Highlights

Although the meeting between PBoC Governor Yi Gang and US Treasury Secretary Mnuchin over the weekend was described as candid and constructive, there is still no clear sign of de-escalation of trade war yet. It remains uncertain that whether President Xi will meet President Trump in the upcoming G20 meeting. The event remains digital for now.

China continued to tighten its grip on foreign tech companies. A new technology security management list will be set up by the National Development and Reform Commissions (NDRC). Together with the unreliable entity list by Commerce Ministry, it serves a warning shot to those tech giants that they may face repercussions should they over-react to the US regulation even though China has showed their understanding that those multinational companies have to comply with the US laws.

Domestically, China's rolled over more than expected maturing MLFs last week, showing flexibility to contain the volatility in the money market. Meanwhile, the assurance from both banking regulator and PBoC for the second week after the Baoshang bank incident showed that the risk of spill over from the baoshang incident may be contained.

RMB became the focus in the latter part of last week. In answer to Bloomberg question on whether there is red line for RMB, PBoC Governor Yi Gang said there is no "numerical number" more important than another. Messages from US Treasury Mnuchin over the weekend was quite mixed. He criticized RMB policy though he understands that the weakness of RMB was mainly due to trade war. Offshore RMB weakened in the absence of onshore market on Friday. Mnuchin's mixed messages on RMB over the weekend, however, may cap the upside for the USDCNY. China may continue to tightly control the pace of RMB depreciation ahead of the possible meeting between two leaders in the upcoming G20 meeting. For this week, market will closely watch out for the daily RMB fixing to gauge whether there is any possible shift.

Foreign ownership of Chinese bonds continues to increase in May despite RMB depreciation amid re-escalation of US-China trade war. Foreign ownership of gov bond increased to 8.2% from 8.1% while foreign ownership of policy bank bonds increased to 2.8% from 2.5%. This is probably the result of bond inclusion.

In **Hong Kong,** housing transaction volume rose to the highest since Oct 2012 while secondary property prices rose to an all-time high in May. Nevertheless, we expect housing transaction volume and price to retreat from recent highs due to negative wealth effect on stock market correction, souring investor sentiment on trade war re-escalation, elevated HIBORs and increasing short-term supply. Elsewhere, 1M HIBOR and longer-tenor HIBORs have stayed elevated amid seasonal factors and IPO pipeline. In contrast, USD LIBOR came off on the rising expectation of Fed rate cuts. The resultant narrowing USD-HKD yield differential in turn allowed USDHKD to stay away from 7.85. Nevertheless, HKD is unlikely to return to the strong-end (7.75-7.80) any time soon as the upside of HIBOR may be capped by the contained outflow risks, suppressed USD LIBOR and sizeable monetary base. On the prime rate front, we believe that the banking system is not imminent to follow the Fed to cut prime rate this year (see below for details). In **Macau,** GDP contracted for the first time since 1Q 2016 by 3.2% yoy in 1Q 2019, mainly attributed to high base effect and weak external demand. Moving ahead, with high base effect to wane gradually in the coming quarters and fiscal stimulus continuing to take effect, Macau's economic may not enter a recession in the near term. However, the re-escalation of US-China trade war may add downside risks onto both tourism and gaming sectors. Policy risks may also continue looming over the VIP segment. Furthermore, as few mega projects are still under construction, fixed investment will likely remain subdued. In a nutshell, we expect Macau's GDP growth will soften from 4.7% in 2018 to around 0% in 2019. Should US-China trade war continue to escalate, Macau's growth may weaken further.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The G20 finance minister and central bankers meeting as well commerce ministers meeting concluded in Japan. The statements from China's PBoC and Commerce Ministry failed to give market more colors about trade talk. ▪ US Treasury Secretary Mnuchin said his meeting with PBoC Governor Yi Gang was candid and constructive.	▪ It remains uncertain that whether President Xi will meet President Trump in the upcoming G20 meeting. The event remains digital for now.
▪ RMB became the focus in the latter part of last week. In answer to Bloomberg question on whether there is red line for RMB, PBoC Governor Yi Gang said there is no "numerical number" more	▪ RMB weakened on Friday after Bloomberg published its interview with Yi Gang. Yi Gang's comment was viewed as a hint that there is no red line for RMB. This also echoed former governor Zhou Xiaochuan's points that there is no critical level

