

**Samuel Tse**  
Economist

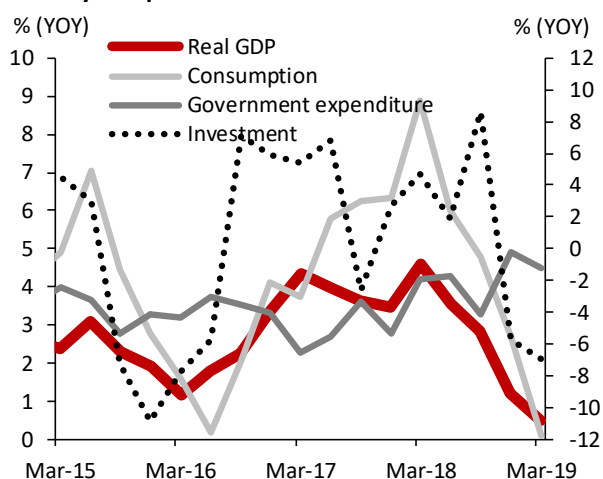


Please direct distribution queries to  
Violet Lee +65 68785281 [violetleeyh@dbs.com](mailto:violetleeyh@dbs.com)

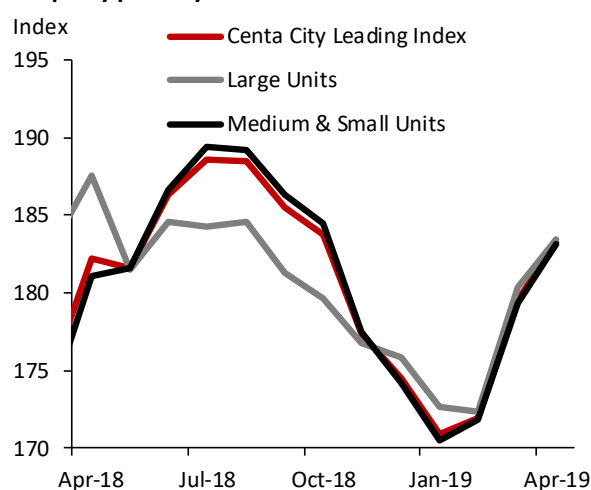
### Charts of the month

- Hong Kong's real GDP grew by 0.5% YoY in 1Q19, the slowest growth since 3Q09. On the positive side, GDP advanced by 1.2% QoQ, from -0.5% in 4Q18.
- Private consumption (60% of GDP) saw a modest growth of 0.1% despite a strong equity market rally in 1Q19. Investment expenditure fell further by 7.0%, compared with the decrease of 5.8% in 4Q18, as cautious sentiment prevailed.
- Goods exports recorded the first decline since 1Q16 due to the ongoing China-US trade tension. Services export growth decelerated to 1.4% from 3.3% due to cautious investment sentiment, despite inbound tourism recovered somewhat.
- The property market appears to have bottomed out as a Dovish Fed will unlikely hike rates this year. A robust labor market with unemployment rate hovering at a 20 year low of 2.8% further buttress the market. As a result, home price went up by 5.0% since end-18 and 7.9% from the trough in 2019.
- The HK economy should continue to improve alongside gradual stabilization of the mainland economy.

