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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The border between China and HK has been gradually reopened on 8th January 2023, thus ending three years of pandemic restrictions that have isolated the financial hub from the mainland and paving the way for a restoration of economic and social activities.
- Border reopening alongside a stabilized epidemic situation will create favorable conditions for the gradual and orderly resumption of quarantine free travel between the Mainland and HK, thereby injecting greater impetus into the HK economy.
- China's switch from the 'zero-Covid' policy and HK's removal of some Covid-19 restrictions coupled with stronger fiscal stimulus, improvement of pandemic conditions and pent-up demand for goods and services will accelerate pace of work and consumption normalization as well as cross-border movement in coming quarters and the HK economy is expected to restore modest growth momentum of 4.0% in 2023.

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China's reopening fueling growth rebound of the HK economy

The border between China and Hong Kong (HK) has been gradually reopened on 8th January 2023, thus ending three years of pandemic restrictions that have isolated the financial hub from the mainland and paving the way for a restoration of economic and social activities. Cross-border activities have been halted since early 2020, as both places pursued a Covid-zero policy that sealed off from the world for much of the pandemic. Turning towards the end of 2022, HK has been making incremental relaxation to Covid policies after China dismantled its zero-tolerance rules, reopening the country to the world and scrapping quarantine for arrivals from overseas. In sum, HK has long been an important gateway between mainland China and the rest of the world, but business travel has been stymied throughout the pandemic. In the wake of Covid-induced economic disruptions, worldwide liquidity tightening and heightened geopolitical tensions, the HK economy embraced economic fallout in 2022 with GDP growth declining by 3.3% YoY during the first three quarters. Looking forward, border reopening alongside a stabilized epidemic situation will create favorable conditions for the gradual and orderly resumption of quarantine free travel between the Mainland and HK, thereby injecting greater impetus into the HK economy. We are of the view China's switch from the 'zero-Covid' policy and HK's removal of some Covid-19 restrictions coupled with stronger fiscal stimulus, improvement of pandemic conditions and pent-up demand for goods and services will accelerate pace of work and consumption normalization as well as cross-border movement in coming quarters and the HK economy is expected to restore modest growth momentum of 4.0% in 2023.

Optimization of Covid policy accelerating modest recovery momentum of the HK economy. Economic headwinds in 2022 have kept the HK economy staying downbeat. External trading activities involving goods and services have been under downward pressures on limitation of cross-border logistics and falling business activities due to quarantine requirements, thus putting a drag on GDP growth.

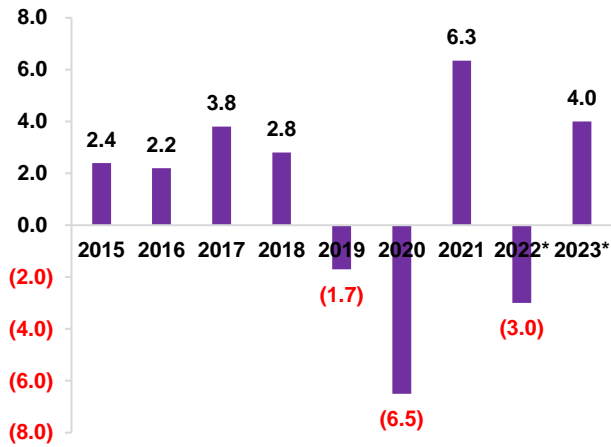
Looking ahead, optimized Covid arrangements reopening economic and social activities with China alongside HK's abandonment of most Covid restrictive measures will provide support to enhance cross-boundary business activities. Reopening of the border will elevate cooperation efficiency between HK enterprises and their offices as well as factories in the mainland, thus driving up earning momentum and brightening economic outlook of HK. In sum, the HK economy retains a resilient path of economic recovery momentum in 2023 after having a dip of economic performance in 2022. The theme for 2023 outlook will be the shift to the balance of growth drivers, with more consumption contributing to economic growth. The rebound of retail sales with expected surging number of visitors to HK fueled by border reopening alongside rising domestic consumption on improving economic outlook emerge to be the key factors to sustain robust consumption growth. For external environment, peaking U.S. rate hikes will pose less threat to the economy while the HK economic activities will surge on steady China's economic rebound. With potential strengths on the economy, the HK's economy will restore positive growth of 4.0% in 2023.

