

October 31, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Echoing global headwinds in the form of on-going trade disputes, interest rate hike, decelerating global growth momentum and escalation of geo-political risks, Hong Kong (HK) economy is seen to face easing of economic activities.
- For domestic environment, the theme for 2019 outlook will be the shift to the balance of growth drivers, with consumption and investment rather than external trade contributing more to economic growth. For external environment, gradual U.S. rate hikes and slowing China's economic growth remain as the key threats to HK economy.
- The recent openings of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macau mega bridge enhance economic links with China which will spur HK economic benefits.
- We remain positive towards HK economic growth on the back of balanced and solid economic fundamentals. For 2018 and 2019, we forecast HK economy to grow modestly by 3.6% and 3.0%.

**Banny Lam**  
Head of Research  
[Banny.lam@cebi.com.hk](mailto:Banny.lam@cebi.com.hk)  
(852)2916-9630

## Hong Kong economic momentum to turn softening

Echoing global headwinds in the form of on-going trade disputes, interest rate hike, decelerating global growth momentum and escalation of geo-political risks, Hong Kong (HK) economy is seen to face easing of economic activities. As a small and open economy, HK economic outlook mainly hinges on global economic conditions. Pessimistic sentiment over near-term economic outlook surges as uncertainties in the external environment increased markedly. After a strong performance in 2017 and the first half of 2018, HK economy is projected to ease up in 2H2018 and 2019 as correction of housing market and stock market point to more negative wealth effects while hiking downside risks of global economy affect growth of trading and financial activities. For domestic environment, the theme for 2019 outlook will be the shift to the balance of growth drivers, with consumption and investment rather than external trade contributing more to economic growth. For external environment, gradual U.S. rate hikes and slowing China's economic growth remain as the key threats to HK economy. In general, with strong fiscal position and low unemployment rate, HK medium-term outlook remains resilient. The recent openings of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macau mega bridge enhance economic links with China which will spur HK economic benefits. Also, HK is destined to play an important role in the development of "Belt and Road" and "The Greater Bay Area" initiative. The strengths and unique position as the gateway connecting overseas businesses with their Mainland counterparts have strengthened HK as the key player of the initiatives. With potential strengths and threats on the economy, we remain positive towards HK economic growth on the back of balanced and solid economic fundamentals. For 2018 and 2019, we forecast HK economy to grow modestly by 3.6% and 3.0%.

**The on-going US-China trade war fears weakens HK external trade sector.** The escalation of the U.S. trade conflicts with China is weighting on global economic sentiment as well as trade and investment activities going forward. HK, which has served as the re-

export hub between the two nations for decades, and whose biggest trade partner is China, is inevitably affected. Growth momentum of HK's external merchandise trade showed decelerating trend with which September's exports and imports grew only 4.5% YoY and 4.8% YoY, significantly lower than July's 10.0% and 14.0% as well as August's 13.1% and 16.4%. As most of Hong Kong's exports are re-export of products produced by mainland manufacturers, the external trade sector will be hit further by the global trade war.

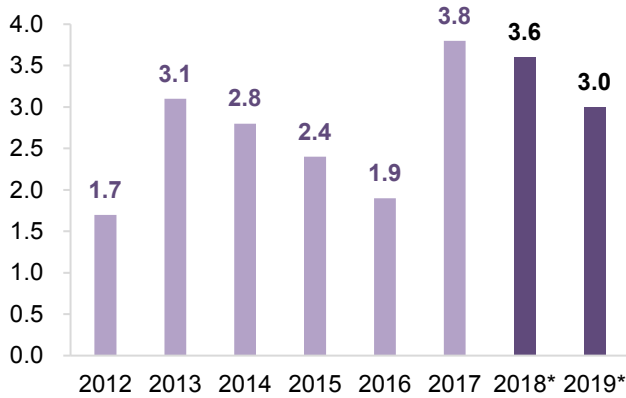
**Tight labor market supports income and consumption growth, offsetting the falling purchasing power of mainland tourists amid RMB depreciation.** Consumption growth remains as the key driver of HK economy. Retail sales from mainland visitors have provided strong support for consumption as number of mainland visitors grew strongly at 12.7% YoY in the first nine months of 2018. Despite strong rebound mainland tourists visiting HK, the year-to-date depreciation of renminbi at 7.1% may undermine the purchasing power of mainland visitors which will soften growth of retail sales. Nonetheless, HK unemployment rate reached a 20-year record low of 2.8%, indicating that the domestic labor market remains tight which supports the growth of household income and maintains growth momentum of consumer spending.

