Highlights

The frank discussions and exchange of opinions failed to yield the results market hoped. Finally, market realized the latest bilateral trade talk between US and China in Beijing was not the end of negotiations but the start of negotiations. The official channels from both sides are pretty quiet about details of the meeting. However, the leaked proposing lists of demands from both sides, which some have been picked up by western media, showed that the discrepancy remained wide. The US is asking the impossible to force China to slash its trade surplus with the US by US$200 billion by end of 2020. It seems Chinese investors are more jittery about the trade tension with China's equity market fell on Friday while lack of development on trade talk has limited impact on US equity market. Given the consensus for "immediate attention" to change the US-China trade and investment relationship has been formed within the Trump administration and the USTR decision on whether to impose additional tariffs on US50 billion Chinese goods is within one month, we think the risk remains high.

On economic data, although China's official PMI showed the divergent trend again with the Caixin PMI, the breakdown of both sets of data pointed towards one direction that manufacturing activities in China's SME sector improved, a positive sign that China's SME supportive measures such as tax cut may have taken effect. In addition, the recent data from 2018 Spring Canton Fair showed that trade activities remained strong less affected by the US-China trade war.

In addition, China continued to loosen its capital control and restarted RMB qualified domestic institutional investor scheme, which was suspended in late 2015. On currency, we disagreed with some media reports that RMB started its fresh round of depreciation. The recent RMB weakness was mainly the result of dollar strength. The appreciation of RMB index to almost 2-year high justified China's recent move to weaken RMB daily fixing by more than model forecasted level. We think the capital outflow risk is still low in the near term.

In **Hong Kong,** total loans and advances remained supported by upbeat corporate sentiment on resilient economic growth and housing market growth. However, prospects for higher interest rates may weigh on local loan demand while expectations on the PBOC's easing bias could reduce Mainland companies' demand for offshore loans. This combined with a high base effect indicates that total loan growth will slow down. Despite that, HKD loan-to-deposit ratio may tick up further from March's 83.2% (highest since December 2014) amid muted deposits. In addition, we see mounting upside risks for the HIBOR. Against the backdrop of a reduced aggregate balance, liquidity condition becomes more volatile. As such, a wide range of factors including month-end effect in May, quarter-end effect in June, possible Fed's rate hike in June, dividend payment flows during June to August and potential large IPOs around mid-2018 led by Xiaomi's debut could all drive HIBOR higher. With HIBOR remaining elevated and HKD deposits staying sluggish, banks are expected to gradually raise HKD deposit rates to ease funding pressure. Given higher cost of funds, the next step for the banks is highly likely to be a prime rate hike. We expect banks to raise prime rate by 25 bps in June and by another 25 bps in 4Q 2018. In **Macau**, gaming revenue surprised to the upside by advancing 27.6% yoy in April. This is attributed to both recreational gamblers and high-rollers, which makes this round of gaming growth different from the past. Moving forward, a new wave of mega project opening, the completion of Hong Kong-Zhuhai-Macau Bridge, and a weaker MOP may provide more impetus for inbound tourism and in turn gradually increase mass-market's contribution to the gaming sector.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ There are no official details from the highly watched bilateral meeting between US trade delegation and China in Beijing. ▪ China's Xinhua news reported that both sides exchange the opinion on multiple topics such as boosting US exports to China, bilateral service trade, bilateral investment, protection of intellectual property, tariff and non-tariff measures. ▪ The White House said in its official press statement that the delegation will seek President's decision on next step.	▪ Exchange of opinion in China's diplomatic term usually means the discrepancy remains wide. One thing we probably can conclude from the talk is that there is no concrete agreements have been reached. ▪ The proposing lists of demands from both sides have been leaked and circulated in the social media with some of details have been picked up by some western media such as Wall Street Journal and Bloomberg, though there is no official confirmation on that. Should the documents are true, it seems the US is asking the impossible to force China to slash its trade surplus with the US by US$200 billion by end of 2020. Nevertheless, it may be the US statics to start high to press China to compromise. ▪ The latest meeting is not the end of the negotiation but the start of the negotiation. It may still take months for both sides to narrow the divide to reach the agreement. Given the consensus for "immediate attention" to change the US-China trade and

	investment relationship has been formed within the Trump administration and the USTR decision on whether to impose additional tariffs on US50 billion Chinese goods is within one month, we think the risk remains high. ▪ Market will watch closely about the development of trade talk this week.
▪ China continued to loosen its capital control and restarted RMB qualified domestic institutional investor scheme, which was suspended in late 2015.	▪ The reopen of RQDII channel will give onshore investors more choices to diversify into the offshore assets. However, the PBoC also mentioned clearly that the RMB outflows under RQDII will not be allowed to convert to foreign currency in the offshore market. The RQDII will also facilitate China's renewed RMB internationalization push.

