Highlights

The US and China returned to the familiar tit-for-tat game for trade war. It seems that the only rational behind President Trump's 5% tariff hike is his anger. In addition, the White House's reinterpretation on President Trump's second thought comments in G7 meeting as Trump's regret not to hike tariff higher did not help either. When logic gave way to emotion, it clearly made things more unpredictable.

The outcome of the US-China trade talk remains a wild card. There are a few timelines which could be important. First, market will closely watch whether the US delegation and Chinese delegation will meet face-to-face in September. Second, the next important timeline could be November APEC meeting in Chile when market will closely watch whether President Xi will meet President Trump in the meeting to de-escalate the tensions. In addition, China's Commerce Ministry is expected to unveil its first unreliable entity list soon, which may add to higher market volatility.

Domestically, the 1-year LPR was fixed 6bps lower at 4.25% while 5-year LPR was fixed at 4.85%. The marginal decline of new LPR shows that China is unlikely to push its interest rate reform aggressively to help banks adjust for the new changes. In addition, PBoC's reassurance that the current deposit rate system will be kept for long shows that bank's margin will be protected.

Meanwhile, PBoC also announced the rule to price mortgage rate with the LPR. As mentioned by the PBoC in the press conference last week. The LPR reform does not mean the lower mortgage rate. The latest setting shows that China is serious about the property tightening measures and will not use property market as short term stimulus tool despite the heightening uncertainty amid the further escalation of the trade war.

RMB was caught in a perfect storm. The stronger broad dollar fuelled by divided Fed and the escalation of trade war are weighing down on the currency. RMB is likely to weaken further in the coming week as a result of higher tariff from President Trump.

In **Hong Kong,** HK's FX and money market stabilized last week. Market shifted the focus to the news that Alibaba will delay its second listing in HK to as early as October. This indicates that Alibaba has not been totally deterred by the souring sentiments in HK's stock market. As such, on top of month-end, quarter end and lingering concerns about potential capital outflow, such a potential large IPO may make market players more proactive to buy on dips to collect HKD liquidity in the near term. Therefore, we expect the long-end of HKD rates curve to remain elevated and the downside of short-term HKD rates to be well capped. Besides, USDHKD may not touch 7.85 anytime soon unless we start to see massive capital outflows. **On the labour market front,** unemployment rate rose to 2.9% in the three months through July after holding static at an over two-decade low of 2.8% for more than one year. Going forward, should social unrest persist and trade war escalate, the resultant downside risks to the key industries and the overall economy will likely dent hiring sentiments and drive the unemployment rate up further. If this is the case, the weakening jobs market may translate into softer local consumption and feed through to retail sales. **In Macau,** the economy (-1.8% yoy in 2Q) slipped into a technical recession, mainly driven by the plunge in fixed investment (-25% yoy). Looking ahead, exports of goods and services may be hit by trade war re-escalation, a strong MOP, Asia's economic slowdown and the spill-over effect of HK's social unrest. The lack of infrastructure, entertainment and housing projects under construction could also remain a drag on fixed investments. We revise our 2019 GDP growth forecast from around 0% to -1.5%.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's State Council Tariff Committee announced on 23 August that it will increase tariff on estimated US$75 billion US imports ranging to 5%-10% in two batches from 1 September and 15 December and reinstitute 25% tariff on US cars in reaction to US's decision to impose additional 10% tariff on remaining US$300 billion goods from September and mid-December. ▪ In less than 24 hours following China's retaliation plan, President Trump raised his stake in trade war via hiking tariff by another 5% on almost all Chinese imports in the latest tit-for-tat game.	▪ China's retaliation did not come as a surprise as China has warned it will take counter measures since early August should the US impose further tariff on Chinese imports. ▪ However, it seems that the only rational behind President Trump's tit-for-tat move is angry. In addition, the White House's reinterpretation on President Trump's second thought comments in G7 meeting as Trump's regret not to hike tariff higher did not help either. When logic gave way to emotion, it clearly made things more unpredictable. ▪ The outcome of the US-China trade talk remains a wild card given we are in an unchartered territory of globalization. There are a few timelines which could be important. First,

