Highlights

The consolidation of China's asset prices last week in a holiday short week is likely to be broken this week after President Trump rocked the global financial market on Sunday night via his twitter saying that the tariff will be hiked from 10% to 25% on US$200 billion products this Friday. Although he did not give the details on under which condition he will hike the tariff, RMB weakened by more than 1% this morning as a knee jerk reaction.

It remains to be seen whether it is just a negotiating tactic ahead of a new round trade talk this week. However, the risk of misfire is getting higher should China react strongly. The latest news from the Wall Street Journal showed that China may cancel the trade talk this week. This is negative for risk sentiment globally.

On economic data, China's PMI softened in April but remained above 50. Both new export index and PMI for small companies improved significantly. The increase of new export index shows rising expectation on a trade deal but may change this month following Trump's twitter. The rise of PMI for small companies shows that China's previous stimulus measures to support small companies may have taken effect. However, the decline of 1.1% yoy on contract value from 2019 Spring Canton Fair signals the challenge from external demand remains.

Elsewhere, China's State Council unveiled the new government investment rule to standardize the government investment. Meanwhile, the new rule will also be designed to optimise the area where public investment will go and structure of government investment. The new rule will help China strike the balance between stabilizing growth via government investment and containing the financial risk.

In **Hong Kong**, eyes were on the slew of economic indicators. The growth in total loans stabilized at 3.1% yoy in Mar. Trade finance and other local loan demand remained benign amid concerns about trade war risks and global economic slowdown. This was partially offset by the rebound in Mainland companies' loan demand. A combination of rising onshore rates, limited upside for USD rates and HKD rates and a stable RMB has made offshore financing attractive again. Taken all together, it suggests that total loans growth may only see low single-digit growth this year. As such, the upside for HKD loan-to-deposit ratio (refreshed its highest level since 2003 in Mar) could be limited. Besides, given the still over HK$50 billion aggregate balance, the over HK$1 trillion outstanding EFBNs, the Fed's pause and the benign equity inflows under stock connects, HKD liquidity is unlikely to get very tight especially after the seasonality abates. As such, neither HIBOR nor HKD fixed deposits rates would edge much higher. Elsewhere, 1Q GDP growth missed expectations and reached the lowest since 3Q 2009 at 0.5% yoy. The slowdown was mainly due to high base effect, faltering global growth and lingering trade war risks which dragged on exports of goods, private consumption and investment. Moving into the coming quarters, we expect economic growth to rebound moderately with the abating high base effect, wealth effect from stock and property market rally, China's green shoots as well as trade war optimism. However, the upside for overall growth may still be capped by global headwinds. **In Macau,** gaming revenue dropped by 8.3% yoy in Apr to the weakest since last Sep. Moving into May, we will see if gaming revenue could revive growth on Labor Day Holiday, China's economic stabilization and the stable RMB.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The US China trade war escalated significantly after Trump threatened overnight that the current 10% tariff will go to 25% on Friday in his twitter. Meanwhile, he also said the remaining US$325 billion will also be taxed shortly.	▪ The Trump's tariff twitter overnight did not specify under which conditions the tariff will go up. RMB weakened by more than 1% as a knee jerk reaction. Market is likely to continue to look for more clues this week to gauge the possibility of tariff hike this Friday. ▪ It seems that Trump's twitter was a reaction to the slow trade negotiation. It remains to be seen whether it is just a negotiating tactic ahead of a new round trade talk this week. However, the risk of misfire is getting higher should China react strongly. The latest news from the Wall Street Journal showed that China may cancel the trade talk this week. This is negative for risk sentiment globally.
▪ China's State Council unveiled the new government investment rule to standardize the government investment. Meanwhile, the new rule will also be designed to optimise the area where public investment will go and structure of government	▪ The new rule will help China strike the balance between stabilizing growth via government investment and containing the financial risk. Clearly it reflects China's bottom line thinking approaching to keep systemic risk in check. It may also help China to optimise the resource allocation to support

investment. ▪ The new rule will start from 1 July.	sectors private investment reluctant to participate.
▪ The latest data from 2019 Spring Canton fair shows that the number of visiting purchasers fell by 3.88% yoy while contract value fell by 1.1% yoy. ▪ The contract value with the Belt and Road countries, however, increased by 9.9% yoy.	▪ Despite the improving sentiment on the US-China trade talk, the weak number from the Canton fair shows that the external demand remains challenging for China probably due to the concerns about global growth.

