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Economist



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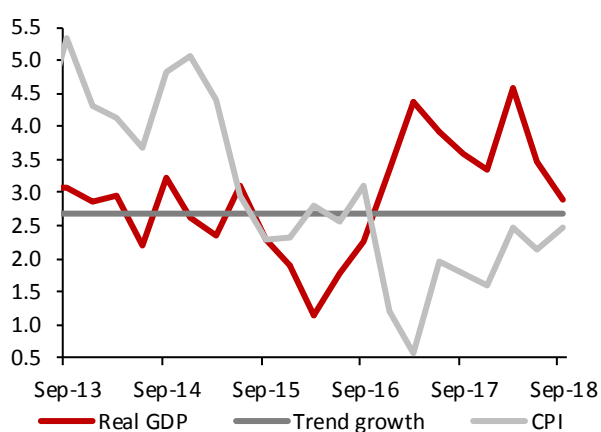
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Charts of the month

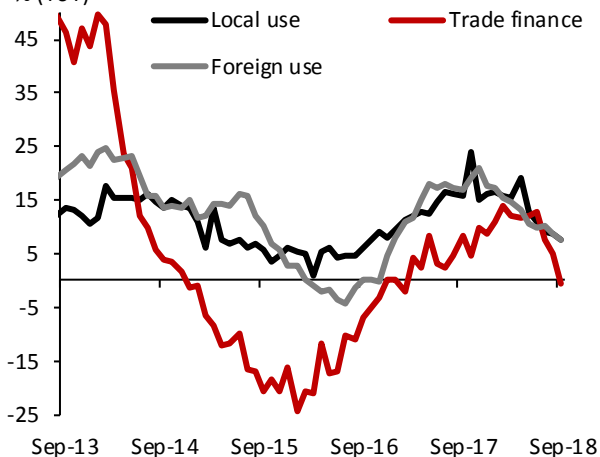
- Real GDP growth has slowed to 2.9% YoY in 3Q18 from its robust 4% performance in 1H18. Economic activities halted during super typhoon in September.
- Trade activities, which have been front-loaded in 3Q18, are set to weaken in 4Q18. This was evident in the contraction of trade finance.
- There will be repercussions for the domestic economy from the unfriendly external environment. Domestic consumption (60% of GDP) and visitor spending will continue to be dampened by sharp falls in both the Hang Seng Index and the Renminbi exchange rate.

GDP and inflation

% (YOY)

**Foreign and domestic finance, and trade finance**

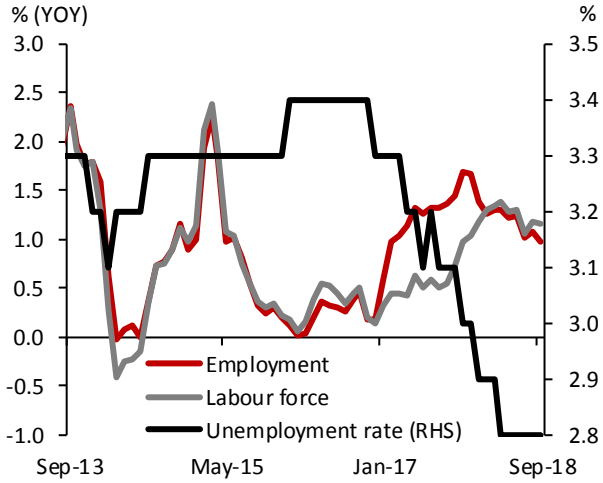
% (YoY)



