## Highlights

Markets saw another volatile week on trade war news. Risk sentiments worsened following the news that the US is planning to announce in early December fresh tariffs on all remaining Chinese imports if the Trump-Xi meeting fails to cut a deal. Nonetheless, risk appetite returned soon after US President Trump made phone call with his Chinese counterpart Xi and commented that trade talks are "going nicely". Furthermore, Trump reportedly asked his cabinet to draft possible trade deal with China. This reignites investors' hope for the upcoming meeting at the G20 summit. Adding on the latest round of stimulus measures and the Politburo's commitment to support the private companies, offshore investors appeared to have restored their confidence in China's market. Net inflows to China's equity market through the stock connects reached a record high of RMB17.9 billion on 2nd November. In the near term, market will closely eye on the Trump-Xi meeting during the G20 summit. Before both sides reach any meaningful agreements, China may continue to proactively unveil supportive measures to alleviate the downside risks to economic growth from external and internal uncertainties.

On the data front, China's official manufacturing PMI fell for the second consecutive month to 50.2 in October, the lowest since July 2016. Zooming in, new order index dropped notably from 52.0 in September to 50.8 in October. Also, new export order fell to a level last seen since January 2016 at 46.9, below threshold line for the fifth consecutive month. The worse than expected manufacturing PMI shows that the impact of US-China trade war on manufacturing sector gradually materialized. Whether the manufacturing sector can regain some tractions may hinge on the development of the US-China trade war and the effectiveness of latest stimulus measures in boosting domestic demand. This week, market will eye on China's first international import expo.

With regard to the currency, USD/CNY retraced back down to as low as 6.8691 after refreshing the YTD high and breaking 6.97. The RMB rally is mainly attributed to three factors. First, the broad dollar's strength subsided amid the improved risk appetite and the pound's rebound on positive Brexit news. Second, positive headlines about US-China trade relationship and a raft of supportive measures helped to ease concerns about China's economic outlook. Third, the PBOC set the USD/CNY fixing rate notably lower than expected last Thursday. Meanwhile, the PBOC will issue a total of 20 billion yuan bills in Hong Kong on 7th November. This signals that the PBOC will still take counter-cyclical measures to manage RMB's volatility if necessary. Moving forward, the RMB prospects will still hinge on the dollar's movement and the development of US-China trade war.

**In Hong Kong,** the economic growth is showing signs of slowdown. As for the financial sector, total loans and advances declined for the third consecutive month by 0.1% mom in September. The continuous declines were mainly due to three factors including prospects of higher interest rates, trade war concerns as well as lower borrowing costs in Mainland China. We expect the three factors will continue to tame loan demand. The growth of total loans and advances may slow down further from 7.2% yoy in September to around 3% yoy in December. In terms of the retail sector, retail sales growth decelerated notably to 2.4% yoy in September, the weakest since June 2017. This is attributed to high base effect, typhoon Mangkhut and more importantly the weaker local and tourist spending. Internally, local consumer sentiment has been weighed down by the lower wealth effect amid stock market and property market corrections. Externally, inbound tourism activities have been losing momentum amid a stronger HKD (or a weaker RMB) and Asia's sluggish outlook on China's slowdown and US-China trade war. All in all, we expect the prospects of higher interest rates and prolonged trade war combined will continue to take a toll on HK's retail sector as well as the retail property market. Elsewhere, 1M HIBOR fell for the ninth consecutive day to the lowest level since June at 1.1%. Despite flushed liquidity, HKD strengthened on the sharp rally of HK stock market, broad dollar's retreat and RMB's rebound. Moving ahead, HKD could also gain momentum once short-dated HIBORs rebound as market players start to position for the possible funding crunch near year-end. All in all, USDHKD may not touch 7.85 in the near term.

| Key Events and Market Talk | |
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| **Facts** | **OCBC Opinions** |
| ▪ It is reported that the US is planning to announce in early December fresh tariffs on all remaining Chinese imports if the Trump-Xi meeting fails to cut a deal.<br>▪ After that, however, Trump made phone call with Xi and commented that trade talks are "going nicely". Furthermore, Trump reportedly asked his cabinet to draft possible trade deal with China. | ▪ With Trump seemingly changing his stance towards China, investors' hope for the upcoming meeting at the G20 summit is reignited. As a result, the RMB rallied sharply while the net inflows to China's equity market through the stock connects reached a record high of RMB17.9 billion.<br>▪ In the near term, market will closely eye on the Trump-Xi meeting during the G20 summit. Before both sides reach any meaningful agreements, China may proactively unveil supportive measures to |