Revival of cross-border activities benefiting retail, tourism, trade and financial services. Border reopening through proper optimization of anti-Covid measures in both the mainland and HK lends positive support to cross-border flows of passengers and logistics. Expected rebound in tourists and improvement in cross-border land and air traffic will provide greater impetus for the recovery of tourism, retail, catering sectors as well as external trade. In addition, the lifting of Covid restrictions will boost cross-border services with which financial services such as initial public offerings (IPOs), mergers and acquisitions and bond issuances will rise substantially, thus promoting the economic development and consolidating HK's international financial hub status. In sum, broad-based growth in the HK economy shows signs of strong recovery in coming quarters as domestic demand rebounds on the back of increased tourist visits and spending boost on retail sales.

The HK property market outlook improving on mainland border opening for quarantine free travel. The HK property market has been hit by rising global interest rates and economic weakness in 2022, with the residential property price and transaction volume plunging 13.8% and 38% in the first eleven months. As the pandemic measures changed and the border with the mainland gradually reopens, the HK economy is gaining greater vitality through rebounding business activities with which demand for real estate will rise, thus lifting general sentiment in the real estate market. Although the U.S. Federal Reserve's tightening cycle remains intact and HK interest rates still stay at higher level, the positive business outlook on border reopening will not only enhance demand for residential properties, but also strengthen leasing demand in the retail and industrial property sectors. In sum, as sentiment towards the whole

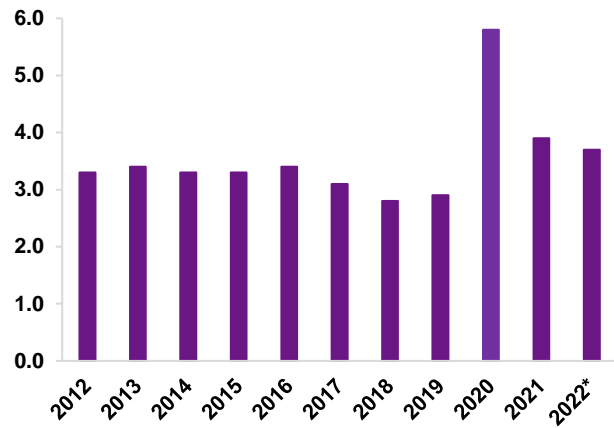
property market improves, property prices are likely to bottom in coming months. The HK property market will see mild recovery by restoring low single-digit rise in 2023.

Fig. 1: HK GDP Growth (YoY %)



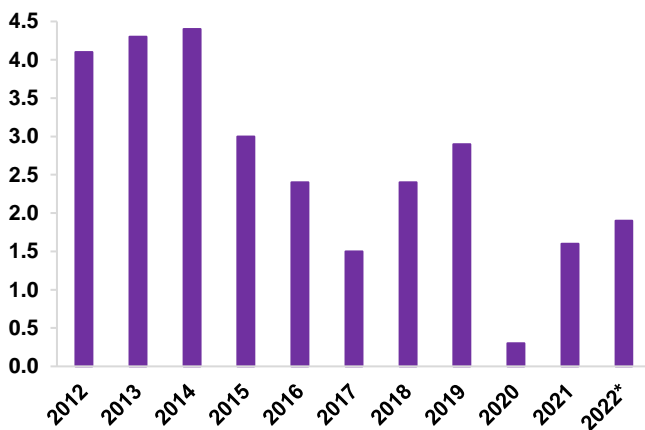
Source: Bloomberg *CEBI's forecast

Fig. 2: Unemployment rate (%)



