

Aug 23, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- HK economic activities rebounded by 7.8% YoY with which improvement of the local epidemic conditions generated robust GDP growth of 8.0% and 7.6% in 1Q2021 and 2Q2021.
- The level of rebound in economic activities was uneven with which surging exports were the major push for growth uptrend but other major growth drivers including consumption and investment were embedded into mild rebound amid disruption of domestic and cross-border activities.
- HK's economy is still facing economic challenges in 2H2021 as HK recently confronts the emergence of Delta variant (DV). Although new infected cases in HK are at low level, the Government remains cautious by maintaining existing social distancing rules to avoid the spread of DV.
- The distribution of electronic vouchers worth HK\$5,000 to permanent residents helps sustain economic recovery while the swift rollout of coronavirus vaccines will speed up economic rebound in coming months
- We remain cautiously optimistic towards HK's economy with GDP growth recovering to positive growth of 6.5% in 2021.

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HK's economy embracing steady recovery in 2H2021

Hong Kong (HK) economy gained strong traction during the first half of 2021 as the economy recovered gradually from economic recession driven by the pandemic. HK economic activities rebounded by 7.8% YoY during 1H2021 with which improvement of the local epidemic conditions generated robust GDP growth of 8.0% and 7.6% in 1Q2021 and 2Q2021. The sizable rise in economic growth was attributed to the strengths of economic recovery built upon decelerating health risks and the low-base economic activities due to pandemic-driven economic contraction of 9.1% in 1H2020. Nevertheless, the level of rebound in economic activities was uneven with which surging exports were the major push for growth uptrend but other major growth drivers including consumption and investment were embedded into mild rebound amid disruption of domestic and cross-border activities. Although unemployment rate dropped from 7.2% in the beginning of 2021 to May-to-July's 5.0%, the job market conditions still have not returned to pre-pandemic level. Looking forward, HK's economy is still facing economic challenges in 2H2021 as HK recently confronts the emergence of Delta variant (DV) along with renewed surge in coronavirus cases intensifying in a number of emerging and developed economies. Although new infected cases in HK are at low level, the Government remains cautious by maintaining existing social distancing rules to avoid the spread of DV. In sum, the distribution of electronic vouchers worth HK\$5,000 to permanent residents helps sustain economic recovery while the swift rollout of coronavirus vaccines will allow businesses to operate at higher capacity, thus speeding up economic rebound in coming months. HK's economy will embrace a stable pace of economic recovery in the second half of 2021 on higher vaccination rate closer to achieve towards herd immunity and full activities' normalization. We remain cautiously optimistic towards HK's economy with GDP growth recovering to positive growth of 6.5% in 2021.

\$5000 e-voucher scheme fueling the rebound of HK economic growth in 2H2021. Although private consumption demonstrated

signs of improvement by rebounding 4.4% YoY during the first half of 2021, the related activities were still notably below their pre-pandemic level. Slow recovery of retail sales was mainly due to closing borders for tourists' visits that strike a severe blow to consumption-and tourism-related sectors. As it is widely expected that the borders will continue to shut in coming months amid the ongoing epidemic situation, HK Government has launched electronic voucher scheme worth HKD\$36 billion to offset retailers' burden and boost economic growth. The electronic consumption vouchers of \$5000 for each permanent resident is expected to revive further the growth momentum of consumption, thus raising GDP growth by 0.7%. Looking forward, as vaccination campaign leads HK economy to reopen, consumers will respond by spending accumulated savings during the pandemic and Government's electronic coupons. Given that consumption spending is a large part of HK GDP, HK recovery strengths will deepen further in the second half of 2021.

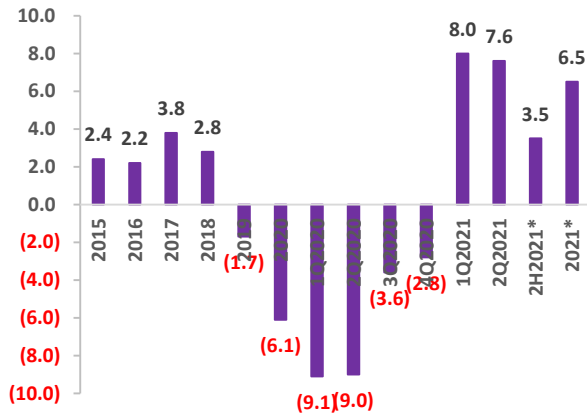
Unemployment rate demonstrating downtrend. The pandemic takes toll on HK economy through the stoppage of local and cross-border activities, thus pushing up unemployment rate to as high as 7.2% in the beginning of 2021. As vaccination program is embedded into great progress, local mobility of people is enhanced which increase productivity and consumption. Economic recovery is on track that reduces the current unemployment rate from April-June's 5.5% to May-July's 5.0%. Decreases in unemployment were most distinct in the construction, retail, accommodation and food services sectors, reflecting rebound in domestic economic activities. Looking forward, HK returning to full employment level before the pandemic hinges on the progress of vaccination program and reopening of cross-border activities. Given that the local epidemic remains well-contained, the pressure on the labor market will gradually ease further in the period ahead. In order to create more favorable conditions for the revival of consumer-facing and tourism-related activities, it is essential for the HK community to get vaccinated by keeping the epidemic under control that helps relieve HK's economic woes and accelerate revival of growth momentum.