▪ The current 25% tariff on US$250 billion Chinese products will be raised to 30% effective from 1 Oct while the planned 10% on remaining US$300 billion products will be increased to 15%. ▪ Meanwhile, President Trump also ordered US companies to move out of China though it received strong resistance from the US firms.	market will closely watch whether the US delegation and Chinese delegation will meet face-to-face in September as previously mentioned. It seems that China is unlikely to restart the talk ahead of National Day celebration should the talk be cancelled. Second, the next important timeline could be November APEC meeting in Chile when market will closely watch whether President Xi will meet President Trump in the meeting to de-escalate the tensions. ▪ In addition, China's Commerce Ministry is expected to unveil its first unreliable entity list soon, which may lead to higher market volatility.
▪ The first new 1-year LPR was fixed at 4.25% on 20 August, in line with market expectation. ▪ Meanwhile, 5-year LPR was fixed at 4.85%. ▪ In its press conference, official from China's banking regulator said they are confident the LPR reform will be supportive of loan growth for private owned and small and micro companies. In addition, PBoC said there is room for RRR cut but the room is not as big as market imagines.	▪ The marginal decline of new LPR (1-year was 6bps below the old LPR and 10bps below 1-year benchmark lending rate, 5-year was 5bps below 5-year benchmark lending rate) shows that China is unlikely to push its interest rate reform aggressively to help banks adjust for the new changes. ▪ As mentioned by PBoC, the current benchmark deposit rate system will be kept intact for a long time. Meanwhile PBoC will also enhance the supervision of the deposit rate setting to avoid the unhealthy competition for deposits. This will help banks to protect their interest margin. ▪ On reserve requirement ratio, the latest tone from the PBoC reinforced our view that an universal RRR cut is unlikely in the near term given the rising important of MLF as the reference rate for LPR. We think, China will focus more on targeted reserve requirement ratio adjustment as a tool to guide the funding to support the real economy in particular the small and micro companies.
▪ PBoC announced on 25 August that effective from 8 October, China's newly approved housing loan will be pegged to LPR. The mortgage rate for the first time buyer will be no less than 5-year LPR while mortgage rate for the second time buyer will be no less than 5-year LPR+60bps.	▪ According to the PBoC Q&A, the mortgage rate under the new regime will be roughly same as that under the old system. Currently, the best mortgage rate for the first-time buyer with 5% discount is roughly about 4.655%, which is slightly lower than the current 5-year LPR 4.85%. In addition, for the second time buyer, the new rate of 5.45% will also be slightly higher than previous 5.39%. ▪ As mentioned by the PBoC in the press conference last week. The LPR reform does not mean the lower mortgage rate. The latest setting shows that China is serious about the property tightening measures and will not use property market as short term stimulus tool despite the heightening uncertainty amid the further escalation of the trade war. ▪ Nevertheless, given the new mortgage rate will be only effective after the National Day golden week, the September LPR fixing could be lower further, which may bring the new mortgage rate closer to old mortgage rate.
▪ Alibaba is reported to delay its second listing in HK to as early as October.	▪ In fact, a combination of trade war escalation and local political dispute has hit HK's financial market. Since 2nd July, the market cap of HK stock market has declined by nearly US$350 billion while the Hang Seng Index has plunged by 9%. This has prompted some companies to cancel or delay their IPO plans in HK. ▪ However, it seems like Alibaba has not been deterred by the souring sentiments in HK's stock market. As such, on top of the upcoming month-end, quarter end and lingering concerns about potential capital outflow, such a potential large IPO may make market players more proactive to buy on dips to collect HKD liquidity in the near term. Therefore, we expect the long-

	end of HKD rates curve to remain elevated and the downside of short-term HKD rates to be well capped. Besides, we hold onto our view that USDHKD will not easily touch 7.85 anytime soon unless we start to see massive capital outflows.

