

## Hong Kong chart book

## HKD rates are sensitive to rising USD rates

Group Research

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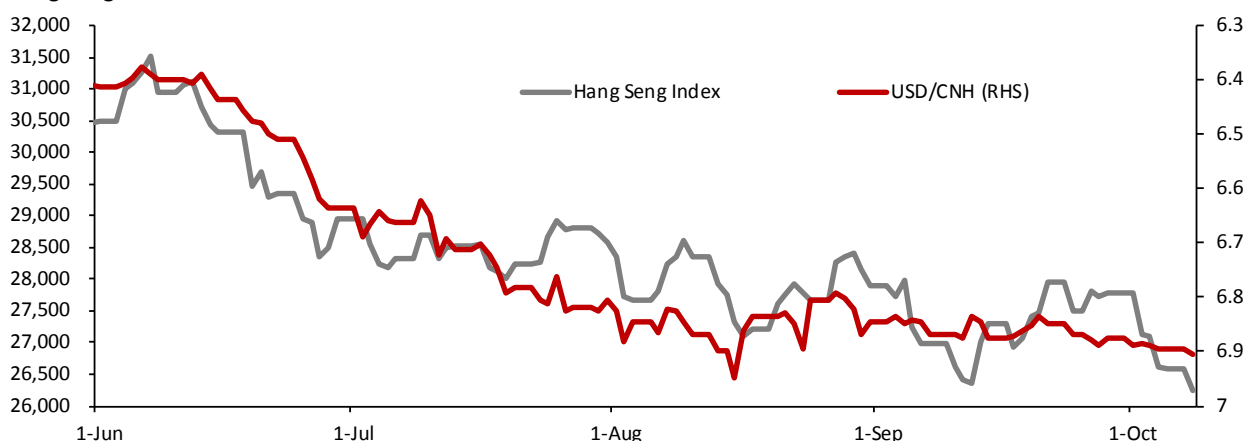
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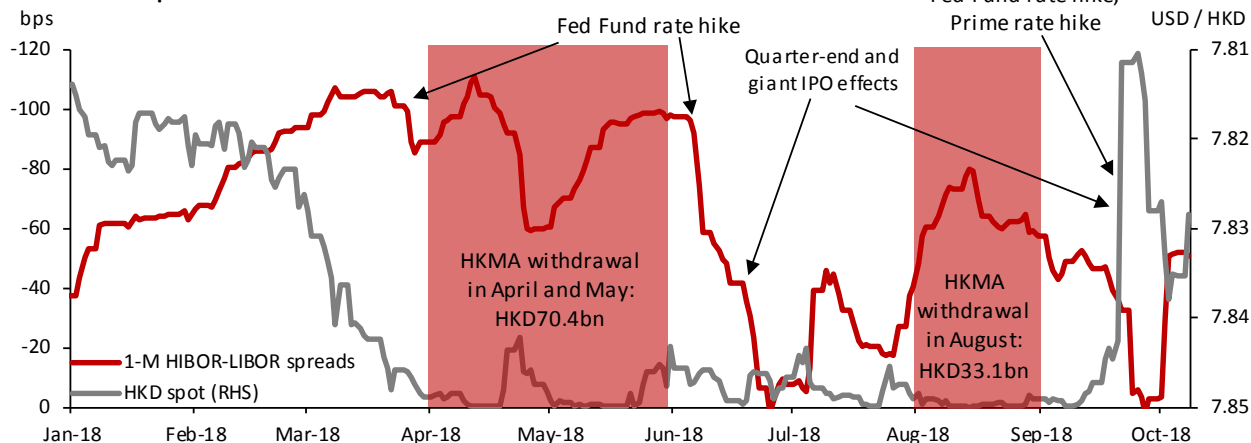
- Intensifying Sino-US trade friction and the consequential CNY depreciation have led to market panic in the Hong Kong stock market.
- The market has started to price-in the rate hike expectation one week before the Fed Fund rate hike and local prime rate hike. Hibor overshoot on the last trading day of the month alongside quarter-end effect.
- Hong Kong dollar thereby bounced back from the weak side of the convertibility undertaking. 1-M Hibor fell back slightly on entering October. The currency hovered at 7.825-7.835 per USD.