Consumption

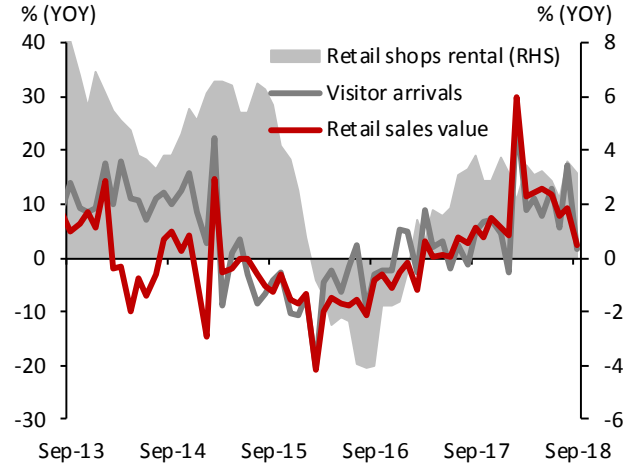
Labour market has remained tight

Unemployment rate and labour demand-supply



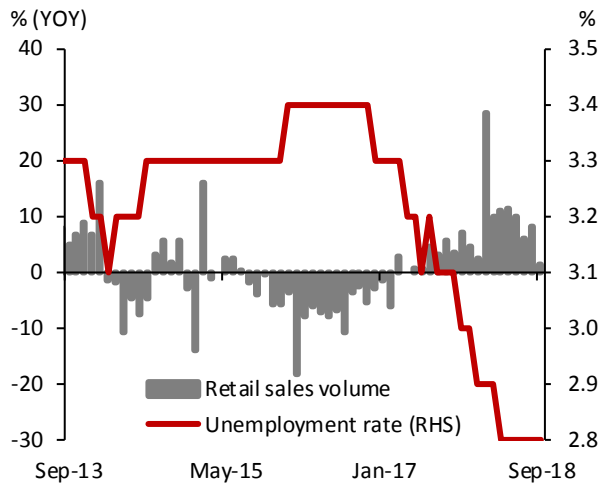
Visitor arrivals and retail sales were temporarily affected by extreme weather condition in September

Tourist arrivals, retail sales value and rent



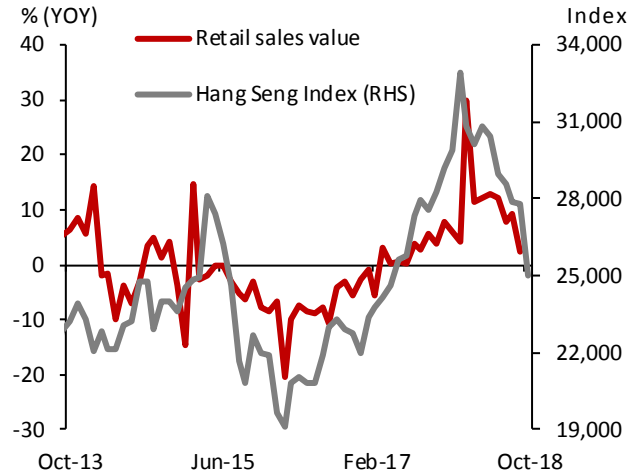
Full employment has helped to keep retail sales growth positive...

