Highlights

Ambiguous is probably the key word for the current progress of US-China trade talk. The latest G20 truce is only kicking the can down the road. China is still seeking the clarity from the US on its stance over Huawei purchase as well as removal of tariff. It looks that China's red lines have not been addressed yet, which may lead to uncertainty in future.

China's bond market rallied last week on the back of flushed liquidity and comments from Premier Li on RRR cut. Premier Li pledged to continue its support to reduce funding costs for smaller firms via targeted RRR and RRR cuts. The excessive liquidity in the first week of the second half was partially in line with seasonal pattern as demand for liquidity fell after the start of the new half of the year. However, the unusual flushed liquidity recently was also the result of Baoshang bank takeover incident, which shows China's commitment to contain the financial risk.

RMB gave up its gain in the middle of last week as a result of Premier LI's comments on RRR cut and the recovery of broad dollar. Given there is still lack of clarity on the Huawei purchase and no progress on removal of existing additional tariff, the initial relief from the trade war failed to sustain. RMB is likely to be stuck in the current range waiting for more clues.

On data, foreign investors continued to increase their holdings of China's domestic RMB bonds in June despite the rising currency volatility in May and June. Amid the renewed global easing cycle, China's relatively high yield and further integration into global market may attract more inflows in the coming months. This may provide support to China's balance of payment, which may in turn support RMB.

On property, China has been reluctant to rely on traditional monetary policy easing tools due to concerns about the impact on property market. It was reported by onshore media that China has tightened trust company's funding support to property company via the window guidance.

In **Hong Kong,** all eyes were on the funding squeeze where 1W HIBOR surged 142bps in two days and 1M HIBOR refreshed its strongest level since 2008 at 2.99%. Due to strong HKD demand and sidelined carry trade, USDHKD broke below the mid-point of the trading band and reached the lowest level since 2017. Against the backdrop of low aggregate balance, market scrambled for HKD liquidity in anticipation of huge dividend payment and larger-than-expected AB InBev's IPO. On a positive note, with AB InBev opening its IPO book on 5th July, some market players released part of the over-prepared liquidity to the market and helped to ease the funding crunch. As such, front-end HIBORs came off. Nevertheless, before the reserved money for IPO returns to the market around 18th July, we expect HIBOR to remain elevated with 1M HIBOR to hold above 2.4% or even 2.5%. After that, 1M HIBOR and longer-tenor HIBOR may still stand above 2% until Alibaba launches its IPO probably in August. If this is the case, banks may keep the high HKD fixed-deposit rates for a while. However, against the backdrop of global monetary easing and eased trade tensions, we do not see huge capital outflow risks to keep HIBORs persistently high. On the housing market front, CCL index which tracked the secondary housing price came off from historical high while housing transaction volume dropped by 43.6% mom in June. On a positive note, with the trade truce and the rising Fed rate cut expectations, investment sentiment improved and stock market rallied in June. This will likely lend renewed support to the housing market. However, we still believe that lingering trade war risks, global economic slowdown, increasing short-term supply and the high local rates could be factors capping the upside for the housing market.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Premier Li Keqiang reiterated in the Summer World Economic Forum that China's will keep its monetary policy prudent. Meanwhile, he also pledged to continue its support to reduce funding costs for smaller firms via targeted RRR and RRR cuts.	▪ Although China has been reluctant to ease its monetary policy further to balance between structural de-leverage and growth, Premier Li's comments about the RRR cut reinforced our view that China may turn to traditional monetary easing eventually to fulfil its commitment to lower the funding costs for smaller firms amid the global monetary easing cycle.
▪ China's Ministry of Commerce reiterated China's red line that all the existing additional tariffs must be removed should both sides want to reach a trade deal.	▪ Ambiguity is probably the key word for the current progress of US-China trade talk. The latest G20 truce is only kicking the can down the road. China is still seeking the clarity from the US on their stance over Huawei purchase as well as removal of tariff. It looks that China's red lines have not been addressed yet, which may lead to uncertainty in future.
▪ The flushed liquidity continued in the first week of the second half of 2019 with overnight interbank	▪ The excessive liquidity in the first week of the second half was partially in line with seasonal pattern as demand for liquidity