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| | alleviate the downside risks from external and internal uncertainties. |
| ▪ More stimulus measures were rolled out to shore up market confidence and moderate the economic slowdown. | ▪ The CBIRC states that the credit support will be leaned toward the private sector by raising the percentage of new loans to private companies as well as small and micro companies. Meanwhile, the CBIRC said the time needed for private companies' loan approval will be shortened. The deputy chief of CBIRC Wang Zhaoxing noted that the outstanding loans to private companies rose to 30.4 trillion yuan in the first three quarters of 2018.<br>▪ The CSRC will encourage value investors by inducing medium and long term investments to the equity market.<br>▪ President Xi pointed out six major policy directions. First, reduce the tax burden on the companies. Second, ease the funding difficulties of the private companies. Third, create an environment for fair competition. Fourth, improve the way of policy execution. Fifth, build up a new relationship between government and business. Sixth, protect the safety of the entrepreneurs.<br>▪ To contain downside risks from trade war escalation and weak domestic sentiments, Chinese regulators may continue to unveil supportive measures in the near term. |
| ▪ China's Politburo pointed out that the downside pressure on the economy is rising, risks accumulated over a long period of time are emerging and some companies are facing relatively more difficulties. As such, the government needs to pay high attention to this situation, be more pre-emptive and take action in a timely manner. | ▪ In the near term, the regulators may unveil further stimulus measures to support the private companies and SMEs with difficulties. With regard to capital market reform, the government will strengthen the construction of capital market system. Furthermore, the government will encourage continuous utilization of foreign direct investments in an active and effective manner.<br>▪ Taken all together, it reinforces that China's top priority at this moment is containing downside growth risks.<br>▪ More notably, President Xi stressed on the development of AI technology which is regarded as the key to the new round of technology and industrial revolution. This indicates that China will continue to develop high-tech industry despite US-China tensions. |
| ▪ The PBOC's 2018 financial stability report said global economy and financial markets will still be fraught with uncertainties into 2019. The report also warned that some gray rhino risks will still loom over China's economy. | ▪ Despite that, the report said China's financial risks are under control and will not translate into any systematic risks as the leverage growth has been slowed down.<br>▪ Moving into 2019, macroeconomic and financial policies will more pre-emptive and flexible while the financial reform will also be deepened. More importantly, China will not slow down the pace of opening up the market despite the uncertainties. |
| ▪ Onshore rates rebounded on PBOC's net withdrawal of liquidity, month-end and the MLF due to mature. | ▪ Lately, pledged overnight repo rate in the interbank market fell to a two-month low of 1.5% while pledged 7-day repo rate dropped to 2.53% after the launch of more supportive measures.<br>▪ However, on top of month-end effect, as the PBOC net withdrew CNY490 billion this week and MLF loans were due to mature, front-end liquidity tightened notably. Pledged overnight repo rate rallied by 100bps to 2.5%. Pledged 7-day repo rate rebounded by 18bps to 2.71%.<br>▪ In the near term, we expect the PBOC to announce more stimulus measures, in an effort to ease the funding difficulties of private companies. Meanwhile, the central bank may continue to manage |