Key Economic News

Facts	OCBC Opinions
▪ Total number of buyers for 2018 Spring Canton Fair exceeded more than 200 thousand, highest since 2013. Total transacted value rose by 3.1% to CNY189.2 billion.	▪ The looming US-China trade tension failed to shadow the world's largest export exhibition. The positive growth confirms that the global synchronized recovery remains on track. Together with the recovery of global PMIs in April, the recent data may continue to provide support to China's export growth.
▪ China's April official PMI fell slightly to 51.4 from 51.5. Both new order and new export order softened slightly. ▪ Nevertheless, Caixin PMI improved slightly to 51.1 in April from 51 in March, showing divergent trend with the deceleration of the official PMI.	▪ The breakdown of official PMI shows that PMI for small and medium enterprises improved despite the decline of the headline reading. The Caixin PMI together with the breakdown of official PMI shows that manufacturing activities in China's SMEs improved. This is probably thanks to recent tax cut to support SMEs.
▪ HK's total loans and advances increased 15% yoy in March 2018, marking the fourteenth consecutive month of double-digit annual growth. According to the HKMA, loans to the non-bank financial institutions and loans to building, construction, property development and investment have been the major drivers of total loan growth.	▪ Internally, loans for use in HK (excluding trade finance), which accounted for 64.5% of total loans, increased 15.3% yoy due to resilient performance of the stock market and the housing market. Moving forward, on top of high base effect, concerns about higher borrowing costs together with volatile stock market may slow local loan growth. ▪ Externally, loans for use outside of Hong Kong rose 14.8% yoy. The growth has been moderating gradually from the recent peak of 20.8% yoy (November 2017). HKD loans should have been attractive to offshore borrowers as a weak HKD effectively reduces the repayments and interest expenses. Nevertheless, curbs on irrational overseas expansion as well as expectations on the PBOC's easing bias will likely suppress some Mainland companies' demand for offshore loans. Adding on a high base effect, we expect loans for use outside of Hong Kong to grow at a slower rate this year.
▪ HK's total deposits grew at the slowest pace since August 2016 by 6.8% yoy while HKD savings deposits contracted 1.6% on a monthly basis in March. As such, despite slowdown in loan growth, HKD loan-to-deposit ratio rose to the highest level since December 2014 at 83.2%. ▪ With HIBOR remaining elevated, Hong Kong banks successively lifted HKD time-deposit rates to ease funding pressure. Some banks even offer up to 3% time-deposit rates. Even the banks with large deposit base also joined the battle of time-deposit rate hikes.	▪ Moving forward, we expect HIBOR to face mounting upwards risks. Firstly, HKD is likely to test the weak end once again as front-end liquidity condition improved after month-end and Ping An Good Doctor's IPO. This will prompt renewed FX intervention of the HKMA, in turn reducing the aggregate balance and driving up the HIBOR. Secondly, month-end effect in May and quarter-end effect in June will likely lead to liquidity squeeze. Thirdly, we will see dividend payment flows during June and August. Finally, following the implementation of new IPO rules, large high-tech companies could get listed successively starting from mid-2018. For example, Xiaomi just submitted IPO application in HK last week and is said to raise US$10 billion. As the world's biggest IPO since 2014, Xiaomi's debut will likely lead to funding crunch.

