

Hong Kong chartbook

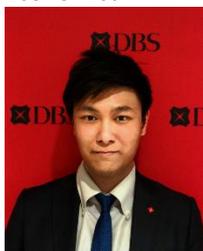
Asset prices resilient to economic slowdown

Group Research

July 18, 2019

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Economist



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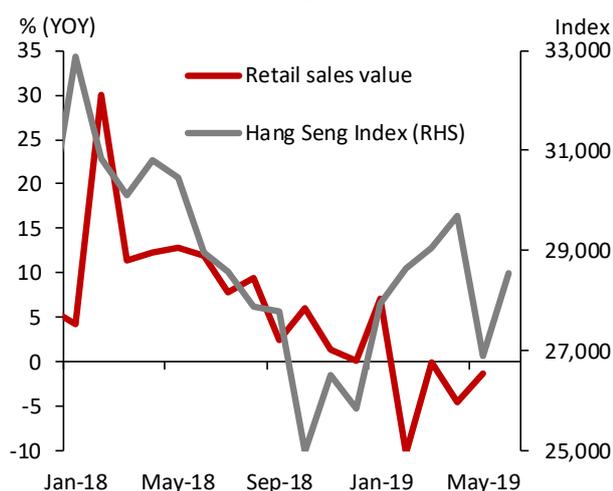
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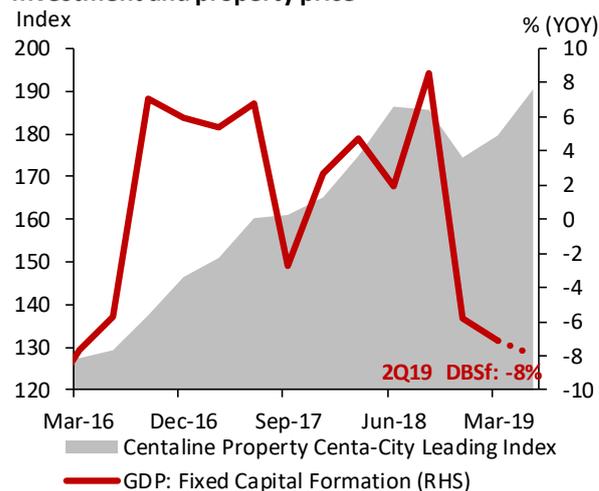
Charts of the month

- Property prices hit new record highs in June in the face of higher mortgage rates. Equities have recovered modestly on a global monetary easing bias.
- Consumer spending has, however, remained cautious on a lack of job security on external uncertainties and tourist spending dampened by a weaker CNY.
- Investment remained subdued. The contraction in fixed capital investment deepened to 7.1% YoY in 1Q19 from -5.8% in 4Q18.
- The HKD peg to the USD is intact. USD/HKD has been brought down from 7.85 to 7.79 in late May-early July on positive HIBOR-LIBOR spreads.

