

May 5, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Entering 2021, HK's economy rebounded by 7.8% YoY in the first quarter on improvement of the local epidemic situation, beating the consensus estimate of 3.7% and reversing straight six quarters of contraction. Nevertheless, the level of economic activities was still notably below the pre-pandemic level.
- HK's economy is still facing economic challenges in coming quarters as HK recently confronts the emergence of coronavirus variants in April-May along with renewed surge in coronavirus cases intensifying in a number of emerging market and developed economies.
- HK's economy will brace for an uneven pace of recovery in the first half of 2021 due to low vaccination rate which is far from achieving towards herd immunity and full activities' normalization. Further easing pressure of the pandemic along with rising rate of vaccination are expected in the second half, which will speed up growth momentum. We remain cautiously optimistic towards HK's economy with GDP growth recovering to positive growth of 7.2% in 2021.

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HK's economy embracing rebound in 1Q2021

In the wake of coronavirus-related economic disruptions, Hong Kong (HK) economy faced severe economic fallout in 2020 with GDP growth declining by 6.1% YoY. Entering 2021, HK's economy rebounded by 7.8% YoY in the first quarter on improvement of the local epidemic situation, beating the consensus estimate of 3.7% and reversing straight six quarters of contraction. The sizable rise in economic growth was attributed to the strengths of economic recovery built upon improvement of health conditions and the low-base economic activities during the first quarter of 2020 due to pandemic-driven economic contraction. Nevertheless, the level of economic activities was still notably below the pre-pandemic level. The major growth drivers including consumption and investment were embedded into mild rebound as disruption of domestic and cross-border activities continued to affect the recovery momentum of HK economy. Looking forward, HK's economy is still facing economic challenges in coming quarters as HK recently confronts the emergence of coronavirus variants in April-May along with renewed surge in coronavirus cases intensifying in a number of emerging market and developed economies. Although new infected cases continue to fall in HK, the Government may re-launch stringent lockdowns and tighten social distancing rules to avoid the spike of infected cases again, thus postponing the latest stage of economic recovery. In sum, HK's economy will brace for an uneven pace of economic recovery in the first half of 2021 due to low vaccination rate which is far from achieving towards herd immunity and full activities' normalization. Further easing pressure of the pandemic along with rising rate of vaccination are expected in the second half, which will speed up growth momentum. We remain cautiously optimistic towards HK's economy with GDP growth recovering to positive growth of 7.2% in 2021.

Exports fueling the rebound of HK economic growth in 1Q2021.

HK economy gained traction again in 1Q2021 as economic activities enjoyed an upswing of 7.8% YoY driven mainly by 30.6% YoY growth in exports. Inflation pressure remained mild as composite CPI

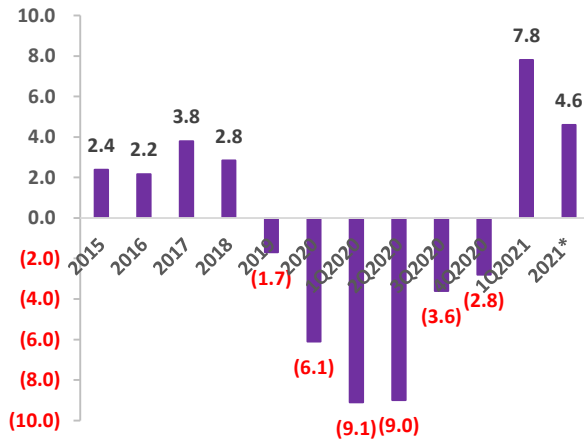
dropped further to 0.5% in March from 2M2021's 1.1% while the labor market showed mild improvement with the seasonally adjusted unemployment rate falling to 6.8% in 1Q2021 from January-February's 7.2%. Looking forward, the swift rollout of coronavirus vaccines will allow HK businesses to operate at full capacity, thus speeding up the economic recovery. Expected re-opening of border for tourist visits and the "Guangdong-Hong Kong-Macao Greater Bay Area" initiative will be able to support healthy rebound of HK's economic activities in coming quarters.

Counter-cyclical fiscal measures stimulating economic growth.

In order to energize the market, stimulate the economy, and facilitate the speedy recovery of HK's economy, HK Government rolls out HKD\$120 billion stimulus package to assist individuals and enterprises through pandemic relief measures as well as invest in technology and innovation and service industries including financial services, tourism, trading and logistics, and professional and business support services. Electronic consumption vouchers in instalments with a total value of HKD\$5,000 will be issued to each eligible HK permanent resident and new arrival aged 18 or above, so as to encourage and boost domestic consumption. In sum, HK's government consumption expenditures maintained a robust growth of 6.7% YoY in 1Q2021, thus strengthening the size of relief measures and accelerating recovery of HK economy in 2021.

