Highlights

The detention of China's tech giant Huawei's CFO in Canada on request by the US clouded the US-China trade talk. China has stepped up its protest via the diplomatic channels. China's Vice Foreign Minister Le Yucheng has summoned both the Canadian ambassador to China and US ambassador to China in two consecutive days warning serious consequence.

It was reported that the arrest warrant has been issued in August. Therefore, it was probably the coincidence that the arrest was made at the same day when Xi and Trump met in G20 meeting. However, it does not matter now as people in China increasingly believe the trade war will be escalated to tech war. The nationalism sentiment is high. Even though President Trump said the incident will not derail the talk, market should not underestimate the nationalism hype which may create the hurdle for China to make concessions. In the end, the progress of trade talk depends on how much concessions China want to make.

The key focus will be the hearing today after Meng was denied bail on Friday. Should the court reject the bail request on Monday, it is expected to harm China-Canada and US-China relation, which may further dampen the outlook of US-China trade talk.

The impact of trade war on Chinese economy started to emerge with the import of electronic integrated circuit fell by 8.3% yoy in November after expanding by 19.6% in October. The sharp decline of imports of EIC also outweighed the record imports of crude oil, which hit the high of US$24.17 billion. On the positive note, the weak import also led to widening trade surplus.

China's FX reserve rebounded to US$3.061 trillion in November from US$3.053 trillion. Meanwhile, China's currency regulator SAFE announced the latest penalties on lists of illegal purchase of foreign currency involving both corporates and individuals. The tightened surveillance on sale and purchase of foreign currency is likely to curb irrational demand for foreign currency. On currency, RMB's movement in the first two days of last week was exaggerated by the panic corporate flows to unwind long dollar position. Nevertheless, the currency market has become more rational after the initial exciting of the trade truce. Market will continue to monitor the hearing of Huawei CFO as well as the dollar movement driven by the Fed rate hike expectation.

In Hong Kong, HKD liquidity continued to tighten last week, mainly due to year-end effect. As market players continue to hoard cash in anticipation of liquidity crunch, we hold onto our view that 1M and 3M HIBORs to try higher towards 2.3% and 2.4% respectively in the near term. With interbank rates remaining elevated, major commercial banks may lift HKD fixed deposits rates again to scramble for money. If this is the case, higher funding pressure may prompt some banks to raise prime rate by 12.5bps in December. The prospects of higher interest rates may continue to weigh on housing demand. Apart from this, there are several headwinds facing the housing market. First, lower wealth effect from the stock market could deter potential homebuyers. Though Hang Seng Index rebounded on US-China trade war truce and Fed Chair's dovish statement, we expect Hong Kong's stock market to see limited upside as US's strong fundamentals could still warrant gradual rate hikes by the Fed and US-China trade war risks have not abated yet. Second, demand from Mainland investors softened probably due to trade war concerns, tight capital control and China's economic slowdown. The transaction volume of private homes valued over HK$10 million dropped for the third consecutive month by 59% yoy to the lowest since March 2016 at 477 deals in November. Third, the expectations of increasing public housing supply might have shifted the housing demand from private to public sector. As such, we expect the smaller private housing (prices down by 3.6% in October from the historical high) to see a deeper correction in the foreseeable future. In a nutshell, housing transaction is expected to remain sluggish and overall housing price index is believed to drop around 15% by end-2019 from the record high.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The detention of China's tech giant Huawei's CFO in Canada on request by the US clouded the US-China trade talk. ▪ China has stepped up its protest via the diplomatic channels. China's Vice Foreign Minister Le Yucheng has summoned both the Canadian ambassador to China and US ambassador to China in two consecutive days warning serious consequence.	▪ Although the latest news shows that the warrant for Mrs. Meng has been issued back in August, way before the escalation of the US-China trade war, the date of detention still prompted most people in China believe that the US-China trade war will be escalated to tech war going into 2019. This is not helpful for the trade talk. The rise of nationalism voice following this incident could create the hurdle for Chinese government to make concessions to the trade deal. ▪ The key focus will be the hearing on Monday after the decision to grant bail to Mrs. Meng failed to be reached on Friday. Should court reject the bail request on Monday, it is expected to harm US-Canada and US-China relation, which may further dampen