Retail sales and Hang Seng Index



Investment and property price

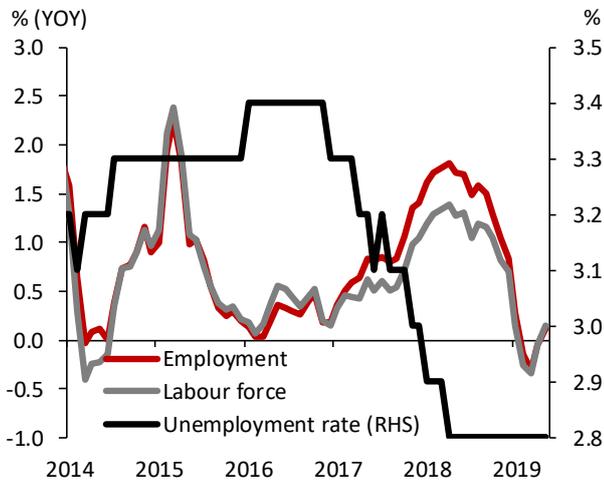


Consumption

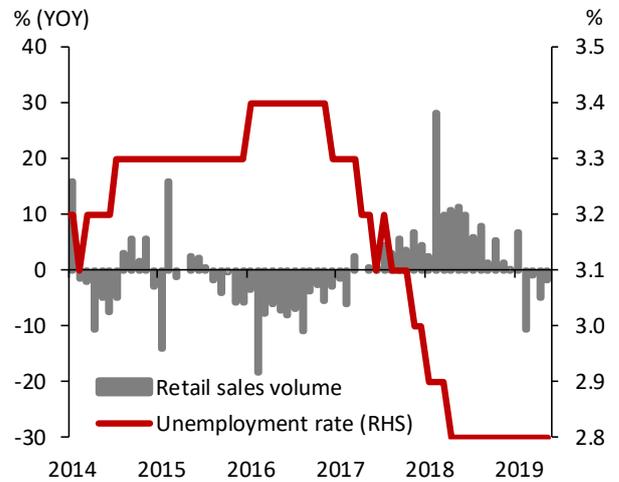
The labour market has remained tight and resilient against weakening economic fundamentals.

Local consumption has, however, remained cautious due to external uncertainties.

Unemployment rate and labour demand-supply



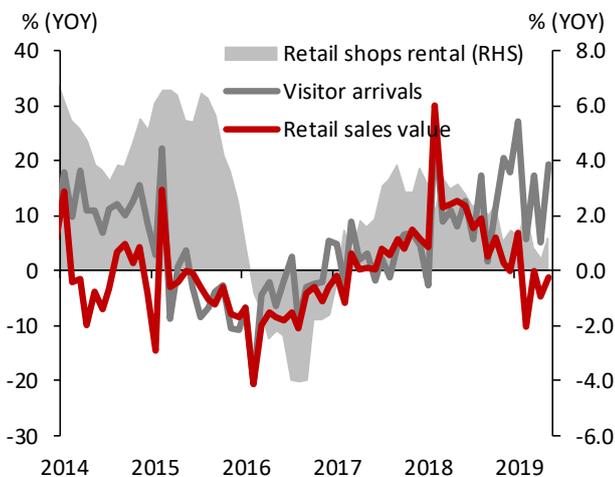
Retail sales and unemployment



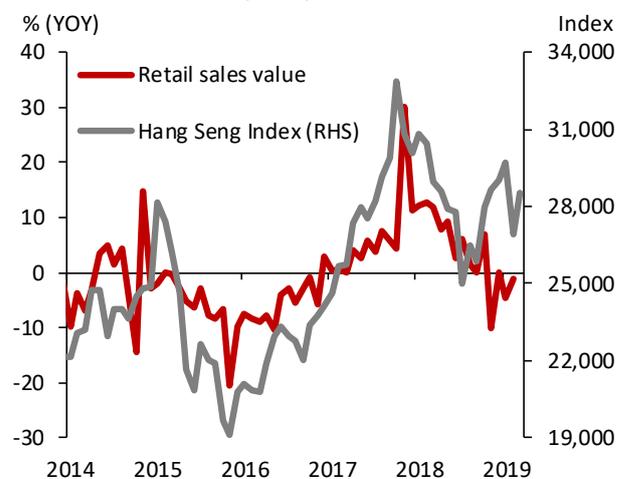
Retail sales have declined (YoY) for 4 consecutive months since February. Despite a rebound in visitor arrivals, tourist spending has been dampened by a weaker CNY.

The mild recovery in the HK equities has not been enough to encourage consumers to open their wallets.