Key Economic News	
Facts	**OCBC Opinions**
▪ HK Central's office vacancy rates jumped to a three-year high in July according to Jones Lang LaSalle Inc.	▪ Lately, a plot of commercial land was sold at the lowest price since Nov 2016 due to souring sentiments on trade war, bleak growth outlook and social unrest. Moreover, China just unveiled a raft of development plans aiming to enhance the role of Shenzhen and Shanghai Free Trade Zone in connecting Mainland China with foreign countries. This increases the concerns that HK's business sentiments will weaken and in turn pose downward pressure to the commercial property market. However, we believe that neither Shenzhen nor Shanghai Free Trade Zone will easily replace Hong Kong in the near term given the latter's regulatory independence, free flow of capitals and the well-recognized role as a stable and safe business and financial hub. As such, we are still optimistic about the near-term outlook of HK Central's commercial property market.
▪ HK's unemployment rate rose to 2.9% in the three months through July after holding static at an over two-decade low of 2.8% for more than one year.	▪ For several crucial industries, the employment situation softened further. Specifically, as retail sales fell for the fifth consecutive month in June and might have dropped further in the following two months amid local social unrest, the unemployment rate of the retail sector jumped from 3.9% to 4.3%, the highest since late 2017 and is set to drift higher. Besides, with the trade war re-escalation, we are concerned that the unemployment rate of the trade sector which dropped slightly from 2.6% to 2.5% will go up again in the coming months. Meanwhile, a combination of trade war and local political uncertainty (like the resultant flight cancellation) might have weighed down the transportation sector, in turn pushing the sector's jobless rate up from 2.7% to 2.8%, the highest since late 2017. Finally, the jobless rate of the financial sector increased from 2.2% to 2.3% probably due to the correction in both stock and property markets. Going forward, should social unrest persist and trade war escalate, the resultant downside risks to the key industries and the overall economy will likely dent hiring sentiments and drive the unemployment rate up further. If this is the case, the weakening jobs market may translate into softer local consumption and feed through to retail sales. Last week, Hong Kong Retail Management Association even called HK's retail shop owners to cut the rental by 50% for six months to offset the hit from weaker retail sales.
▪ Macau's GDP contracted for the second consecutive quarter by 1.8% yoy in 2Q, slipping into a technical recession.	▪ This was mainly driven by the plunge in fixed investment (representing 12% of total GDP) which showed double-digit negative growth for the fourth consecutive quarter as 25% yoy. Specifically, private investment slid by 19.3% yoy due to the decline in investment in large-scale construction projects and the drop of housing starts. Meanwhile, the completion of HK-Zhuhai-Macau Bridge led to sharp decrease in public investment by 49.7% yoy. Besides, exports of gaming services dropped by 0.8% yoy as robust tourism (exports of other

	tourism services increased by 2.8% yoy) and strong mass-market growth failed to offset the weak high-roller demand. Furthermore, weak external demand and trade war pushed exports of goods down by 24.4% yoy. ▪ Going forward, exports of goods and services will likely take a hit amid trade war re-escalation, a strong MOP, Asia's economic slowdown and the spill-over effect of HK's social unrest. Meanwhile, bleak economic outlook coupled with trade war fears may dent consumer/investment sentiments. The lack of mega infrastructure projects and entertainment projects under construction could also remain a drag on fixed investments. Against this backdrop, the government will likely roll out more fiscal stimulus measures in the near term. If this is the case, combined with global monetary easing and China's stimulus measures, the downside risk on the growth may be alleviated. However, as GDP already shrank by 2.5% yoy in 1H19, we revise our 2019 GDP growth forecast from around 0% to -1.5%.
▪ Macau's visitor arrivals showed double-digit growth of 16.3% yoy for the ninth consecutive month in July.	▪ Same-day visitors (taking up 51.4% of total visitors) remained the main growth driver and surged by 29.9% yoy. Besides, tourists from Mainland China and Hong Kong surged by 18.5% yoy and 16.4% yoy respectively. More notably, visitor arrivals by land continued to jump by 49% yoy to 2.7 million (20.8% of which were via Hong Kong-Zhuhai-Macau Bridge), taking up 75.4% of total visitor arrivals. This confirms that the Bridge has kept bringing in same-day visitors to support Macau's tourism. ▪ However, overnight visitors grew at a slower pace by 4.7% yoy in July. As there has not been any new mega project commencing operation so far this year and the cost of staying overnight has remained high, overnight visitors might have been reluctant to re-visit the city. Worse still, the visitors from South Korea and Taiwan decreased by 6.9% yoy and 5.1% yoy respectively in July. Since over twenty countries or regions have issued travel warnings for Hong Kong or warned their citizens the risk of violence, adding on a strong MOP amid strong USD, we are concerned that visitors from countries other than China will decrease further in the coming months. ▪ Going forward, we expect overnight visitors' growth to remain moderate while the growth of same-day visitors to be capped by a strong MOP especially against the RMB, Asian economic slowdown, the persistent trade tensions and HK's social unrest.

RMB

Facts	OCBC Opinions
▪ RMB extended its loss against both dollar and its currency basket. The USDCNH broke 7.10 handle on Friday as a result of the escalation of the trade war. RMB index also fell to 91.6 on Friday, lowest since the launch.	▪ RMB was caught in a perfect storm. The stronger broad dollar fuelled by divided Fed and the escalation of trade war are weighing down on the currency. RMB is likely to weaken further in the coming week as a result of higher tariff from President Trump.

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