Property market pointing uptrend in 2021. In 2020, uncertainties in both domestic and international economic conditions driven by the pandemic slowed the growth momentum of housing market by 0.5% in HK which reduced fiscal revenues from land sales and stamp duties of property transactions. Entering into 1H2021, 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, thus pushing up property price by 4%. Looking forward into 2H2021, 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 recovery momentum. With outlook for the property market strengthening amid more optimism on the rebound of HK economic activities, property market is set to experience 10% rise in 2021.

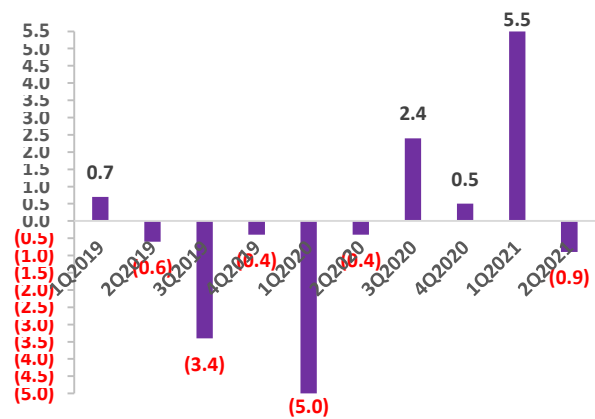
Integrating into the 14th Five-Year Plan (FYP) and Greater Bay Area (GBA) initiative to strengthen HK's medium and long-term outlook. Due to substantial easing of HK economic activities driven by the pandemic, HK future economic development not only relies on domestic revival of economic activities, but also hinges on the integration into the FYP and GBA initiative. The development aims to enhance integration with economic vision for China's economic future. HK can consolidate and strengthen its position as an international financial, transportation and trade hub. HK will focus on expanding development in high-end financial services, supply-chain management and professional services such as offshore renminbi, international asset management, risk management, commercial and trading management and logistics management, developing innovation and technology industries, as well as becoming the hub for international legal and dispute resolution services in the Asia-Pacific region. In sum, precise and practical development goals will drive sustainable and healthy economic development of HK. HK will play a greater role to support its integration into China's economic strategies and enhances the diversification of services and products, thus strengthening recovery strength of the economy.

Fig. 1: HK GDP Growth (YoY %)



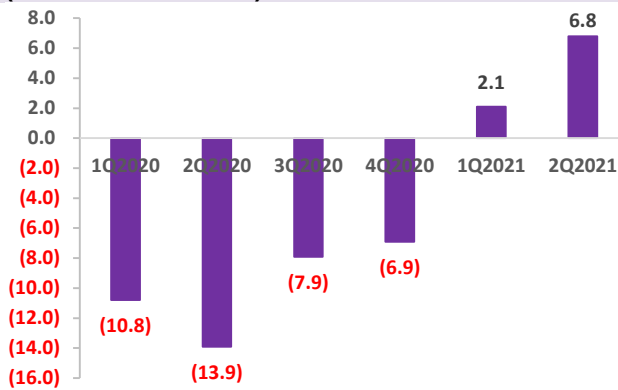
Source: HK Census and Statistics Department
*CEBI's forecast

Fig. 2: HK GDP Growth (QoQ%)



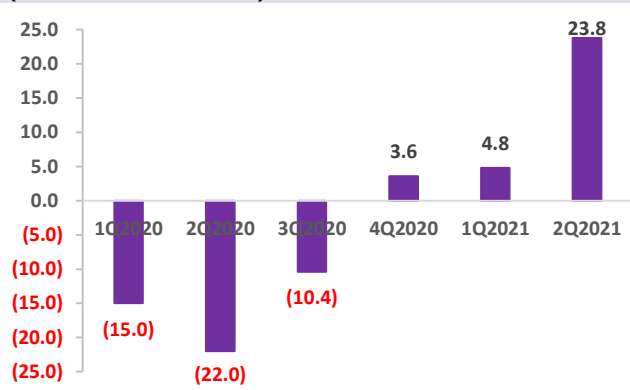
Source: HK Census and Statistics Department

