Highlights

Bank of Jinzhou returned to the spotlight last week after Reuters reported that local regulators in Liaoning province met financial institutions to deal with liquidity problem faced by the troubled Bank of Jinzhou. The fate of Bank of Jinzhou is different from Baoshang bank. Instead of the state takeover; three strategic investors will invest in the bank to shore up the capital. The introduction of strategic investors shows that China may try alternative measures to contain the financial risk.

On regulation, China's central bank started to seek public opinion on measures to tighten its supervision over financial holding companies. The move is to contain the risk created by the blind expansion of non-financial companies into the financial sectors.

In its regular meeting, China's State Council said it will continue to lower the real interest rate to support the development of small banks and lower the funding costs for smaller companies via the combination of policy tools. China rolled over most of the maturing CNY502 billion medium term liquidity via the combination of CNY297.7 billion TMLF and CNY200 billion MLF. We think China will reply more on TMLF going forwards to lower the funding costs.

On economic data, China's industrial profit fell by 3.1% yoy in June reversing 1.1% gain in May. Manufacturing remained the key drag in the first half of 2019 down by 4.1% yoy led by car industry and computer and communication equipment while profit in mining and utility industries rose by 4.2% yoy and 9% yoy respectively. The fall of profit in car industry reflected the weaker domestic demand while the decline of profit in computer and communication equipment was the result of US-China trade war.

On US-China trade talk, the first face-to-face talk post G20 meeting will be held this week in Shanghai. However, President Trump said on Friday that China may want to wait until 2020 election pouring the cold water on the upcoming trade talk.

The annual report from China's currency regulator shows that China's de-dollarization pace in its FX reserve was faster than previously expected. The percentage of assets denominated in US dollar fell from 79% in 2005 to 58% 2014, below global average of 65%. With China's plan to increase its medium to long term asset allocation for its FX reserve, China may continue to increase its holdings of gold. Despite broad dollar rallies in the global market last week, the USDCNY remained stable. The stable pair could also be supported by the more rational corporates which sell high buy low rather than selling low buying high previously.

In **Hong Kong,** with HKD liquidity condition gradually normalizing, market shifted the focus to political uncertainty. On top of the unfavorable factors including economic slowdown and trade war risks, recent political instability appeared to have added downward pressure onto the tourism-related sectors and the housing market. Last week, the biggest residential plot in Kai Tak, Kowloon was sold at discount and the price was the lowest since December 2016. This will likely have some spill-over effect to the neighborhood's secondary housing market. Besides, recent social contradiction has sidelined some potential homebuyers while propelling some homeowners to cut the offering prices. On a positive note, any correction may be capped by US-China trade truce and global monetary easing. As such, we hold onto our view that property price (+10.4% YTD in May) will increase 8% yoy by end of this year. Still, a milder growth is likely should internal uncertainties persist. **Elsewhere,** trade data missed expectations with exports falling at the fastest pace since 2016 by 9% yoy in June. This could be attributed to US-China trade war re-escalation in May. Though US and China reached a truce at late June's G20 summit and are set to resume trade talk this week, there is no sign that both sides plan to remove the existing tariff or end the technology war any time soon. Adding that global economic slowdown has dented global demand, Asia's trade flows and electronic value chain may continue to take a hit. More notably, the front-loading of trade activities during June to October 2018 has resulted in high base effect. Taken all together, we expect exports and imports to continue falling in the coming months and show single-digit negative growth over 2019. This week, market will eye on HK's 2Q GDP due on 31st July.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In its latest 2018 annual report, China's currency regulator SAFE unveiled for the first time that its 10-year average return for its foreign exchange reserve from 2005-2014 was 3.68%. ▪ The percentage of assets denominated in US dollar fell from 79% in 2005 to 58% 2014, below global average of 65%.	▪ The annual report shows that China's de-dollarization pace in its FX reserve was faster than previously expected. With China's plan to increase its medium to long term asset allocation for its FX reserve, China may continue to increase its holdings of gold.