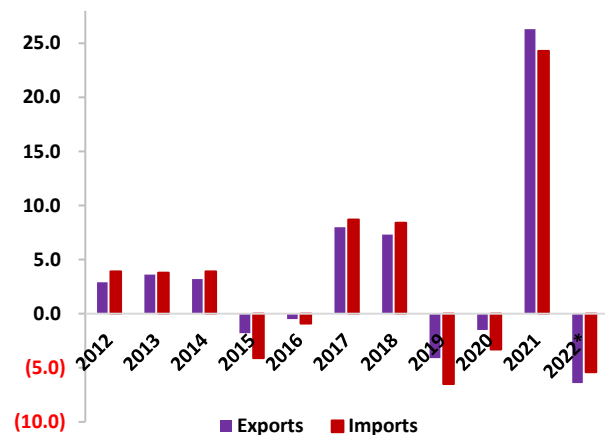
Source: Bloomberg *September to November

Fig. 3: Composite Consumer Price Index (YoY%)



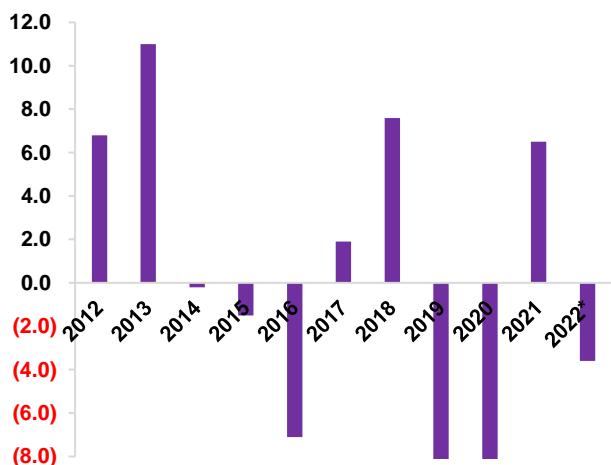
Source: Bloomberg *January to November

Fig. 4: Total Exports and Imports (Volume YoY%)



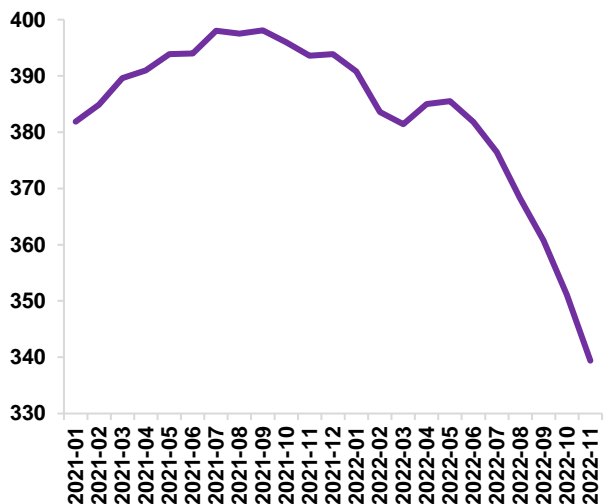
Source: Bloomberg *January to November

Fig. 5: Volume of total Retail Sales (YoY %)



Source: Bloomberg *January to November

Fig. 6: Private Domestic Property - Price Indices



Source: HK Rating and Valuation Department

China economic indicators

	2019	2020	2021	1Q2022	2Q2022	3Q2022	4Q2022	2022
Real GDP (YoY%)	6.0	2.2	8.4	4.8	0.4	3.9	-	-
PMI Manufacturing (%)	50.2	51.9	50.3	49.9	49.1	49.5	48.1	47.0
PMI Non-Manufacturing (%)	53.5	55.7	52.7	50.4	48.1	52.3	45.7	41.6
Exports (RMB YoY %)	5.0	4.0	21.0	13.2	12.6	15.4	-	-
Imports (RMB YoY %)	1.7	(0.2)	21.5	8.5	1.5	5.4	-	-
Trade Balance (RMB/bn)	2912.0	3634.2	4330.0	981.2	1453.7	1796.5	-	-
Exports (USD YoY %)	0.5	3.6	29.6	15.5	12.4	10.3	-	-
Imports (USD YoY %)	(2.7)	(0.6)	30.0	10.6	1.3	0.7	-	-
Trade Balance (USD/bn)	421.1	524.0	670.4	154.2	224.2	266.1	-	-
CPI (YoY %)	2.9	2.5	0.9	1.1	2.2	2.7	-	-
PPI (YoY %)	(0.3)	(1.8)	8.1	8.7	6.8	2.5	-	-
FAI (YTD/ YOY %)	5.4	2.9	4.9	9.2	4.2	5.7	-	-
Real Estate Investment (YTD YoY %)	9.9	7.0	4.4	0.7	(9.0)	(20.7)	-	-
Industrial Production (YoY %)	5.7	2.8	9.6	6.5	0.6	4.8	-	-
Retail Sales (YoY%)	8.0	(3.9)	12.5	3.3	(4.6)	3.5	-	-
New Lending (RMB/bn)	16815.7	19632.9	19945.1	8338.9	5340.1	4407.0	3228.8	21314.9
M2 (YoY %)	8.7	10.1	9.0	9.7	11.4	12.1	11.8	11.8
Aggregate Financing (RMB bn)	25673.5	34791.8	31351.0	11868.9	8957.7	6761.6	4211.5	31799.7