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



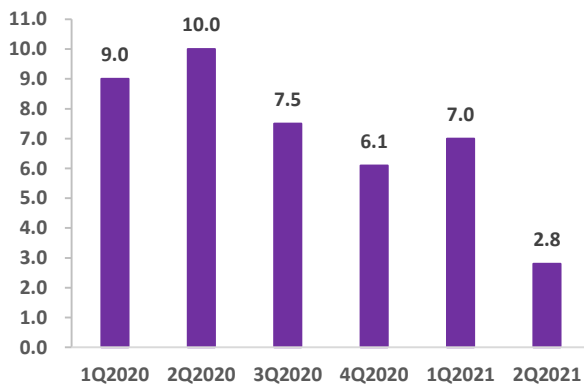
Source: HK Census and Statistics Department

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



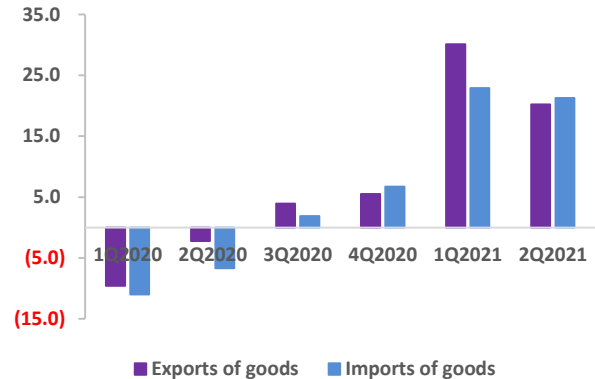
Source: HK Census and Statistics Department

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



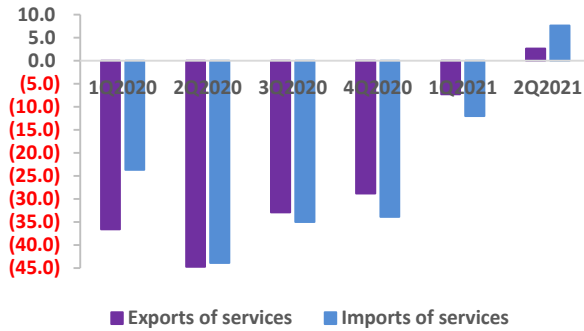
Source: HK Census and Statistics Department

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



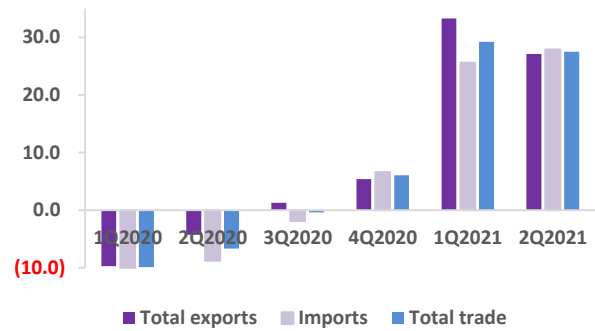
Source: HK Census and Statistics Department

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



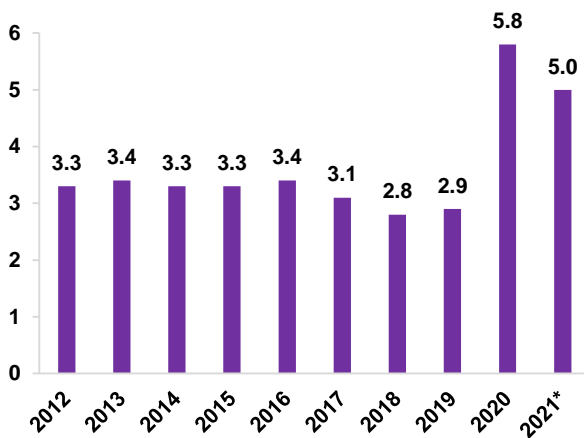
Source: HK Census and Statistics Department

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



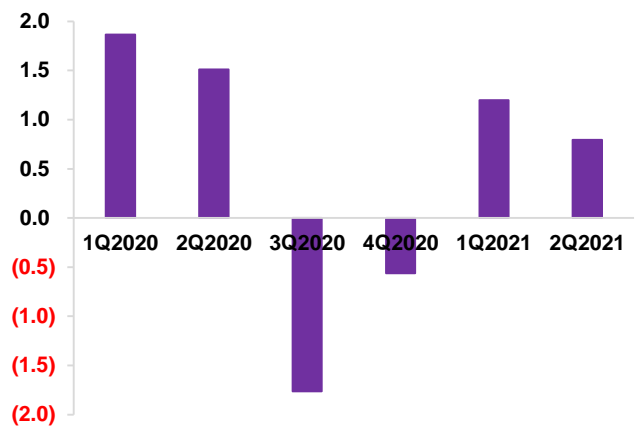
Source: HK Census and Statistics Department