#### GDP by component



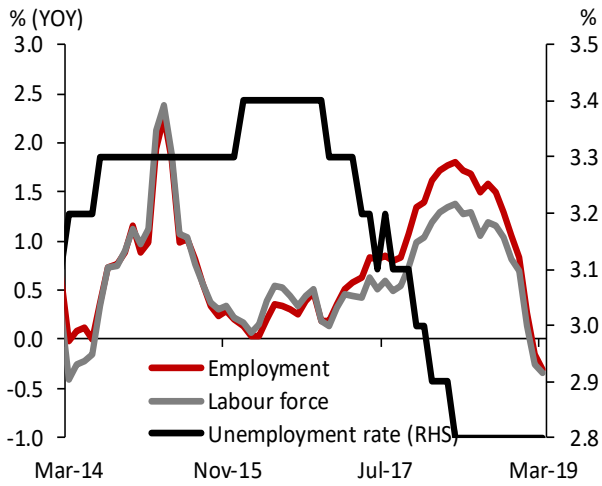
#### Property price by size



Consumption

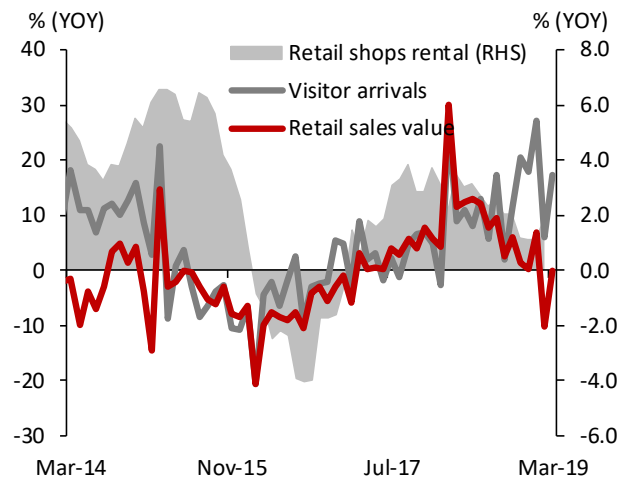
Labour market has remained tight; yet, both labour demand and supply recorded YoY decline.

Unemployment rate and labour demand-supply



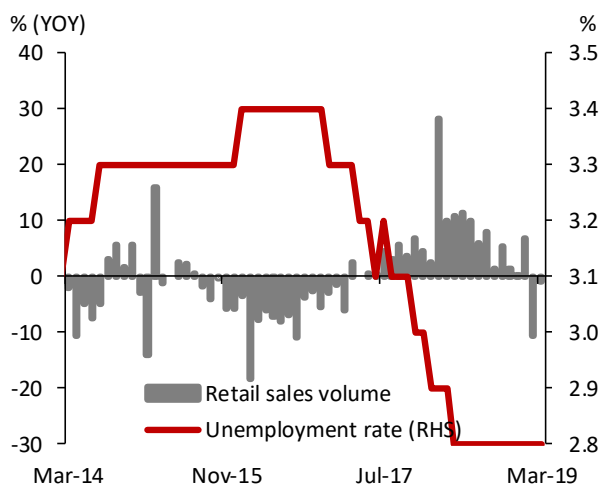
Retail sales recorded a modest YoY decline in 1Q; Consumption sentiment was cautious amid various external uncertainties.

Tourist arrivals, retail sales value and rent



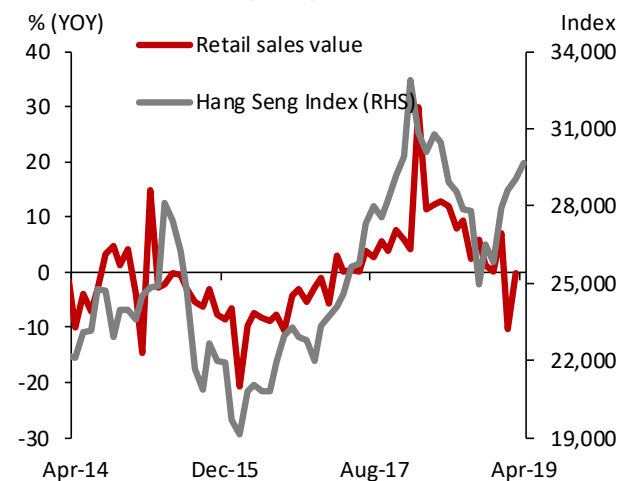
Full employment supports private consumption.

Retail sales and unemployment



Positive wealth effect from a buoyant equity market should translate into strong spending ahead.