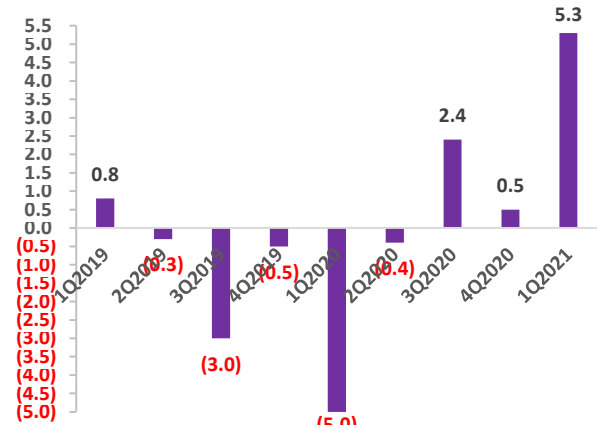
Property market becoming stabilized. In 2020, uncertainties in both domestic and international economic conditions slowed the growth momentum of housing market in Hong Kong which reduced fiscal revenues from land sales and stamp duties of property transactions. Entering into 2021, improving pandemic conditions have brightened the outlook of property market. Rising demand, transaction volumes and prices are attributed to improved market sentiment, the high levels of liquidity in the system as well as a low interest rates environment. In sum, the U.S. Federal Reserve (the Fed) signals its dovish tone to the market that even though inflation risks are on the rise, the ongoing health crisis continues to pose risks to global economic outlook and the Fed pledges to maintain the accommodative stance by navigating a world of ample liquidity with the aim to support a proper revival of economic growth. In sum, HK property market will continue to demonstrate positive sentiment in the face of acceleration of growth momentum. With outlook for the property market strengthening amid more optimism on recovery of HK economy, property market is set to experience 5% rise in 2021.

Fig. 1: HK GDP Growth (YoY %)



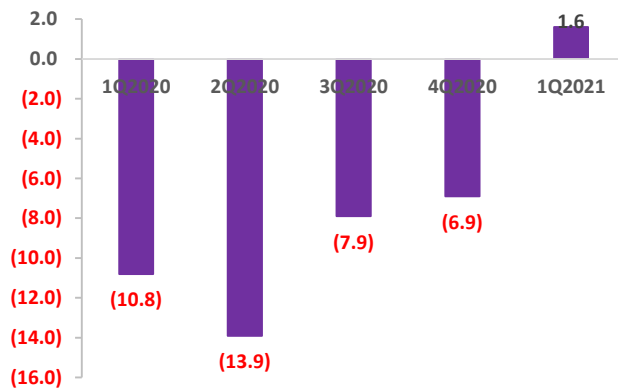
Source: HK Census and Statistics Department
*CEBI's forecast

Fig. 2: HK GDP Growth (QoQ%)



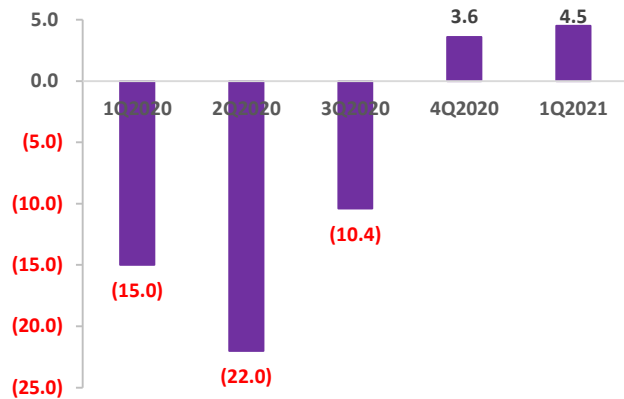
Source: HK Census and Statistics Department

Fig. 3: HK Private consumption expenditure (YoY% in real terms)



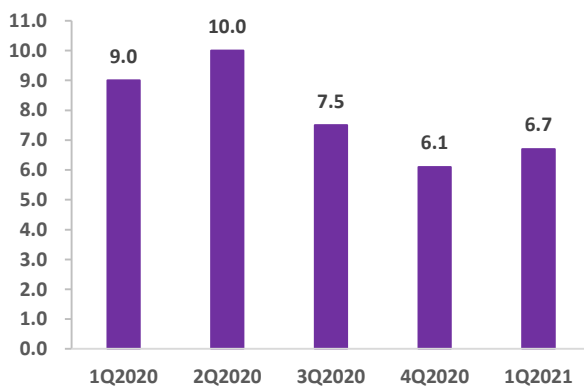
Source: HK Census and Statistics Department

