

May 2, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Hong Kong (HK) economy gains strong traction as economic activities enjoyed an upswing of 3.8% YoY during 2017 driven by strong-than-expected growth in consumption, investment and exports. Strong expansion of economic activities has strengthened the organic growth of residential properties prices and private offices prices which posted 16.7% YoY and 4.5% YoY in 2017 and 1Q2018. Rent surged 8.6% YoY and 1.2% YoY as well.
- Entering into 2018, the upward trend is still in sight despite multiple rounds of government demand-side tightening measures in place.
- Although the U.S adopts a gradual path of monetary tightening through rate hikes and shrinking of balance sheet in 2018 which may cool down HK's overheated property market and exert some downward pressures on HK economy, strong economic fundamentals along with corporate tax cut for small enterprises, increased tourist visit and several investment themes such as the "Belt and Road" initiative, the "Guangdong-Hong Kong-Macao Greater Bay Area" initiative will be able to support rebound of economic activities in HK, thus extending the buoyant growth of Hong Kong's property.

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Optimism over Hong Kong economic outlook underpinning property market

Hong Kong (HK) economy gains strong traction as economic activities enjoyed an upswing of 3.8% YoY during 2017 driven by strong-than-expected growth in consumption, investment and exports. Strong expansion of economic activities has strengthened the organic growth of residential properties prices which posted 16.7% YoY and 4.5% YoY in 2017 and 1Q2018. Rent surged 8.6% YoY and 1.2% YoY as well. Entering into 2018, the upward trend is still in sight despite multiple rounds of government demand-side tightening measures in place. Although the U.S adopts a gradual path of monetary tightening through rate hikes and shrinking of balance sheet in 2018 which may cool down HK's overheated property market and exert some downward pressures on HK economy, strong economic fundamentals along with corporate tax cut for small enterprises, increased tourist visit and several investment themes such as the "Belt and Road" initiative, the "Guangdong-Hong Kong-Macao Greater Bay Area" initiative will be able to support rebound of economic activities in HK, thus extending the buoyant growth of Hong Kong's property.

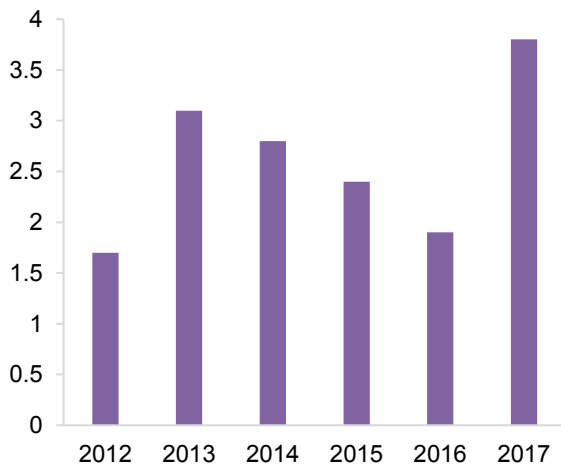
Demand-side macroeconomic conditions being the key to support organic growth of property market. Demand-side macroeconomic conditions are the key factors to sustain the development of Hong Kong's property market. Hong Kong has suffered from high population with shortage of land with which resilient demand for housing turns to push 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. Unbalanced development of property market drives up new home prices as new housing supply are at their low level. This trend is unlikely to change in 2018 as Hong Kong economy continues to show strong recovery. In sum, multiple rounds of government demand-side tightening measures will help maintain organic growth of property market.

Ample liquidity conditions to delay the rate hikes in Hong Kong. The U.S. Federal Reserve has conducted six 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, due to ample liquidity flow into Hong Kong economy, the interest spread has not triggered substantial outflow of liquidity and Hong Kong interest rates still stay at low level. The delay of rate hikes in Hong Kong favors the property market development. Along with strong momentum in Hong Kong economy, Hong Kong property market is likely to remain robust in 2018.