Key Economic News

Facts	OCBC Opinions
▪ Both China's official PMI and Caixin PMI softened in April. Official PMI slipped to 50.1 from 50.5.	▪ The decline of PMI was mainly due to the fall of production. This also reinforces our view that the industrial production in March was not sustainable. ▪ On positive note, there are two significant improvements in April. First, new export order continued to improve to 49.2 from 47.1. This signals that China's exporters have turned more positive on the upcoming trade agreement between US and China. ▪ Second, PMI for small companies also improve further to 49.8 from 49.3 previously. This shows that China's previous stimulus measures to support small companies may have taken effect. ▪ Despite the decline of PMI, the above 50 reading shows that China's manufacturing sector remain in the expansionary territory.
▪ Hong Kong's 1Q GDP growth missed expectations and slowed down further to 0.5% yoy, the lowest since 3Q 2009. The economic growth for 4Q 2018 was revised down from 1.3% yoy to 1.2% yoy.	▪ The slowdown was mainly due to high base effect, faltering global growth and lingering trade war risks. First, exports of goods shrank for the second consecutive quarter by 4.2% yoy due to weak external demand. Second, private consumption growth decelerated notably from 2.7% yoy in 4Q 2018 to 0.1% yoy in 1Q 2019 while investment decreased for the second straight quarter by 7% yoy. As global growth continued to show signs of slowdown and US-China talks have not reached any deal yet, consumer and investor sentiments remained cautious. On a positive note, thanks to the opening of high-speed rail and HK-Zhuhai-Macau bridge, the stable RMB and China's economic stabilization, inbound tourism has been resilient with exports of services rising by 1.4% yoy. ▪ Moving into the coming quarters, with high base effect to abate gradually, we expect economic growth to rebound on a moderate basis. Domestically, domestic consumer sentiment may improve on the back of the tight labor market and the wealth effect from stock market and property market rally. Also, private investment may regain some traction owing to China's green shoots, trade war optimism and the revival of property market. Furthermore, fiscal stimulus will likely keep government expenditure (+4.5% yoy in 1Q) elevated. Externally, inbound tourism may continue to gather momentum. However, the upside for overall growth may still be capped by global headwinds which may keep external demand subdued and remain consumer/investor sentiments relatively cautious. In conclusion, we believe that GDP will continue to grow at a rate below 10-year average (2.7%) in 2019.
▪ The growth in HK's total loans and advances	▪ Domestically, trade finance dropped for the seventh straight

(HK$9.9 trillion) stabilized at 3.1% yoy in Mar.	month by 6.7% yoy to HK$487 billion due to weak trading activities on soft external demand. Besides, loans for use in HK (excluding trade finance) grew at a slower pace by 3.4% yoy to HK$6.4 trillion. Due to the mortgage margin compression, banks have been reluctant to offer home loans with new approved mortgage loans shrinking for the fifth straight month by 5.7% yoy. Meanwhile, corporate's loan demand might have remained sluggish due to concerns about global economic slowdown. ▪ Externally, loans for use outside of HK continued to rebound to HK$3 trillion with growth accelerating from 4% yoy in Feb to 4.2% yoy in Mar. As the PBOC shifted from universal easing to structural easing and China's economy showed some green shoots, onshore borrowing costs retraced higher. Adding that upside for USD rates and HKD rates has been capped by the Fed's pause while RMB's outlook has improved, offshore financing turned attractive again. ▪ Moving ahead, we expect local loan demand to remain benign and foreign financing needs to rebound moderately. As such, total loans growth may only see low single-digit growth this year.
▪ HKD loan-to-deposit ratio refreshed its highest level since 2003 at 87.8% at the end of Mar as HKD loans grew by 1.7% mom while HKD deposits merely expanded by 1.2% mom.	▪ Back in Mar, the HKMA intervened in the market to defend the currency peg, the first time since last Aug. This resulted in over 20% decline in aggregate balance and drove 1M HIBOR and 3M HIBOR up from 1% and 1.57% on 28th Feb to 1.8% and 1.87% on 25th Mar respectively. This might have prompted some banks to lift fixed deposit rates. As a result, HKD fixed deposits rebounded by 4.1% mom to HK$2.9 trillion. On the other hand, despite the resilient performance of risky assets, HKD CASA deposits retreated by 0.9% mom. This in turn pushed the percentage share of HKD CASA deposits to total HKD deposits down to a new low since Feb 2009 at 57.7%. This together with the high HKD loan-to-deposit ratio and the elevated HIBOR suggests that funding pressure on the commercial banks increased lately. ▪ Moving ahead, however, given the still over HK$50 billion aggregate balance, the over HK$1 trillion outstanding exchange fund bills and notes, the stable USD LIBOR on Fed's pause and the benign equity inflows under stock connects, HKD liquidity is unlikely to get very tight especially after the seasonality abates. As such, neither HIBOR nor HKD fixed deposits rates would edge much higher. Besides, as we expect total loan growth to remain moderate this year, the upside for HKD loan-to-deposit ratio is likely to be limited. In conclusion, we hold onto our view that funding pressure will not grow much further for the commercial banks and therefore the chance of prime rate hike is low this year.
▪ HK's RMB deposits retreated by 1% mom to RMB602 billion in Mar as there is not much room for RMB deposit rates to go up in the absence of a U-turn in PBOC's monetary policy.	▪ In the near term, we expect RMB deposits to stabilize around current levels. In the medium term, should the stale RMB, China's economic stabilization, trade war optimism and the wide USD-RMB yield differential help to boost offshore demand for RMB assets, RMB deposits may grow further.
▪ HK's trade data surprised to the upside in Mar which may still be attributed to seasonal effect.	▪ The drop of exports and imports narrowed from -6.9% yoy and -3.8% yoy in Feb to -1.2% yoy and -0.1% yoy respectively in Mar. Specifically, imports from Mainland China rose by 7.4% yoy. This is in tandem with the rebound in China's exports during the same month. Besides, align with the sharp decline