Fig. 4: HK Gross domestic fixed capital formation (YoY% in real terms)



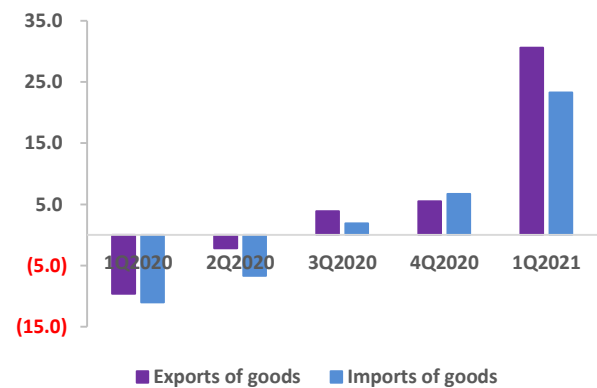
Source: HK Census and Statistics Department

Fig. 5: HK Government consumption expenditure (YoY% in real terms)



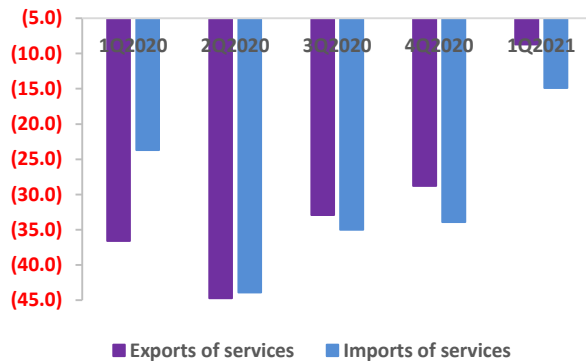
Source: HK Census and Statistics Department

Fig. 6: HK exports and imports of goods (f.o.b.) (YoY% in real terms)



Source: HK Census and Statistics Department

Fig. 7: HK exports and imports of services (YoY% in real terms)



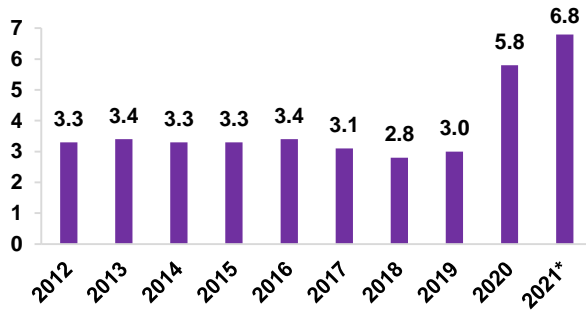
Source: HK Census and Statistics Department

Fig. 8: Value of external merchandise trade (YoY%)



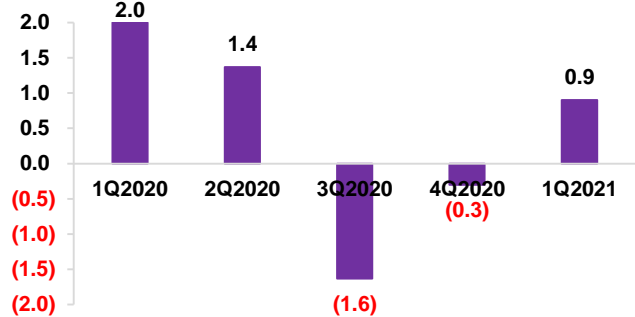
Source: HK Census and Statistics Department

Fig. 9: Unemployment rate (%)



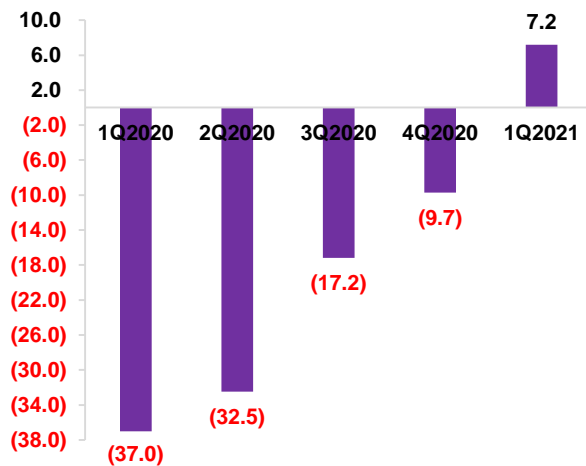
Source: HK Census and Statistics Department
*January to March

Fig.10: Consumer Price Index (CPI) (%)



