Highlights

Despite President Trump's comments that Huawei could be part of the trade deal, there is no clear sign of de-escalation of US-China trade war.

The rapid development of Huawei incident last week shows that the tension is no longer limited to the trade. Instead, the whole world is witnessing a technology war after the US tightened its grip on Huawei. More and more companies in the UK and Japan have been reported to suspend their business relationship with Huawei due to concerns about being non-compliant with the US restrictions. The risk of new economic cold war is no longer unthinkable when other nations are being forced to pick a side.

The latest announcement from China's State Council to set up a new Employment Leading Group to coordinate the job creation nationwide signals that China is preparing for the worst.

The concern that the trade war may become "People's war" does not bode well for the outlook after the trade war has become a household topic in China. One of the most popular topics in the social media in China over the weekend is the upcoming debate between Chinese State TV CGTN anchor Liu Xin and FOX business host Trish Regan scheduled on 30 May after the video and twitter exchange. Hopefully, the warm debate and honest view exchange may help contain the risk of cold war.

RMB stabilized last week due to China's indirect intervention via the daily fixing and liquidity management in the offshore market to slow down the pace of RMB depreciation and retreat of strong dollar. In addition, public statement to warn the short sellers is also part of China's indirect intervention strategy. We think RMB's prospect will continue to depend on two parameters including the development of US-China trade talk and broad dollar movement.

Other than trade war related topics, the takeover of Baoshang bank jointly announced by the central bank and banking regulator may come with consequences. The incident is probably the reflection of the idiosyncratic risk rather than the systemic risk as the bank has postponed the release of its annual report for 2017 and 2018 ever since its main shareholder was taken into custody from 2017. Although Baoshang bank has effectively been backed by the sovereign credit, the CNY50 million mark mentioned in the press statement published on Sunday may lead to concerns that investors or depositors with exposure more than CNY50 million may not be able to get the full amount back. This may cause interbank lenders to reassess their relationship with the smaller lenders.

In **Hong Kong,** last week, USDHKD briefly touched 7.85 but did not trigger any HKMA intervention. With the consolidation in RMB and the narrowing of USD-HKD yield differential, USDHKD moved away from 7.85. The upcoming seasonal factors (month-end, half-year end, concentrated dividend payment during June to July and possibly large IPOs ahead) has pushed HIBOR up across the curve and prompted some commercial banks to lift fixed deposit rates. Going forward, we expect 1M HIBOR will try higher to 2.1%. With USD-HKD yield differential to narrow gradually in the coming month, carry trade activities may be sidelined. In a nutshell, we believe the chance of USDHKD touching 7.85 to be slim in June. After the seasonal factors abates, market may shift the focus back to the fundamental including the still over HK$50 billion aggregate balance, benign loan demand and contained outflow risks. As such, we expect HIBOR to come off after July. The commercial banks' move to lift fixed-deposit rates may just be transitory. Elsewhere, HK government issued US$1 billion five-year green bond last week. This is the first green bond issued under HK's HK$100 billion (US$12.74 billion) green bond program. The proceeds will get earmarked for government's investment in environmentally friendly projects. This will pave way to deepen the development of HK's green bond market. In **Macau**, visitor arrivals marked double-digit growth for the 6th consecutive month in Apr. This was mainly supported by the effect of Easter Holiday and the infrastructure improvement. Moving into May, overall tourism and overnight visitors may sustain the growth momentum thanks to the Labor Day Holiday. Nevertheless, after holiday effect abates, we are wary of a possible slowdown in tourism growth amid the renewed downward pressure on the RMB and the weakening global economic outlook following the re-escalation of US-China trade war.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ On trade talk, US President Trump said last week that if a trade deal is made, "I could imagine Huawei being possibly included in some form or some part of it." ▪ US Commerce department granted Huawei 90-day	▪ Despite President Trump's comments that Huawei could be part of the trade deal, there is no clear sign of de-escalation of US-China trade war. Meanwhile, there is also no clear timetable for US Treasury Mnuchin to visit China ahead of the upcoming G20 meeting.