Retail sales and unemployment



...amidst the drag on domestic consumption from the weakness in the stock market

Retail Sales and Hang Seng Index

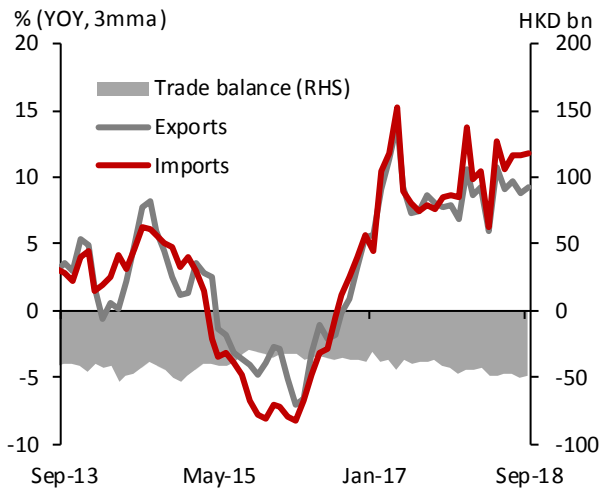


External trade figures

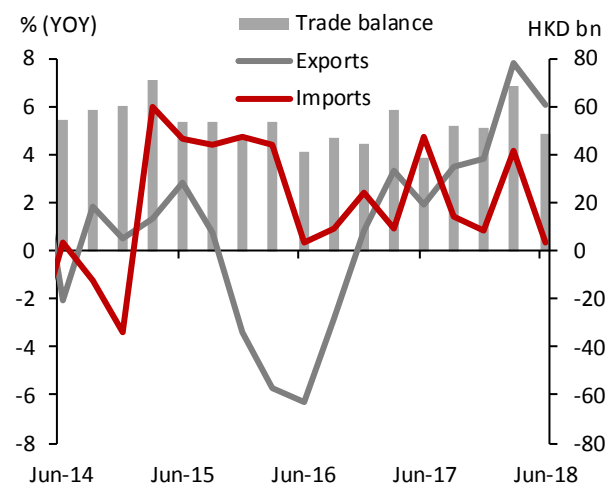
The resilience of trade activities has been attributed to a front-loading of activities ahead of the second round of tariffs in late September

A recovery in inbound tourism, vibrant trade flows, and buoyant financial activities in 2Q18 have ramped up services exports

Merchandise trade statistics



Exports and imports of services



Exports of goods by country

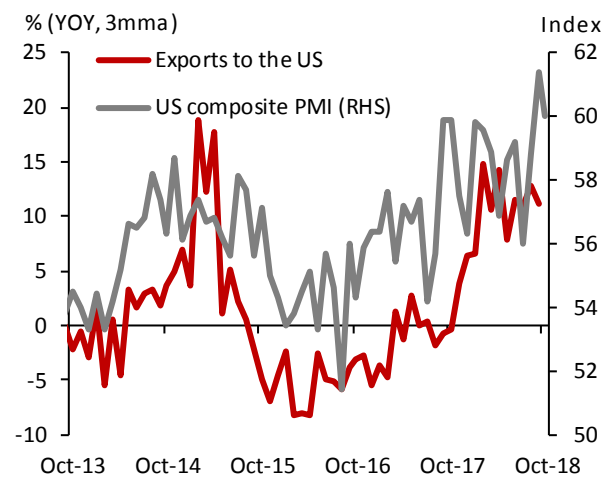
Growth of exports to China has slowed from weaker domestic demand in the mainland