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| | the front-end liquidity with open market operations, in order to ensure that the funding is not too flushed.<br>▪ Still, the overall RMB rates will likely tilt to the downside in the medium term. In this case, the narrower USD-CNY yield differential would be a major drag on RMB's prospects. |
| ▪ The PBOC announced to issue central bank bills in Hong Kong on 7th November, including 10 billion yuan of three-month fixed-rate bill and 10 billion yuan of one-year fixed-rate bill. | ▪ The bill sales will help to deepen the development of offshore RMB market. Meanwhile, it could also allow the PBOC to manage offshore RMB liquidity and reduce the volatility of the yuan, in order to prevent RMB's sharp devaluation from accelerating capital outflows and intensifying market turmoil.<br>▪ Apart from this, Sheng Songcheng, advisor to the People's Bank of China, also said stabilizing the currency is more important than FX reform at this moment as a relatively stable currency is more favourable to RMB internationalization. In addition, he suggests to use FX reserve to defend the yuan if necessary.<br>▪ China's economic inflation daily states that China's balance sheet of payments will be generally balanced in the near term despite the raft of unfavourable factors. It also reminds the market that the PBOC has enough tools to defend the currency and USD/CNY is highly likely to find resistance at 7.<br>▪ All in all, we expect the USD/CNY to stay below 7 for the rest of 2018 unless the broad dollar strengthen further. |
| ▪ CFETS indicates that they are planning to promote the interbank borrowing and lending of foreign currencies and build a more effective USD yield curve. | ▪ This may aim to lower the cost of borrowing foreign currencies especially the USD in the onshore market and lure more foreign institutions to tap onshore market. In the longer term, the build-up of the USD yield curve in the onshore market may support the RMB internationalization. |
| ▪ HK: 1M HIBOR fell for the ninth consecutive day to the lowest level since June at 1.1% and was down by 117bps from the YTD high seen in September. | ▪ Due to the lack of large IPOs and prime rate hike expectations, month-end effect appeared to have had limited impact on HKD liquidity in late October. As such, short-dated HIBOR continued to moved lower on the back of flushed front-end liquidity.<br>▪ In comparison, 3M HIBOR is rather sticky and hovering around the decade high at 2.1%. As a result, 3M-1M HIBOR spread widened to the largest since December 2008 at 99bps. As the spread deviates too much from the ten-year historical average of 21bps, the trend seems to be unsustainable. At this juncture, we still believe that 1M HIBOR will rebound once the market players start to position for the possible funding crunch near year-end.<br>▪ On the currency front, the HKD depreciated with the return of carry trade amid the widening USD-HKD yield differential. However, the carry trade activities have not yet pushed the USDHKD up to 7.85. Instead, USDHKD edged down from 7.8474 to 7.8124 on the sharp rally of HK stock market, broad dollar's retreat and RMB's rebound. Moving ahead, HKD could also find some support as short HKD traders may remain wary of the possible liquidity squeeze near year-end. All in all, USDHKD may not touch 7.85 in the near term. |

| Key Economic News | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's official manufacturing PMI fell for the second consecutive month to 50.2 in October, the lowest since July 2016. | ▪ On demand, new order index dropped notably from 52.0 in September to 50.8 in October. New export order fell to a level last seen since January 2016 at 46.9, below threshold line for the fifth consecutive month.<br>▪ The worse than expected manufacturing PMI shows that the impact of US-China trade war on manufacturing sector gradually materialized. Whether the manufacturing sector can regain some tractions may hinge on the development of the US-China trade war and the effectiveness of latest stimulus measures in boosting domestic demand.<br>▪ Elsewhere, raw material input prices retreated to 58.0 from 59.8. Adding on high base effect, China's PPI growth may decelerate further in the coming months and weaken the growth of industrial profits. |
| ▪ Hong Kong's total loans and advances declined for the third consecutive month by 0.1% mom in September. | ▪ The continuous declines were mainly due to three factors including prospects of higher interest rates, trade war concerns as well as lower borrowing costs in Mainland China.<br>▪ First, trade finance dropped by 0.6% yoy, the first decrease since February 2017 as total trade growth decelerated from 14.8% yoy in August to 4.7% yoy in September amid US-China trade war escalation.<br>▪ Second, loans for use in HK (excluding trade finance), which accounted for 65% of total loans, expanded at the slowest pace since October 2016 by 7.7% yoy. This was mainly attributed to tepid housing-related loan demand and other corporate loan demand given prospects of higher borrowing costs, stock market correction and trade war fears.<br>▪ Third, loans for use outside of HK rose by 7.6% yoy, the weakest pace since December 2016. With the PBOC continuing to ease the monetary policy, lower interest rates in the onshore market might have reduced Mainland companies' incentives to raise funds overseas.<br>▪ All in all, we expect the three factors will continue to tame loan demand. The growth of total loans and advances may slow down further from 7.2% yoy in September to around 3% yoy in December. |
| ▪ HKD deposits increased for the second straight month by 0.6% mom in September amid strong growth of fixed deposits. | ▪ Specifically, HKD demand deposits and HKD savings deposits dropped by 3.1% yoy and 4.4% yoy respectively. Meanwhile, HKD fixed deposits rose at the fastest pace since May 2014 by 19.7% yoy. This indicates that deposits have been shifted from current account and savings account to fixed deposit account as the latter offers higher rates.<br>▪ As a result, HKD CASA deposits to total HKD deposits ratio slid for the fifth consecutive month to 60.5%, the weakest since January 2012. In the meantime, HKD fixed deposits to total HKD deposits ratio jumped to a nearly seven-year high of 39.5%.<br>▪ This indicates that the whole banking system's funding costs remain high. Once HIBOR starts to rebound probably due to year-end effect, the funding pressure may increase further and in turn prompt banks to lift prime rate by another 12.5bps by end of this year. |