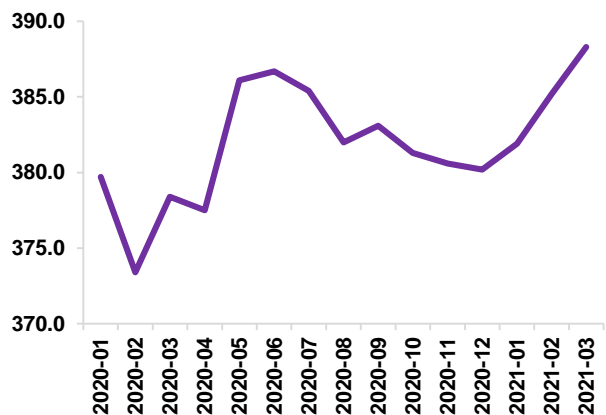
Source: HK Census and Statistics Department

Fig. 11: Volume of Total Retail Sales YoY%



Source: HK Census and Statistics Department

Fig. 12: HK Property Prices - Price Indices



Source: HK Rating and Valuation Department

China economic indicators

	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021
Real GDP (YoY%)	6.6	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3
PMI								
Manufacturing (%)	49.4	50.2	45.9	50.8	51.2	51.8	51.9	51.3
Non-Manufacturing (%)	53.2	53.5	45.3	53.7	55.1	56.1	55.7	53.4
Exports (RMB YoY %)	7.1	5.0	(11.7)	4.2	9.8	10.9	4.0	38.7
Imports (RMB YoY %)	12.9	1.7	(1.0)	(5.8)	4.1	(0.4)	(0.7)	19.3
Trade Balance (RMB/bn)	2324.7	2912.0	94.0	1083.7	1108.6	1423.5	3700.3	759.3
Exports (USD YoY %)	9.9	0.5	(13.4)	(1.8)	8.4	16.7	3.6	49.0
Imports (USD YoY %)	15.8	(2.7)	(3.0)	(9.7)	3.1	4.9	(1.0)	28.0
Trade Balance (USD/bn)	350.9	421.1	12.4	153.8	157.1	211.7	533.7	116.4
CPI (YoY %)	2.1	2.9	4.9	2.7	2.3	0.1	2.5	0.0
PPI (YoY %)	3.5	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1
FAI (YTD/ YOY %)	5.9	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6
Real Estate Investment (YTD YoY %)	9.5	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6
Industrial Production (YoY %)	6.2	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5
Retail Sales (YoY%)	9.0	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9
New Lending (RMB/bn)	16166.3	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.7
M2 (YoY %)	8.1	8.7	10.1	11.1	10.9	10.1	10.1	9.4
Aggregate Financing (RMB bn)	19258.4	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10226.9

	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21
Real GDP (YoY%)	(6.8)	-	-	3.2	-	-	4.9	-	-	6.5	-	-	18.3
PMI - Manufacturing %	52.0	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9
PMI - Non-manufacturing%	52.3	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3
Exports (RMB YoY %)	(3.8)	7.7	1.2	4.0	10.0	11.2	8.2	7.2	14.5	10.9	16.6	139.5	20.7
Imports (RMB YoY %)	2.1	(10.4)	(12.7)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	18.3	10.3	27.7
Trade Balance (RMB/bn)	140.4	316.1	437.9	322.7	435.7	411.6	254.8	399.8	507.9	516.8	428.6	247.3	87.98
Export (USD YoY %)	(6.9)	3.1	(3.5)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	24.8	154.9	30.6
Import (USD YoY %)	(1.3)	(14.4)	(16.7)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	26.6	17.3	38.1
Trade Balance (USD/bn)	20.0	45.1	62.2	45.6	61.4	58.2	36.6	58.2	75.6	78.2	65.4	37.9	13.8
CPI (YoY %)	4.3	3.3	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4
PPI (YoY %)	(1.5)	(3.1)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4
FAI (YTD/ YOY %)	(16.1)	(10.3)	(6.3)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6
Real Estate Investment (YTD/ YoY %)	(7.7)	(3.3)	(0.3)	1.9	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6
Industrial Production (YoY %)	(1.1)	3.9	4.4	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1
Retail Sales (YoY%)	(15.8)	(7.5)	(2.8)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2
New Lending (RMB/bn)	2853.4	1697.8	1482.1	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.0
M2 (YoY %)	10.1	11.1	11.1	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4
Aggregate Financing (RMB bn)	5183.8	3102.7	3186.6	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5174.0	1712.9	3340.0
Urban Unemployment Rate (%)	5.9	6.0	5.9	5.7	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3
Urban Unemployment Rate in 31 major cities (%)	5.7	5.8	5.9	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,133.03	26.23	0.44
S&P 500	4,164.66	30.41	(0.53)
NASDAQ	13,633.50	93.38	(3.24)
EUR			
FTSE 100	6,923.17	56.14	(0.57)
DAX	14,856.48	40.81	(2.58)
CAC40S	6,251.75	49.41	(0.35)
STOXX EUR 600	433.65	40.70	(1.41)
Asia			
HSI	28,557.14	13.65	(1.33)
HSCEI	10,765.72	14.40	(1.98)
CSI300	5,123.49	17.34	(0.23)
SSE Composite	3,446.86	15.80	(0.79)
SZSE Composite	2,298.93	35.14	0.02
NIKKEI 225	28,812.63	30.72	(1.29)
KOSPI	3,147.37	19.48	(2.12)
TWSE	16,933.78	20.41	(3.63)
S&P/ASX 200	7,067.85	56.08	0.48
MSCI Index			
MSCI WORLD	2,922.50	31.39	(1.00)
MSCI DEVELOPED	697.60	29.49	(1.13)
MSCI EMERGING	1,334.99	20.87	(1.98)
MSCI US	4,036.95	30.22	(0.87)
MSCI UK	1,942.57	50.76	(0.37)
MSCI France	180.43	60.52	(0.40)
MSCI Germany	163.50	41.17	(3.32)
MSCI China	108.88	20.78	(2.10)
MSCI Hong Kong	17,064.19	46.27	(1.07)
MSCI Japan	1,161.88	26.70	(1.28)

