Highlights

Unlike the APEC meeting, the G20 meeting over the weekend reached the consensus on the statement albeit a weaker one, which omitted the reference to the risk of protectionism. The result of the meeting works in Trump's favour as the reform of the WTO will be the agenda for next year's G20 meeting. Nevertheless, the agreement to build a more stable and prosperous world clearly is positive for the risk sentiment in the global market.

The trade truce for 90 days between US and China on tariff war will also fuel the positive sentiment in the near term. The stall of trade talk in the past few months was partially attributable to unrealistic demand from the US side. The latest truce shows that the US could be more realistic in what they want from China. RMB rallied this morning on the back of positive development over the G20 meeting. However, as the trade truce will only last 90 days, the support to RMB is unlikely to be sustainable and market will start to look at details of potential trade talk. Meanwhile, the focus is also likely to shift back to the December FOMC meeting as well as the risk of US government shutdown in December.

Domestically, China will expand the list of systemically important financial institutions. The new list will include at least 30 banks, 10 security brokers and 10 insurance companies or aggregate asset sizes of those systemically important financial institutions cannot be lower than 75% of total assets. The expansion of list will help prevent those big financial institutions from leverage again to contain the possible systemic risk in future. In addition, NDRC also announced to increase medium to long term foreign debt quota for foreign banks to attract more long term funding to China.

In Hong Kong, total loans and advances dropped for the fourth consecutive month by 0.2% mom in October. Internally, despite that HIBOR retraced lower, the continuous slowdown of loans growth reflects weaker loan demand amid housing market correction and stock market rout. The escalation of US-China trade war from late September also continued to dent corporate sentiments and in turn hit local loan demand. Externally, as Chinese authorities stepped up efforts to support the financing needs of the private sector, Mainland companies might have shown lower interests in overseas financing. The rising interest rates and exchange rates of HKD and USD might have also deterred Mainland companies from offshore funding. All in all, we hold onto our view that the growth of total loans and advances will moderate from 3.9% YTD in October to 3% YTD in December. Despite the weaker loan demand, HKD loan-to-deposit ratio rebounded from 85% in September to 85.3% in October due to the sharp decline in HKD savings deposits. Against the backdrop of rising HKD loan-to-deposit ratio and growing HKD fixed deposits, we are wary of higher funding pressure on commercial banks. Should HIBOR rally swiftly in December and prompt commercial banks to lift HKD fixed deposits rates, it is still possible for some banks to raise prime rate and savings rate by another 12.5bps following the Fed's December meeting. Elsewhere, exports and imports growth accelerated to 14.6% yoy and 13.1% yoy in October respectively. This is mainly due to the front-running ahead of the US's tariff hike. As such, the growth looks unsustainable. More notably, if the trade war turns to technology war, Hong Kong's trade sector which mainly ships high-tech products would inevitably take a hit.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China will expand the list of systemically important financial institutions. The new list will include at least 30 banks, 10 security brokers and 10 insurance companies or aggregate asset sizes of those systemically important financial institutions cannot be lower than 75% of total assets. ▪ The designated firms will be subject to tighter capital requirements and more scrutiny on leverage.	▪ The new announcement will help curb the possible misbehaviour of China's financial institutions amid the new wave of policy easing. China has rolled out a number of measures to ease monetary policy and support private owned companies' funding. The expansion of list will help prevent those big financial institutions from leverage again to contain the possible systemic risk in future.
▪ The Trump Administration agrees to put the tariff hike on hold for 90 days to give both countries more time for negotiation. Should negotiation which includes technology transfer and intellectual property fail in 90 days, the US will raise the tariff on the US$200 billion Chinese goods to 25% from 10% from April 2019.	▪ Although there is no concrete deal from the G20 meeting as expected, the trade truce is a positive sign that both countries are working together to narrow the gap. ▪ The stall of trade talk in the past few months was partially attributable to unrealistic demand from the US side. The latest truce shows that the US could be more realistic in what they want from China.
▪ Short-dated HKD liquidity tighten as we are moving into month-end and year-end. USDHKD forward swap points narrowed across the curve while one-month HIBOR rose from 1.08% on 23rd November to	▪ Looking ahead, we expect HKD liquidity to tighten further given year-end effect and possibly renewed bets on prime rate hike. If this is the case, 1M HIBOR may top 2% again while 3M HIBOR may test September's high of 2.28%.