	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22	Sept 22	Oct 22	Nov 22	Dec 22
Real GDP (YoY%)	4.0	-	-	4.8	-	-	0.4	-	-	3.9	-	-	-
PMI - Manufacturing %	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0
PMI - Non-manufacturing%	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6	50.6	48.7	46.7	41.6
Exports (RMB YoY %)	17.3	20.8	3.9	12.6	1.5	14.6	21.2	24.1	12.1	10.6	7.0	0.7	-
Imports (RMB YoY %)	16.0	18.0	9.6	(0.9)	(1.8)	2.3	3.9	6.9	4.3	5.1	6.8	(1.1)	-
Trade Balance (RMB/bn)	596.7	524.2	174.9	282.0	313.4	496.4	643.9	686.7	540.5	569.4	587.2	490.2	-
Export (USD YoY %)	20.9	24.0	6.1	14.3	3.5	16.2	17.1	18.2	7.5	5.7	(0.2)	(8.9)	-
Import (USD YoY %)	19.5	21.0	11.8	0.7	0.2	3.5	0.1	1.8	0.1	0.3	(0.7)	(10.6)	-
Trade Balance (USD/bn)	93.2	82.2	27.5	44.5	49.3	77.8	97.1	101.9	80.1	84.1	85.3	69.3	-
CPI (YoY %)	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	-
PPI (YoY %)	10.3	9.1	8.8	8.3	8.0	6.4	6.1	4.2	2.3	0.9	(1.3)	(1.3)	-
FAI (YTD/ YOY %)	4.9	-	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8	5.3	-
Real Estate Investment (YTD/ YoY %)	4.4	-	3.7	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)	(8.0)	(8.8)	(9.8)	-
Industrial Production (YoY %)	4.3	-	7.5	5.0	(2.9)	0.7	3.9	3.8	4.2	6.3	5.0	2.2	-
Retail Sales (YoY%)	1.7	-	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4	2.5	(0.5)	(5.9)	-
New Lending (RMB/bn)	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1254.2	2473.8	615.2	1213.6	1400.0
M2 (YoY %)	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	12.1	11.8	12.4	11.8
Aggregate Financing (RMB bn)	2358.0	6155.8	1175.9	4637.2	929.5	2838.9	5189.3	759.6	2462.2	3539.8	914.1	1987.4	1310.0
Urban Unemployment Rate (%)	5.1	5.3	5.5	5.8	6.1	5.9	5.5	5.4	5.3	5.5	5.5	5.7	-
Urban Unemployment Rate in 31 major cities (%)	5.1	5.1	-	6.0	6.7	6.9	5.8	5.6	5.4	5.8	6.0	6.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	33,704.10	19.44	1.71
S&P 500	3,919.25	18.98	2.49
NASDAQ	10,742.63	53.27	3.42
EUR			
FTSE 100	7,694.49	14.47	1.86
DAX	14,774.60	13.66	4.18
CAC40S	6,869.14	14.20	3.70
STOXX EUR 600	445.71	15.27	2.66
Asia			
HSI	21,331.46	7.68	5.89
HSCEI	7,263.63	6.66	6.29
CSI300	4,017.47	14.77	3.33
SSE Composite	3,169.51	14.33	1.70
SZSE Composite	2,060.44	37.97	2.81
NIKKEI 225	26,175.56	17.70	0.31
KOSPI	2,351.31	11.10	5.98
TWSE	14,802.96	10.98	4.07
S&P/ASX 200	7,131.00	14.41	2.66
MSCI Index			
MSCI WORLD	2,671.20	17.14	2.70
MSCI DEVELOPED	623.63	16.19	3.00
MSCI EMERGING	1,014.02	11.36	5.35
MSCI US	3,716.14	19.36	2.53
MSCI UK	2,211.99	14.26	1.73
MSCI France	194.94	16.40	3.48
MSCI Germany	148.12	12.85	4.97
MSCI China	70.86	12.12	7.58
MSCI Hong Kong	13,905.54	19.79	1.61
MSCI Japan	1,147.65	13.47	(0.48)

