Highlights

President Xi's visit to North Korea, which may mediate the stalled North Korea and US talk, also helped to improve the US-China relationship. The confirmation for the bilateral meeting between President Xi and President Trump in the upcoming G20 meeting is positive, boosting global risk sentiment last week. However, the underlying tensions remain high with US expanding its entity list to include other four Chinese tech companies and one research institute. In addition, the top US trade negotiator Lighthizer remained hawkish in his latest testimony to the Congress. The outcome of the meeting this week remains binary.

Domestically, China continue to deal with the aftershock of Baoshang bank incident. The latest meeting with big banks and big brokerages to allow big brokers to play a bridging role to solve structural liquidity helped calm down the market. Meanwhile, the higher than expected medium term liquidity injection also showed China's commitment to contain the financial risk.

On economy, there is news that China may increase the quota for the local government bond issuance in the second half of 2019. Historically, China's fiscal stimulus via bond issuance usually went hand in hand with easing monetary policy. Even though China has relied mostly on the innovative policies to strike the balance between structural de-leverage and growth, we think in the medium term, China may eventually turn to traditional monetary easing such as RRR cut.

RMB also rebounded significantly last week benefiting from the improving US-China relationship. The unexpected surplus of net bank sale of foreign currency as well as net foreign inflows into China's bond market in May despite RMB depreciation showed that market has been much calmer as compared to the previous depreciation cycle in 2015-2017. As such, RMB is likely to remain sensitive to trade war related news. RMB could move either way depending on the outcome of G20 meeting.

In Hong Kong, USDHKD spot fell to the lowest since last December at 7.8025. This is mainly due to two reasons. First, USD weakened on a broad basis due to the Fed's openness to cut rates. Second, rising speculation on narrower USD-HKD yield differential triggered further unwinding of short HKD positions. Specifically, HIBOR stayed elevated as market players remained reluctant to release the hoarded cash in anticipation of tighter liquidity ahead. In the coming 1-2 months, 1M HIBOR and 3M HIBOR are likely to stand above 2%. In contrast, the Fed's dovishness pushed US Treasury curve down with 10-year US Treasury Yield falling to the lowest since 2016 at 1.97%. This will likely drive down the USD LIBOR gradually. As such, market increasingly speculates that USD-HKD yield differential will narrow. Nevertheless, we still believe that against the backdrop of global monetary easing and HK's manageable outflow risks, HIBOR will come off after the seasonal factor and IPO effect wane. Therefore, USDHKD may not be able to return to the strong range of 7.75-7.80 any time soon. Elsewhere, as eight virtual banks are set to launch basic banking services from 3Q 2019 and to divert some deposits from the traditional banking system, large commercial banks which normally rely on CASA as the major source of funding may be prompted to scrap fees to retain and attract customers. **In Macau,** visitor arrivals surged by 25.59% yoy in May, owing to the infrastructure improvement and Labor Day Holiday. Moving into the coming months, we expect the growth of visitor arrivals to slow down due to heightened external uncertainties and a weaker RMB. As such, we are wary of persistent weakness in both tourism and gaming sectors.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ President Xi's meeting with President Trump was confirmed after the telephone conversation between two leaders last week. ▪ However, the outcome of the meeting remains uncertain. The US expanded its entity list to include four Chinese tech companies and one research institute into the blacklist to be banned from buying US software and components. ▪ In addition, China's state media remained hawkish over the weekend saying that China will fight to the end if needed.	▪ The confirmation of the meeting was positive for the market fuelling the hope for the de-escalation of the tension. However, the development of tech war in the past few days showed that the outcome from the G20 meeting remains binary. ▪ The USTR hearing last week may create some pressures for Trump administration to hold its additional tariff on the remaining US$300 billion after the US companies shared their concern about the negative impact. However, it his testimony to the Congress last week, Lighthizer remained hawkish.
▪ PBoC and the security regulator CSRC were reported to host a meeting with six big banks and a few big security brokerages to ease the structural liquidity pressure faced by non-bank financial institutions since the takeover of Baoshang bank. Big banks are encouraged to lend to big security broker, which will	▪ China's recent experiment to break the implicit guarantee shows that the shock waves could last longer than expectation. Nevertheless, China has showed off his policy tool box to the world. The large varieties of policy tools together with the window guidance are likely to contain the spillover effect in our view.