1.2% on 30th November. USDHKD spot dipped from 7.83 to 7.82 amid tight front-end liquidity combined with a weaker USD after the Fed chair Powell's dovish comments.	▪ On the currency front, the HKD's outlook will hinge on HKD liquidity condition as well as the movement of USD. Despite Powell's dovish comments, we still believe that the Fed will raise rates in December and hike rates for three more times in 2019 given the tight labor market and resilient economic growth. If this is the case, the broad dollar will hold up well in the near term. In a nutshell, even though liquidity would tighten in December and sideline carry trade, it may not be able to push USDHKD spot down below 7.80 given a strong USD.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's official PMI slipped further to 50, lowest since August 2016.	▪ Domestic demand softened further with new order fell to 50.4 from 50.8 while import also fell to 47.1 from 47.6. Meanwhile, external demand remains weak although new export order rebounded slightly to 47 from 46.9. ▪ Supply also weakened with production index fell to 51.9 from 52. ▪ New input prices declined significantly to 50.3 from 58, implying the weak PPI. ▪ Overall, the weak PMI points towards a weak economic activity in the coming months.
▪ HK's total loans and advances dropped for the fourth consecutive month by 0.2% mom in October.	▪ Internally, trade finance dipped for the second consecutive month by 2% yoy to HK$481 billion in October, the lowest since April 2017. Loans for use in HK (excluding trade finance), which accounted for 65% of total loans and advances, increased at the slowest pace since January 2010 by 0.3% yoy to HK$6.29 trillion. Despite that HIBOR retraced lower, the continuous slowdown of loans growth reflects weaker loan demand amid housing market correction and stock market rout. The escalation of US-China trade war from late September also continued to dent corporate sentiments and in turn hit local loan demand. ▪ Externally, loans for use outside of HK increased by 6.5% yoy (weakest since December 2016) to HK$2.9 trillion in October, the lowest since February 2018. As Chinese authorities stepped up efforts to support the financing needs of the private sector, Mainland companies might have shown lower interests in overseas financing. The rising interest rates and exchange rates of HKD and USD might have also deterred Mainland companies from offshore funding. ▪ All in all, we hold onto our view that the growth of total loans and advances will moderate from 3.9% YTD in October to 3% YTD in December.
▪ HKD CASA deposits dropped for the fourth straight month by 14.8% yoy in October. HKD fixed deposits saw double-digit growth for the fifth consecutive month and were up by 22.4% yoy in October.	▪ As a result, the share of HKD CASA deposits in total HKD deposits dropped further to 59.9%, the lowest since December 2011 while that of HKD fixed deposits increased to 40.1%, the highest since December 2011. More notably, due to the sharp decline in HKD savings deposits, total HKD deposits merely increased by 1.2% yoy, the softest since November 2008. As such, HKD loan-to-deposit ratio rebounded from 85% in September to 85.3% in October. ▪ Against the backdrop of rising HKD loan-to-deposit ratio and growing HKD fixed deposits, we are wary of higher funding pressure on commercial banks despite the weaker loan demand. Should HIBOR rally swiftly in December and prompt commercial

