Highlights

The trade talk continued to evolve quickly last week and became the key driver to market sentiment. The latest message from President Trump that he has not agreed to roll back the existing tariff may keep market sentiment in check.

The proposed rollback of existing tariff is a positive surprise, which has not been fully priced in by the market. President Trump’s comment last Friday was not a direct no to China’s demand for rollback of existing tariffs. However, given President Trump’s love of tariff, the additional element may increase the risk to prolong the phase one negotiation. The outcome could remain digital.

On economic data, China’s CPI surged to 3.8% mainly driven by pork prices as core CPI remained low at 1.5%. Although the CPI is expected to reach 4% in November and may even potentially touch 5% in January driven by pork prices and base effect, the limited spill over effect to non-food items show that there is no urgency for China to change its monetary policy framework.

PBoC cut its 1-year MLF rate by 5bps on 5 Nov. The rate cut was earlier than market expectation, showing that China was not concerned about the rising CPI driven by pork prices. We think China’s central bank remains flexible and is ready to provide the funding support to the real economy if needed.

China will focus on replenishing capital for smaller banks to enhance their capacity to manage risk via optimized capital structure. It has been becoming increasingly important to consolidate and clean up its troubled smaller banks amid China’s further opening of its financial sector to foreign investors.

In Hong Kong, the five months of protests and the prolonged trade war continued to weigh heavily on the economy with the Markit PMI plunging to 39.3 in October, the worse since November 2008. 4Q GDP is likely to see another year-on-year contraction and lead to a full-year recession. The weakening economic outlook, however, appears to have limited impact on both financial and property markets at this moment. On housing market, CCL index which tracks the secondary housing prices rebounded by 0.22% week-on-week as of 3rd November, ending the ten consecutive weeks of decline thanks to the relaxation of mortgage rules. We expect the transaction volume of flats priced below HK$10 million to continue rebounding in the coming months and secondary housing prices to rise up to 5% in 2019. On financial market, Hang Seng Index closed higher last week on positive trade war headlines. Alibaba is reported to raise US$10-15 billion via a second listing in Hong Kong in late November. This news added to the concern about tighter HKD liquidity in the run-up to year-end, Chinese New Year and launches of virtual banks. The pre-positioning moves pushed front-end HKD rates up notably and drove USDHKD down below.
7.83. Should Alibaba open its retail book this week, we expect 1M HIBOR to break above 2% and narrow its gap with 3M HIBOR. Meanwhile, USDHKD spot may try lower towards 7.81 or even 7.80. Elsewhere, Chief Executive Carrie Lam announced 16 measures to support Hong Kong people to live and work in the Greater Bay Area and facilitate the collaboration and development of the innovation and technology in the bay area. This suggests that Hong Kong still plays a vital role in leading the development and the integration of the bay area despite the ongoing social unrest.
## Key Events and Market Talk

<table>
<thead>
<tr>
<th>Facts</th>
<th>OCBC Opinions</th>
</tr>
</thead>
</table>
| ▪ The trade talk continued to evolve last week and became the key driver to market sentiment.  
▪ The latest message from President Trump that he has not agreed to roll back the existing tariff may keep market sentiment in check. | ▪ The discussion about rollback of some existing tariff was initiated by a few media starting from last Tuesday and was later confirmed by China’s Commerce Ministry spoke person on Thursday who said both sides agreed to roll back tariff proportionally should a phase deal be reached.  
▪ The rollback of existing tariff is a positive surprise, which has not been fully priced in by the market.  
▪ President Trump’s comments last Friday were not a direct no to China’s demand for rollback of existing tariffs. However, given President Trump’s love of tariff, the additional element may increase the risk to prolong the phase one negotiation.  
▪ The outcome could remain digital. |
| ▪ China unveiled more measures to remove restrictions on foreign ownership in China’s financial service sectors including banks, insurance and security brokers etc. | ▪ This is the consolidation version of previous announcement of opening measures.  
▪ It has been becoming increasingly important to consolidate and clean up its troubled smaller banks amid China’s opening of its financial sector to foreign investors. |
| ▪ China said last week that it will focus on replenishing capital for smaller banks to enhance their capacity to manage risk via optimized capital structure. | ▪ The rate cut was earlier than market expectation, showing that China is not concerned about the rising CPI driven by pork prices. It also alleviated the concern that China may tighten its monetary policy marginally after the skip of TMLF last month. The move aimed to lower the funding costs to the real economy via lowering the LPR, which is supportive of risk sentiment in the near term.  
▪ We think China’s central bank remain flexible and is ready to provide the funding support to the real economy if needed. |
| ▪ PBoC cut its 1-year MLF rate by 5bps on 5 Nov. | ▪ Specifically, first, Hong Kong residents will be treated as local residents when buying properties in the nine Guangdong cities. Namely, they will be exempted from the evidence of their duration of residence, study or employment and the payment of individual income tax and social security. Second, Hong Kong residents will be able to open Mainland personal bank accounts in the HK branches of Mainland Chinese banks. Third, the children of Hong Kong and Macau residents will be ensured to enjoy the same education as local children in the nine Guangdong cities. Fourth, the establishment of a cross-boundary wealth management scheme will be explored. These measures may encourage Hong Kong residents to live, study, work or retire in the nine Guangdong cities. This may help to alleviate the burden on Hong Kong government given the worsening ageing problem and the prolonged housing issue. More importantly, it could promote the free flow of people and capital within the bay area.  
▪ Apart from these, the authorities of the Greater Bay Area will work on facilitating the recognition of the professional qualifications of Hong Kong legal practitioners, architects and structural engineers, relaxing regulatory requirements for Hong Kong insurers and supporting the bond market |