Exports to the US are set to cool from an escalation in the Sino-US trade war

Exports to China

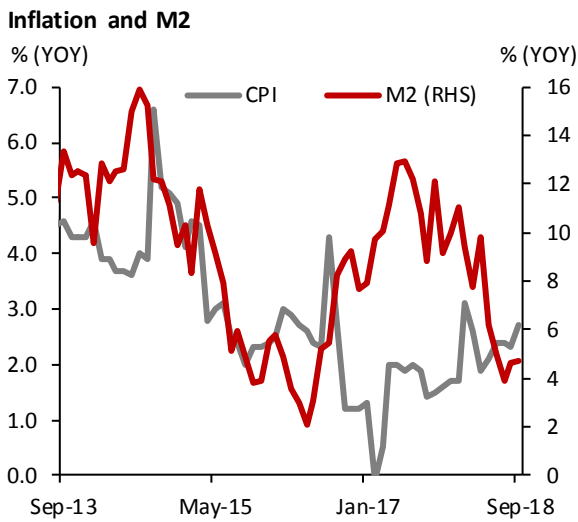


Exports to the US

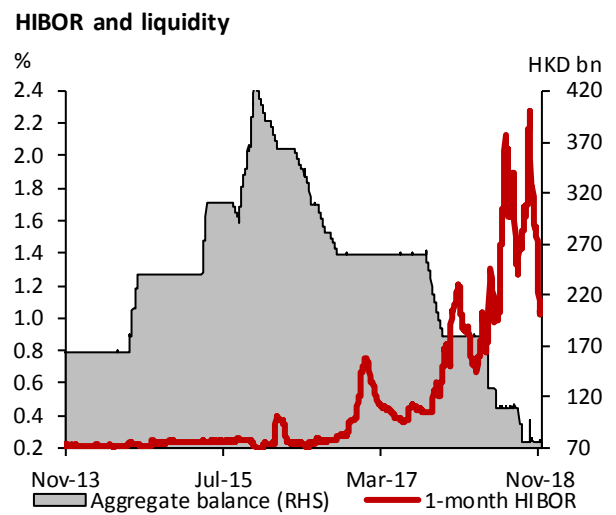


Property and monetary

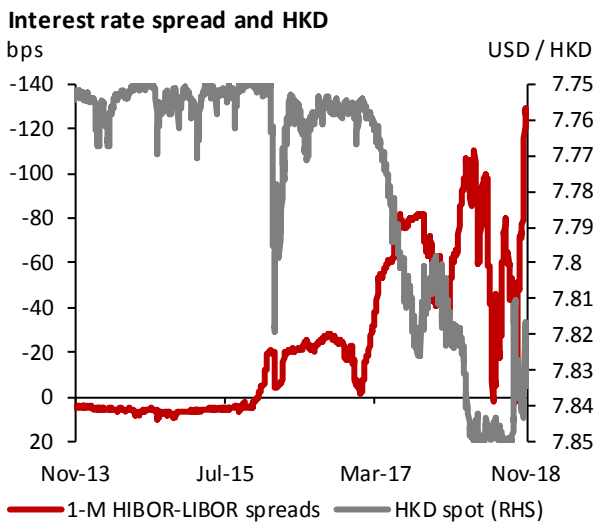
The correlation between M2 money supply and headline inflation has weakened; The government policies added some upward pressure to the headline inflation



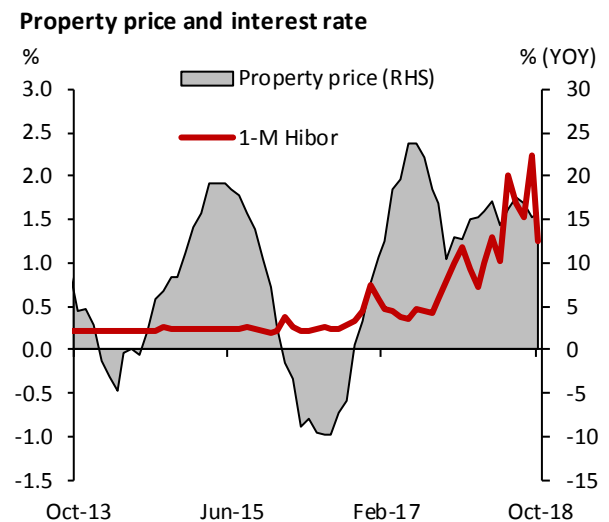
Interbank rates dropped after upward pressure from giant IPOs, quarter-end effect and the recent implantation of the Faster Payment System faded away



HKD retreated to 7.83-7.84 after 1M Hibor declined to 1.04%; spreads widened to 130 bps against their respective Libor rates



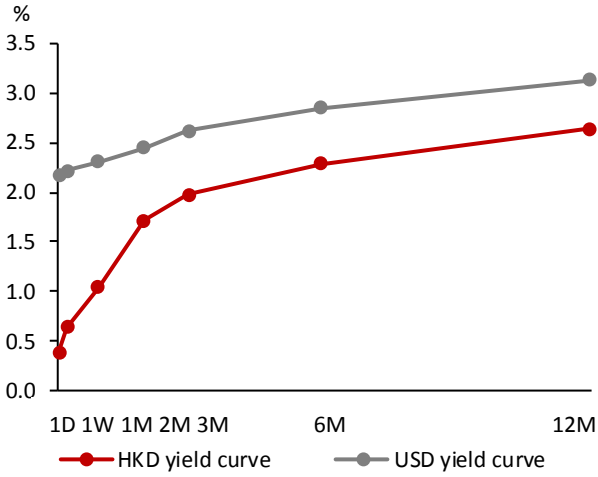
The property market has cooled down with its near-term outlook clouded by the intensifying trade war



