Highlights

Although China's Vice Premier Liu He will not go to the US before the G20 meeting as previously speculated, the news that US chief trade representative Lighthizer will join the G20 meeting show that there might be some serious talks this weekend. In addition, the absence of Peter Navarro in G20 also added some optimism to the talk. What market should watch out for closely is that whether China is able to convince the US to postpone the tariff hike from planned January to later part of the year to create more room for negotiation. Should the US put tariff hike on hold, it may be supportive to market sentiment.

Nevertheless, in the longer run, it seems that the trade war between the world's two largest economies could be only the skirmish. There is a chance that the US may put 25% tariff on hold. However, it is clear that the US may continue to target China's high tech industries. The biggest risk for 2019 in terms of trade war is whether the US will impose export ban on certain high tech products to China.

On the positive front, China stepped up its opening of financial market to foreign investors. Allianz receives approval from CBIRC to set up China's first fully owned foreign insurance holding companies while foreign bond investors will receive the tax exemption for their interest income for the next three years.

The latest PBoC balance sheet showed that the category of claim on central banks unexpectedly increased to CNY380 billion in October. The unexpected increase raised the speculation that the PBoC may have conducted the repo operation to withdraw liquidity from the system in October. This could be the signal sent by the PBoC that they will monitor the liquidity situation closely to keep the leverage in check.

In **Hong Kong,** last week 1M HIBOR dropped to the lowest since late May at 0.989%. The very ample liquidity could be attributed to three major factors. First, the lack of seasonality and large IPOs. Second, weakening loan demand amid prospects of higher interest rates, domestic economic slowdown and trade war fears. Third, continuous equity inflows to Hong Kong under stock connect scheme. Nonetheless, front-end liquidity showed some signs of tightening. 1M HIBOR rallied from a nearly six-month low to 1.08% on 23rd Nov. In fact, the current aggregate balance of HK$76.4 billion is 30% lower than that in late May. Given the notable liquidity shrinkage during the past half a year, 1M HIBOR's return to a six-month low looks unsustainable. Moving into month-end and year-end, we expect front-end liquidity to tighten further amid year-end effect and possibly renewed bets on prime rate hike. At this juncture, we still believe that 1M HIBOR will top 2% again. 3M HIBOR may even test September's high of 2.28%. In Macau, GDP growth decelerated notably from 5.9% yoy in 2Q18 to 1.6% yoy in 3Q18, the weakest level since 2Q16. The deceleration could be attributed to US-China trade war, stronger MOP, China's slowdown and completion of mega projects. These unfavorable factors may continue to weigh on tourism activities and recreational gambling demand, in turn weakening the economy in the coming quarters. In addition, VIP gaming demand could be deterred by China's slowdown, policy risks and higher interest rates. On a positive note, the government's plan to increase investment in infrastructure may allow some floor to the contraction of investment. All in all, we expect GDP to grow by 5% yoy this year and by 2%-3% yoy in 2019.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The USTR published the updated Section 301 investigation last week. The conclusion indicated that "China has not fundamentally altered its unfair, unreasonable, and market distorting practices." ▪ In addition, the wall street journal reported the US is urging its allies to ban the use of Huawei telecommunication equipment citing national security concern.	▪ The US-China trade talk returned to the spotlight ahead of this weekend's G20 meeting in Argentina, where President Xi is expected to meet President Trump. It seems that market has priced in the scenario of no concrete deal. However, it is possible for both sides to achieve the framework for further negotiation. ▪ Although China's Vice Premier Liu He will not go to the US before the G20 meeting as speculated, the news that US chief trade representative Lighthizer will join the G20 meeting show that there might be some serious talks upcoming this weekend. In addition, the absence of Peter Navarro in G20 also added some optimism to the talk. ▪ What market should watch out for closely is that whether China is able to convince the US to postpone the tariff hike to 25% from planned January to later part of the year to create more room for negotiation. Should the US put tariff hike on hold, it may be supportive to market sentiment. ▪ Nevertheless, in the longer run, it seems that the trade war

	between the world's two largest economies could be only the skirmish. There is a chance that the US may put 25% tariff on hold. However, it is clear that the US may continue to target China's high tech industries. The biggest risk for 2019 in terms of trade war is whether the US will impose export ban on certain high tech products to China. This may be negative for some Chinese high tech companies.
▪ The latest PBoC balance sheet showed that the category of claim on central banks unexpectedly increased to CNY380 billion in October. ▪ Meanwhile, PBoC has suspended its reverse repo operation since 26 Oct.	▪ The unexpected increase of claims on central bank in the central bank balance sheet raised the speculation that the PBoC may have conducted the repo operation to withdraw liquidity from the system in October. This could be the signal sent by the PBoC that they will monitor the liquidity situation closely to keep the leverage in check.
▪ China stepped up its opening of financial market to foreign investors. Allianz receives approval from CBIRC to set up China's first fully owned foreign insurance holding companies. ▪ Meanwhile, China announced a new tax incentive to foreign investors participating in China's onshore bond market as part of China's campaign to open its financial market to foreign players. Interest income from the onshore bond investment will be exempted from the corporate income tax and value added tax for the next three years until 6 Nov 2021	▪ The establishment of 100% owned foreign financial holding company is a milestone showing that China is ready for the further financial reform. This may bring more energy to China's financial market and also attract more long-term funding.
▪ Front-end HKD liquidity remained very flushed last week. USDHKD forward swap points widened to the largest level since April. 1M HIBOR also dropped to the lowest since late May at 0.989% last Thursday before recovering to 1.08% on Friday.	▪ The very ample liquidity could be attributed to three factors. First, the lack of seasonality and large IPOs. Second, weakening loan demand amid prospects of higher interest rates, domestic economic slowdown and trade war fears. Third, continuous and benign equity inflows to Hong Kong under stock connect scheme. ▪ Given the current aggregate balance of HK$76.4 billion is 30% lower than that in late May. Given the notable liquidity shrinkage during the past half a year, 1M HIBOR's return to a six-month low looks unsustainable. ▪ Moving into month-end and year-end, we expect front-end liquidity to tighten further as banks will hoard money for window dressing while market players will position for the possible funding squeeze amid year-end effect and possibly renewed bets on prime rate hike. At this juncture, we still believe that 1M HIBOR will top 2% again. 3M HIBOR may even test September's high of 2.28%. If this is the case, banks may scramble for HKD fixed deposits with higher rates. The possibility of another 12.5bps hike in prime rate in Dec cannot be ruled out at this juncture.
▪ The Hong Kong Monetary Authority announced to launch the third batch of the silver bond. The target issuance size is HK$3 billion and the tenor of the bond remains unchanged as previous at three years.	▪ The interest on the bond is paid semi-annually and is linked to Hong Kong's inflation. More notably, the interest is subject to the minimum rate of 3%, up from 2% previously. As the rate of 3% is higher than that paid by most of the HKD fixed deposits, we expect the third batch of silver bond to be attractive to the elderly, especially those without much liquidity concern or much experience in investments.