**The property market gathers gloom amid surging mortgage rates.** HK residential property market demonstrates slowing signs, driven by rate hikes and uncertain economic conditions. The private home price declined at 1.4% in September, indicating more correction ahead. In sum, Hong Kong has high population with shortage of land with which resilient demand for housing keeps pushing up property prices. With low interest rates and unemployment rate, Hong Kong citizens have demonstrated strong affordability to purchase properties both for living and investment. With outlook for the property market deteriorating amid rising interest rates and unstable economic environment, property market is set to experience correction of 5% to 10% in the next three months.

**Tighter liquidity conditions triggers more rate hikes in Hong Kong.** The U.S. Federal Reserve has conducted eight 25bps rate hikes since the end of 2015. As HK dollar has been pegged with U.S dollar since 1983, Hong Kong interest rate should follow U.S to rise to avoid liquidity outflow. However, in the past, due to ample liquidity flow into HK economy, the interest spread has not triggered substantial outflow of liquidity and Hong Kong interest rates still stay at low level. However, the continued outflow of liquidity within HK banking system reflected by falling aggregate balance from HK 179.7 bn in January 2018 to HKD 76.5 bn in October 2018 signals the end of 'low interest rate' environment. The uptrend of HK interest rates rate hikes derails HK economic growth momentum.

**“Belt and Road” and “The Greater Bay Area” initiative to extend medium-term growth momentum of HK economy.** HK is one of the world’s most open economics with friendly business and investment environment characterized by free trade, free flow of capital and information as well as transparent regulatory regimes. HK economy is exposed to global economic conditions with which near-term economic growth may be affected by global economic turbulence. To further provide solid base for the economy to maintain sustainable growth, HK will play a greater role in the “Belt and Road” initiative and the “The Greater Bay Area” initiative. HK’s strength in human resources, financing, and connections with other countries could help the mainland enterprises explore overseas opportunities arising from these initiatives. Being an international financial center, Hong Kong is ready to act as a fundraising hub with its rich experience, talents and global networks. In addition, the recent openings of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macau mega bridge further support HK’s integration into China’s trade and economic strategies. In sum, Hong Kong will work actively to modernize its regulatory framework, strengthen investor protection, and promote the diversification of services and products, thus enhancing growth strength of the economy.