Property and monetary (cont'd)

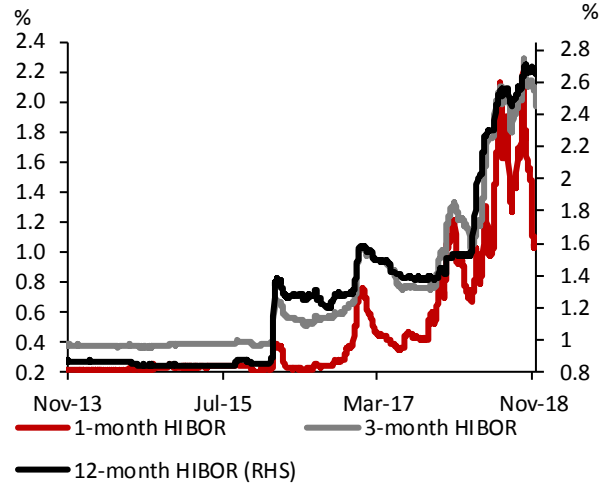
HIBOR-LIBOR spreads have widened again on sufficient liquidity

HIBOR and LIBOR fixing curves



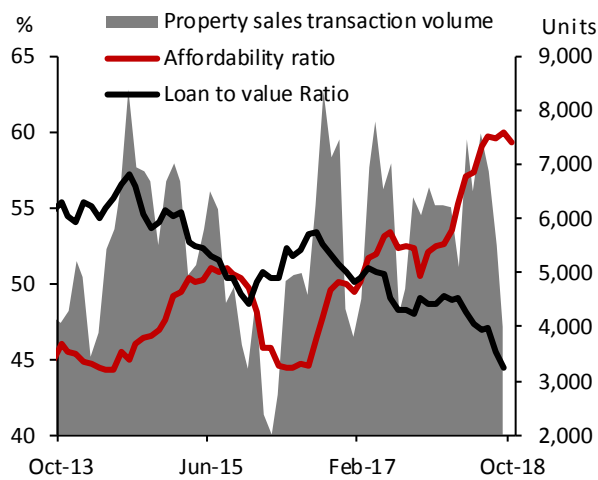
HKMA interventions will resume; local interest rates are set to rise again in the near term

Short-term and long-term interest rates



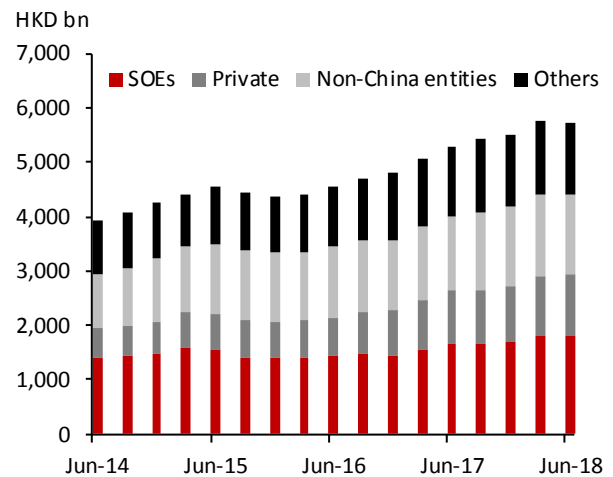
Worsening affordability precludes risks; transaction volume dropped amid weakened market sentiment

Affordability and loan to value ratio



Loan growth to China has slowed down with real economic 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	7.85	7.85	7.84	7.83
Interbank rate	3-M	1.21	2.10	2.28	2.40	2.65	2.90	3.05	3.20
Government bond yields	2Y	1.42	1.90	2.25	2.35	2.60	2.85	3.00	3.15
	10Y	1.99	2.25	2.47	2.60	2.75	3.00	3.10	3.15
	10Y-2Y (bps)	57	34	23	25	15	15	10	0

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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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