Key Economic News	
Facts	**OCBC Opinions**

▪ China's foreign exchange purchase by central bank fell by CNY91.6 billion in October, decline for the third straight month.	▪ The ongoing decline of foreign exchange purchase by PBoC shows the increasing pressure of capital outflows. Nevertheless, we think the pace of outflows remains controllable at the current stage.
▪ HK's unemployment rate has remained unchanged at an over two-decade low of 2.8% for seven consecutive three-month periods during August to October 2018.	▪ This indicates a still tight labor market. Nonetheless, we expect hiring sentiments to weaken in the coming quarters amid a slew of external uncertainties. By sector, first, trade sector's unemployment rate decreased to 2.3%, the lowest since 2Q 2018. This was probably due to the increased labor demand associated with the front-loading of trade activities before US-China trade war escalates. Should US-China trade tensions become a prolonged war, HK's trade sector and the sector's employment would inevitably take a hit. Second, the jobless rate of retail sector hovered around a nearly five-year low at 3.9%. Nonetheless, retail sales growth has been decelerating as inbound tourism and tourist spending have been weighed down by trade war fears, China's slowdown and a strong HKD. Recent stock rout and higher interest rates may also hurt local consumer sentiment. As such, we expect retail sector's unemployment rate to increase gradually. Third, the unemployment rate of financial sector dropped to 2.0%, the lowest since this February. However, property market has been cooling down on higher borrowing costs, lower wealth effect from stock market and government's promise to add public housing supply. This may worsen the hiring sentiments of the property sector. Stock market correction and local rates hike cycle together would also weigh down the outlook of the whole financial sector and its employment. In a nutshell, we expect overall unemployment rate to increase gradually to 2.9% in the coming quarters.
▪ Macau's GDP growth decelerated notably from 5.9% yoy in 2Q18 to 1.6% yoy in 3Q18, the weakest level since 2Q16.	▪ The government estimates that Typhoon Mangkhut caused Macao an economic loss of MOP1.55 billion in 3Q18. However, this was much milder than the estimated economic loss of MOP12.55 billion caused by Typhoon Hato in 3Q17. As such, bad weather was not to blame for the sharp slowdown in 3Q growth. Instead, the deceleration could be attributed to US-China trade war, stronger MOP, China's slowdown and completion of mega projects. Specifically, as the major driver of GDP growth, exports of services expanded at the slowest pace since 3Q16 by 6.3% yoy. Private consumption growth softened from 5.9% yoy in 2Q18 to 4.1% yoy in 3Q18. Worse still, exports of goods dropped by 8.8% yoy, the first decline since 4Q16. Furthermore, with the successive completion of mega entertainment and infrastructure projects, private construction investment plummeted by 20.6% yoy while public construction tumbled by 45.7% yoy. ▪ In the coming quarters, we expect economic growth to remain muted. First, despite supports from improved infrastructure, tourism sector and the mass-market gaming could still slow down amid a stronger MOP, China's slowdown and Asia's muted economic outlook. Second, the VIP segment of the gaming sector is likely to be hit by China's slowdown, policy risks and higher borrowing costs. Third, the prolonged trade war may weigh down trade activities as well as consumer sentiment. On a positive note, the government's plan to increase investment in infrastructure may allow some floor to the contraction of investment. In addition, with median monthly wage rising by

	6.7% yoy in 3Q, private consumption may continue to see moderate growth. All in all, we expect GDP to grow by 5% yoy this year. The growth may soften to 2%-3% yoy in 2019.
RMB	
Facts	**OCBC Opinions**
▪ RMB traded in a narrow range last week tracking the dollar movement. The USDCNY ended he week above 6.94 while RMB index stabilized around 92.3.	▪ RMB took a breath as broad dollar was capped by the re-price of Fed rate hike expectation due to falling oil prices. RMB is likely to take cue from this week's series of Fed speakers. ▪ In addition, market will also wait for the key event risk this weekend on US-China trade negotiation. It is still not clear whether both sides are able to reach the framework for future negotiation.

OCBC Greater China research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, “Relevant Materials”) to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a “Relevant Entity”) in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) (“MiFID”) and the EU’s Markets in Financial Instruments Regulation (600/2014) (“MiFIR”) (together referred to as “MiFID II”), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W