* As of 2021/05/04 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	65.69	4.37
ICE Brent Oil	USD/bbl	68.88	3.70
NYMEX Natural	USD/MMBtu	2.97	3.27
Basic Metals			
LME Aluminum	USD/MT	2,430.74	1.37
CMX Copper	USD/lb.	452.15	0.80
LME Steel Rebar	USD/MT	696.50	6.09
LME Lead Cash	USD/MT	2,183.79	6.24
Precious Metals			
CMX Gold	USD/T. oz	1,783.75	0.11
Gold Futures	USD/T. oz	1,776.00	(0.16)
CMX Silver	USD/T. oz	26.81	2.01
NYMEX Platinum	USD/T. oz	1,243.20	(0.54)
Agricultural			
CBOT Corn	USD/bu	696.75	6.46
CBOT Wheat	USD/bu	726.75	(0.82)
NYB-ICE Sugar	USD/lb.	17.12	(3.55)
CBOT Soybeans	USD/bu.	1,538.25	1.23

All data sources: Bloomberg

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	(0.01)	(0.003)
US Treasury (1 Yr)	0.05	0.00
US Treasury (5 Yr)	0.82	(0.06)
US Treasury (10 Yr)	1.59	(0.03)
US Treasury (30 Yr)	2.26	(0.03)
1-Month LIBOR	0.11	(0.004)
3 Month LIBOR	0.18	(0.01)
Japan 1-Yr Gov. Bond	(0.12)	(0.004)
Japan 10-Yr Gov. Bond	0.10	0.01
German 1-Yr Gov. Bond	(0.64)	(0.003)
German 10-Yr Gov. Bond	(0.24)	0.01
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.40	(0.06)
China 5-Yr Gov. Bond	2.97	(0.01)
China 10-Yr Gov. Bond	3.16	(0.02)
O/N SHIBOR	2.29	0.27
1-mth SHIBOR	2.49	(0.01)
HK Base rate	0.50	(0.00)
O/N HIBOR	0.04	(0.002)
1-mth HIBOR	0.08	(0.01)
O/N CNH HIBOR	1.57	(0.24)
1-mth CNH HIBOR	2.81	0.057
Corporate Bonds (Moody's)		
Aaa	2.92	0.05
Baa	3.59	0.03

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	91.29	0.42
Euro/USD	1.20	(0.60)
GBP/USD	1.39	(0.24)
AUD/USD	0.77	(0.80)
USD/CAD	1.23	(0.65)
USD/JPY	109.43	1.06
USD/CHF	0.91	0.14
USD/CNY Midpoint	6.4672	(0.40)
USD/CNY	6.4745	(0.33)
USD/CNY NDF-12-mth	6.6657	0.17
USD/CNH	6.4864	0.12
USD/HKD	7.7675	0.07
CNY/HKD	1.1996	0.42
CNH/HKD	1.1975	(0.05)
USD/KRW	1,122.65	1.10
USD/TWD	27.94	(0.04)
USD/SGD	1.34	0.77
USD/INR	73.86	(1.07)

Disclosures

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