important than another. ▪ Messages from US Treasury Mnuchin over the weekend was quite mixed. On one hand, he was quoted criticizing China's currency policy saying "the decision not to intervene after intervening for a very long period of time may lead the market to view that there is a desire to have the currency to weaken". On the other hand, he also dismissed the notion that China is actively keeping RMB low to gain a trade advantage after report shows that Trump has suggested his negotiating teams to pick up the issues of China's currency.	for RMB. This reinforced the market expectation that China will eventually let RMB break 7 should the US-China trade war escalate further. ▪ Mnuchin's mixed messages on RMB over the weekend, however, may cap the upside for the USDCNY. China may continue to tightly control the pace of RMB depreciation ahead of the possible meeting between two leaders in the upcoming G20 meeting. ▪ For this week, market will closely watch out for the daily RMB fixing to gauge whether there is any possible shift.
▪ China continued to tighten its grip on foreign tech companies. Xinhua news reported on 8 June that China is studying to set up a new technology security management list led by the National Development and Reform Commissions (NDRC), one week after the proposed setup of unreliable entity list by China's Commerce Ministry. ▪ Meanwhile, the Wall Street Journal reported that the NDRC summoned some of the world's tech giants such as Intel, Qualcomm, ARM, Microsoft, Dell, Cisco, Samsung and Nokia etc last week for the meeting.	▪ The newly proposed tech security management list under the NDRC and unreliable entity list under the Commerce Ministry serve the same purposes to forestall China's national security risk according to the official tone. Meanwhile, it is also a warning shot to those tech giants that they may face repercussions should they over-react to the US regulation even though China has showed their understanding that those multinational companies have to comply with the US laws.
▪ Domestically, China conducted CNY500 billion 1-year MLF last week to roll over the maturing CNY463 billion MLF.	▪ The liquidity pressure heightens in June ahead of massive CNY1.2 trillion expiration of MLFs and reverse repo as well as seasonal effect. The larger than expected MLF injection last week shows PBoC's flexibility to contain the volatility in the money market. Although the near term chance of RRR cut is slim, we expect China to continue to actively manage its liquidity via the MLFs and TMLFs.
▪ In its updated press statement, China's banking and insurance regulator said all the operations of Baoshang bank remain normal after the takeover. Meanwhile, liquidity for small and mid-sized banks such as Hengfeng banks remain abundant while banks associated with troubled Tomorrow Group remain sound. ▪ China's PBoC also had meeting with policy banks, big SOE banks and joint stock banks last week to ensure its liquidity support to financial market.	▪ With more efforts from the regulators such as CBIRC and PBoC to calm down the market, we think the risk of spillover from the baoshang incident has been contained.
▪ IMF lowered China's 2019 growth forecast to 6.2% from 6.3% amid the rising uncertainty on US-China trade war.	▪ IMF expected China's current easing and stimulus measures are sufficient to support growth should there is no additional tariff being imposed. Meanwhile, IMF also suggested China to increase its currency flexibility.
▪ 1M HIBOR and longer-tenor HIBORs have stayed above 2% since 3th June as market players continued to hoard cash ahead of half-year end and during dividend payment season.	▪ We expect 1M HIBOR will try higher to 2.1% by end of Jun. In contrast, USD LIBOR came off gradually on the rising expectation of Fed rate cuts this year. As a result, LIBOR-HIBOR spread narrowed and looks set to shrink further. The narrowed USD-HKD yield differential in turn sidelined carry trade and allowed USDHKD spot to stay away from 7.85. Nevertheless, HKD is unlikely to return to the strong-end of the currency peg (7.75-7.80) any time soon as the upside of HIBOR may be capped by the contained outflow risks, suppressed USD LIBOR and sizeable monetary base. ▪ Elsewhere, we believe that the banking system is not imminent to follow the Fed to cut prime rate this year due to

	three reasons. First, HK's banking system (only one hike by 12.5bps-25bps) lagged far behind the Fed (nine hikes by 225bps) on rate hikes. There is room for HK's banks to stay put. Second, since aggregate balance dropped to HK$54 billion, HKD liquidity easily gets tight on seasonal factor or large IPO. As such, HIBOR-based mortgage rate (1M HIBOR plus 1.4%) have persistently topped its corresponding prime cap (Prime rate minus 3%) and compressed the mortgage net interest margin. This may make banks reluctant to cut prime rate. Third, if the Fed decides to cut rate this year, the decision is likely to be driven mainly by heightened trade tensions and further economic slowdown. Against this backdrop, HK seems unlikely to see substantial capital inflows. Nor will HIBOR be pushed down to previous years' lows.