	▪ Mounting upside risks on HIBOR will have two major implications. First, a narrower interest rate gate will help to prevent USD/HKD spot rate from staying at 7.85 for a prolonged period. In other words, aggregate balance may reduce only moderately and may stabilized around HK$100 billion during mid-2018. Second, it will translate into more upward pressure to HKD time deposit rates. Since banks have successively withdrawn fixed-rate mortgage plans and lifted HKD deposit rates, the next step is highly likely to be prime rate hike. We expect banks to lift prime rate by 25 bps in June and by another 25 bps in 4Q 2018.
▪ HK: CNH deposits increased at the strongest pace since January 2015 by 9.3% yoy to RMB 554 billion in March.	▪ The growth could be attributed to two major factors. First, banks increased CNH deposit rates as tight liquidity condition in the onshore market has spilled-over effect on offshore market. Second, CNH appreciated by 1.4% mom against the HKD in March. Given the prospects for a stable RMB and a higher deposit rate for CNH than for HKD, we expect CNH deposits to grow gradually in the coming months.
▪ HK's retail sales registered double-digit annual growth for the second consecutive month and rose by 11.4% yoy in March due to strong external and internal demands.	▪ By retail outlets, the growth was broad-based. Sales of luxurious goods increased significantly by 23.1% yoy after marking double-digit annual growth over the past two months. For example, sales of clothing, footwear and allied products also advanced strongly by 11.6% yoy after gaining 42.2% yoy in the previous month. This is attributed to buoyant tourism and sanguine local consumer sentiment. On the one hand, total visitor arrivals increased by 8.9% yoy in March on the back of Asia's burgeoning growth. Also, a weaker HKD has buoyed inbound tourism and tourist spending. The HKD depreciated 0.9% yoy against the USD while the broad dollar fell 7.28% yoy in April. On the other hand, strong domestic economic growth combined with tight labor market may translate into faster wage growth. Therefore, positive earnings prospects have underpinned consumer sentiment. We hold onto our view that retail sales will grow by 5% to 8% this year.
▪ HK: The secondary housing price index refreshed its record high for the seventeenth consecutive month in March 2018. During the same month, approved mortgage loans continued to rise 6.9% yoy. In April, housing transaction volume also rebounded by 55.9% mom to a one-year high of 6646 deals.	▪ As domestic economy remained resilient and interest rates hovered at historical low, housing market sentiment stayed upbeat. Nevertheless, we noted that housing price growth decelerated for the first time since October 2017 while housing transaction volume also marked two consecutive months of negative annual growth. Given high base effect, we do expect housing market growth to slow down gradually this year. ▪ Apart from that, we also see some other factors which may weigh down the overheated housing market. Firstly, after HKD touched the weak end of the currency peg in April, HKMA's FX intervention reduced aggregate balance by about 30%. This will add to quarter-end effect, dividend payment flows, Fed's possible June rate hike and large IPOs in pushing up HIBOR. With mounting upside risks for HIBOR, commercial banks have successively withdrawn fixed-rate mortgage plans and raised HKD deposit rates. We expect banks to kick off the prime rate hike cycle in June. Prospects for higher interest rates may in turn suppress some housing demand and mortgage loan demand. Secondly, stock market has been more volatile. This may make prospective home buyers more cautious. Thirdly, the government estimates that some 96000 units of private homes

	will be available in the next three to four years. Also, the government plans to add more new supply of public housing than its original estimate. Increasing supply could also help to calm the housing frenzy.
▪ Macau's gaming revenue surprised to the upside by advancing 27.6% yoy to MOP25.7 billion in April after gaining 22.2% yoy in the previous month.	▪ This is attributed to both recreational gamblers and high-rollers, which makes this round of gaming growth different from the past. Previously, gaming business relied largely on the VIP segment with VIP revenue accounting for roughly 70% of total revenue during 2005 to 2013. As a result, gaming sector was hit hard by China's anti-corruption campaign since 2014. This prompted the government and the casino operators to shift the focus to non-gaming sectors. With a raft of new mega entertainment projects opening successively since 2016, Macau's tourism rebounded notably on the back of Asia's resilient growth. This in turn lends strong supports to the mass-market segment. Consequently, mass-market's contribution to the gaming business expanded with its shares in total revenue increasing by 10 percentage points to about 40% over the past few years. ▪ Moving forward, we will see a new wave of mega project opening and the completion of Hong Kong-Zhuhai-Macau Bridge. This together with a weaker MOP may provide more impetus for inbound tourism and in turn bring more casual gambles to the city. Therefore, mass-market's contribution to total gaming revenue will likely increase gradually. In contrast, the support from VIP segment could wane should policy risks intensify or higher borrowing costs impede junket operators from extending credit to high-rollers. If this is the case, gaming growth driven by mass-market could be slower than that bolster by VIP gamblers or by both segments. Given high base effect, we hold onto our view that gaming revenue growth will slow down in 2018.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened against the dollar further with both USDCNY and USDCNH ended the week above 6.35. However, RMB index reached the two-year high of 97.52 on Friday, a sign that RMB appreciated against its major trading partners.	▪ We disagreed with some media reports that RMB started its fresh round of depreciation. The recent RMB weakness was mainly the result of dollar strength. The appreciation of RMB index to almost 2-year high justified China's recent move to weaken RMB daily fixing by more than model forecasted level. We think the capital outflow risk is still low in the near term. Market will closely monitor the development US-China trade talk and market may still bias towards a stronger RMB should US remain its harsh tone.

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