▪ Bank of Jinzhou returned to the spotlight last week after Reuters reported that local regulators in Liaoning province met financial institutions to deal with liquidity problem faced by the troubled Bank of Jinzhou. ▪ Meanwhile, news also reported that the bank is in restructuring attempt to bring in three more strategic investors with both ICBC and Cinda asset management have confirmed on 28 July that they will invest in the bank.	▪ To recall, the Bank of Jinzhou's HK listed share has been suspended since April as it failed to produce 2018 annual report. The resignation of its auditors and Baoshang bank incident in late May has locked the bank out of the interbank liquidity system. However, the bank received the support from the PBoC on 10 June to provide the credit hedging to the issuance of NCDs. ▪ The introduction of strategic investors shows that China may try alternative measures to contain the financial risk.
▪ China's Commerce Ministry confirmed that the US delegation will travel to Shanghai this week for the trade talk. However, President Trump said on Friday that China may want to wait until 2020 election.	▪ Trump's comment poured the cold water on the upcoming trade talk in Shanghai. The bilateral trade talk is likely to be prolonged. Nevertheless, as long as it does not escalate further, we think the impact on the market is likely to be limited.
▪ China's central bank started to seek public opinion on measures to tighten its supervision over financial holding companies.	▪ The move is to contain the risk created by the blind expansion of non-financial companies into the financial sectors. The cross-sector risk exposure by financial holding companies may pose the systemic risk in future without proper supervision.
▪ In its regular meeting, China's State Council said it will continue to lower the real interest rate to support the development of small banks and lower the funding costs for smaller companies via the combination of policy tools.	▪ This reinforced our view that China may still cut the reserve requirement ratio in the second half of this year to support the funding demand from the smaller and micro companies.
▪ China rolled over most of the maturing CNY502 billion medium term liquidity via the combination of CNY297.7 billion TMLF and CNY200 billion MLF. The interest rates for both operations have been kept unchanged.	▪ The use of TMLF at slightly cheaper costs is designed to support the funding demand from the SMEs.
▪ Hong Kong sold the biggest residential plot in Kai Tak, Kowloon at discount. The winning bid fell below the low end of the market valuation and reached the lowest prices since December 2016.	▪ The price of this plot is 13.6% lower than that of a nearby plot sold four months ago. This reflects that the property developers might have been less optimistic about the housing market given lingering external headwinds and rising local political instability. The upcoming implementation of vacancy tax may be another factor sidelining the property developers. ▪ The lower than expected price of residential plot will likely have some spill-over effect to the neighborhood's secondary housing market. Besides, recent social contradiction has sidelined some potential homebuyers while propelling some homeowners to cut the offering prices. On a positive note, any correction may be capped by US-China trade truce and global monetary easing. As such, we hold onto our view that property price (+10.4% YTD in May) will increase 8% yoy by end of this year. A milder growth is likely should internal uncertainties persist.

Key Economic News

Facts	OCBC Opinions
▪ China's industrial profit fell by 3.1% yoy in June reversing 1.1% gain in May. In the first half of 2019, China's total industrial profit fell by 2.4% yoy. Overall industrial profit improved slightly in 2Q with the pace decline narrowed to 1.9% yoy from 3.3% yoy in 1Q.	▪ Manufacturing remained the key drag in the first half of 2019 down by 4.1% yoy while profit in mining and utility industries rose by 4.2% yoy and 9% yoy respectively. ▪ Among the top five industries, car industry and computer and communication equipment industries are two drags with profits from those two industries fell by 24.90% yoy and 7.9% yoy. The fall of profit in car industry reflected the weaker

	domestic demand while the decline of profit in computer and communication equipment was the result of US-China trade war.
▪ After achieving a record high quarterly return in 1Q19, Hong Kong's exchange funds gained much less in 2Q19. The investment return shrank by 72% qoq to HK$37.4 billion.	▪ Zooming in, the exchange funds showed a foreign exchange loss of HK$17 billion, probably due to the appreciation of HKD and USD in 2Q. With regard to local and overseas stock investments, the former saw a loss of HK$0.5 billion while the latter's return dropped by 69.5% qoq to HK$15.2 billion. This could be attributed to the global stock corrections on amid global economic slowdown and US-China trade war re-escalation. On the flip side, the bond investments gained HK$39.7 billion in 2Q, 8.2% more than previous quarter's return. This was mainly due to the strong performance of global bond markets on rising expectations of global monetary easing, global economic slowdown and heightened uncertainties. ▪ Moving forward, we expect the exchange funds to exhibit moderate gain in 3Q19. Specifically, global stock market may rebound with the hunt for yield, the renewed trace truce between US and China and the speculation on global monetary easing. Besides, we believe that HKD has already peaked in 2Q and will come off in 3Q with the abating short-term factors while USD's upside may also be capped by US' weak economic data and Fed's rate cuts. This signals that there could be decent stock investment return and foreign exchange gain in 3Q. However, the upside of the bond market may be capped as the valuation has become less attractive and the market has been scaling back Fed rate cut bets. Lately, 10-year US Treasury Yield rallied from 1.94% (the lowest since 2016) to 2.08%. This may result in weaker return from bond investments. On a positive note, as exchange funds which have booked a net return of HK$121.9 billion in 1H19 are expected to gain moderately from the diversified investments in 2H19, it would support the HKMA to well defend the currency peg.
▪ HK's trade data surprised to the downside. Exports fell for the eighth consecutive month by 9% yoy (the largest decline since 2016) while imports dropped for the seventh straight month by 7.5% yoy in June.	▪ Zooming in, exports to major trading partners including Mainland China (-10.6% yoy), the USA (-6.6% yoy), India (-2.6% yoy), Japan (-6.5% yoy) and Vietnam (-4.3% yoy) all shrank notably in June. Imports from major trading partners including Mainland China (-6.3% yoy), Taiwan (-2.6% yoy), Singapore (-20% yoy), South Korea (-20.7% yoy), Japan (-5% yoy) and the USA (-0.6% yoy) also showed significant decline in June. By commodity, exports of electrical machinery, telecommunications and office machines tumbled by 8.9% yoy, 13.2% yoy and 21.2% yoy respectively while imports of these products also decreased. This could be attributed to the re-escalation of US-China trade war in May. ▪ Though US and China reached a truce at late June's G20 summit and are set to resume trade talk this week, there is no sign that both sides plan to remove the existing tariff. It also seems unlikely for the technology war to end any time soon. Adding that global economic slowdown has dented global demand, Asia's trade flows and electronic value chain may continue to take a hit. More notably, the front-loading of exports and imports during June to October 2018 has resulted in high base effect. Taken all together, we expect exports and imports to continue falling in the coming months and show