Tourist arrivals, retail sales value and rent



Retail Sales and Hang Seng Index

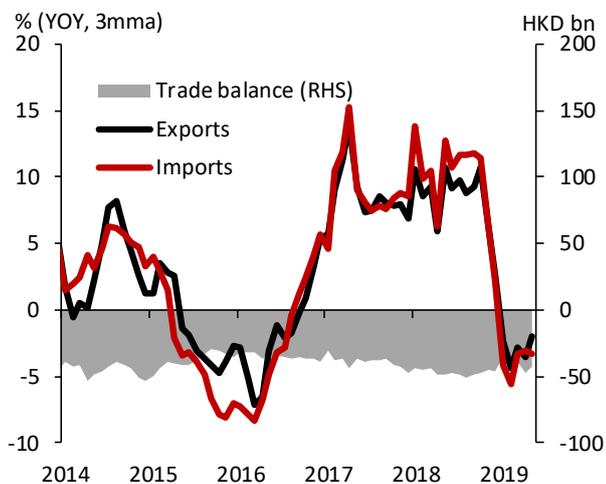


External trade figures

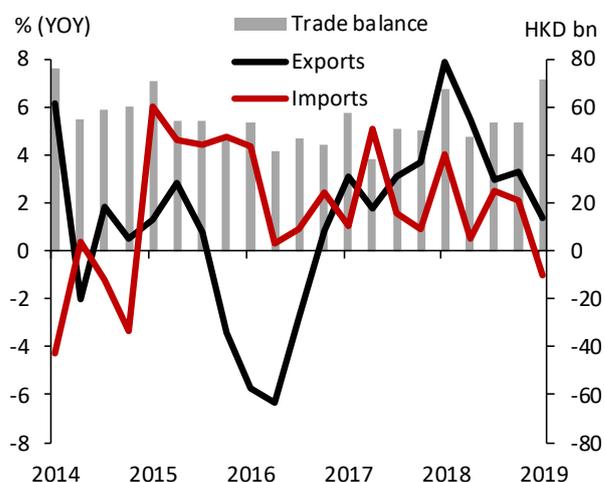
It will take time for Hong Kong to emerge from the trade recession given the uncertainties over China-US trade relations.

Exports of services decelerated on cautious investment sentiment. Inbound tourism has, however, recovered somewhat.

Merchandise trade statistics



Exports and imports of services

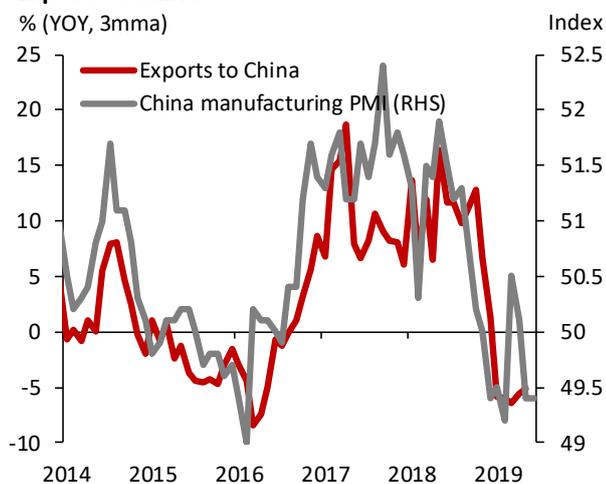


Exports of goods by country

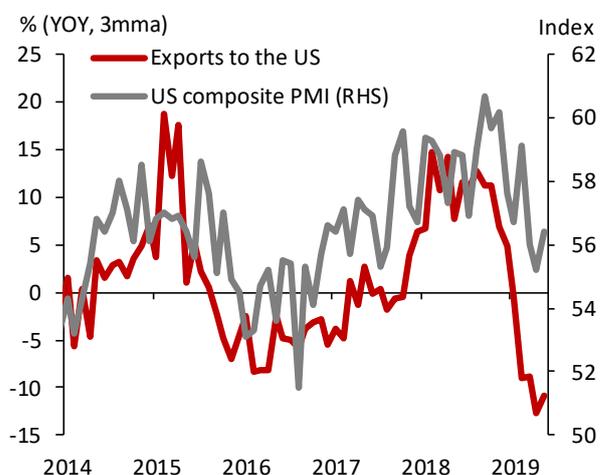
Hong Kong's exports have been adversely impacted by weaker industrial activities in China.

Exports to the US have fallen faster from higher US tariffs on Chinese goods.

