

Highlights

Finally, the US-China trade talk started to move again. China has resumed its communication with the US on trade and economic issues at all levels confirmed by both sides. Putting emotion aside, both sides are back to rational track. However, the fundamental divide between two nations on China's list of non-negotiable items may suggest that there is no quick fix to the tension. As such, the upcoming negotiation in G20 meeting may not lead to concrete agreements and the risk of tariff hike to 25% from January 2019 on Chinese goods by the US remained high. On the positive note, the risk for China to be isolated in the global trade stage diminished after Canada PM said the clause in the new US-Mexico-Canada trade agreement will not prevent Canada from negotiating a new trade deal with China.

US Vice President Pence openly conflicted with China's Belt and Road initiative in the latest APEC meeting saying the US does not offer a constricting belt and a one-way road. The latest speech set the tone that the US is likely to compete with China in the belt-and-road initiative going forwards.

On data front, the latest economic data were mixed. China's manufacturing sector remained stable, despite the escalation of trade war, China's manufacturing sector remained stable. Domestically, the sharp decline of credit expansion in October is partially attributable to seasonality due to holiday short month. PBoC host the meeting with China's major commercial banks on credit policy. The commercial banks are likely to refine its credit policy to increase their support to those companies facing funding difficulties. This may help curb the default cases. In addition, we think credit condition is expected to loosen in the coming quarters. Nevertheless, it may again lead to rising concern about bank's asset quality.

On currency, RMB recovered slightly against the dollar last week as the broad dollar gave up some gains. However, RMB failed to gain support from the improving trade war newsflow as market continued to doubt that any concrete measures can be reached in the upcoming G20 meeting. Meanwhile, the rapid decline of onshore yields as a result of further easing expectation due to weak credit data may also limit RMB's upside.

In **Hong Kong**, GDP growth continued to surprise to the downside and decelerated from 3.5% yoy in 2Q18 to a two-year low of 2.9% yoy in 3Q18. The growth of exports and imports of goods accelerated, probably due to the front-loading of trade activities. However, we do not expect the growth to sustain should US-China trade war remain intact. In fact, the economy has started to feel the pain from trade war with weaker domestic consumption and exports of services. On top of trade war, the economy is facing other headwinds including monetary tightening and China's slowdown. These headwinds could hit business/consumer sentiments, loan demand as well as inbound tourism. On a positive note, 2019 policy address delivers the government's promise to increase public housing supply which may translate into faster public investments. This may help to ease some downside risks to the economy. All in all, we revise forecast on 2018 GDP growth from 3.6% yoy to 3.4% yoy and expect the growth will slow further to 2.7% yoy in 2019. In **Macau**, the government announced the Policy Address 2019, which focuses on social benefits. In the coming fiscal year, all the social benefits will cost the government about MOP18.747 billion, 45.4% higher than that for the previous fiscal year. On the other hand, tax cuts, waivers and rebates are expected to reduce government tax revenue by MOP4.243 billion, 10.2% more than that for the previous fiscal year. We expect these supportive measures will help ease the downside risks to domestic consumption and business investment from stock market correction, higher borrowing costs and trade war concerns. As at the end of September 2018, Macau's fiscal reserve increased by 9.8% yoy to MOP 554.9 billion. This will allow Macau to defend external shocks if necessary.

| Key Events and Market Talk | |
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| Facts | OCBC Opinions |
| <ul style="list-style-type: none"> China's Ministry of Commerce confirmed that China has resumed its communication with the US side at the high level of economic relationship following the phone call between President Xi and Trump. Meanwhile, Reuters also reported that China has sent the written letter to US though the letter is not good enough to close the gap. The US Commerce Secretary Ross also warned that both sides may only reach the agreement on framework for future negotiation in the upcoming G20 meeting. US Vice President Pence said in the APEC meeting | <ul style="list-style-type: none"> The resumption of communication at all levels is a good move as it shows both sides have put the emotion aside and are back to a rational track. However, it seems that the gap remains wide. According to top newswire, the written response from China to the US continued to divide China's trade into three categories including those are off-limits for negotiation. This may not be acceptable to the US side. |