	banks to lift HKD fixed deposits rates, it is still possible for some banks to raise prime rate and savings rate by another 12.5bps following the Fed's December meeting.
▪ HK's RMB deposits increased by 2.8% mom or 14.3% yoy to RMB617.3 billion.	▪ Though the RMB depreciated against the HKD for the seventh consecutive month by 1.2% mom, the USDCNH did not broke 7.00 as the PBOC defended the currency. Besides, the issuance of dim sum bonds by China's Ministry of Finance might have given temporary boost to RMB deposits in HK. Furthermore, due to the fear of CNH liquidity squeeze against the backdrop of sharp depreciation in CNH, CNH HIBOR jumped notably in October. As such, CNH deposits rates remained elevated despite the PBOC's easing bias. In the near term, RMB deposits growth may remain resilient. However, should RMB depreciate further or USD rates outpace RMB rates, RMB deposits will likely drop to below RMB600 billion.
▪ The growth in HK retail sales value rebounded from the lowest since June 2017 of 2.4% yoy to 5.9% yoy. Nonetheless, it is still much weaker than the average monthly growth of 10.8% yoy during the first ten months of 2018.	▪ The sales of food, alcoholic drinks and tobacco and those of goods in supermarkets both declined for the first time since January 2018 and were down by 2% yoy and 0.9% yoy respectively. This reflects muted local consumer sentiments probably due to the lower wealth effect on property market and stock market corrections. With local economic outlook clouded by monetary tightening and trade war, weakening prospects of salary growth may also dent local consumption. ▪ On the other hand, sales of consumer durable goods increased notably by 14.3% yoy (the fastest since April 2018) while those of clothing, footwear and related products rebounded by 3.3% yoy. This is partially due to the golden week holiday and the opening of HK high-speed rail as Mainland visitors increased sharply by 15.4% yoy in October. Nevertheless, tourist spending appeared to have been muted as sales of jewellery, watches and clocks merely grew by 3.3% yoy. Though improved infrastructure could lend some support to the tourism activities, a stronger HKD, China's slowdown as well as Asia's sluggish economic outlook may continue to weigh down tourist spending. ▪ All in all, we expect total retail sales to increase by around 8% in 2018 and to see slightly negative growth in 2019.
▪ HK exports and imports growth accelerated from 4.5% yoy and 4.8% yoy in September to 14.6% yoy and 13.1% yoy in October respectively.	▪ Zooming in, the imports from Mainland China and the USA increased by 18% and 14.8% on a yearly basis respectively. Exports to Mainland China and the USA also grew by 17.8% yoy and 10.3% yoy respectively. The notable growth could be attributed to a relatively low base in October 2017 and the front-loading of trade activities before the US raised the tariff on Chinese imports from 10% to 25% in January 2019. ▪ Nevertheless, we doubt the sustainability of such a strong growth. Though the US agreed to put the tariff hike on hold after the Trump-Xi meeting, the current 10% tariff would still slow down trade growth albeit at a moderate pace. After the 90 days of trade truce, tariff hike is still possible. As such, we are wary of any renewed trade war escalation which may weigh on global economic outlook, in turn weakening global demand and putting a lid on Hong Kong's trade growth. ▪ More notably, the US may continue to target China's high-tech industries. In October, the imports of "electrical machinery, apparatus and appliances, and electrical parts thereof" and "telecommunications and sound recording and reproducing apparatus and equipment" accounted for 55% of total imports

	while the exports of these two commodities represented 60% of total overseas shipments. If the trade war turns to technology war, Hong Kong's trade sector which mainly ships high-tech products would inevitably take a hit.
▪ Macau's unemployment rate stabilized at the lowest level since 2015 of 1.8% over the three months through October. Nevertheless, the employed population retreated to 386000 from 387600 in 3Q while the labor force participation rate dropped from 71.3% to 70.8%.	▪ This indicates muted labor market prospects despite the persistently low jobless rate. Delving into details, the employed population of construction industry dropped by 2.5% mom, reflecting lower demand for construction workers after the completion of mega entertainment and infrastructure projects. Meanwhile, the employed population of retail sector decreased by 2% mom amid muted outlook of the sector. Tourist spending was hit by a strong MOP and Asia's muted economic outlook while local consumption was dented by local economic slowdown and stock market correction. Besides, the employed population of gaming industry declined by 0.6% mom as the industry felt the pain from China's slowdown. In the near term, we are wary of possible slackening of the labor market due to the expected slowdown in local economy and major sectors. We expect unemployment rate will increase to 1.9% in the coming months.
RMB	
Facts	**OCBC Opinions**
▪ RMB weakened ahead of the G20 meeting as dollar recovered the loss from Fed Chairman Powell's dovish speech with the USDCNY broke 6.95.	▪ RMB rallied this morning on the back of positive development over the G20 meeting. However, as the trade truce will only last 90 days, the support to RMB is unlikely to be sustainable and market will start to look at details of potential trade talk. Meanwhile, the focus is also likely to shift back to the December FOMC meeting as well as the risk of US government shutdown in December.

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