## Charts of the month

Hang Seng Index and CNY



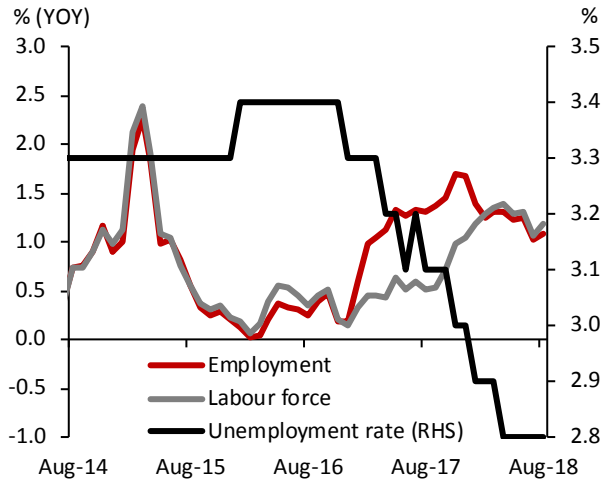
Interest rate spread and HKD



Consumption

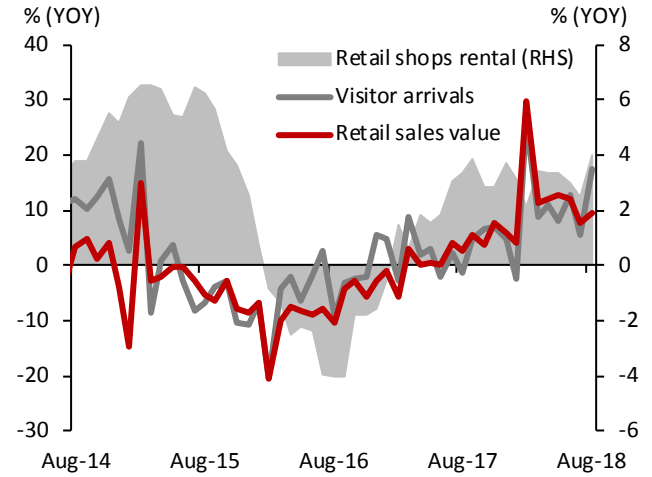
Labour market has remained tight

Unemployment rate and labour demand-supply



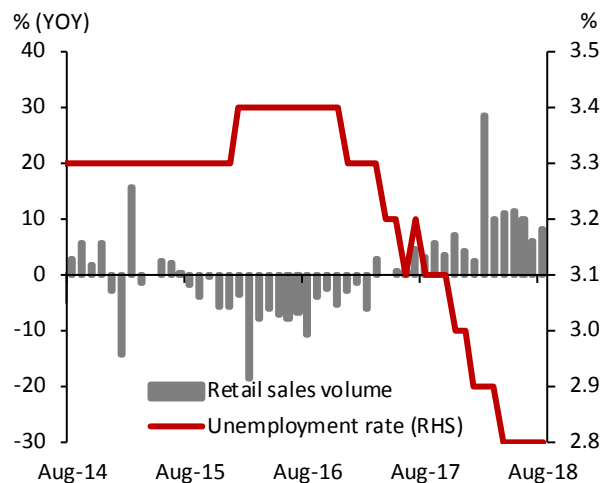
Recovery in inbound tourism has supported retail sales

Tourist arrivals, retail sales value and rent



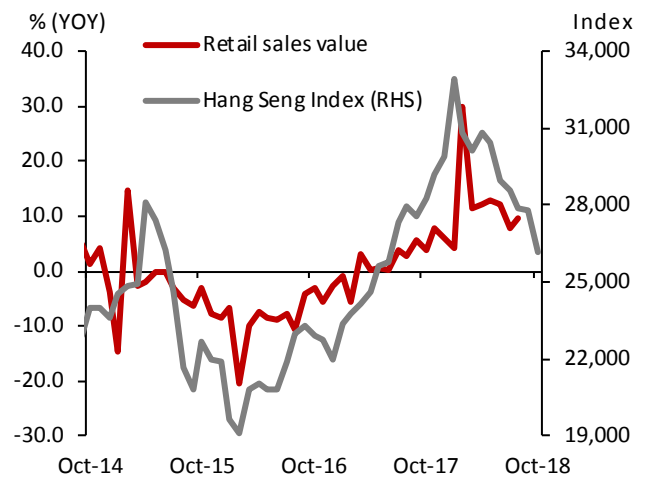
Retail spending has been fuelled by full employment