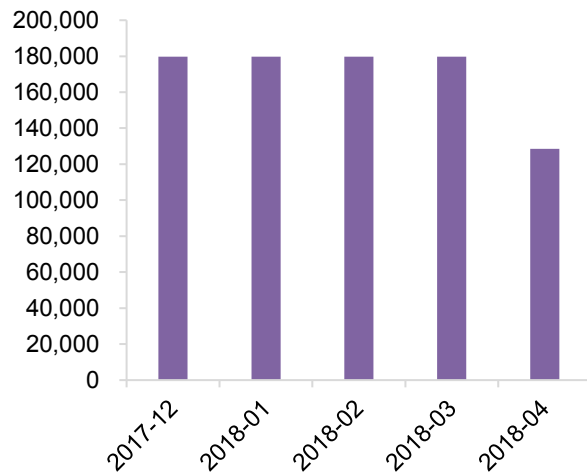
“Belt and Road” and “Guangdong-Hong Kong-Macao Greater Bay Area” initiative to increase demand for residential property and offices. HK will play a greater role in the “Belt and Road” initiative and the “Guangdong-Hong Kong-Macao Greater Bay Area” initiative. HK’s strength in human resources, financing, 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. Moreover, Hong Kong is a well-established offshore RMB hub which will significantly facilitate the financing of the “Belt and Road” projects. In sum, surging business opportunities will increase demand for offices and residential properties, supporting the growth of property market in Hong Kong.

Fig. 1: HK GDP Growth YoY%



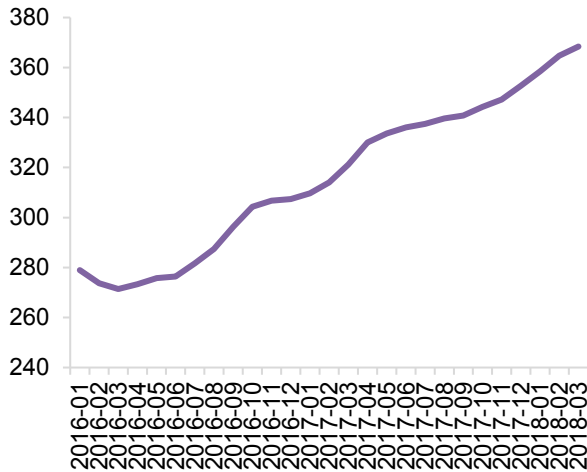
Source: Wind, Bloomberg and CEBI

Fig. 2: HK Aggregate Balance (HKD Million)



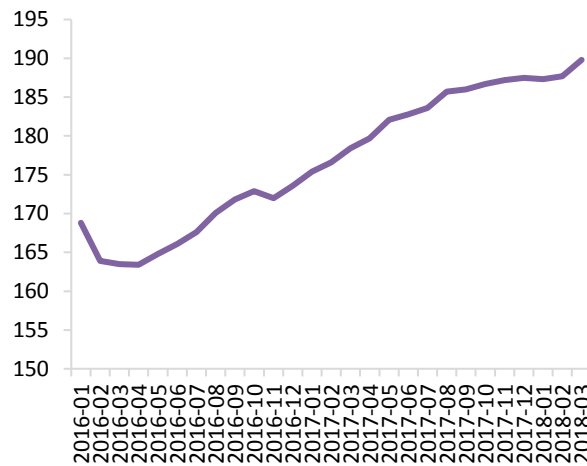
Source: Wind, Bloomberg and CEBI

Fig. 3: Private Domestic - Price Indices by Grade (All District)



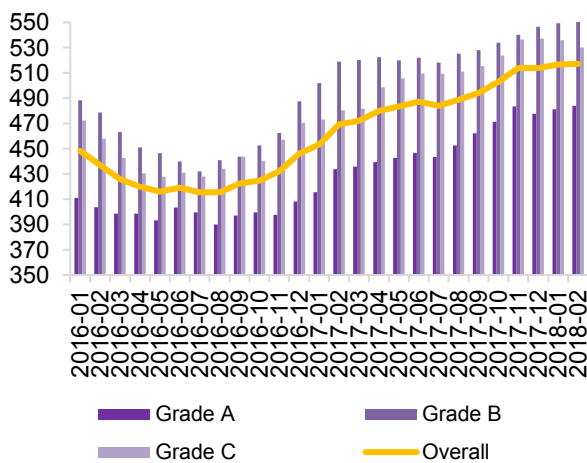
Source: Wind, Bloomberg and CEBI

Fig. 4: Private Domestic - Rental Indices by Grade (All District)