Exports to China



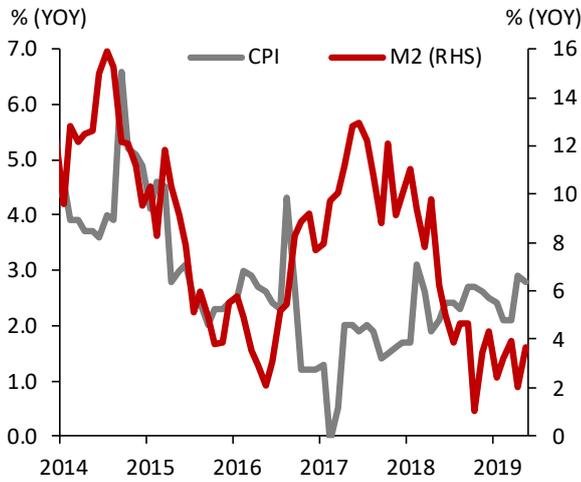
Exports to the US



Property and monetary

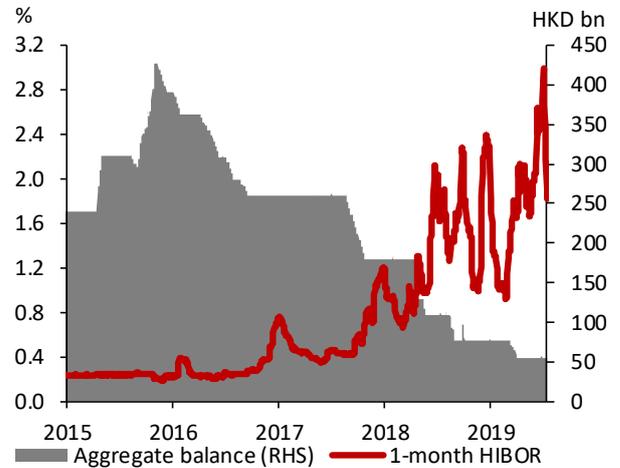
M2 bounced back from -0.3% in May to 2.8% in June; Yet, upside risks to inflation is increasing largely due to rising pork and fruit prices in China.

Inflation and M2



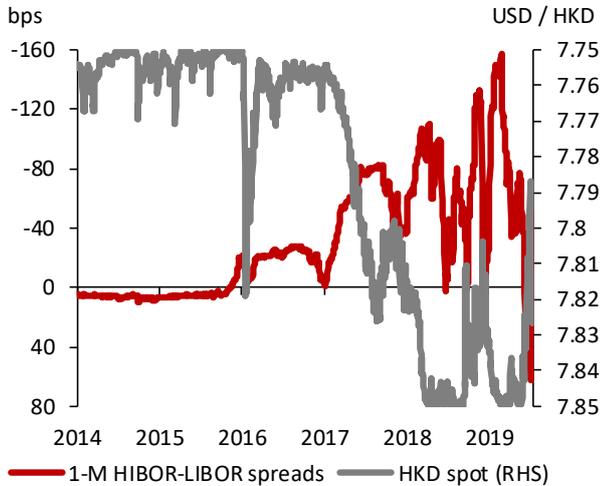
Aggregate balance remained high at HKD54bn; However, 1-M HIBOR bounced to 3% in mid-June to early-July due to tight liquidity arising from corporate dividend payment, quarter-end effect in June, and large-scale IPO exercises.

HIBOR and liquidity



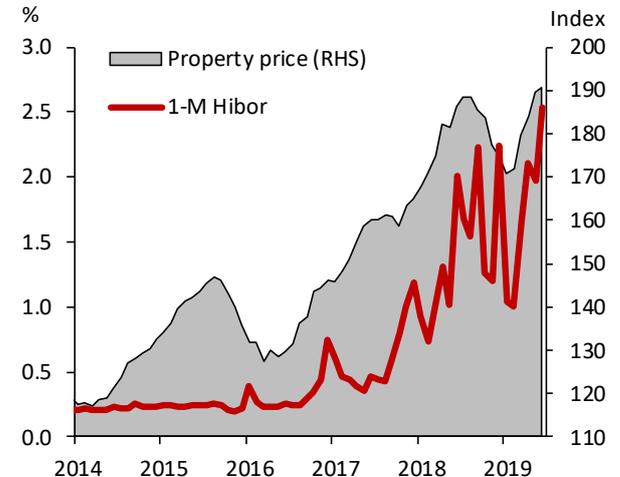
The HKD peg to the USD is intact. USD/HKD has been brought down from 7.85 to 7.79 in late May-early July on positive HIBOR-LIBOR spreads.

Interest rate spread and HKD



Home price have risen 11.5% YTD despite higher mortgage rates.