Retail sales and unemployment



Weak stock market weighs on domestic consumption

Retail Sales and Hang Seng Index

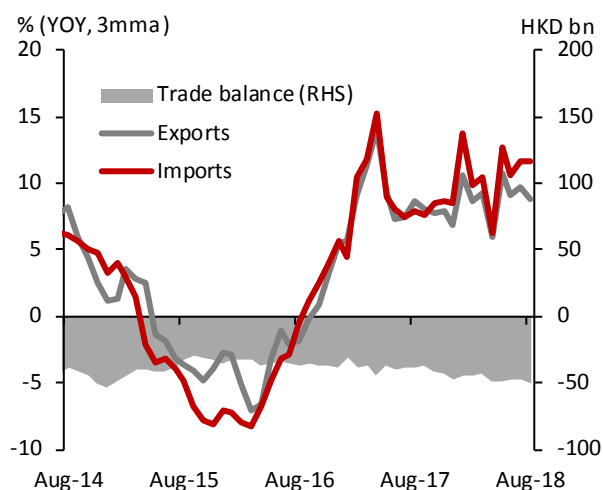


## External trade figures

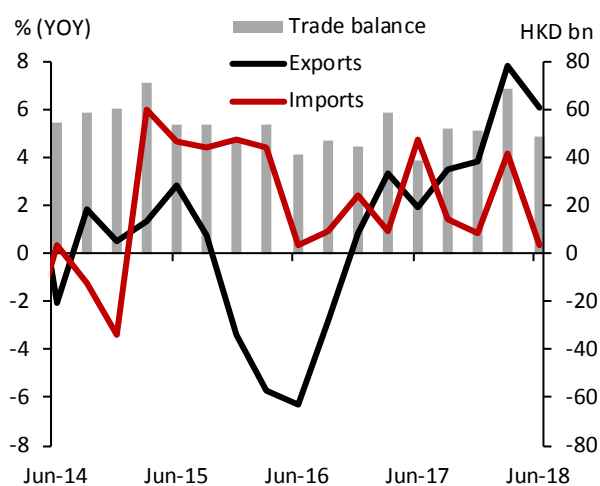
Trade has been resilient thus far due to front-loading activities before the US's second round of tariffs on China came into effect

Recovery in inbound tourism, vibrant trade flow, and buoyant financial activities in 2Q18 have ramped up services exports

## Merchandise trade statistics



## Exports and imports of services

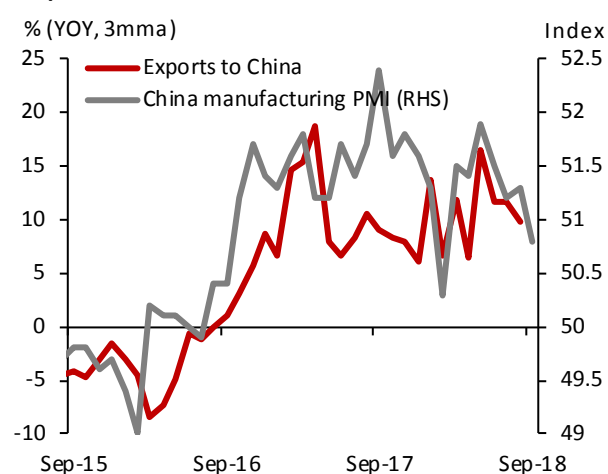


## Exports of goods by country

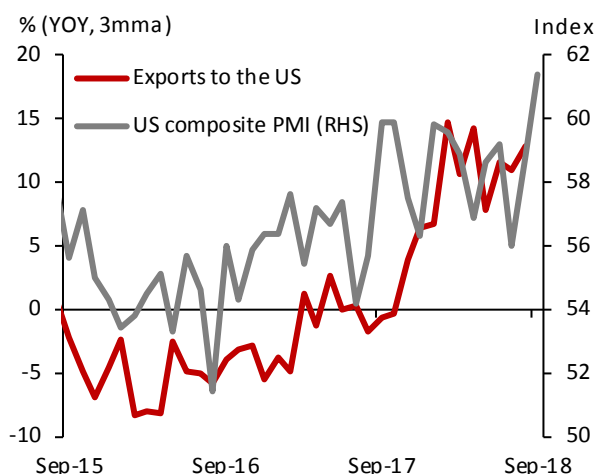
Export growth to China has already slowed down amid weakening China's domestic demand

Exports to the US are set to cool from an escalation in the Sino-US trade war despite favourable PMI figure