repo rate fell below 1% before ending the week at around 1.6%. ▪ PBoC net withdrew CNY340 billion liquidity from the system last week after suspending its open market operation.	fell after the start of the new half of the year. However, the unusual flushed liquidity recently was also the result of Baoshang bank takeover incident, which shows China's commitment to contain the financial risk. With the help of flushed liquidity, the issuance of NCDs by smaller banks started to improve gradually. ▪ As a result of Premier Li's comments on RRR cut and flushed liquidity, China's bond market rallied strongly last week.
▪ It was reported by onshore media that China has tightened trust company's funding support to property company via the window guidance.	▪ One of the key constraints to China's easing monetary policy is property market. The tightening grip on property finance is expected to insulate the spillover effect from the easing monetary policy.
▪ HK's money market saw another round of funding squeezing last week with 1W HIBOR surging 142bps in two days and 1M HIBOR refreshing its strongest level since 2008 at 2.99%. Due to strong HKD demand and sidelined carry trade, USDHKD broke below the mid-point of the trading band and reached the lowest level since 2017.	▪ Against the backdrop of low aggregate balance, we have already seen two rounds of panic liquidity squeezing respectively in April and June. This time round, it is mainly about dividend payment (over HK$100bn in July) and large IPO (AB InBev's IPO will be launched soon on 19th July and the size of US$10bn is twice as large as what market previously expected). Thanks to the trade truce reached between US and China and the rising expectations of global monetary easing, risk appetite has improved and supported HK's stock market rally. This in turn sparked speculation that the demand for the upcoming IPO could be strong. ▪ With AB InBev opening its IPO book on 5th July, some market players released part of the over-prepared liquidity to the market and helped to ease the funding crunch. As such, front-end HIBORs came off while USDHKD forward swap curve softened. Nevertheless, before the reserved money for IPO returns to the market around 18th July, we expect HIBOR to remain elevated with 1M HIBOR to hold above 2.4% or even 2.5%. After that, 1M HIBOR and longer-tenor HIBOR may still stand above 2% until Alibaba launches its IPO probably in August. If this is the case, banks may keep the high HKD fixed-deposit rates for a while. However, against the backdrop of global monetary easing and eased trade tensions, we do not see huge capital outflow risks to keep HIBORs persistently high.

Key Economic News	
Facts	**OCBC Opinions**
▪ Foreign investors continued to increase their holdings of China's domestic RMB bonds in June. ▪ Foreign ownership of government bonds increased to CNY1.164 trillion from CNY1.136 trillion in May while foreign ownership of policy banks increased to CNY425.3 billion from CNY419.8 billion.	▪ Despite the rising volatility in RMB in May and June, the gradual inflow into China's financial market is positive. Amid the renewed global easing cycle, China's relatively high yield and further integration into global market may attract more inflows in the coming months. This may provide support to China's balance of payment, which may in turn support RMB.
▪ China's FX reserve rose to US$3.119 trillion in June, highest since May 2018.	▪ The recovery of China's FX reserve was partially the result of favourable valuation effect due to weak broad dollar in June. Meanwhile, the gradual capital inflows into China's financial market is supportive to China's FX reserve as well. ▪ China's holdings of gold continued to rise in June, a sign of diversification as China is reducing its holdings of US Treasury.
▪ HK's housing price index rose by 10.4% YTD to a historical high in May. However, CCL index which tracked the secondary housing price came off from	▪ As a lagging indicator, the retracement in housing data was mainly due to the negative effect from May's stock market correction, trade war re-escalation, political concerns, and

historical high in June. Also, housing transaction volume dropped by 31% yoy or 43.6% mom to 4627 deals in June.	elevated local rates. ▪ On a positive note, with the trade truce between US and China and the rising expectations of US rate cuts, investment sentiment improved in June and supported global stock market rally which will likely lend renewed support to the housing market. However, we still believe that lingering trade war risks, global economic slowdown, increasing short-term supply and the high local rates could be factors capping the upside for the housing market. In terms of short-term supply, around 5000 units of public housing was available for application around mid-2019 while property developers have actively launched new home projects before the implementation of vacancy tax (housing completions increased by 2.2% in the first four months of 2019). As such, we hold onto our view that property price will grow by 8% by end of this year. Should US-China trade war re-escalate some time in 2H19, housing prices will likely see a milder growth this year. ▪ In the longer term, however, we still expect to see a resilient housing market given the persistent imbalance between demand and supply (housing starts dropped by 56.2% yoy during the first four months of 2019) as well as the rising expectations of lower rates.
▪ HK's retail sales dropped for the fourth consecutive month by 1.3% yoy in May.	▪ The sales of food and goods in department stores increased by 3.1% yoy and 0.3% yoy respectively. Meanwhile, the decrease in sales of jewelry and other luxury goods moderated from 11.8% yoy in April to 2.7% yoy in May. This was mainly due to the Labor Day Holiday which supported a 23.6% yoy increase in Mainland visitors. Nevertheless, the sales of clothing & footwear as well as those of consumer durable goods continued to decrease. Due to the trade war escalation and the resultant stock market correction and RMB depreciation, consumption sentiment remained cautious. Going forward, though RMB and risky assets rebounded on positive trade war headline in June, households and visitors may remain cautious about spending due to lingering global uncertainties. Adding on the high base effect, we expect retail sales to remain sluggish in the rest of this year and to see a decline of around 2% for 2019 as a whole.
▪ Macau's gross gaming revenue increased for the second consecutive month by 5.9% yoy in June as strong inbound tourism might have lent support to the mass-market segment.	▪ On top of the infrastructure improvement, the stabilization of RMB on US-China trade truce may also be favorable to Macau's tourism and gaming sectors. Nevertheless, we remain wary of the renewed slowdown in China's growth and the uncertainty over future trade talks as these factors together with the policy risks may loom over the VIP segment. In conclusion, we hold onto our view that gross gaming revenue will grow by around 0% in 2019.
RMB	
Facts	**OCBC Opinions**
▪ RMB's post-G20 rebound failed to sustain with the USDCNY ended the week above 6.89. RMB index broke 93 in the beginning of the week but retreated to below 93 on Friday.	▪ RMB gave up its gain in the middle of the week as a result of Premier LI's comments on RRR cut and the recovery of broad dollar. Given there is still lack of clarity on the Huawei purchase and no progress on removal of existing additional tariff, the initial relief from the trade war failed to sustain.

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