temporary general license till 19 August to purchase supplies from the US technologies to support operation of existing networks and equipment, handsets. However, Huawei founder Ren Zhengfei said in the press conference that the 90-day reprieve bears little meaning. ▪ More western companies are reported to suspend theirs business with Huawei. ▪ China's biggest chip maker SMIC was reported to apply to delist its American depositary receipts ADR from the New York Exchange on 3 June.	▪ In fact, the rapid development of Huawei incident last week shows that the tension is no longer limited to the trade. Instead, we can say the whole world is witnessing a technology war. ▪ What's more, more and more companies in the UK and Japan have been reported to suspend their business relationship with Huawei due to concerns about being non-compliant with the US restrictions. The risk of new economic cold war is no longer unthinkable when other nations are being forced to pick a side. ▪ In the past two weeks after China relax its ban on the trade war related topic in the social media, the trade war has been the household topic, leading to lots of hot debate. Over the weekend, one of the most popular topics in China's social media is the upcoming debate between Chinese State TV CGTN anchor Liu Xin and FOX business host Trish Regan scheduled on 30 May after the video and twitter exchange. Hopefully, the warm debate and view exchange may help cap the risk of cold war.
▪ China's central bank and banking regulator jointly announced last Friday that it will take over Baotou Commercial Bank, a joint stock bank in China's Inner Mongolian, due to server credit events. China Construction Bank is appointed as the custody for BaoShang's daily operation. This is the first state takeover in about two-decades. ▪ In the written QnA, PBoC said the Baoshang bank will be effectively backed by sovereign credit and the customer deposit and interest will be protected. However, in the statement the central bank said only CNY50 million corporate deposit and interbank liability will be covered in full while for the redemption of liability will depend on the bilateral negotiation.	▪ The failed Baoshang bank was linked to Chinese businessman Xiao Jianhua who has been under investigation since early January 2017. The incident is probably the reflection of the idiosyncratic risk rather than the systemic risk as the bank has postponed the release of its annual report for 2017 and 2018 ever since its main shareholder was taken into custody. ▪ Nevertheless, it could be a good test for China's depositary insurance scheme as well as the stress test for bank system's resilience and its impact on the liquidity. ▪ Although Baoshang bank has effectively been backed by the sovereign credit, the CNY50 million mark mentioned in the press statement published on Sunday may lead to concerns that investors with exposure more than CNY50 million may not be able to get the full amount back. This may cause interbank lenders to reassess their relationship with the smaller lenders, which may cause volatility in the money market.
▪ China's State Council announced last week to set up a new task force Employment Work Leading Group to coordinate job creation nationwide.	▪ The move probably signals that China is preparing for the worst to stabilize its trade-war hit job market.
▪ China's banking regulator Guo Shuqing reassured via his written speech that China will continue to open its domestic financial sector uninterrupted by the US-China trade war while defending China's position in the trade war. Meanwhile, on currency, he said the recent volatility of RMB was the result of external factors and there is no sustainable depreciation pressure for RMB based on China's current economic fundamentals.	▪ The reassurance from the public statement may help slow down the pace of RMB depreciation. Public statement to warn the short sellers is part of China's indirect intervention strategy together with the daily fixing in the onshore market and liquidity management in the offshore market.
▪ Last week, USDHKD briefly touched 7.85 but did not trigger any HKMA intervention. With the consolidation in RMB and the narrowing of USD-HKD yield differential, USDHKD moved away from 7.85.	▪ On the one hand, the stronger-than-expected CNY fixing and the PBoC's plan to issue additional central bank bills in HK have helped to deter some RMB short-sellers. Adding on the retracement in US dollar amid disappointing data, RMB consolidated and reduced the spill-over effect of weaker RMB to other Asian currencies including HKD. On the other hand, market players have been preparing for month-end, half-year end, concentrated dividend payment during June to July and possibly large IPOs ahead. As such, the seasonal factors

	pushed HIBOR up across the curve and prompted some commercial banks to lift fixed deposit rates. 1M HIBOR jumped by 18.3bps last week to 1.85% on 24th May. Going forward, we expect 1M HIBOR will try higher to 2.1%. In the meantime, rising expectations of Fed rate cuts added downside pressure to both US Treasury Yield and USD LIBOR. With USD-HKD yield differential to narrow gradually in the coming month, carry trade activities may be sidelined. In a nutshell, we believe the chance of USDHKD touching 7.85 to be slim in June. ▪ After the seasonal factors abates, market may shift the focus back to the fundamental including the still over HK$50 billion aggregate balance, benign loan demand and contained outflow risks. With regard to outflow risks, global central banks' dovish tone and the possible meet-up between Trump and Xi in late June's G20 summit have helped to keep market relatively calm at this juncture and contain the outflow risks of emerging markets. The continuous equity inflows from Mainland China to HK under stock connect could also help to partially ease the overall outflow risks. As such, we expect HIBOR to come off after July. The commercial banks' move to lift fixed-deposit rates may just be transitory.
▪ HK government issued US$1 billion five-year green bond last week. This is the first green bond issued under HK's HK$100 billion or US$12.74 billion green bond program.	▪ The major investors are sovereign funds, central banks and international organizations. The yield of the bond is 2.555%, 32.5bps higher than that of US five-year Treasuries. The green bond was oversubscribed by over four times. The proceeds will get earmarked for government's investment in environmentally friendly projects such as clean transportation, air quality improvement and green buildings. ▪ Back in 2018, the issuance of green bonds in HK amounted to about US$11 billion while that in Mainland China totaled US$31.2 billion (up about 33% from 2017 and ranked the second in the globe). According to the PBOC, China's investment in green projects is estimated to be over US$1.5 trillion for the 13th five-year period. Chinese government may support about 15% of the required funds. This indicates that the other 85% of the funds required for green projects needs to be raised in the capital market. With the further development of green economy and industry in the Greater Bay Area, we expect more green bonds will be issued by Mainland China in HK. This will pave way to deepen the development of HK's green bond market.