Fig. 9: Unemployment rate (%)



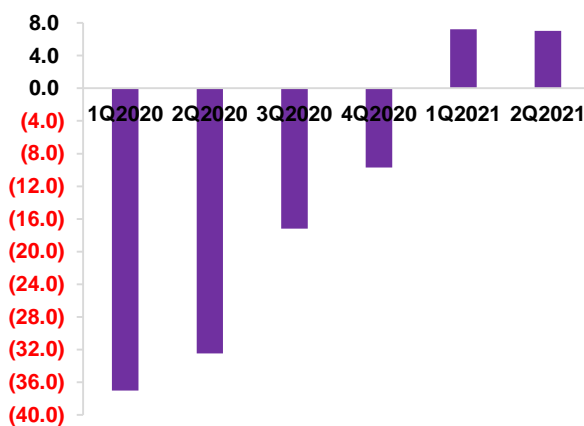
Source: HK Census and Statistics Department
* May to July

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



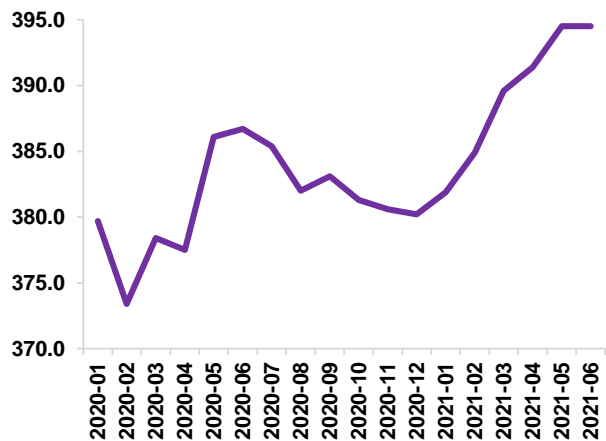
Source: HK Census and Statistics Department

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

	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021
Real GDP (YoY%)	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9
PMI Manufacturing (%)	50.2	45.9	50.8	51.2	51.8	51.9	51.3	51.0
PMI Non-Manufacturing (%)	53.5	45.3	53.7	55.1	56.1	55.7	53.4	54.5
Exports (RMB YoY %)	5.0	(11.7)	4.2	9.8	10.9	4.0	38.6	20.1
Imports (RMB YoY %)	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	20.0	31.6
Trade Balance (RMB/bn)	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	733.4	900.3
Exports (USD YoY %)	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9	30.7
Imports (USD YoY %)	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.7	43.3
Trade Balance (USD/bn)	421.1	12.7	151.7	153.7	209.3	526.9	112.4	139.2
CPI (YoY %)	2.9	4.9	2.7	2.3	0.1	2.5	0.0	1.1
PPI (YoY %)	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2
FAI (YTD/ YOY %)	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6
Real Estate Investment (YTD YoY %)	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0
Industrial Production (YoY %)	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0
Retail Sales (YoY%)	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9
New Lending (RMB/bn)	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5090.0
M2 (YoY %)	8.7	10.1	11.1	10.9	10.1	10.1	9.4	8.6
Aggregate Financing (RMB bn)	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10266.2	7440.7

	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21
Real GDP (YoY%)	-	-	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-
PMI - Manufacturing %	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4
PMI - Non-manufacturing%	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3
Exports (RMB YoY %)	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1
Imports (RMB YoY %)	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2	16.1
Trade Balance (RMB/bn)	429.1	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7	362.7
Export (USD YoY %)	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2	19.3
Import (USD YoY %)	(1.6)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7	28.1
Trade Balance (USD/bn)	60.5	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5	56.6
CPI (YoY %)	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0
PPI (YoY %)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0
FAI (YTD/ YOY %)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3
Real Estate Investment (YTD/ YoY %)	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7
Industrial Production (YoY %)	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4
Retail Sales (YoY%)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5
New Lending (RMB/bn)	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0	1080.0
M2 (YoY %)	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3
Aggregate Financing (RMB bn)	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5193.6	1724.5	3372.1	1850.3	1926.3	3668.9	1060.0
Urban Unemployment Rate (%)	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1
Urban Unemployment Rate in 31 major cities (%)	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.2