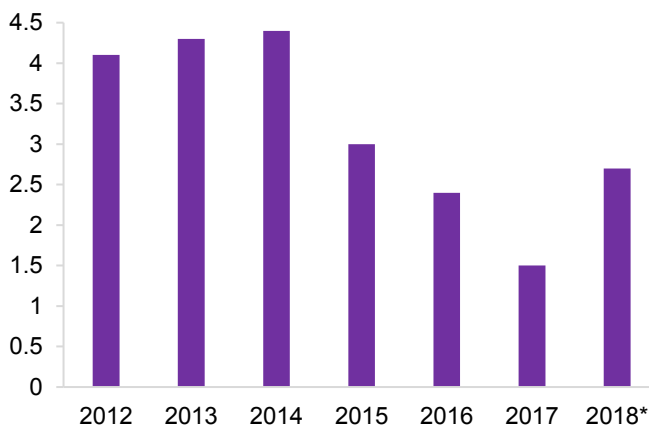
**Fig. 1: HK GDP (YoY%)**



\*Forecasts

Source: Wind, Bloomberg and CEBI

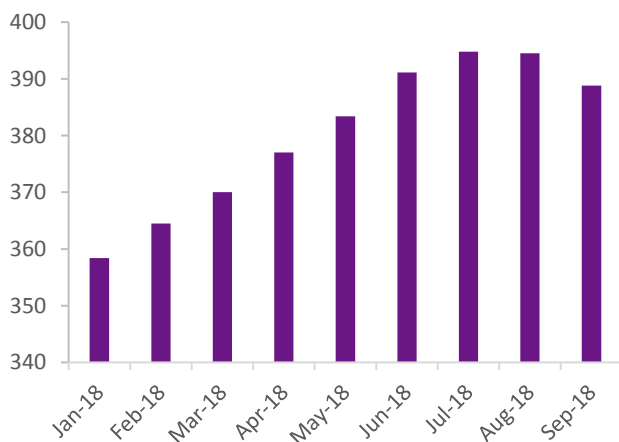
**Fig. 3: HK Composite CPI (YoY%)**



\*September

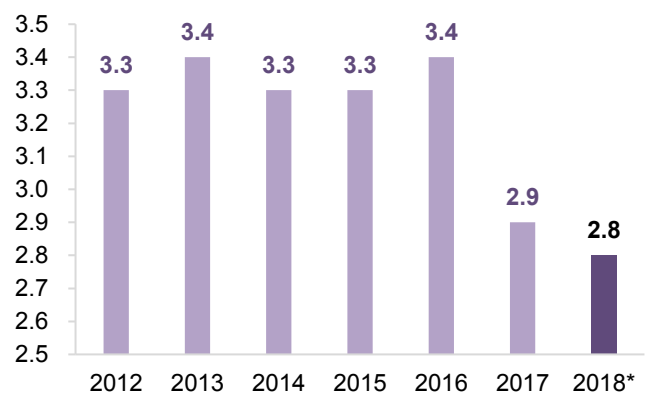
Source: Wind, Bloomberg and CEBI

**Fig. 5: HK Private Property Price Index**



Source: Wind, Bloomberg and CEBI

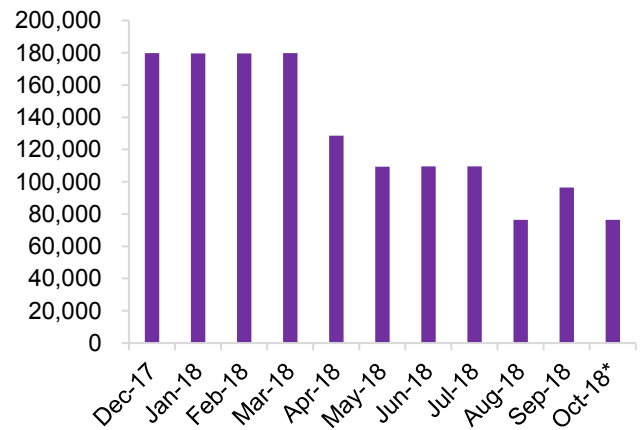
**Fig. 2: HK Unemployment (%)**



\* July to September, 2018

Source: Wind, Bloomberg and CEBI

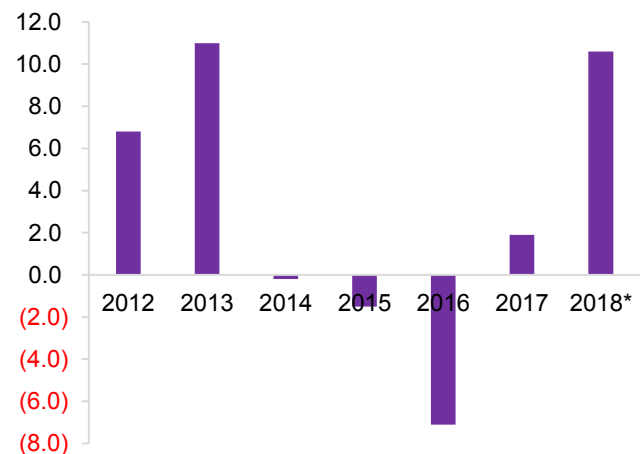
**Fig. 4: HK Aggregate Balance (HKD Million)**



