**Highlights**

Market has remained sensitive to newsflow or rumors regarding the US-China trade talk. The latest newsflow shows that the trade talk may develop into two stages. In the near, we see hopes that the US-China may eventually reach the general framework to avoid the further escalation of the trade war. However, in the medium term, the risk that trade war will be escalated to technology war cannot be ruled out.

The December trade data show that China's value chain has been affected by the trade war. The outlook on export growth in the coming months looks murky as Chinese exporters' frontloading activities to escape the tariff hike may have come to an end. China has stepped up its policy supports. The PBoC injected more than expected liquidity last week despite the RRR cut. In addition, the top three economic agencies NDRC, MOF and PBoC said last week in the joint press conference that more supports are expected via investment, easing monetary policies and proactive fiscal policies.

In answer to the questions about the interest rate cut, PBoC also said that current easing measures are taking effect gradually. PBoC will assess the impact on the dynamic basis. This suggests that China is not in rush to cut interest rate soon and quantitative measures such as RRR cut will still be the preferred measures to stimulate the economy.

Our view that the current fundamental does not support the sustainable rally of RMB remains unchanged. The higher than expected liquidity injection capped RMB's outperformance against its major trading partners. In the near term, RMB is likely to remain the function of dollar movement. Today, market will watch out for Chinese data, any downside surprise may further weigh down on the pair.

**In Hong Kong,** in the absence of liquidity drainage events, front-end HKD liquidity remained flushed. As a result, carry trade together with the gradual equity outflows and the rally of broad dollar drove USDHKD up further to 7.8455, the highest since last September. Moving ahead, we expect HKD liquidity to tighten slightly around month-end and Lunar New Year holiday. Nevertheless, the combined effect of month-end and Chinese New Year would be much milder than that of year-end. As such, even if HKD liquidity tightens, the HIBORs will not return to last December's highs, nor will the HKD. After Lunar New Year, liquidity will return to the market and bring the HIBORs as well as the HKD down again. On the other hand, gradual equity outflows may continue to weigh down the HKD. Specifically, southbound and northbound equity flows marked a net outflow of HK$4.4 billion and a net inflow of RMB25.7 billion YTD respectively. This suggests continuous equity outflows from HK to China, probably due to the increasing concerns about the impact of trade war on Chinese high-tech companies (mostly listed in HK) and the rising optimism about A-share amid China's promise to roll out more stimulus measures. In conclusion, we see high probability of USDHKD touching 7.8500 and HKMA withdrawing liquidity after Lunar New Year. Aggregate balance may fall towards HK$50 billion from the current HK$76.4 billion. **In Macau,** the government expects the gaming revenue to remain roughly unchanged this year. We expect Macau's gaming revenue to grow by 2%-5% yoy in 2019.

