the US-China trade talk. The pair may continue to be the dollar play in the near term.

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