Retail Sales and Hang Seng Index

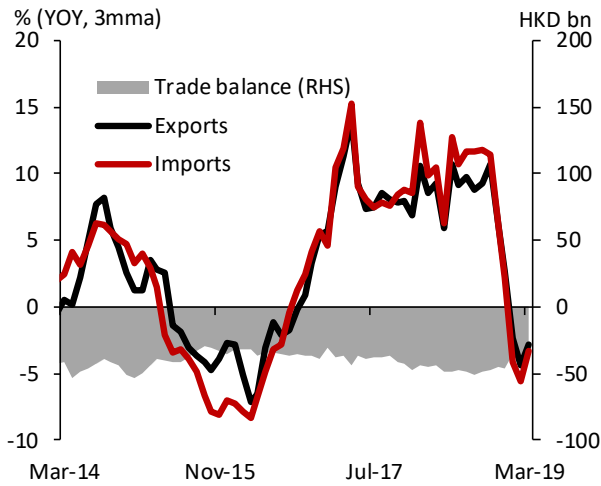


External trade figures

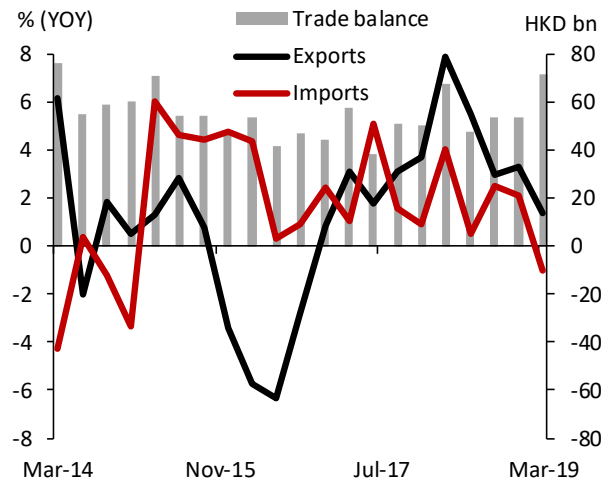
Trade performance turned sluggish after front-loading activities came to an end. Weakening global demand will continue to weigh on the export growth.

Exports of services decelerated due to cautious investment sentiment, but inbound tourism has recovered somewhat.

Merchandise trade statistics



Exports and imports of services

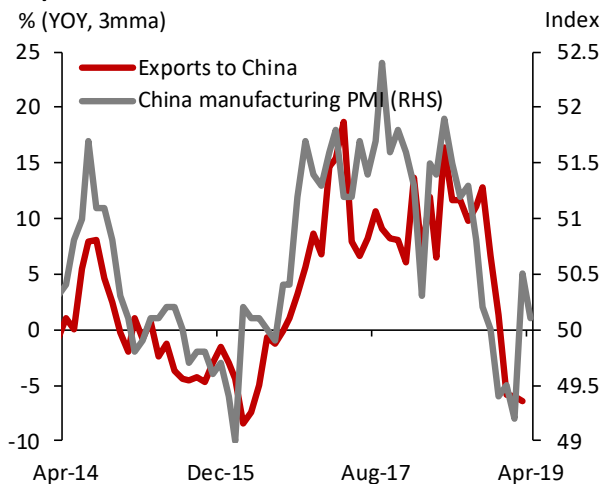


Exports of goods by country

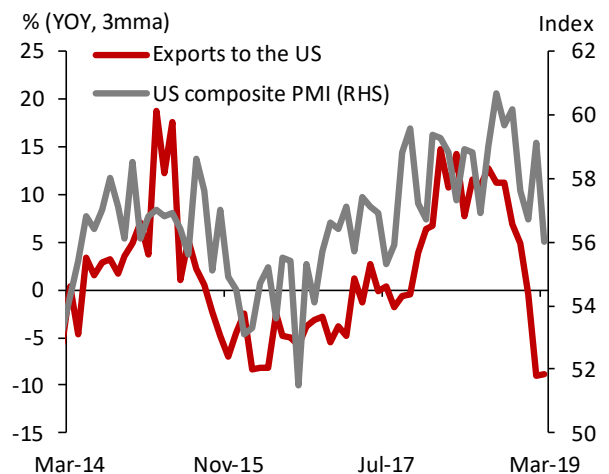
China dragged down the trade performance of the world.