	single-digit negative growth over 2019.
▪ Macau's visitor arrivals exhibited double-digit growth for the eighth consecutive month and were up by 18.9% yoy in Jun, mainly led by the 35.4% yoy increase in same-day visitors.	▪ Though the percentage share of same-day visitors in total visitors dropped from 53% in May to 50.6% in June, it still held above 50%. Besides, tourists from Mainland China, and Hong Kong surged by 19.9% yoy and 24.3% yoy respectively. More notably, visitor arrivals by land continued to soar by 51.5% yoy to 2.2 million (21.3% of which were via Hong Kong-Zhuhai-Macau Bridge), taking up 72.3% of total visitor arrivals. Taken all together, it confirms that the latest infrastructure improvement has continued to bring same-day visitors to the gambling hub. This has translated into strong supports to the mass-market segment of the gaming sector. ▪ On the other hand, however, overnight visitors grew at a relatively slow pace by 5.7% yoy in June. Also, the average length of stay of overnight visitors shortened from 2.3 days in May to 2.2 days in June. This reinforces our view that the lack of much more new mega projects and the high cost of staying overnight have deterred re-visitation of overnight visitors. Adding on the lingering policy risks, relatively weak RMB and the persistent trade tensions, we are worried that the slow growth of overnight visitors and the cautious consumption will continue to cloud the outlook of both retail and gaming sectors.
▪ Macau's unemployment rate held static at a more than four-year low of 1.7% during 2Q 2019. Labor force participation rate and total employed population remained unchanged at 70.4% and 387,200 respectively.	▪ Zooming in, the employed population of gaming industry increased by 1.1% mom as robust tourism growth has lent strong support to gaming sector's mass-market segment. In contrast, the employed population of retail sector dropped further by 1.5% mom as retail sector's growth has been curbed by cautious consumption sentiments. Besides, as overnight visitor growth has been relatively moderate despite burgeoning tourism, the employed population of hotels, restaurants and similar activities dropped in three out of the past four three-month periods. Worse still, the employed population of construction sector fell for the fifth consecutive three-month period by 0.7% mom as most of the new infrastructure and entertainment projects have been completed successively. Elsewhere, despite median monthly employment earning grew by 1.9% yoy in 2Q, it dropped 4.1% qoq to MOP16,300. ▪ In the near term, overall unemployment rate may be sticky at 1.7% as it normally lags other major indicators in reflecting the latest economic condition. However, with external uncertainties continuing to cloud Macau's growth outlook and hurting the hiring sentiments of major industries, overall unemployment rate is expected to edge higher in the medium term.

RMB	
Facts	**OCBC Opinions**
▪ RMB continued to consolidate in a narrow range.	▪ Despite broad dollar rallies in the global market last week, the USDCNY remained stable. The stable pair could also be supported by the more rational corporates which sell high buy low rather than selling low buying high previously. As such, RMB appreciated against its major trading partners with RMB index rose to 93.37. Market will watch out for the tone from

	the first face-to-face trade talk post G20. Any upside surprise could become the catalyst for the USDCNY to retest 6.85.

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