\* October 30, 2018

Source: Wind, Bloomberg and CEBI

**Fig. 6: Volume of Total HK Retail Sales (YoY%)**



\* January to August, 2018

Source: Wind, Bloomberg and CEBI

## China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	3Q2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.5
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	50.8
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	54.9
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.4	2.6	9.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	11.7	11.1	18.8
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	303.21	573.51	555.3
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.5	11.6
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	20.1
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.1	90.93	85.4
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.3
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.7	4.1	4.1
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	5.4
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.9
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.0
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.0
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	4170.0	4110.0
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.3
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	22396.9	5821.2	4203.6	5350.1

	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18	Sept 18
Real GDP (YoY%)	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-	-	6.5
PMI – Manufacturing %	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8
PMI- Non-manufacturing%	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9
Exports (RMB YoY %)	5.5	9.5	7.4	16.3	5.5	35.2	-10	2.9	2.6	2.3	5.2	7.3	17.0
Imports (RMB YoY %)	15.8	15.4	0.9	22.9	30.9	0.0	6.2	12	15.7	5.8	20.5	18.7	17.4
Trade Balance (RMB/bn)	189.6	248.2	255.4	362.0	123.3	215.2	(35.3)	171.3	148.3	254.0	170.7	171.4	213.2
Export (USD YoY %)	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.0	12.0	10.5	11.4	9.1	14.5
Import (USD YoY %)	18.9	17.1	17.6	4.5	37.5	6.5	14.7	21.9	26.1	13.8	26.9	19.9	14.3
Trade Balance (USD/bn)	28.0	37.2	39.0	54.7	18.5	32.2	(5.7)	27.0	23.6	40.4	27.1	26.7	31.7
CPI (YoY %)	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5
PPI (YoY %)	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	2.5
FAI (YTD/ YOY %)	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3	3.6
Real Estate Investment (YTD/ YoY %)	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1	9.9
Industrial Production (YoY %)	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8
Retail Sales (YoY%)	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2
New Lending (RMB/bn)	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0	1380.0
M2 (YoY %)	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3
Aggregate Financing (RMB bn)	2245.1	1200.4	1913.9	1586.5	3067.3	1185.4	1568.5	1772.6	945.8	1485.2	1216.1	1928.6	2205.4
Urban Unemployment Rate (%)	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9	4.7

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	24,874.64	16.93	-1.26
S&P 500	2,682.63	18.75	-2.12
NASDAQ	7,161.65	40.67	-3.71
<b>EUR</b>			
FTSE 100	7,035.85	15.37	1.16
DAX	11,287.39	13.68	0.12
CAC40S	4,978.53	15.63	0.22
STOXX EUR 600	355.53	15.93	0.42
<b>Asia</b>			
HSI	24,979.69	9.32	-1.07
HSCEI	10,138.63	7.52	-0.86
CSI300	3,153.82	11.48	-1.08
SSE Composite	2,602.78	11.89	-0.02
SZSE Composite	1,294.22	20.69	-0.23
NIKKEI 225	21,920.46	15.46	-0.77
KOSPI	2,029.69	9.69	-3.24
TWSE	9,802.13	12.71	0.44
S&P/ASX 200	5,830.31	15.99	0.02
<b>MSCI Index</b>			
MSCI WORLD	1,997.19	16.77	-1.80
MSCI DEVELOPED	478.19	15.93	-1.88
MSCI EMERGING	936.30	11.26	-2.52
MSCI US	2,551.09	18.96	-2.14
MSCI UK	2,037.37	15.60	1.00
MSCI France	144.67	15.85	0.32
MSCI Germany	137.64	13.74	0.48
MSCI China	68.65	10.80	-4.08
MSCI Hong Kong	13,251.09	9.05	-3.43
MSCI Japan	963.69	12.64	-2.18