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| that US will not change course until China changes its ways. | |
| <ul style="list-style-type: none"> US Vice President Pence openly conflicted with China's Belt and Road initiative saying the US does not offer a constricting belt and a one-way road. | <ul style="list-style-type: none"> Though Pence did not name the country, it strongly hint that China's infrastructure loan to the region leads to unsustainable and poor quality projects and results in higher debt. The latest speech set the tone that the US is likely to compete with China in the belt-and-road initiative going forwards. |
| <ul style="list-style-type: none"> The Canadian PM Trudeau said last week that the clause in the refined US-Mexico-Canada free trade agreement to block its members to enter a free trade agreement with "non-market" country will not prevent the country from negotiating with China on an eventual free trade deal. | <ul style="list-style-type: none"> The comments from Canada helps alleviate the concern that China may be isolated in the global trade stage following the escalation of US-China trade war. |
| <ul style="list-style-type: none"> PBoC host the meeting with China's major commercial banks on credit policy. PBoC reckoned that some companies are still facing funding difficulties due to previous excessive expansion and aggressive operation. However, it also asked the banks to take the initiative to solve the problem. | <ul style="list-style-type: none"> The latest credit policy meeting between PBoC and commercial banks echoed the latest tone to support private own companies' funding demand. The commercial banks are likely to refine its credit policy to increase their support to those companies facing funding difficulties. This may help curb the default cases. In addition, we think credit condition is expected to loosen in the coming quarters. Nevertheless, it may again lead to rising concern about bank's asset quality. |
| <ul style="list-style-type: none"> US's annual congressional report stated that Hong Kong's autonomy is a concern to the US. As such, US-China Economic and Security Review Commission report suggested policy makers consider whether Hong Kong and China should be taken differently when exporting sensitive US technology to these two regions. | <ul style="list-style-type: none"> This raises concerns that the US will apply the new tariff on not only Chinese imports but also HK's imports. However, we believe that this is unlikely as both sides' top officials resumed trade talk last week. As China's manufacturing PMI and new export order index continued to edge lower while US ISM manufacturing index also dropped, the possibility of Trump-Xi meeting in late November to pave the way for further trade talks cannot be totally ruled out. On the other hand, before the US and China reach any trade agreement, China may continue to roll out supportive measures such as lower import tax, higher export tax rebate, fiscal stimulus as well as ease monetary policy. These measures may help to alleviate some impacts of trade war on China's economy. Given HK's closer ties with Mainland China, a milder slowdown of China's growth will also ease the downside for HK's economy. |
| <ul style="list-style-type: none"> Macau's government announced the Policy Address 2019, which focuses on social benefits. | <ul style="list-style-type: none"> In the coming fiscal year, all the social benefits will cost the government about MOP18.747 billion, 45.4% higher than that for the previous fiscal year. On the other hand, tax cuts, waivers and rebates are expected to reduce government tax revenue by MOP4.243 billion, 10.2% more than that for the previous fiscal year. We expect these supportive measures will help ease the downside risks to domestic consumption and business investment from stock market correction, higher borrowing costs and trade war concerns. Also, the measures would support Macau's R&D and improve Macau's role as a financing platform for Chinese government and SOEs. On the gaming front, the government will continue to review the laws and regulations on the gaming industry and encourage casino operators expand the non-gaming businesses. On top of higher borrowing costs and China's economic slowdown, policy risks could add more downside risks for VIP gaming. On a positive note, the government urges gaming sector to support local goods and services. The expansion of the gaming sector may bolster the development of local industries. With regard to the housing market, about 10,000 units of public |