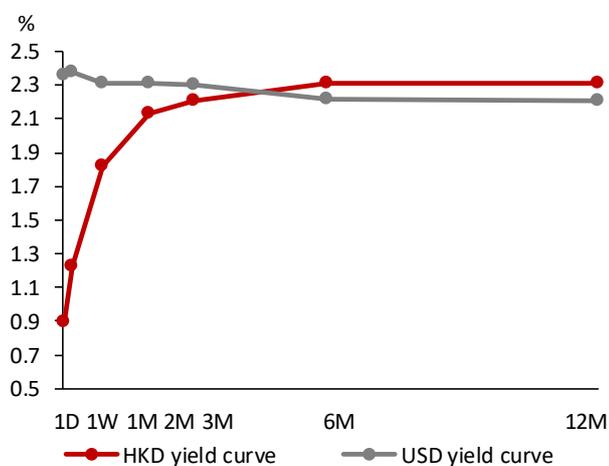
Property price and HIBOR



Property and monetary (cont'd)

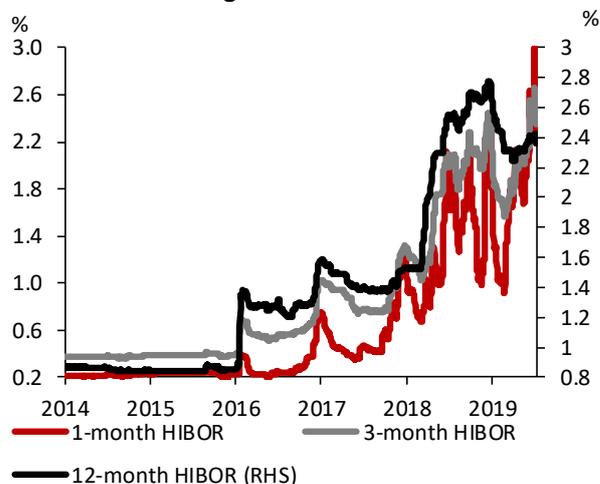
6M-12M HIBOR-LIBOR spreads have turned positive amid stronger US rate cut expectations.

HIBOR and LIBOR fixing curves



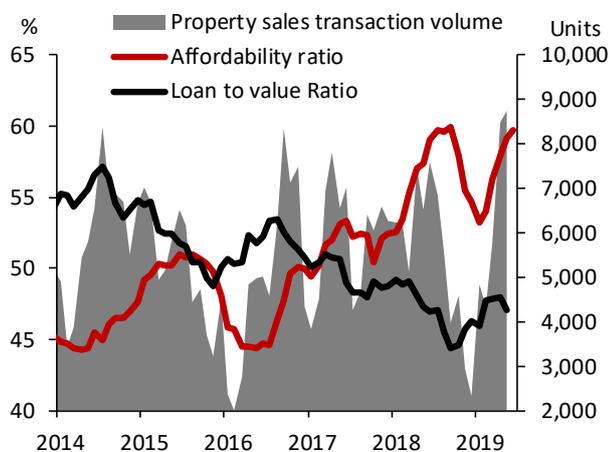
Both short and long-end interest rates have started to fall after the IPO effect dissipated.

Short-term and long-term interest rates



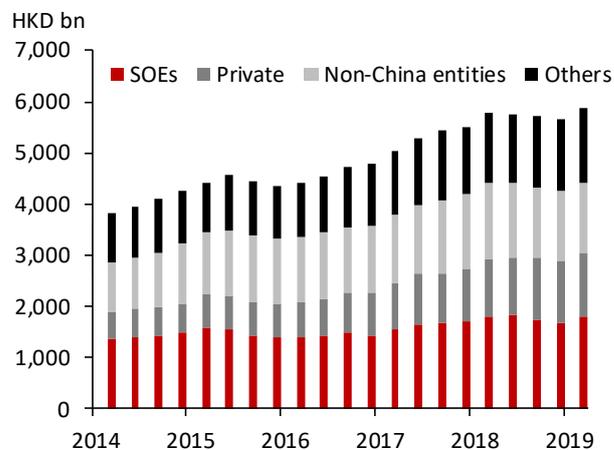
Improved sentiment in the property market led to a rebound in transaction volumes, higher home prices and worsened affordability.

Affordability and loan to value ratio



Loan growth to China is expected to slow from weakening economic fundamental in China.

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	7.81	7.85	7.84	7.83	7.82	7.81	7.80
Interbank rate	3-M	1.76	2.46	1.95	1.80	1.80	1.80	1.80	1.80
Government bond yields	2Y	1.45	1.78	1.70	1.75	1.80	1.80	1.80	1.80
	10Y	1.47	1.51	1.75	1.90	2.00	2.10	2.20	2.20
	10Y-2Y (bps)	2	2.46	1.95	1.80	1.80	1.80	1.80	1.80

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

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