<table>
<tr><th colspan="2">Key Events and Market Talk</th></tr>
<tr><th>Facts</th><th>OCBC Opinions</th></tr>
<tr><td><ul><li>On US-China trade talk, although the US officials denied the report that Treasury Mnuchin had proposed the idea of scrapping some or all of the levies, the overall headlines pointed towards a positive development.</li><li>Trump's top economic advisor Larry Kudlow said trade talks with China are going well.</li><li>In addition, another report showed that China offered a six-year import spree plan aiming to bring down China's trade surplus with the US to zero.</li><li>However, the US moved to the next stage to start a criminal investigation on Chinese tech giant Huawei.</li></ul></td><td><ul><li>Market has remained sensitive to newsflow or rumors regarding the US-China trade talk. The latest newsflow shows that the trade talk may develop into two stages. In the near, we see hopes that the US-China may eventually reach the general framework to avoid the further escalation of the trade war, paving the way for eventual roll-back of some tariffs. However, in the medium term, uncertainty remains as the fundamental issues have not been addressed including US's distrust in China's implementation and concerns about China's rising technology advantage. The risk that the trade war will be escalated to the technology war cannot be ruled out.</li></ul></td></tr>
<tr><td><ul><li>China's key economic regulators including National Development and Reform Commission (NDRC), Ministry of Finance (MoF) and PBoC host a joint press conference to communicate with the public about China's plan to support the growth in 2019.</li></ul></td><td><ul><li>As mentioned by the NDRC, the Chinese policies will ensure a good start in the first quarter. In order to achieve a stable growth in 2019, China will continue to roll out more measures via investment, easing monetary policies and proactive fiscal policies.</li></ul></td></tr>
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| | ▪ On investment, the NDRC will speed up the investment projects in the first quarter. On fiscal policy, the MoF said it will unveil larger scale tax cut and fee reduction including corporate tax cut for small companies, further reform on VAT system, improve the tax reduction items for individuals and studying the reduction of social security contribution to reduce the burden on companies.<br>▪ In Q&A, the PBoC hint that it is not concerned about the impact of easing policies on RMB stability. This suggests that RMB is unlikely to be the constraints to China's monetary easing in 2019. Meanwhile, in answer to the questions about the interest rate cut, PBoC also said that current easing measures are taking effect gradually. PBoC will assess the impact on the dynamic basis. This suggests that China is not in rush to cut interest rate soon and quantitative measures such as RRR cut will still be the preferred measures to stimulate the economy. |
| ▪ PBoC injected CNY1.27 trillion liquidity via reverse repo operation last week. After taking the maturing reverse repo and MLF into account, PBoC net injected CNY770 billion last week. | ▪ The higher than expected liquidity injection via open market operation following the RRR cut shows China's commitment to keep liquidity stable ahead of the Chinese New Year holiday amid the rising downside risk. |
| ▪ China revised down its 2017 GDP by CNY636.7 billion to CNY82 trillion. As such, China's 2017 GDP growth was revised down by 0.1% to 6.8%. | ▪ The revision is a normal exercise. But indirectly, it may help lift 2018 growth slightly due to lower base. |
| ▪ In the absence of liquidity drainage events, front-end HKD liquidity remained flushed. As a result, carry trade together with the gradual equity outflows and the rally of broad dollar drove USDHKD up further to 7.8455, the highest since last September. | ▪ Moving ahead, we expect HKD liquidity to tighten slightly around month-end and Lunar New Year holiday. Nevertheless, the combined effect of month-end and Chinese New Year would be much milder than that of year-end. As such, even if HKD liquidity tightens, the HIBORs will not return to last December's highs, nor will the HKD. After Lunar New Year, liquidity will return to the market and bring the HIBORs as well as the HKD down again.<br>▪ On the other hand, gradual equity outflows may continue to weigh down the HKD. Specifically, southbound and northbound equity flows marked a net outflow of HK$4.4 billion and a net inflow of RMB25.7 billion YTD respectively. This suggests continuous equity outflows from HK to China, probably due to the increasing concerns about the impact of trade war on Chinese high-tech companies (mostly listed in HK) and the rising optimism about A-share amid China's promise to roll out more stimulus measures.<br>▪ In conclusion, we see high probability of USDHKD touching 7.8500 and HKMA withdrawing liquidity after Lunar New Year. Aggregate balance may fall towards HK$50 billion from the current HK$76.4 billion. |
| ▪ Macau government expects the gaming revenue to remain roughly unchanged this year and opines that it will not be too bad if the gaming revenue posts slight year-on-year growth in 2019. Meanwhile, the government will closely monitor external headwinds to the economy and will conduct internal analysis on the renewal of gaming licenses. | ▪ We expect Macau's gaming revenue to grow by 2%-5% yoy in 2019. Infrastructure improvement could lend some support to the mass-market segment of the gambling centers. The easing trade tensions between US and China combined with a dovish Fed could also alleviate concerns about Asia's economic outlook and in turn give a slight boost to the gambling hub. As such, we still expect the gaming revenue to see positive growth this year.<br>▪ Nevertheless, due to the lingering uncertainties about US-China relationship, the still tightening global liquidity and the increasing signs of Chinese economic slowdown, VIP segment is set to lose |

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| | momentum while mass-market segment may show limited upside. Adding on a high-base effect, gaming revenue growth is highly likely to slow down from last year's 14%. Moving ahead, whether all the six gaming licenses will be renewed during 2020-2022 will be closely monitored. This may add some uncertainty to the outlook of the gaming sector in the longer term. |