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| ▪ HK: RMB deposits dropped by 2.9% mom to 600.3 billion yuan in September after increasing for two consecutive months. | ▪ This reinforces our view that foreign investors have become less confidence in RMB assets. The weakening confidence may be attributed to the trade war escalation in September, China's economic slowdown, the weakening RMB and the expectations of lower RMB rates.<br>▪ Moving ahead, as the yield differential between RMB and USD as well as HKD is poised to narrow further, we expect RMB deposits in HK to drop below 600 billion yuan in the rest of 2018 and fall further in early 2019. |
| ▪ HK's retail sales growth decelerated notably from 9.4% yoy in August to 2.4% yoy in September, the weakest since June 2017. | ▪ Typhoon Mangkhut partially explains the subdued consumption but cannot tell the whole story.<br>▪ Internally, the growth in sales of food, goods in department stores and other consumer goods slowed down to 3.2% yoy, 2.0% yoy and 5.9% yoy respectively. Local consumer sentiment has been weighed down by the lower wealth effect amid stock market and property market corrections.<br>▪ Externally, the sales of clothing & footwear dropped by 2.8% yoy, the softest since February 2017. Also, the sales of jewellery, clocks and watches merely increased by 2.2% yoy, the weakest pace since June 2017. This suggests that inbound tourism activities have been losing momentum amid a stronger HKD (or a weaker RMB) and Asia's sluggish outlook on China's slowdown and US-China trade war.<br>▪ All in all, we expect the prospects of higher interest rates and prolonged trade war combined will continue to take a toll on HK's retail sector as well as the retail property market. Retail sales are expected to expand by 8% in 2018 and may see single-digit negative growth in 2019. |
| ▪ Macau's gross gaming revenue (MOP27.3 billion) growth slowed down from 2.8% yoy in September to 2.6% yoy in October. | ▪ Though this year's golden week holiday brought 7.2% more visitors to Macau than the same period last year, gaming growth still decelerated further. This indicates that China's economic slowdown started to weigh on the gambling hub.<br>▪ On 24th Oct, the HK-Zhuhai-Macau bridge started operations. This may provide some new impetus to Macau's tourism and gaming activities. However, it may not be able to offset the headwinds from China's weaker growth, a strong MOP and US-China trade war. As such, we expect both tourism sector and gaming growth will grow at a moderate pace in the coming months.<br>▪ Elsewhere, policy risks related to money-laundering as well as higher borrowing costs could also deter the high rollers.<br>▪ All in all, we expect gross gaming revenue to expand by 10%-15% in 2018 and by 2%-5% in 2019. |

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| **Facts** | **OCBC Opinions** |
| ▪ USD/CNY retraced back down to as low as 6.8691 after refreshing the YTD high and breaking 6.97.<br>▪ RMB depreciated slightly against the basket currency with RMB index down from 92.4 on 29th Oct to 92.31 on 2nd Nov. | ▪ The RMB rally is mainly attributed to three factors. First, the broad dollar's strength subsided amid the pound's rebound on positive Brexit news and the improved risk appetite. Second, positive headlines about US-China trade relationship and a raft of supportive measures helped to ease concerns about China's economic outlook. Third, the PBOC set the USD/CNY fixing rate notably lower than expected on last Thursday. Meanwhile, the PBOC will issue 20 billion yuan bills in Hong Kong. This signals that |

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| | the PBOC will still take counter-cyclical measures to manage RMB's volatility if necessary.<br>▪ Moving forward, the RMB prospects will still hinge on the dollar's movement and the development of US-China trade war. |

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