* As of 2023/1/10 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	4.50	0.00
US Prime Rate	7.50	0.00
US Discount Window	4.50	0.00
ECB Rate (Refinancing)	2.50	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	4.1902	0.2015
US Treasury (1 Yr)	4.6940	0.0240
US Treasury (5 Yr)	3.7306	(0.1634)
US Treasury (10 Yr)	3.6188	(0.1201)
US Treasury (30 Yr)	3.7539	(0.0850)
1-Month LIBOR	4.4043	0.0127
3 Month LIBOR	4.7826	0.0153
Japan 1-Yr Gov. Bond	0.001	(0.017)
Japan 10-Yr Gov. Bond	0.508	0.086
German 1-Yr Gov. Bond	2.685	(0.052)
German 10-Yr Gov. Bond	2.308	(0.081)
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	2.117	(0.114)
China 5-Yr Gov. Bond	2.699	0.094
China 10-Yr Gov. Bond	2.872	0.043
O/N SHIBOR	1.116	(0.359)
1-mth SHIBOR	2.138	(0.196)
HK Base rate	4.75	0.00
O/N HIBOR	1.7979	(0.1716)
1-mth HIBOR	3.5233	(0.6872)
O/N CNH HIBOR	1.7986	0.7826
1-mth CNH HIBOR	2.1935	0.1339
Corporate Bonds (Moody's)		
Aaa	4.42	(0.28)
Baa	5.55	(0.32)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	75.12	(2.35)
ICE Brent Oil	USD/bbl	80.10	(2.44)
NYMEX Natural	USD/MMBtu	3.64	(8.75)
Basic Metals			
LME Aluminum	USD/MT	2,429.00	6.75
CMX Copper	USD/lb.	407.75	8.26
LME Steel Rebar	USD/MT	691.50	1.24
LME Lead Cash	USD/MT	2,213.25	(5.13)
Precious Metals			
CMX Gold	USD/T. oz	1,875.15	2.21
Gold Futures	USD/T. oz	1,876.50	1.65
CMX Silver	USD/T. oz	23.57	(2.98)
NYMEX Platinum	USD/T. oz	1,081.60	0.32
Agricultural			
CBOT Corn	USD/bu	655.00	(2.31)
CBOT Wheat	USD/bu	731.00	(5.74)
NYB-ICE Sugar	USD/lb.	19.64	(0.30)
CBOT Soybeans	USD/bu.	1,485.00	(0.49)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	103.24	(1.23)
Euro/USD	1.0736	1.95
GBP/USD	1.2172	2.21
AUD/USD	0.6894	2.83
USD/CAD	1.3390	(1.77)
USD/JPY	131.98	0.99
USD/CHF	0.9215	(1.81)
USD/CNY Midpoint	6.7611	(2.68)
USD/CNY	6.7795	(1.96)
USD/CNY NDF-12-mth	6.6411	(1.65)
USD/CNH	6.7895	(1.89)
USD/HKD	7.8089	(0.07)
CNY/HKD	1.1518	1.96
CNH/HKD	1.1501	1.85
USD/KRW	1,243.80	(2.19)
USD/TWD	30.45	(0.81)
USD/SGD	1.3309	(1.15)
USD/INR	81.79	(1.33)

All data sources: Bloomberg

Disclosures

Analyst Certification

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