Highlights:

Not surprisingly, the first meeting between President Trump and President Xi is more about building personal relationship rather than setting any detailed direction for the bilateral relationship. The Trump Administration will use new dialogue framework to replace the current one under Obama Administration for future negotiation. The Press releases from both countries show that there is lack of details on highly watched trade policy. The message from Secretary of the Treasury Steven Mnuchin and Secretary Commerce Wilbur Ross was a bit mixed with Ross said that 100 days is a very short time for trade while Mnuchin expected to see some specific items for a more balanced trade environment in its 100-day plan. Despite confused messages, we think it should not a big surprise for us to see China open the door for more US goods in the near future.

The imminent concern is clearly on North Korea issue. Trump's surprise Syrian strike before the results of independent investigation about the recent chemical weapons together with the removal of his controversial chief strategist Bannon from National Security Council fuelled speculation whether Trump will deviate from his populism ideology. In fact, both his important populist allies including UK's Farage and French President Candidate Marine Le Pen questioned his strike. Trump's bold military move during his meeting with President Xi probably serve the purpose of warning to China that US could launch the similar precision strike at North Korea should situation worsen from here. We think the risk of conflicts in Korean Peninsula is heightening. Market should continue to pay attention to geopolitical risk in East Asia.

On market, liquidity situation improved last week despite PBoC refrained itself from open market operation as banks are more willing to lend after the end of 1Q macro prudential assessment. Both repo rate and SHIBOR rate fell together with CD rate. On currency, we saw the familiar picture again. RMB index gained when dollar index rose and ended the week at 93.22. Given dollar continued to rise this morning, RMB index is expected to rally further though the USDCNY is likely to break above 6.90. We expect the USDCNY fixing to open at around 6.9050 this morning. For this week, the focus will return to China's economic data despite party on the establishment of XiongAn New Area continued.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ As expected, President Trump concluded his first meeting with President Xi Jinping with no concrete results.	▪ The first meeting served the purpose of building personal relationship between two leaders as well as their family members. Clearly Trump's granddaughter Arabella's performance of Chinese song Jasmine flower to make President Xi feel at home is a big plus point to enhance the relationship between two top families. ▪ In addition to personal relationship, both countries agreed to establish a new framework for negotiations to replace the current bilateral dialogue under Obama Administration. The new framework will cover four areas including "the diplomatic and security dialogue; the comprehensive economic dialogue; the law enforcement and cybersecurity dialogue; and the social and cultures issues dialogue." ▪ The White House Press Briefing by Secretary of State Tillerson, Secretary of the Treasury Steven Mnuchin, and Secretary Commerce Wilbur Ross on the meetings between two leaders shows that there is lack of details on trade policy as well as currency policy. As mentioned by Secretary of Commerce Ross that 100 days is a very short time for trade though Secretary of Treasury Mnuchin expected to see some specific items for a more balanced trade environment in its 100-day plan. ▪ Interesting to mention that Ross said China has expressed interest in reducing net trade balance because of impact on money supply and inflation. ▪ Probably the main fireworks during the meeting is Trump's surprising order to strike Syrian air base in response to chemical gas last Tuesday. Trump notified President Xi about the Syrian strike at the end of the dinner. It is probably the

	first time for Trump to win applauses from mainstream media after the strike, however, Trump drew criticism from his populist supporters. Both UKIP leader Farage and Marine Le Pen questioned his decision before the result of investigation about which party is behind the use of chemical weapon. Trump's bold move albeit at the expense of losing supports from his populist voters during his meeting with President Xi is probably his negotiation strategy to press China to step up on North Korea issues. Both parties noted the urgency of the threat of North Korea's weapons program, reaffirmed their commitment to a denuclearized Korean Peninsula although there are no details on solutions. We think the risk of conflicts in Korean Peninsula is heightening, which cannot be ignored for now.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's FX reserve increased for the second consecutive month in March to US$3.009 trillion.	▪ Given the asset price remained largely stable in March, the modest recovery of FX reserve was mainly the result of valuation effect as broad dollar fell in March. ▪ In addition, China's capital outflows have been contained since the beginning of 2017 after China further tightened its grip on outflows. As a result of relatively stable RMB, sentiment has improved in the onshore market with corporate's willingness to sell foreign currency increased. As such, we expect the balanced flow picture to continue in the near term.
▪ HK's total housing transactions rose by 147% yoy to a four-month high at 5856 deals in March. The rebound was driven by the pick-up in secondary home sales and the continuation of robust sales of primary homes despite last November's cooling measures.	▪ The Centa-City Leading Index (CCL), which monitors sales in the secondary market, reached a new high on 26 March as homeowners have been raising prices along with developers to take advantage of the panic buying spree. Moving forward, given the Fed's dovish tone in March, we expect HK's banking system to raise the Prime Rate at a slower pace than the Fed. Therefore, despite a high chance of an increase in the Prime Rate in 2H, borrowing costs are likely to remain low for some time and warrant a resilient housing market. Strong demand from Mainland China will also add upward pressure to the market. Given buoyant sentiment, the upcoming new project launches and the spill-over effect of the strong activity in the primary sector may translate into further increase in total housing transactions. On the supply front, fewer available flats in the secondary market and slower new home completions means that tight supply could be another force driving up housing prices in the near term.
▪ According to DTZ's report, the average rent of Grade A offices in HK edged up 1.5% yoy in 1Q. The average rent of retail shops in Causeway Bay was flat on quarterly basis in 1Q but was 54.9% lower than its peak in 2013. According to the Rating and Valuation Department, overall retail shops' rental index (+2.0% yoy) rose to its highest level since September 2015 while the price index increased by 2.7% yoy to a more than one-year high.	▪ Demand for office premises in Hong Kong's CBD from Mainland companies remained robust despite China's controls on overseas M&A deals. As the supply of Grade-A offices for rent is limited in Central, the average rent in this area is expected to continue increasing this year. In comparison, the muted demand for offices premises in Kowloon East combined with increasing supply means that average rent of offices in this area is likely to fall. Elsewhere, the retail shop sector appeared to have regained some footing as tourism activities recovered gradually. Due to low base effect, retail shop's rental index and price index are likely to edge up this year. However, the increase will be at a slow pace as stronger HKD and local consumers' preference for online or overseas

	shopping could limit the upside for the retail sector.
▪ Gross gaming revenue (GGR) surprised on the upside by increasing 18.1% yoy to MOP21.2 billion in March.	▪ Given the higher credit availability, the continuous credit extension by junket operators has supported the risk appetite of high rollers. The housing frenzy and economic stabilization in Mainland China have also translated into a rebound in VIP demand across the gambling centers. As China's economy is expected to sustain its growth traction in 1H, we may see rosier data out of the VIP segment for the months to come. Elsewhere, the mass-market segment will likely continue to grow gradually given a moderate rebound in tourism activities. However, a waning base effect, an expected slowdown in China's growth in 2H, and a stronger MOP, are likely to shrug off some upward risks on the gaming sector. All in all, as GGR is likely to grow faster than previously expected in 1H, we revise our forecast for 2017's gaming revenue growth on a yearly basis from 5%-7% to around 10%.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened against the dollar with USDCNY testing 6.90 again. However, RMB strengthened against the currency basket tracking the rebound of dollar index.	▪ Still a familiar picture. RMB index gained when dollar index rose and ended the week at 93.22. Given dollar continued to rise this morning, RMB index is expected to rally again though the USDCNY is likely to break above 6.90. We expect the USDCNY fixing to open at around 6.9050 this morning.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Co.Reg.no.:193200032W