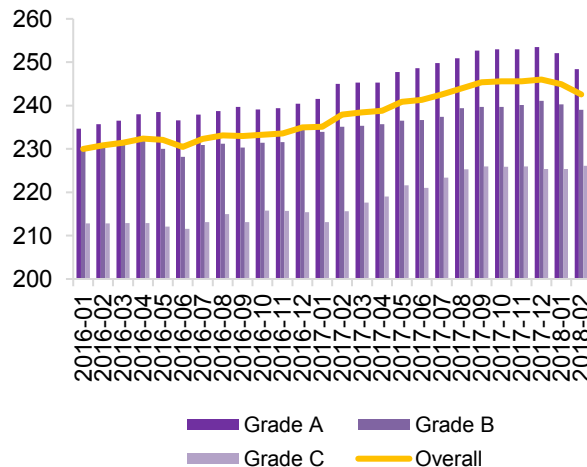
Source: Wind, Bloomberg and CEBI

Fig. 5: Private Offices - Price Indices by Grade (All District)



Source: Wind, Bloomberg and CEBI

Private Offices - Rental Indices by Grade (All District)



Source: Wind, Bloomberg and CEBI

China Economic Indicators

	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017	1Q2018
Real GDP	6.7	6.9	6.9	6.8	6.8	6.9	6.8
PMI Manufacturing (%)	51.4	51.8	51.7	52.4	51.6	51.6	51.5
PMI Non-Manufacturing (%)	54.5	55.1	54.9	55.4	55.5	55.5	54.6
Exports (RMB YoY %)	(2.1)	10.5	12.5	7.7	7.1	10.8	7.4
Imports (RMB YoY %)	0.4	30.3	20.8	16.4	9.7	18.7	11.7
Trade Balance (RMB/bn)	3347.3	419.13	809.6	771.0	861.3	2860.6	332.5
Exports (USD YoY %)	(7.7)	7.6	8.7	6.6	10.1	7.9	14.1
Imports (USD YoY %)	(5.5)	24.2	14.2	14.4	12.6	15.9	18.9
Trade Balance (USD/bn)	509.7	62.3	119.7	115.8	133.0	422.5	48.4
CPI (YoY %)	2.0	1.4	1.4	1.6	1.8	1.6	2.2
PPI (YoY %)	(1.4)	7.4	5.8	6.2	5.9	6.3	3.1
FAI (YTD/ YOY %)	8.1	9.2	8.6	7.5	7.2	7.2	7.5
Real Estate Investment (YTD YoY %)	6.9	9.1	8.5	8.1	7.0	7.0	10.4
Industrial Production (YoY %)	6.0	6.8	6.9	6.3	6.2	6.6	6.8
Retail Sales (YoY%)	10.4	10.0	10.8	10.3	9.9	10.2	9.8
New Lending (RMB/bn)	12645.9	4220.0	3750.0	3785.5	2367.6	13523.1	4859.3
M2 (YoY %)	11.3	10.6	9.4	9.2	8.2	8.2	8.2
Aggregate Financing (RMB bn)	17802.2	6906.4	4222.9	4518.6	3795.1	19443.0	5580.0