Exports to the US remain weak alongside the lingering China-US trade talk.

Exports to China



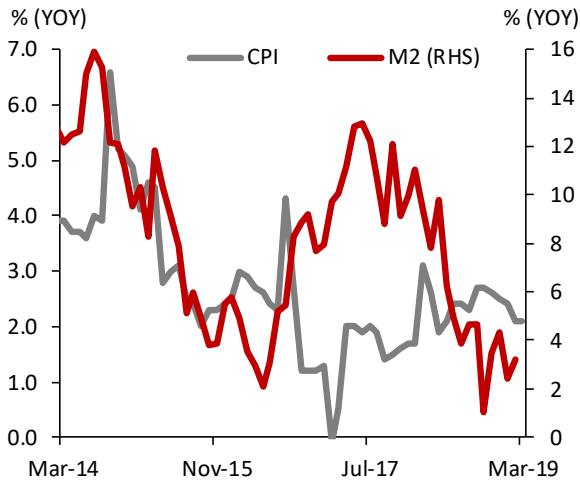
Exports to the US



Property and monetary

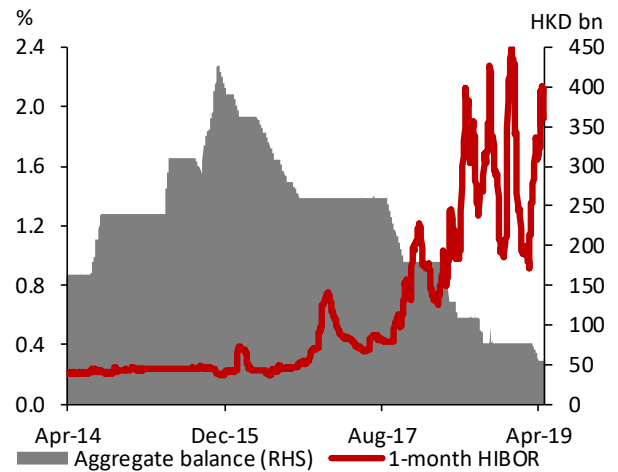
The correlation between M2 and CPI is weak; upside risks to inflation is limited due to earlier moderation in fresh-letting residential rentals.

Inflation and M2



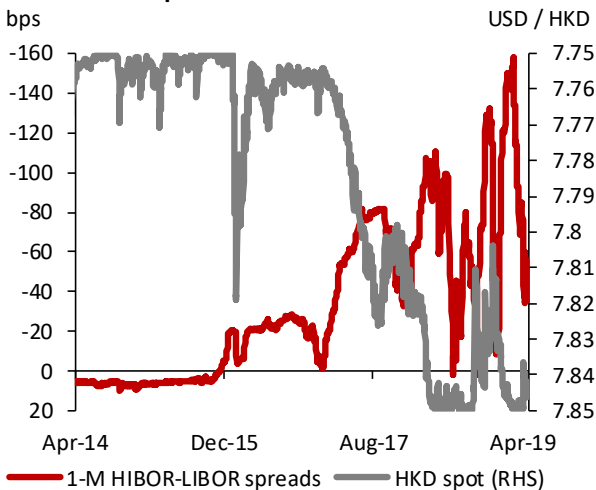
After 8 rounds of HKMA intervention in Mar, aggregate balance dropped 31% to HKD55bn; 1-M HIBOR bounced to 2%.