## Exports to China



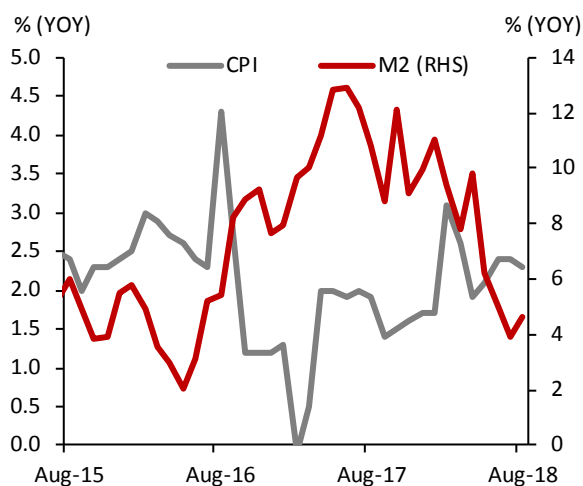
## Exports to the US



## Property and monetary

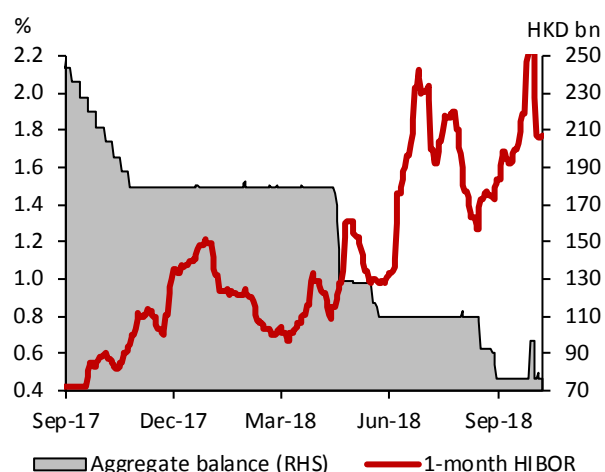
The correlation between M2 money supply and headline inflation has weakened

Inflation and M2



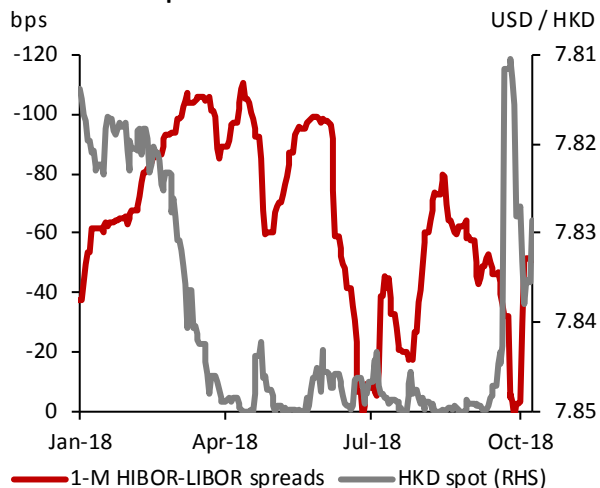
Interbank rates rose due to US Federal Reserve target rate hike and HKMA's intervention; Aggregate balance stayed low at HKD76bn

HIBOR and liquidity



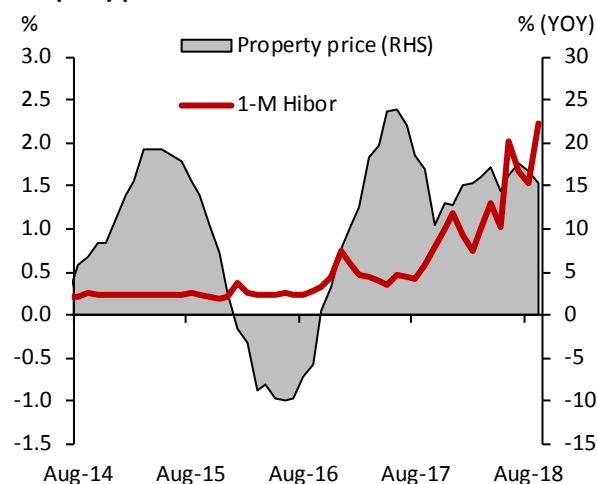
HKD rebounded somewhat alongside narrowing HIBOR-LIBOR spreads

Interest rate spread and HKD



The property market cooled down; The near-term outlook is clouded by the intensifying trade war

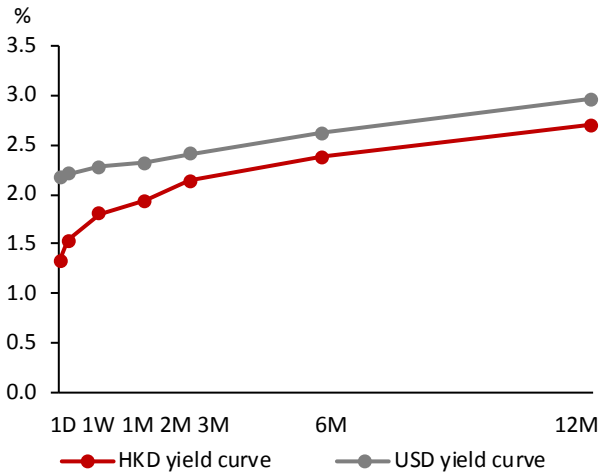
Property price and interest rate



Property and monetary (cont'd)