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Treasury Research & Strategy 3
development in Hong Kong and Macau. Finally, the authorities will promote the development of the Shenzhen-Hong Kong Innovation and Technology Co-operation Zone and facilitate the transferring of biomaterials from Hong Kong to Mainland China and the importing of human genetic resources from Mainland China to Hong Kong and Macau. These measures are expected to facilitate further and smoother collaboration within the Greater Bay Area.

- For the Mainland authorities to roll out the 16 measures with Hong Kong government, it suggests that Hong Kong still plays a vital role in leading the development and the integration of the bay area despite the ongoing social unrest.

- 1M HIBOR jumped to 1.91% on 8th Nov from 1.75% on 6th Nov.

- After a raft of IPOs in late October and the month-end, front-end HKD liquidity loosened before tightening again soon due to rising expectation that Alibaba’s second listing will come soon in late Nov and raise US$10-15 billion.

- Due to the tightening front-end liquidity and a strengthening RMB, USDHKD spot dropped further to below 7.83. Going ahead, should Alibaba and other IPOs start to open their retail books, we expect front-end liquidity to tighten further with 1M HIBOR to break above 2% and narrow its gap with 3M HIBOR. Meanwhile, USDHKD spot may try lower towards 7.81 or even 7.80. Even if IPO effect abates, HKD rates will likely remain elevated in the run up to year-end and virtual bank launches. The chief executive of HKMA hinted that the first batch of virtual banks could have a soft launch of some services late this year or early next year. As such, banks may continue to scramble for funds with higher HKD fixed deposit rates in the near term.

- Hong Kong bills have been stuck in the US Senate as some pro-China Senators might have tried to delay or even prevent the approval of the bills in Senate. More than nine Senators are likely to reject the bills.

- At this juncture, due to the tight schedule, it is uncertain whether Senate will arrange a vote on HK bills in the final few weeks of this year. Some Congress assistant stated that Senate could accelerate the progress by bundling HK bills with the budget bill in one vote. Whether this will affect the US-China Phase one deal will continue to be monitored. Should trade talks between the US and China go on well, we expect that even if the HK bills are enacted, the resultant review of the extent of HK’s autonomy by US Secretary of State may not lead to any change to HK’s special trading status as this could jeopardize the improvement in the US-China relationship.

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Key Economic News

**Facts**

- China’s CPI rose further to 3.8% while PPI fell by 1.6%. The gap between CPI and PPI widened further though it was still below the peak in 2015.

**OCBC Opinions**

- The surge of CPI was mainly driven by rising pork prices, which increased by another 20.1% mom in October. Meanwhile, other meat prices such as beef and chicken prices also rose more than expected due to spillover effect from the pork prices.