Key Economic News	
Facts	**OCBC Opinions**
▪ HK's unemployment rate has stayed unchanged at 2.8% for one year till the three-month through Apr 2019.	▪ Nevertheless, analyzing by industry, the employment was not so strong as shown by the overall jobless rate. Specifically, the unemployment rate of the trade sector increased notably from 2.2% in 1Q to 2.5% for the three-month period ended Apr 2019, a level last seen in the three-month through Aug 2018. This was mainly due to the weakening trade activities. Lately, with the escalation of US-China trade war, the unemployment rate of this sector may rise further. Besides, the unemployment rate of financial sector increased from 2.1% to 2.2%, a level unseen since 2Q 2018. Though the strong rebound of property market and stock market in Apr might

	have lent some support to financial sector's hiring sentiments, the renewed trade tensions from early May might have dented the sector's labor demand once again. As such, we expect the sector's jobless rate to edge higher. On a positive note, the resilient inbound tourism allowed the unemployment rate of the tourism-related sector to remain static at 3.6%. Still, this sector's outlook and employment is succumbed to downside risks given global economic slowdown and trade war uncertainties. In conclusion, as a lagging indicator, overall unemployment rate may be sticky at 2.8% for a while. However, it is posed to towards 2.9% in 2H 2019 given the already rising jobless rate of major industries and the lingering external headwinds.
▪ Macau's visitor arrivals marked double-digit growth for the 6th consecutive month and increased by 15.9% yoy to 3.43 million in April 2019.	▪ Same-day visitors continued to rose sharply by 27.4% yoy to 1.8 million while overnight visitors increased moderately by 5.4% yoy to 1.6 million. By source of visitors, those from Hong Kong rose notably by 30.1%, driving the visitors from the Greater Bay Area (HK visitors taking up 48.1%) up by 17.6% yoy and reflecting the effect of Easter Holiday. By mode of transport, visitor arrivals by land surged by 45.4% yoy to 2.53 million with 22.1% via the HK-Zhuhai-Macau Bridge. This confirms that the infrastructure improvement continued to support Macau's inbound tourism. ▪ Elsewhere, we note that the share of overnight visitors rebounded further from 46.7% in Mar to 47.3% while the average length of stay of overnight visitors remained unchanged at 2.2 days in April. Moving into May, official data shows that visitor arrivals during the Labor Day Holiday rose by 37% yoy with those from Mainland China jumping 42.7% yoy. This indicates that overall tourism and overnight visitors may sustain the growth momentum in May. Nevertheless, after holiday effect abates, we are wary of a possible slowdown in tourism growth amid the renewed downward pressure on the RMB and the weakening global economic outlook following the re-escalation of US-China trade war. Without much more new mega projects to attract tourists, the high cost of staying overnight may curb the growth of overnight visitors who have made major contribution to Macau's gaming and retail growth.

RMB	
Facts	**OCBC Opinions**
▪ RMB stabilized last week following the retreat of broad dollar. The USDCNY hovered around 6.9 while RMB index stabilized around 93.50.	▪ RMB's stabilization was mainly the result of two factors including China's indirect intervention to slow down the pace of RMB depreciation and retreat of strong dollar. Although China has not intervened in the spot market directly using FX reserve, China still dampened the currency volatility via the indirect way such as daily fixing in the onshore market and tightening the liquidity in the offshore market. In addition, China also continued to manage sentiment via the public statement. We think RMB's prospect will continue to depend on two parameters including the development of US-China trade talk and broad dollar movement.

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