HIBOR and liquidity



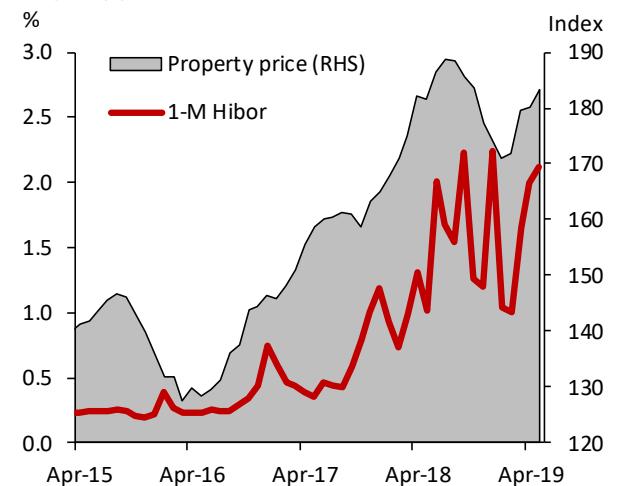
HKD strengthened from 7.85 to 7.84 in April alongside narrowing HIBOR-LIBOR spreads.

Interest rate spread and HKD



Home price went up by 5.0% since end-18 as concerns over Sino-US trade war subside.

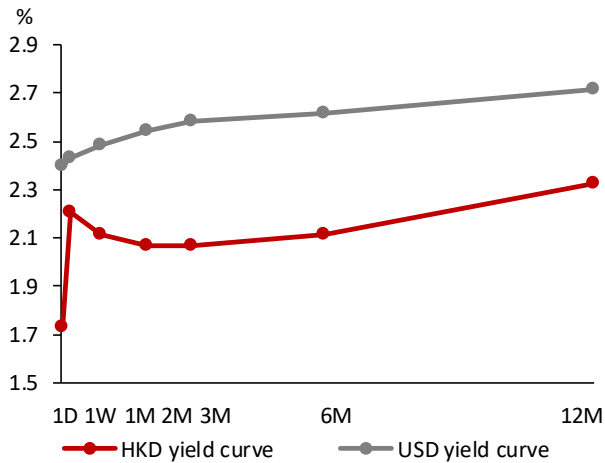
Property price and HIBOR



Property and monetary (cont'd)

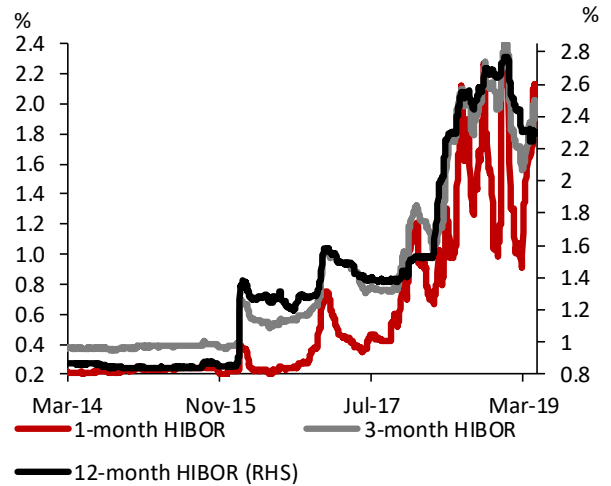
Short-end HIBOR-LIBOR spreads have narrowed amid dovish tone from the US Fed and HKMA intervention...

HIBOR and LIBOR fixing curves



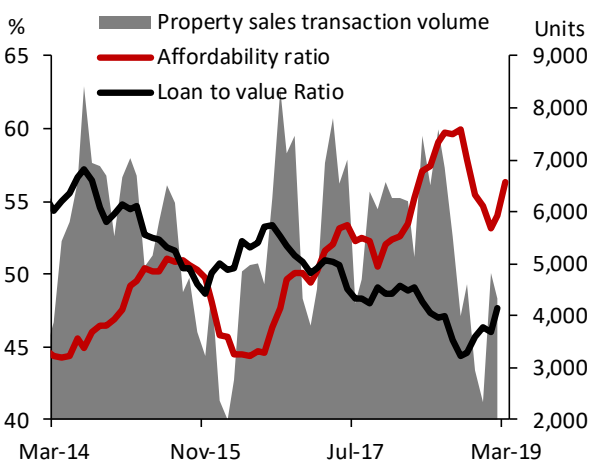
... Yet, long-end interbank rate fell in tandem of LIBOR.