play a bridging role to support funding demand from the smaller non-bank financial institutions.	
▪ News reported quoting officials from China's Ministry of Finance that China may increase its quota for local government bond issuance in the second half of 2019.	▪ It shows that China will continue to step up its fiscal policy to support the growth. However, historically, China's fiscal stimulus via bond issuance usually went hand in hand with easing monetary policy. Even though China has relied mostly on the innovative policies to strike the balance between structural de-leverage and growth, we think in the medium term, China may eventually turn to traditional monetary easing such as RRR cut.
▪ USDHKD spot fell to the lowest since last December at 7.8025.	▪ This is mainly due to two reasons. First, USD weakened on a broad basis due to the Fed's openness to cut rates. Second, rising speculation on narrower USD-HKD yield differential triggered further unwinding of short HKD positions. Specifically, HIBOR stayed elevated as market players remained reluctant to release the hoarded cash in anticipation of tighter liquidity ahead. In the coming 1-2 months, 1M HIBOR and 3M HIBOR are likely to stand above 2%. In contrast, the Fed's dovishness pushed US Treasury curve down with 10-year US Treasury Yield falling to the lowest since 2016 at 1.97%. This will likely drive down the USD LIBOR gradually. As such, market increasingly speculates that USD-HKD yield differential will narrow. ▪ Nevertheless, we still believe that against the backdrop of global monetary easing and HK's manageable outflow risks, HIBOR will come off after the seasonal factor and IPO effect wane. Therefore, USDHKD may not be able to return to the strong range of 7.75-7.80 any time soon.
▪ Hong Kong: some large commercial banks will remove the requirement of minimum balance and minimum trading volume for some advance integrated accounts from 1st Aug.	▪ Meanwhile, the banks will scrap the below-balance fees, counter transaction fees and monthly/annual fees for personal savings accounts. The move is expected to help to promote financial inclusion. ▪ Eight virtual banks are set to launch basic banking services from 3Q 2019 and to divert some deposits from the traditional banking system. As large commercial banks normally rely on CASA as the major source of funding (HKD CASA deposits accounted for 57.3% of total HKD deposits for the whole banking system), it is likely for some other large traditional banks to follow suit to retain or attract customers, in an effort to counter the impact of the virtual banking. Those smaller traditional banks relying less on CASA may not take the same action imminently but may inevitably face fierce competition going forward.
▪ The HKMA announced last Friday that investors could obtain RMB and conduct the related FX hedging based on onshore exchange rate from designated HK banks or their northbound stock connect transactions. These banks could square the relevant positions in the onshore FX market.	▪ This may alleviate the impact of the volatility associated with the small size of offshore RMB liquidity on the offshore investors. Besides, it may pave the way for further increase in northbound equity inflows in the medium to longer term. ▪ Lately, after seeing two consecutive months of net outflow, northbound equity flows retrieved net inflow of RMB45.2bn month-to-date as of 21st Jun, probably due to three reasons. First, the inclusion of A-shares to major international equity indices. Second, the speculation on further stimulus from China's authorities as economic growth slowed down again. Third, the rising expectation of trade war de-escalation eased downside risks on the RMB.

Key Economic News	
Facts	**OCBC Opinions**
▪ The Chinese banks net sold CNY6.2 billion foreign currency in May despite sharp RMB depreciation. On behalf of clients, Chinese banks net sold CNY10.2 billion.	▪ The unexpected surplus of sale of foreign currency in May shows that corporates may take advantage of rising dollar to sell their foreign currencies. This suggests that May's RMB depreciation did not cause panic as we saw in the past. ▪ China's foreign currency deposit fell by US$17.1 billion in May. This may contribute to the surplus in sale of foreign currency data.
▪ Hong Kong's unemployment rate stayed unchanged at a more than one-year low of 2.8% as of the three months through May 2019.	▪ Despite that, the employment situation has weakened across major industries. The jobless rate of trade sector remained static at a nearly one-year high of 2.5% due to the lingering trade war risks. Meanwhile, as retail growth stayed subdued on external headwinds, the unemployment rate of retail sector edged up to 3.9%, the highest level since 3Q 2018. Furthermore, the unemployment rate of financial sector increased to a more than two-year high of 2.4%, probably due to the correction in stock and housing markets. ▪ Moving forward, the unemployment rate which is sticky may hold unchanged at 2.8% in the coming months. Nevertheless, given the concerns over uncertain economic outlook and re-escalation of US-China trade war risks, unemployment rate is likely to rise and move towards 2.9% in late 2019.
▪ Macau's visitor arrivals surged by 25.59% yoy to 3.39 million in May. Both of same-day and over-night visitors registered double-digit growth, increasing by 43.3% yoy and 10.26% yoy to 1.79 million and 1.59 million respectively.	▪ Visitors from Mainland China and Hong Kong increased by 22.7% yoy and 22.9% yoy respectively. By mode of transport, visitors arrived by land surged by 64.2% yoy to 2.5 million with nearly 30% via the HK-Zhuhai-Macau Bridge. This confirms that the infrastructure improvement and Labor Day Holiday lent strong supports to the inbound tourism. Due to the stronger growth of same-day visitors, the share of overnight visitors dropped to 47% in May from 47.3% in Apr. Combined with a weaker RMB, stock market correction and trade war re-escalation, it helps to explain why gaming revenue growth was only mild at 1.8% yoy during the same month. ▪ Moving into the coming months, we expect the growth of visitor arrivals to slow down due to heightened external uncertainties and a weaker RMB. The high cost of staying overnight and the lack of much new mega projects under construction may also be factors dragging down the growth of overnight visitors. As such, we are wary of persistent weakness in both tourism and gaming sectors.

RMB	
Facts	**OCBC Opinions**
▪ RMB rebounded strongly against the dollar last week after President Xi confirmed his meeting with President Trump in the upcoming G20 meeting. The USDCNY ended the week below 6.87. RMB index also recovered slightly to 93.23.	▪ The unexpected surplus of net bank sale of foreign currency as well as net foreign inflows into China's bond market in May showed that market has been much calmer as compared to the previous depreciation cycle in 2015-2017. As such, RMB is likely to remain sensitive to trade war related news. RMB could move either way depending on the outcome of G20 meeting.

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