	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18
Real GDP	6.9	-	-	6.9	-	-	6.8	-	-	6.8	-	-	6.8
PMI – Manufacturing %	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5
PMI- Non-manufacturing%	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6
Exports (RMB YoY %)	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2	(9.8)
Imports (RMB YoY %)	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)	5.9
Trade Balance (RMB/bn)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9	(29.8)
Export (USD YoY %)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5	(2.7)
Import (USD YoY %)	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4
Trade Balance (USD/bn)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7	(5.0)
CPI (YoY %)	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1
PPI (YoY %)	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1
FAI (YTD/ YOY %)	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5
Real Estate Investment (YTD/ YoY %)	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4
Industrial Production (YoY %)	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0
Retail Sales (YoY%)	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1
New Lending (RMB/bn)	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0
M2 (YoY %)	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2
Aggregate Financing (RMB bn)	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3059.7	1173.6	1330.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,099.05	18.26	0.31
S&P 500	2,654.80	20.54	0.77
NASDAQ	7,130.70	26.21	1.76
EUR			
FTSE 100	7,520.36	13.91	1.28
DAX	12,612.11	14.45	0.30
CAC40S	5,520.50	17.39	1.50
STOXX EUR 600	385.03	16.28	0.50
Asia			
HSI	30,808.45	12.56	1.80
HSCEI	12,331.39	9.21	2.80
CSI300	3,756.88	14.27	-0.10
SSE Composite	3,082.23	14.94	0.30
SZSE Composite	1,776.13	28.69	-0.10
NIKKEI 225	22,508.03	16.80	1.00
KOSPI	2,515.38	11.31	1.70
TWSE	10,657.88	14.88	0.72
S&P/ASX 200	6,015.23	17.56	2.08
MSCI Index			
MSCI WORLD	2,083.77	18.69	0.11
MSCI DEVELOPED	509.00	18.16	0.18
MSCI EMERGING	1,162.47	15.02	0.72
MSCI US	2,530.46	20.95	0.72
MSCI UK	2,174.57	14.04	1.15
MSCI France	158.77	17.24	1.40
MSCI Germany	155.04	14.95	-0.05
MSCI China	91.45	15.74	1.13
MSCI Hong Kong	16,203.59	11.75	1.49
MSCI Japan	1,049.85	13.71	1.35

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	67.53	-0.76
ICE Brent Oil	USD/bbl	73.20	-1.08
NYMEX NatGas	USD/MMBtu	2.80	0.65
Basic Metals			
LME Alum.Cash	USD/MT	2,260.00	1.41
CMX Cop.Active	USD/lb.	307.40	-2.64
LME Steel Rebar	USD/MT	556.00	0.54
LME Lead Cash	USD/MT	2,294.25	-0.36
Precious Metals			
CMX Gold	USD/KRW	1,310.45	-1.08
Gold Futures	USD/KRW	1,311.40	-0.85
CMX Silverbn	USD/KRW	16.32	-1.61
NYMEX Platinum	USD/T. oz	898.23	-2.53
Agri. Products			
CBOT Corn	USD/bu	405.00	2.34
CBOT Wheat	USD/bu	526.00	5.41
NYB-ICE Sugar	USD/lb.	11.69	2.72
CBOT Soybeans	USD/bu.	1,051.50	1.18

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.75	0.00
US Prime Rate	4.75	0.00
US Discount Window	2.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.64	0.00
US Treasury (1 Yr)	2.24	-0.01
US Treasury (5 Yr)	2.81	-0.02
US Treasury (10 Yr)	2.97	-0.05
US Treasury (30 Yr)	3.14	-0.07
1-Month LIBOR	1.91	0.01
3 Month LIBOR	2.36	0.00
Japan 1-Yr Gov. Bond	-0.13	0.00
Japan 10-Yr Gov. Bond	0.05	-0.02
German 1-Yr Gov. Bond	-0.07	-0.01
German 10-Yr Gov. Bond	0.56	-0.08
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.98	0.00
China 5-Yr Gov. Bond	3.10	-0.07
China 10-Yr Gov. Bond	3.60	0.00
O/N SHIBOR	2.72	-0.02
1-mth SHIBOR	3.89	0.15
HK Base rate	0.49	-0.01
O/N HIBOR	0.49	-0.01
1-mth HIBOR	1.25	0.02
O/N CNH HIBOR	3.60	-0.98
1-mth CNH HIBOR	4.30	0.06
Corporate Bonds (Moody's)		
Aaa	3.95	0.01
Baa	4.74	0.00

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.37	1.32
Euro/USD	1.2003	-1.62
GBP/USD	1.3613	-2.41
AUD/USD	0.7502	-0.99
USD/CAD	1.2831	-0.33
USD/JPY	109.73	0.61
USD/CHF	0.9959	1.34
USD/CNY Midpoint	6.3670	1.01
USD/CNY	6.3595	0.67
USD/CNY NDF		
12-mth Spot pr.	6.4648	0.64
USD/CNH	6.3598	0.60
USD/HKD	7.8497	0.02
CNY/HKD	1.2343	-0.48
CNH/HKD	1.2343	-0.57
USD/KRW	1,074.60	-0.21
USD/TWD	29.726	0.39
USD/SGD	1.3345	0.51
USD/INR	66.709	0.35

All data sources: Bloomberg, CEBI, NBS

Disclosures

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