	in China's imports in Mar, HK's exports to Mainland China dropped further by 10.1% yoy. By commodity, imports of electrical machinery and office machines shrank by 5.2% yoy and 10.6% yoy respectively while exports of these two commodities also fell by 6.6% yoy and 13.8% yoy respectively. Taken all together, it indicates that Asia's electronic value-chain continued to take a hit as external demand has been hurt by global economic slowdown and lingering trade war risks. ▪ Lately, the trade talks between the US and China are set to reach some agreement. Besides, green shoots have emerged in China's economy. Whether these two favorable factors could materialize in stabilizing global economic growth and reviving global demand will be closely monitored. Before trade deal is reached and economic stabilization becomes more broad-based, we will remain cautious about HK's trade sector outlook. We hold onto our view that imports and exports will see low single-digit growth this year.
▪ Macau's gaming revenue dropped in three out of the first four months of 2019. The revenue was down by 8.3% yoy to MOP23.59 billion in April, the weakest since last September.	▪ Despite Easter Holiday and new infrastructure which might have lent strong support to the tourism sector, gaming sector continued to show signs of slowdown. Moving into May, we will see if the three factors including Labor Day Holiday, China's economic stabilization and the stable RMB could help to revive the growth of gaming revenue. If this is not the case, it may suggest that these favorable factors are unable to offset a slew of unfavorable factors. First, against a faltering global economic growth, resilient tourism did not translate into strong gambling demand. Second, in the absence of new mega projects, the gambling hub might have found it difficult to attract overnight visitors who have made major contribution to the gaming sector. Third, the new tobacco control law and China's crackdown on illegal FX activities would remain a drag on the VIP segment. In a nutshell, we remain cautious about the gaming sector's outlook and hold onto our view that gaming revenue will grow by 2%-5% this year.
▪ Macau's unemployment rate remained static at a four-year low of 1.7% during the 1Q 2019. Besides, the median of monthly employment earnings increased by 6.25% yoy to MOP 17,000 in 1Q 2019.	▪ However, the employed population dropped from 388100 in previous three-month period to 387100 during the 1Q, alongside with the participation rate falling to the lowest level since early 2018 at 70.4%. Barring gaming sector, other major industries' employed population all dropped. Specifically, as resilient tourism activities lent some support to gaming revenue in Mar, the gaming sector's employed population rebounded by 1.9% mom during the same month. Meanwhile, the employed population of hotel and similar activities expanded for the third consecutive month by 0.6% mom in Mar. On the flip side, the employment of retail sector dropped by 3.6% mom as stronger MOP and concerns about global economic slowdown continued to dent visitor's consumption sentiment. Meanwhile, the employment of construction sector continued to inch lower (-0.2% mom) due to the successive completion of new mega projects. Moving forward, though resilient tourism might lend some support to local economic growth and the labour market in the short term, we doubt the sustainability of the low unemployment rate in the medium term given the lingering external headwinds.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened against the dollar this morning with the pair breaking 6.80 handle in the offshore market due to the escalation of US-China trade war.	▪ For this week, market will closely watch out for the development of US-China trade talk. Should China cancel the trade talk this week, 6.80 could be a new normal for the USDCNY.

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