	the outlook of US-China trade talk.
▪ HKD liquidity continued to tighten last week, mainly due to year-end effect. 1M HIBOR surged by over 100bps within two weeks to 2.12% on 7th December. As a result, 3M-1M HIBOR spread narrowed notably to 11.33bps on 7th December from 105.5bps a month ago.	▪ As market players continue to hoard cash in anticipation of liquidity crunch on year-end effect, a raft of small IPOs and renewed bets on prime rate hike, we hold onto our view that 1M and 3M HIBORs to try higher towards 2.3% and 2.4% respectively in the near term. With interbank rates remaining elevated, major commercial banks may lift HKD fixed deposits rates again to scramble for money. If this is the case, higher funding pressure may prompt some banks to raise prime rate by 12.5bps in December. ▪ Despite tighter liquidity, we expect USDHKD spot to find strong support at 7.80 in the near term due to several reasons. First, despite the very flushed liquidity, USDHKD spot has stayed below 7.85 over the past few months. This indicates cautiousness about shorting the HKD in anticipation of funding squeeze near year-end. As such, any move to unwind the small scale of short HKD positions amid tighter liquidity is expected to give limited boost to the HKD. Second, HK stock market seems unable to lure much capital inflows given muted economic outlook and lingering trade war risks. Third, RMB's upside is capped by US-China policy divergence and the persistent trade war risks. As such, the support from RMB to Emerging Market currencies including HKD is expected to be limited.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's FX reserve rebounded to US$3.061 trillion in November from US$3.053 trillion. ▪ China's currency regulator SAFE announced the latest penalties on lists of illegal purchase of foreign currency involving both corporates and individuals.	▪ As the dollar index was stuck in the 96-97.5 range in November, the rebound of FX reserve was mainly the result of improving flows rather than valuation effect. The tightened surveillance on sale and purchase of foreign currency is likely to curb irrational demand for foreign currency. The panic sale of foreign currency in early December following the G20 meeting may help China rebuild FX reserve further in December.
▪ China's trade growth decelerated significantly in November. Export growth slowed down to 5.4% yoy while import growth slowed down to 3% yoy. ▪ Trade balance, however, widened to US$44.75 billion from US$34.9 billion, highest in 2018.	▪ It is difficult to argue that the sharp deceleration of export growth was mainly due to the end of front-loading activities ahead of the escalation of US-China trade war as China's export to EU and Japan slowed more than China's export to US. ▪ Nevertheless, the deceleration of import of electronic integrated circuit, which fell by 8.3% in November after increasing by 19.6% in October, shows that Chinese economy may have started to feel the impact from the trade war. ▪ The sharp decline of imports of EIC also outweighed the record imports of crude oil, which hit the record high of US$24.17 billion, contributing to the deceleration of import growth.
▪ China's CPI decelerated to 2.2% yoy in November from 2.5% yoy in October while PPI also decelerated to 2.7% from 3.3%, lowest since October 2016.	▪ The deceleration of CPI was mainly due to softer food and energy prices, which fell by 1.2% mom. However, core CPI excluding food and energy remained unchanged at 1.8% yoy. As food prices started to rebound slightly in early December ahead of holiday season, we expect China's CPI to stabilize around 2.2% in December. ▪ The deceleration of PPI is expected to continue in the coming months due to faded base effect. The PPI is expected to fall below CPI for the first time since October 2016. ▪ Overall, we think inflation is unlikely to be the constraint to China's monetary easing in the near term.

▪ HK's housing market continued to cool down with housing transaction volume dipping by 53.7% yoy to 2635 deals (the lowest since March 2016) in November. According to the data of Midland Realty (HK's real estate agency), primary home sales dropped to the lowest since 1Q16 in November. Approved new mortgage loans also slid for the second consecutive month by 4.7% mom in October to the lowest since December 2017. Overall housing price index dropped for the third consecutive month by 0.5% mom and was down by 2.1% from the historical high in October.	▪ Following the G20 summit, positive headlines about US-China trade war truce might have given a short-lived boost to the housing market. However, we continue to see several downside risks looming over the housing market. First, the prospects of higher interest rates may continue to weigh on housing demand. After the banking system kicked start the prime rate hike cycle in September, HIBOR surged again lately on year-end effect. This may prompt some banks to raise prime rate by another 12.5bps in December. Second, lower wealth effect from the stock market could deter potential homebuyers. Though Hang Seng Index rebounded on US-China trade war truce and Fed Chair's dovish statement, we expect Hong Kong's stock market to see limited upside as US's strong fundamentals could still warrant gradual rate hikes by the Fed and US-China trade war risks have not abated yet. ▪ Third, demand from Mainland investors softened probably due to trade war concerns, tight capital control and China's economic slowdown. The transaction volume of private homes valued over HK$10 million dropped for the third consecutive month by 59% yoy to the lowest since March 2016 at 477 deals in November. Fourth, the expectations of increasing public housing supply, following HK 2019 Policy Address, might have shifted the housing demand from private to public sector. As such, we expect the smaller private housing (prices down by 3.6% in October from the historical high) to see a deeper correction in the foreseeable future. ▪ In a nutshell, housing transaction is expected to remain sluggish and overall housing price index is believed to drop around 15% by end-2019 from the record high.
▪ The growth in Macau's gross gaming revenue (MOP25 billion) rebounded from 2.6% yoy in October to 8.5% yoy in November.	▪ The rebound could be attributed to the infrastructure improvements which link Macau to Zhuhai and Hong Kong. As China rolled out a slew of stimulus measures while the US and China announced temporary trade war truce after G20 summit, concerns about economic slowdown, share-pledge risks and housing market correction in Mainland China might have been eased slightly. As such, high-rollers may return to the gaming centers and warrant a resilient gaming growth in December. Gross gaming revenue may grow by about 13% in 2018 as a whole. ▪ In the medium term, however, we expect gross gaming growth to slow down. Should the negotiation between the US and China fail in 90 days, renewed trade war escalation will cloud the economic outlook across Asia. Adding on a strong MOP against Asian currencies, we expect infrastructure improvements to lend limited support to either tourism or gaming activities by bring only low-end tourists to the gambling hub. On the other hand, high-end gaming demand may still be dented by China's slowdown, the prospects of higher interest rates as well as policy risks related to anti-money laundering. All in all, we expect gross gaming growth will weaken to 2%-5% in 2019.

RMB	
Facts	**OCBC Opinions**
▪ RMB appreciated against both dollar and currency basket on the back of US-China trade truce.	▪ RMB's movement in the first two days of last week was exaggerated by the panic corporate flows to unwind long dollar

However, RMB gave up some gains in the second half the week after the Huawei incident dampened the trade talk sentiment again.	position. Nevertheless, the currency market has become more rational after the initial exciting of the trade truce. Market will continue to monitor the hearing of Huawei CFO as well as the dollar movement driven by the Fed rate hike expectation.

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