Key Economic News	
Facts	**OCBC Opinions**
▪ Foreign ownership of Chinese bonds continues to increase in May despite RMB depreciation amid re-escalation of US-China trade war. Total outstanding of bonds owned by foreign investors rose by CNY76.6billion to a record high of CNY1.6106 trillion.	▪ The inflows into China's bond market was probably the result of the inclusion of China's bonds into Bloomberg global bond index. ▪ Foreign ownership of gov bond increased to 8.2% from 8.1%. Foreign ownership of policy bank bonds increased to 2.8% from 2.5%.
▪ HK's housing transaction volume rose for the third consecutive month by 49% yoy to the highest since Oct 2012 at 8208 deals in May 2019. CCL index which tracks secondary property prices rose by 8.6% YTD to an all-time high as of 26th May.	▪ As these data prints are lagging indicators, the strong increase in May mainly reflected the wealth effect from stock market rally, eased concerns about local rate hikes and rising worries about decreased housing affordability on scarce long-term supply. ▪ Nevertheless, we see three unfavorable factors looming over the property market. First, since US-China trade war re-escalated in early May, investor sentiment has taken a hard hit. As a result, Hang Seng Index plunged by over 10% and tamed wealth effect. This has already prompted some buyers to walk away from the purchase of new homes lately. Second, HIBORs have been elevated as market players continued to hoard cash in the run-up to half-year end, dividend payment season and potential large IPOs. This in turn pushed up local borrowing costs. Third, around 5000 units of public housing will be available around mid-2019 while property developers actively launch new home projects before the implementation of vacancy tax. This has propelled some homeowners to lower the offering prices lately. ▪ In conclusion, we expect housing transaction volume and price to retreat from recent highs in the coming months. Housing prices are expected to grow by 8% by end of 2019. Should US-China trade war continue to escalate, housing prices will likely see a milder growth this year.
▪ Macau's GDP contracted for the first time since 1Q 2016 by 3.2% yoy in 1Q 2019.	▪ The contraction was mainly attributed to high base effect and weak external demand which dragged exports of goods (taking up 4% of GDP) and exports of services (accounting for 84% of GDP) down by 1.8% yoy and 0.3% yoy respectively. As gross gaming revenue fell by 0.5% yoy in 1Q 2019, the exports of services dropped for the first time since 2Q 2016 with exports of gaming services and other tourism services falling by 0.6% yoy and 0.3% yoy respectively. ▪ Domestically, due to the gradual completion of mega projects

	and infrastructure projects and the lack of new projects, construction investment plunged by 37.5% yoy, driving fixed investment down for the fourth quarter in a row by 31.7% yoy. Private consumption growth also moderated to the softest since 3Q 2017 at 2.1% yoy as domestic consumers remained cautious on external headwinds. ▪ Moving ahead, with high base effect to wane gradually in the coming quarters and government's fiscal stimulus to take effect, Macau's economic may not enter a recession in the near term. However, we are not optimistic about the gambling hub's outlook either. First, as the re-escalation of US-China trade war may add downside risks onto both tourism and gaming sectors by weighing down the RMB and China's economic growth. Second, policy risks may continue to loom over the VIP segment. Third, as only few mega projects and infrastructure projects remain under construction, fixed investment will likely remain a drag on growth. Fourth, domestic consumption may stay sluggish as external uncertainties are set to hit risky assets and reduce wealth effect. ▪ In a nutshell, we expect Macau's GDP growth will soften from 4.7% in 2018 to around 0% in 2019. Should US-China trade war continue to escalate, Macau's growth may weaken further.
▪ Macau's gaming revenue surprised to the upside and increased by 1.8% yoy to MOP25.95 billion in May as visitor arrivals rose by 37% yoy during the Labor Day Holiday.	▪ During early May, the holiday effect together with the infrastructure improvement lent support to Macau's inbound tourism and the gaming business. Nevertheless, the gaming growth in May remained muted as US-China trade war re-escalated and posed renewed downward pressure on China's growth outlook and the RMB. Adding that wealth effect faded following the correction in risky assets prices, Macau's tourism sector might have lost some momentum again after holiday effect abated. Worse still, the new tobacco control law and China's crackdown on illegal FX activities continued to weigh down Macau's high-roller segment. Going forward, should trade war further escalate and intensify the depreciation risk of the RMB, China's possible tightening grip on cross-border capital flows may add more downside risks onto Macau's gaming sector. As such, we revise our forecast for Macau's gaming revenue growth from 2%-5% to around 0% for 2019.

RMB

Facts	OCBC Opinions
▪ RMB weakened further against the dollar in the offshore market after PBoC governor Yi Gang hinted there is no red line for RMB despite broad dollar weakens. The USDCNH broke 6.94. As such, RMB index weakened further to below 93.	▪ RMB's weakness was mainly due to the expectation that China may let 7 go eventually should the trade war escalate further. Mnuchin's mixed messages on RMB over the weekend, however, may cap the upside for the USDCNY. China may continue to tightly control the pace of RMB depreciation ahead of the possible meeting between two leaders in the upcoming G20 meeting. ▪ Market will closely watch out for the RMB daily fixing this week.

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