- Core CPI, which excludes food and energy prices, however, remained low at 1.5%. This suggested that the current inflationary pressure was mainly from the food prices. Although the CPI is expected to reach 4% in November and
<table>
<thead>
<tr>
<th><strong>Greater China – Week in Review</strong></th>
<th>11 November 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>China’s total trade growth continued to shrink in October.</td>
<td>China’s export growth continued to pay back the frontloading activities in the same period last year beating the tariff with China’s exports to US fell by 16.2% yoy in October. On the positive note, demand from ASEAN remained resilient up by 15.8% yoy while demand from EU improved growing by 3.1% yoy.</td>
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<td>Total exports in dollar term fell by 0.9% yoy, improving from the decline of 3.2% yoy in September.</td>
<td>The weak import was mainly the result of falling crude oil prices and electronic integrated circuit imports by value. Although China’s imports of crude oil by volume grew by 17.1%, the imports of crude oil by value fell by 6% due to falling oil prices.</td>
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<td>Total imports in dollar term fell by 6.4% yoy.</td>
<td>We expect China’s exports to remain weak as a result of base effect. However, the decline of imports may narrow further thanks to recent recovery of oil prices.</td>
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<td>Trade surplus widened slightly to US$42.8 billion.</td>
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<td>China’s FX reserve rebounded in October to US$3.1051 trillion.</td>
<td>The rebound of FX reserve was the result of positive development in the US-China trade talk as well as favourable valuation effect due to dollar weakness and asset appreciation.</td>
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<td>China’s gold reserve remained unchanged at 62.64 million ounces.</td>
<td>Gold reserve remained flat for the first time after increasing in 10 consecutive months.</td>
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<td>The investment return of Hong Kong’s exchange fund decreased by 55.1% qoq to HK$20.2 billion in 3Q19.</td>
<td>Specifically, the exchange funds showed another foreign exchange loss of HK$2 billion, as both HKD and USD remained resilient in 3Q. Local stock investments registered a loss of HK$12.3 billion while the return of overseas stock investments fell by another 69.7% qoq to HK$4.6 billion. Global stock markets were hit by US-China trade war re-escalation in August and the rising concerns about global economic outlook while social unrest further weighed down HK’s stock market. On the flip side, though the gain of bond investments moderated from HK$39.7 billion in 2Q to HK$29.9 billion in 3Q, it was the main driver of the overall return of the exchange fund. This was mainly due to the strong performance of global bond markets on rising expectations of global monetary easing, global economic slowdown and heightened uncertainties.</td>
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<td>Moving into the fourth quarter, we expect the exchange fund to sustain a moderate investment return as stock market will likely perform well while bond market is poised to tumble in the near term owing to reduction in global risks (including Brexit and trade war), pause in global monetary easing as well as hope for global economic stabilization. Meanwhile, USD is expected to remain range-bound and keep the foreign exchange loss contained. Taken all together, the exchange fund will likely book a decent net return this year after already gaining HK$198.6 billion in the first three quarters. This will help sustain the healthy fiscal reserve and allow the HKMA to well defend the currency peg.</td>
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<td>Hong Kong Markit PMI plunged to 39.3, the worse since November 2008, while the business activity in the city’s private sector slumped to the softest level</td>
<td>This was mainly attributed to the double whammy from the over five months of local social unrest and prolonged US-China trade war. Notably, as trade war has pushed firms to</td>
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accelerate the supply chain shift from Mainland China to Southeast Asia, new orders continued to tumble amid a record decrease in the demand from Mainland China. Worse still, companies have reduced on purchasing and input inventories at the fastest pace since the survey started in July 1998. Going forward, due to the renewed uncertainty about US-China trade talks and the prolonged social unrest, the risk of further decrease in the PMI cannot be ruled out despite recent relief measures rolled out by the government. As the PMI has stayed below 45 for four consecutive months, it reinforces that the economy remains mired in the weakest growth in decade. In other words, 4Q GDP is likely to see another year-on-year contraction and lead to a full-year recession.

- Hong Kong’s property price index dropped for the third straight month by 2.3% yoy in September. Housing transaction volume fell for the fifth straight month by 5.7% yoy to 4001 deals in October.

This, however, has not yet reflected the boost from government’s relaxation of mortgage rules for first-time buyers from mid-Oct. The easing rules have helped unleashed some pent-up demand especially from the middle-class households who have decent income but insufficient down payment. As a result, housing market especially the secondary one rebounded notably. We expect transaction volume of private flats priced at HK$10 million (which took up over 50% of total transaction volume) to increase in the coming months. Meanwhile, secondary housing prices (+5.9% YTD as of September) may be able to show a growth of up to 5% yoy by end-2019. In fact, following the easing of mortgage rules, CCL index which tracks the secondary housing prices rebounded by 0.22% week-on-week as of 3rd November, ending the ten consecutive weeks of decline.

Nevertheless, the long-term housing market outlook still hinges on the outlook of economy, labor market and housing/land supply. First, the labor market outlook is worsening with unemployment rate to go up further. This could make the near-term rebound in housing market fragile. Second, Hong Kong’s economy is facing a double whammy from trade war and local social unrest, both of which remain unresolved and could continue to weigh down growth. Third, the government has been ineffective in carrying out the plan of increasing land and public housing supply while vacancy tax could deter developers from building private housing (housing construction fell 11.6% yoy during 1Q-3Q 2019). Should imbalance between long-term supply and demand persist, we still believe that any housing market correction will be well capped.

### RMB

<table>
<thead>
<tr>
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<th>OCBC Opinions</th>
</tr>
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</table>

RMB Facts

- The USDCNY broke 7 last week on the back of positive expectation on rollback of some existing tariffs. RMB also strengthened against its major trading partners with RMB index rose to 91.83.

RMB Opinions

- RMB’s outperformance last week was purely driven by the positive additional information about the phase one deal which has not been priced in by the market.
- We think RMB’s outlook may remain digital. We expect RMB to test 6.90 should US agree roll back the additional 15% tariff imposed from 1 September. Alternatively, RMB may weaken.
again with the USDCNY may drift back to 7.2 again should the deal break down.
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