\* As of 31/10/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	66.94	0.18
ICE Brent Oil	USD/bbl	76.87	0.92
NYMEX NatGas	USD/MMBtu	3.23	1.96
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	1,947.00	-1.79
CMX Cop.Active	USD/lb.	266.80	-3.25
LME Steel Rebar	USD/MT	500.00	-1.19
LME Lead Cash	USD/MT	1,919.75	-3.96
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,216.91	-1.12
Gold Futures	USD/KRW	1,217.10	-1.14
CMX Silverbn	USD/KRW	14.36	-2.72
NYMEX Platinum	USD/T. oz	834.99	0.52
<b>Agri, Products</b>			
CBOT Corn	USD/bu	364.50	-1.02
CBOT Wheat	USD/bu	499.25	-0.05
NYB-ICE Sugar	USD/lb.	13.32	-3.55
CBOT Soybeans	USD/bu.	848.50	-1.74

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.25	0.00
US Prime Rate	5.25	0.00
US Discount Window	2.75	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	2.18	-0.02
US Treasury (1 Yr)	2.64	0.02
US Treasury (5 Yr)	2.97	0.03
US Treasury (10 Yr)	3.14	0.04
US Treasury (30 Yr)	3.39	0.06
1-Month LIBOR	2.30	0.02
3 Month LIBOR	2.53	0.04
Japan 1-Yr Gov. Bond	-0.14	0.00
Japan 10-Yr Gov. Bond	0.13	-0.01
German 1-Yr Gov. Bond	-0.69	0.00
German 10-Yr Gov. Bond	0.40	0.00
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.82	-0.07
China 5-Yr Gov. Bond	3.34	-0.07
China 10-Yr Gov. Bond	3.54	-0.05
O/N SHIBOR	2.37	-0.02
1-mth SHIBOR	2.69	0.01
HK Base rate	2.50	0.00
O/N HIBOR	0.61	-0.11
1-mth HIBOR	1.26	-0.26
O/N CNH HIBOR	1.62	0.30
1-mth CNH HIBOR	3.89	-0.06
<b>Corporate Bonds (Moody's)</b>		
Aaa	4.18	-0.01
Baa	5.10	-0.02

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.94	0.53
Euro/USD	1.14	-0.51
GBP/USD	1.27	-1.34
AUD/USD	0.71	-0.11
USD/CAD	1.31	0.24
USD/JPY	113.10	0.40
USD/CHF	1.00	0.74
USD/CNY Midpoint	6.96	0.42
USD/CNY	6.98	0.45
<b>USD/CNY NDF</b>		
12-mth Spot pr.	7.07	0.44
USD/CNH	6.98	0.42
USD/HKD	7.85	0.05
CNY/HKD	1.12	-0.44
CNH/HKD	1.12	-0.37
USD/KRW	1,139.85	0.68
USD/TWD	30.97	0.08
USD/SGD	1.39	0.39
USD/INR	73.87	0.98

All data sources: Bloomberg, CEBI, NBS

## Disclosures

### Analyst Certification

We, LAM Chiu Kei, Banny (CE Number: AGH217), being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company(ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company(ies) covered in this report.

### Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. CEB International Capital Corporation Limited is under no obligation to update or keep current the information contained herein. CEB International Capital Corporation Limited relies on information barriers to control the flow of information contained in one or more areas within CEB International Capital Corporation Limited, into other areas, units, groups or affiliates of CEB International Capital Corporation Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of CEB International Capital Corporation Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither CEB International Capital Corporation Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2018 CEB International Capital Corporation Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of CEB International Capital Corporation Limited.

**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.  
Tel: (852) 2916 9600**