| Key Economic News | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's trade data shrank by more than expected in December. Exports in dollar term fell by 4.4% yoy while imports in dollar term fell by 7.6% yoy.<br>▪ As a result of weaker imports, China's trade surplus rebounded to US$57.05 billion, highest since January 2016. | ▪ The decline of export growth was mainly due to weak demand from G3 economies. China's exports to US, EU and Japan fell by 3.5%, 0.3% and 1% respectively. In particularly the 3% decline of shipments to US after expanding by 9.8% in November shows that Chinese exporters' frontloading activities to escape the tariff hike may come to an end, which may weigh down on China's export growth to the US in the coming months. China's export to ASEAN remains in the positive territory, up by 4.3% yoy, but decelerating from double digit growth seen in the third quarter.<br>▪ On imports, China's demand for key commodities remain strong with oil imports and iron ore imports rose by 42.7% and 20.2% yoy. However, the imports of electronic integrated circuit fell significantly by 15.2% largest decline since April 2014, a sign that China's value chain has been affected by the trade war. |
| ▪ China's December credit data beat market expectation. New Yuan loan increased by CNY1.0837 trillion. Aggregate social financing increased by CNY1.59 trillion while China's broad money supply M2 rebounded to 8.1% from previously 8%. | ▪ Despite the higher than expected December credit data, the breakdown shows that demand remains weak as medium to long term loan to corporate increased less than expected in December. The stronger credit expansion in December was mainly driven by the bill financing in both on-balance sheet and off-balance sheet. Taking out the bill financing, China's credit growth was not as good as the headline numbers show.<br>▪ The recovery of M2 growth was mainly due to the increasing deposit. |
| ▪ The Chinese banks net purchased US$7.1 billion foreign currency in December. However, the net sale of foreign currency in the forward market turned positive. | ▪ Although the Chinese banks continued to net purchase foreign currencies for clients, the capital flow picture improved and is expected to improve further in the coming months as a result of RMB appreciation. The surplus in the RMB forward market shows China's administrative measures are taking effect. |
| ▪ HK: over 2018, the total value of buyer's stamp duty (BSD), double stamp duty (DSD) and seller's stamp duty (SSD) amounted to HK$36.73 billion, up by 20% from 2017. | ▪ The increase in total value of stamp duty from housing transactions was mainly attributed to the sharp increase in housing prices over the first seven months of 2018. The increase in total value of stamp duty from housing transactions was mainly attributed to the sharp increase in housing prices over the first seven months of 2018. Nevertheless, as housing transaction volume tumbled by 7% in 2018, the volume of housing transactions which involved these three types of stamp duty also dropped by 3.9% yoy to 37278 deals. Besides, due to the slowdown in housing market, the government's land sale revenue is set to see double-digit year-on-year decrease during the fiscal year of 2018-19.<br>▪ Moving ahead, we expect housing prices to drop by 10% this year with smaller homes' prices to fall by 15%. As such, the fiscal revenue related to the real estate market will likely fall in the coming fiscal year. |

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| ▪ According to Hong Kong Maritime and Port Board, the container throughput of HK port dropped by 5.4% yoy to a two-year low of 19.64 million TEU in 2018 and was ranked the seventh (down from the fifth in 2017) in the globe. | ▪ In comparison, the container throughput of Singapore port, Ningbo port, Shenzhen port rose by 8.9% yoy, 3.2% yoy and 2.09% yoy respectively to 36.31 million TEU, 26 million TEU and 25.73 million. Market also expects that the container throughput of Shanghai port, Busan port and Guangzhou port would have seen positive growth in 2018. The continuous expansion of the six largest ports suggests that US-China trade war was not the major factor causing the contraction in the box handling of HK port. Instead, the higher costs were to blame. Moving ahead to 2019, on top of the high costs, the weakening external demand and the lingering uncertainties about US-China trade war could continue to hinder the growth of box handling of HK port.<br>▪ Nevertheless, we believe that HK port is still important to the local economy. Though the percentage share of value-added of trading and logistics in GDP reduced gradually from 23.9% 2013 in to 21.5% in 2017, it was still the largest among HK's four pillar industries. As such, the government may still have to help revive the HK port by improving the infrastructure and reducing the costs. |
| ▪ HK's unemployment rate stayed static at an over two-decade low of 2.8% in 4Q 2018. | ▪ Zooming in, the jobless rates of trade sector, retail sector and financial sector (three major industries) all remained unchanged and printed 2.2%, 3.6% and 1.9% respectively. It suggests that the labor market has remained resilient. Nonetheless, we expect the job market to weaken in the coming months. Firstly, as the trade sector started to feel the pain from trade war, its employment will likely take a hit. Secondly, the uncertainty from trade war and China's slowdown may weigh on HK's retail sector and its financial market, in turn denting the hiring sentiments. In conclusion, we expect the overall unemployment rate will climb to 2.9% in the near term. |
| **RMB** | |
| **Facts** | **OCBC Opinions** |
| ▪ RMB gave up some of its gain last week. The USDCNY went back to above 6.8 this morning due to the recovery of broad dollar. Nevertheless, the weakness of RMB was mainly the dollar play as RMB index remained stable hovering around 94. | ▪ Our view that the current fundamental does not support the sustainable rally of RMB remains unchanged. The higher than expected liquidity injection capped RMB's outperformance against its major trading partners. In the near term, RMB is likely to remain the function of dollar movement. Today, market will watch out for Chinese data, any downside surprise may further weigh down on the pair. |

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