Short-term and long-term interest rates



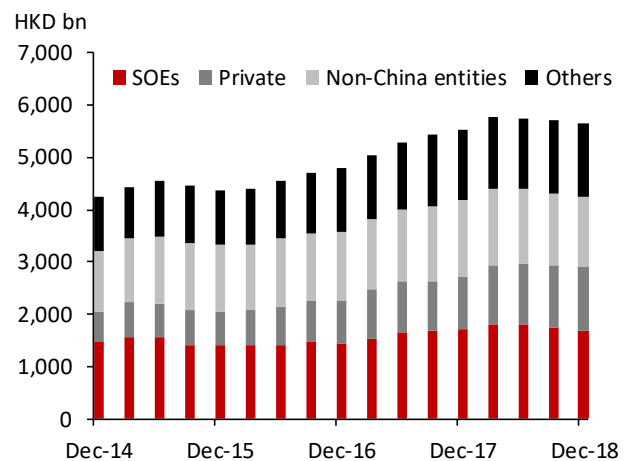
Affordability worsened again due to rebound of property price; transaction volume also rebounded after Chinese New Year on the back of reviving sentiment.

Affordability and loan to value ratio



Loan growth to China has slowed down.

Non-Bank China Exposures



## Forecasts on major indicators:

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Growth rate (% YoY)	3.8	3.3	2.5	2.0	1.5	2.5	2.7	2.5

Exchange rate and interest rates forecasts									
		1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
USD/HKD	eop	7.85	7.85	7.85	7.84	7.83	7.82	7.81	7.80
Interbank rate	3-M	1.76	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Government bond yields	2Y	1.45	1.70	1.70	1.70	1.70	1.70	1.70	1.70
	10Y	1.47	1.85	1.90	1.95	2.00	2.00	2.00	2.00
	10Y-2Y (bps)	2	15	20	25	30	30	30	30

## Group Research

### Economics & Strategy

#### Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 [taimurbaig@db.com](mailto:taimurbaig@db.com)

#### Nathan Chow

Strategist - China & Hong Kong

+852 3668-5693 [nathanchow@db.com](mailto:nathanchow@db.com)

#### Masyita Crystallin, Ph.D.

Economist – Indonesia & Philippines

+62 21-2988-4003 [masyita@db.com](mailto:masyita@db.com)

#### Joanne Goh

Regional equity strategist

+65 6878-5233 [joannegohsc@db.com](mailto:joannegohsc@db.com)

#### Neel Gopalakrishnan

Credit Strategist

+65 6878-2072 [neelg@db.com](mailto:neelg@db.com)

#### Eugene Leow

Rates Strategist - G3 & Asia

+65 6878-2842 [eugeneleow@db.com](mailto:eugeneleow@db.com)

#### Chris Leung

Economist - China & Hong Kong

+852 3668-5694 [chrisleung@db.com](mailto:chrisleung@db.com)

#### Ma Tieying

Economist - Japan, South Korea, & Taiwan

+65 6878-2408 [matieying@db.com](mailto:matieying@db.com)

#### Radhika Rao

Economist - Eurozone & India

+65 6878-5282 [radhikarao@db.com](mailto:radhikarao@db.com)

#### Irvin Seah

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 [irvinseah@db.com](mailto:irvinseah@db.com)

#### Duncan Tan

FX & Rates Strategist - ASEAN

+65 6878-2140 [duncantan@db.com](mailto:duncantan@db.com)

#### Samuel Tse

Economist - China & Hong Kong

+852 3668-5694 [samueltse@db.com](mailto:samueltse@db.com)

#### Philip Wee

FX Strategist - G3 & Asia

+65 6878-4033 [philipwee@db.com](mailto:philipwee@db.com)

**Sources:** Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422.