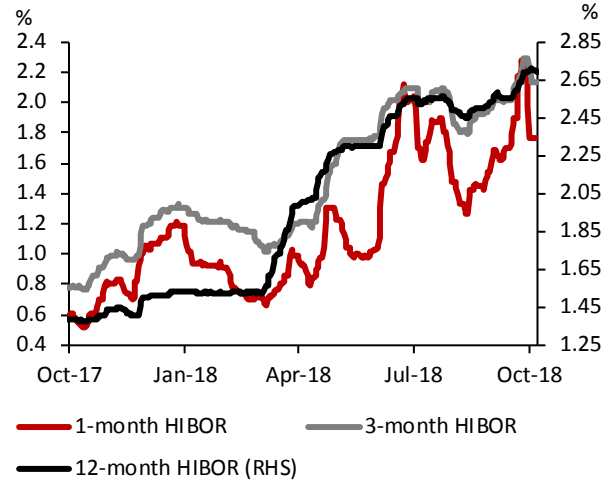
**HIBOR-LIBOR spreads have narrowed alongside HKMA's interventions**

**HIBOR and LIBOR fixing curves**



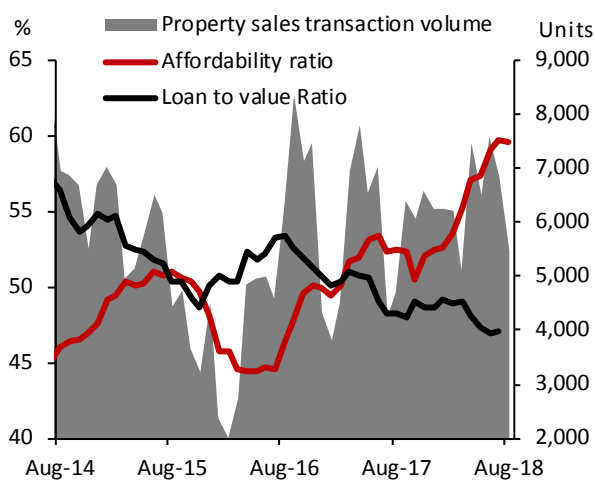
**Local interest rates are therefore set to rise in the near term**

**Short-term and long-term interest rates**



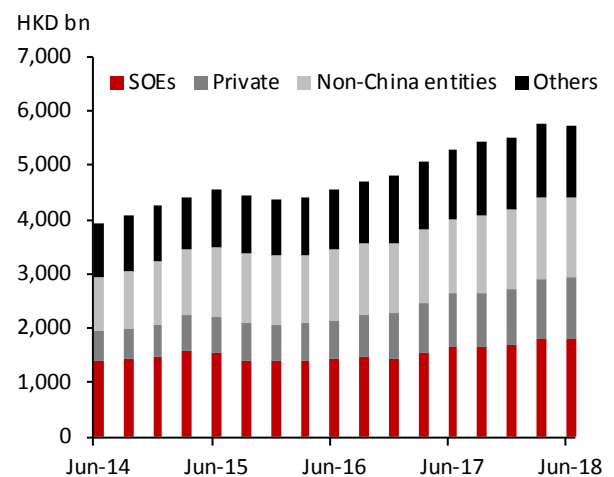
**Worsening affordability precludes risks hitherto; yet, transaction volume dropped amid weakened market sentiment**

**Affordability and loan to value ratio**



**Loan growth to China decelerated alongside the slower growth in the mainland**

**Non-Bank China Exposures**



## Forecasts on major indicators:

	GDP				CPI inflation			
	2016	2017	2018f	2019f	2016	2017	2018f	2019f
Growth rate (% YoY)	2.0	3.8	3.3	2.9	2.4	1.7	2.0	2.5

Exchange rate and interest rates forecasts									
		1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
USD/HKD	eop	7.85	7.85	7.83	7.85	7.84	7.83	7.82	7.81
Interbank rate	3-M	1.21	2.10	2.28	2.45	2.70	2.95	3.10	3.25
Government bond yields	2Y	1.42	1.90	2.25	2.40	2.65	2.90	3.05	3.20
	10Y	1.99	2.25	2.47	2.80	2.95	3.10	3.25	3.25
	10Y-2Y (bps)	57	34	23	40	30	20	20	5

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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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