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,120.08	21.43	(1.11)
S&P 500	4,441.67	26.79	(0.59)
NASDAQ	14,714.66	104.26	(0.73)
EUR			
FTSE 100	7,087.90	18.95	(1.81)
DAX	15,808.04	18.02	(1.06)
CAC40S	6,626.11	24.99	(3.91)
STOXX EUR 600	468.80	25.18	(1.48)
Asia			
HSI	24,849.72	10.00	(5.84)
HSCEI	8,742.44	10.41	(6.78)
CSI300	4,769.27	16.73	(3.57)
SSE Composite	3,427.33	15.39	(2.53)
SZSE Composite	2,388.96	35.14	(3.23)
NIKKEI 225	27,013.25	15.59	(3.45)
KOSPI	3,060.51	15.98	(4.61)
TWSE	16,341.94	14.92	(3.77)
S&P/ASX 200	7,460.87	29.69	(2.20)
MSCI Index			
MSCI WORLD	3,080.02	24.06	(1.44)
MSCI DEVELOPED	722.58	22.68	(1.83)
MSCI EMERGING	1,220.78	15.71	(4.69)
MSCI US	4,317.09	27.10	(0.66)
MSCI UK	1,988.71	17.94	(1.94)
MSCI France	190.22	26.11	(3.47)
MSCI Germany	172.74	18.77	(1.29)
MSCI China	87.40	16.87	(7.71)
MSCI Hong Kong	16,101.45	25.68	(1.63)
MSCI Japan	1,153.62	15.56	(3.81)

* As of 2021/08/20 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	62.32	(8.94)
ICE Brent Oil	USD/bbl	65.18	(7.66)
NYMEX Natural	USD/MMBtu	3.85	(0.26)
Basic Metals			
LME Aluminum	USD/MT	2,562.75	(1.74)
CMX Copper	USD/lb.	412.30	(5.90)
LME Steel Rebar	USD/MT	692.50	(0.57)
LME Lead Cash	USD/MT	2,447.50	0.83
Precious Metals			
CMX Gold	USD/T. oz	1,781.11	0.08
Gold Futures	USD/T. oz	1,784.00	0.33
CMX Silver	USD/T. oz	23.03	(3.05)
NYMEX Platinum	USD/T. oz	997.10	(3.39)
Agricultural			
CBOT Corn	USD/bu	537.00	(6.28)
CBOT Wheat	USD/bu	728.25	(5.94)
NYB-ICE Sugar	USD/lb.	19.58	(1.85)
CBOT Soybeans	USD/bu.	1,290.75	(5.44)

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)	0.03	(0.003)
US Treasury (1 Yr)	0.06	(0.013)
US Treasury (5 Yr)	0.78	0.01
US Treasury (10 Yr)	1.26	(0.02)
US Treasury (30 Yr)	1.87	(0.06)
1-Month LIBOR	0.0859	(0.007)
3 Month LIBOR	0.1284	0.004
Japan 1-Yr Gov. Bond	(0.13)	(0.032)
Japan 10-Yr Gov. Bond	0.01	(0.02)
German 1-Yr Gov. Bond	(0.67)	(0.01)
German 10-Yr Gov. Bond	(0.50)	(0.03)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	1.91	(0.12)
China 5-Yr Gov. Bond	2.69	(0.04)
China 10-Yr Gov. Bond	2.85	(0.04)
O/N SHIBOR	2.04	(0.13)
1-mth SHIBOR	2.30	0.00
HK Base rate	0.50	0.004
O/N HIBOR	0.04	0.0035
1-mth HIBOR	0.07	0.007
O/N CNH HIBOR	2.29	(0.64)
1-mth CNH HIBOR	2.97	(0.16)
Corporate Bonds (Moody's)		
Aaa	2.52	(0.14)
Baa	3.22	(0.13)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	93.50	1.06
Euro/USD	1.1698	(0.84)
GBP/USD	1.3623	(1.75)
AUD/USD	0.7132	(3.23)
USD/CAD	1.2821	2.45
USD/JPY	109.78	0.17
USD/CHF	0.9171	0.16
USD/CNY Midpoint	6.4984	0.29
USD/CNY	6.5015	0.37
USD/CNY NDF-12-mth	6.6756	0.22
USD/CNH	6.5002	0.35
USD/HKD	7.7909	0.10
CNY/HKD	1.1982	(0.28)
CNH/HKD	1.1987	(0.24)
USD/KRW	1,179.65	1.59
USD/TWD	28.01	0.52
USD/SGD	1.3623	0.54
USD/INR	74.40	(0.06)

Disclosures

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