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| | <p>housing will be available in the short to medium term, up from the previously estimated 9,500 units. Besides, about 4,000 units will be available under the home-ownership scheme. In the longer term, the construction of the total 28,000 flats under the Zone A reclamation project will be divided into four phases with the first phase building about 7,000 flats. All in all, we expect housing market growth to slow down amid higher interest rates, lower wealth effect from stock market, trade war fears and the prospects of increasing housing supply.</p> <ul style="list-style-type: none"> Externally, the government will improve the cross-border infrastructure, participate in the construction of Zhuhai Hengqin and Guangzhou Nansha free trade zones, and build a pilot zone for Guangdong-Macau co-operation with Zhongshan. This may help support the Greater Bay Area development. Meanwhile, the government will tighten the relationship between China and Portuguese-speaking countries in terms of trade, business and finance to facilitate Belt and Road Initiative. Also, the government will promote Macau tourism to the countries along the new silk road. Finally, as at the end of September 2018, Macau's fiscal reserve increased by 9.8% yoy to MOP 554.9 billion. This will allow Macau to defend external shocks if necessary. |
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| Key Economic News | |
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| Facts | OCBC Opinions |
| <ul style="list-style-type: none"> China's October credit and monetary data surprised on the downside. Total new Yuan loan increased by CNY697 billion, down from CNY1.38 trillion in September. Meanwhile, aggregate social financing also collapsed to CNY728.8 billion, down from CNY2.168 trillion in September, lowest since July 2016. China's broad money supply M2 growth decelerated to a record low of 8% yoy in October. | <ul style="list-style-type: none"> The sharp decline of credit expansion in October is partially attributable to seasonality due to holiday short month. However, even after taking seasonality into account, the pace of decline is still worrying with the decline of loan to corporate paints a weak prospect. Noting that medium and long term loan to corporate only increased by CNY142.9 billion, lowest since October 2016. The only bright spot is that loan to household remains stable with medium and long term loan to household increased by CNY373 billion. China's off-balance sheet lending failed to recover despite easing monetary stance with entrusted loan, trust loan and banker's acceptance fell by CNY267.5 billion on aggregate level in October. In addition, the ongoing unwind of foreign currency loan also contributed to slow expansion of China's social financing. Foreign currency loan declined by CNY80 billion in October, largest since January 2016. This is the result of recent RMB weakness. Market should pay more attention to November number as China started to roll out more measures to support private owned enterprise's funding demand in early November. |
| <ul style="list-style-type: none"> China's investment and production data stabilized in October while retail sales continued to decelerate. Industrial production grew by 5.9% yoy in October, up slightly from 5.8% yoy in September. Fixed asset investment reaccelerated from 5.4% in the first nine months to 5.7% in the first ten months. | <ul style="list-style-type: none"> Despite the escalation of trade war, China's manufacturing sector remained stable. Manufacturing output rebounded to 6.1% from 5.7% while investment in manufacturing sector accelerated further to 9.1% from 8.7%, highest since July 2015. Private investment also remained buoyant, up by 8.8% yoy from Jan to Oct. In addition, infrastructure investment growth finally found the bottom, reaccelerated to 3.7% from record low of 3.3%. |

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| <ul style="list-style-type: none"> However, retail sales slowed down to 8.6% yoy from 9.2%. | <ul style="list-style-type: none"> The deceleration of retail sales in October may be partially distorted by the upcoming single day sales as consumers postpone their purchase in anticipation of bigger discount for 11 Nov sales. |
| <ul style="list-style-type: none"> China's banks net purchased US\$3.5 billion worth of foreign currency in October on behalf of clients. | <ul style="list-style-type: none"> This has been the fourth straight month for China to record net purchase of foreign currencies, implying a rising capital outflow risk. Nevertheless, the decline of outflow in October shows that the risk is still contained at the current stage. The long dollar forward position fell further to US\$6.5 billion in October, lowest since April 2017, due to the resumption of reserve on forward position. |
| <ul style="list-style-type: none"> Macau's housing transaction volume dropped by 12.6% yoy or 29.9% mom to 581 deals in September, the lowest since February 2017, as Typhoon Mangkhut might have sidelined some potential homebuyers. | <ul style="list-style-type: none"> Due to the thin volume, housing prices might have been inflated. Average housing price rose for the fourth consecutive month by 6.3% yoy to MOP106,819 /square meter. Elsewhere, as supportive measures allow first-home local buyers (took up 77.5% of total housing transaction in September) to borrow up to 90% of total property value, approved new residential mortgage surged by 244% yoy to a multi-year high of MOP9.67 billion. Moving ahead, as weather effect waned, data for the coming months may tell a clearer story about the housing market. In the near term, we still expect housing transaction to remain sluggish and housing prices growth to moderate due to several unfavorable factors. First, wealth effect is subsiding amid stock market correction. Second, the tightened housing measures from this February have deterred speculative demand. Non-first-home local buyers only represented 22.5% of total housing transaction in September, much lower than 67.6% in February. Third, with all commercial banks kicking start the prime rate hike cycle in September, concerns about higher borrowing costs would suppress housing demand. However, the downside for the housing market is likely to be capped due to two factors. On the one hand, supportive measures and tight labor market may continue to prompt some potential homebuyers to enter the market. On the other hand, housing supply has been increasing at a very slow pace with housing completion and housing start sliding 49% yoy and 52% yoy during the first nine months of this year. |
| RMB | |
| Facts | OCBC Opinions |
| <ul style="list-style-type: none"> RMB recovered slightly last week as the broad dollar gave up some gains. The USDCNY ended the week below 6.94 and RMB index hovered around 92.5 level. | <ul style="list-style-type: none"> RMB failed to gain support from the improving trade war newsflow as market continued to doubt that any concrete measures can be reached in the upcoming G20 meeting. Meanwhile, the rapid decline of onshore yields as a result of further easing expectation due to weak credit data may also limit RMB's upside. It seems that market still prefers to buy the USDCNY on dips. |

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