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Economic Acumen

Commentary by CEBI Research Team

In Brief

- Hong Kong (HK) economy retained a resilient path of economic momentum in 1Q2018. GDP growth for 1Q2018 demonstrated an upswing of 4.7% YoY, surpassing 4Q2017's 3.4% and 2017's 3.8% with which growth of economic indicators accelerated in varying degrees.
- Inflation pressure remained mild at 2.3% while the unemployment rate dropped to 2.8%, the lowest in 20 years.
- The rebound of retail sales with surging number of visitors to HK as well as robust domestic consumption fueled by escalating residents' income are the key factors to sustain robust consumption growth.
- Gradual U.S. rate hikes may consider as the threat to the economy but HK economy is likely to benefit from steady China's economic growth, the U.S. economic recovery as well as the easing fears of US-China trade war.
- We remain optimistic towards HK economic growth on the back of robust economic conditions. For 2018 as a whole, we forecast HK economy to grow by 3.8%.

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Hong Kong economic momentum to stay upbeat

Hong Kong (HK) economy retained a resilient path of economic momentum in 1Q2018 after enjoying an impressive economic performance in 2017. GDP growth for 1Q2018 demonstrated an upswing of 4.7% YoY, surpassing 4Q2017's 3.4% and 2017's 3.8% with which growth in consumption, investment, government expenditures as well exports and imports of goods and services accelerated in varying degrees. Inflation pressure remained mild as composite CPI for January-to-April stayed at 2.3% while the labor market tightened further with the unemployment rate dropping to 2.8% during February-to-April, the lowest in 20 years. In general, the continuation of economic recovery depends on domestic and external environment. For domestic environment, the theme for 2018 outlook will be the shift to the balance of growth drivers, with more consumption contributing to economic growth. The rebound of retail sales with surging number of visitors to HK as well as robust domestic consumption fueled by escalating residents' income are the key factors to sustain robust consumption growth. For external environment, gradual U.S. rate hikes may consider as the threat to the economy but HK economy is likely to benefit from steady China's economic growth, the U.S. economic recovery as well as the easing fears of US-China trade war. With potential strengths and threats on the economy, we remain optimistic towards HK economic growth on the back of robust economic conditions. For 2018 as a whole, we forecast HK economy to grow by 3.8%.

Domestic demand to strengthen further. Broad-based growth in Hong Kong's economy shows signs of strong recovery as domestic demand rebounds on the back of increased tourist visits and spending boost on retail sales. The number of mainland visitors during 1Q2018 surged by 9.6%, compared to 3.9% YoY growth in 2017. Retail sales value for 1Q2018 widened to 11.4% YoY from 2.2% YoY in 2017, indicating an overall expansion in tourist spending. In addition, a stable labor market helps support household income and keeps consumer spending growth in the positive territories. In sum, the near-term outlook for retail sales will hinge on the continued rebound of tourist visits as well as the resilient

consumption sentiment. We expect retail sales to enjoy a modest rebound for the rest of 2018.

The property market to remain strong despite U.S rate hikes.

Strong expansion of economic activities has strengthened the growth of residential properties prices by 16.7% YoY and 4.5% YoY in 2017 and 1Q2018. Rent surged 8.6% YoY and 1.2% YoY as well. 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. This trend is unlikely to change in 2018 amid robust recovery of Hong Kong economy. New property investment is likely to underpin fixed asset investment in HK, thus boosting GDP growth.

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 HK economic recovery. HK economy is likely to remain robust in 2018 on the back of surging consumption and investment.

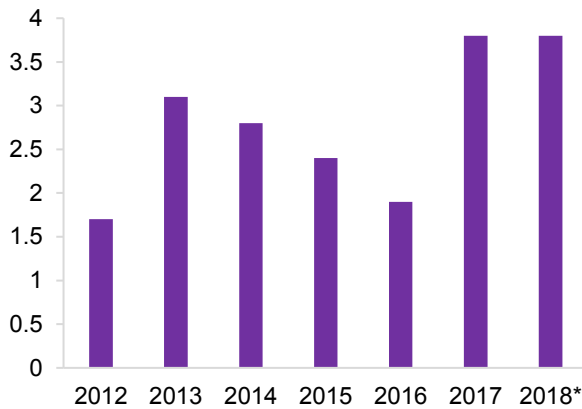
Healthy development of multi-layered capital market to strengthen HK as an international financial center. Hong Kong stock exchange finally agrees to allow companies with dual-class shareholding structures and biotech firms with no revenue applying for listing. The proposed new rules to broaden Hong Kong's listing regime not only attract more 'new economy' enterprises to be listed in HK, but also strengthen the role of HK as an international financial center. It is expected that surging capital market activities will further drive demand for services in HK, thus boosting economic growth of HK.

The easing of US-China trade war fears to support the recovery of Hong Kong external trade sector. After conducting two-way discussion for several weeks, the U.S. and China agreed to hold off on imposing import tariffs on each other, easing concerns of an imminent trade war. For 1Q2018, HK total trade of goods and services were 3.6 times of GDP with real growth of 5.8% which served as an important growth driver of HK economy. As most of Hong Kong's exports are re-export of products produced by mainland manufacturers, the external trade sector will benefit from the U.S-China pulling back from the brink of a global trade war.

“Belt and Road” and “The Greater Bay Area” initiative to extend growth momentum of HK economy. 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. Moreover, Hong Kong is a well-established offshore RMB hub which will significantly facilitate the financing of the projects related to both initiatives. 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

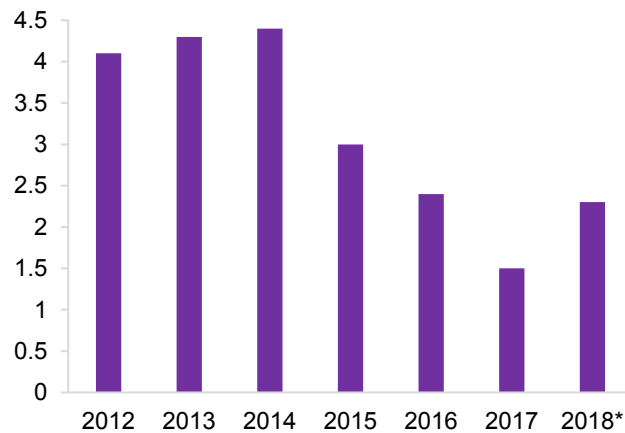
Fig. 1: HK GDP (YoY%)



*Forecasts

Source: Wind, Bloomberg and CEBI

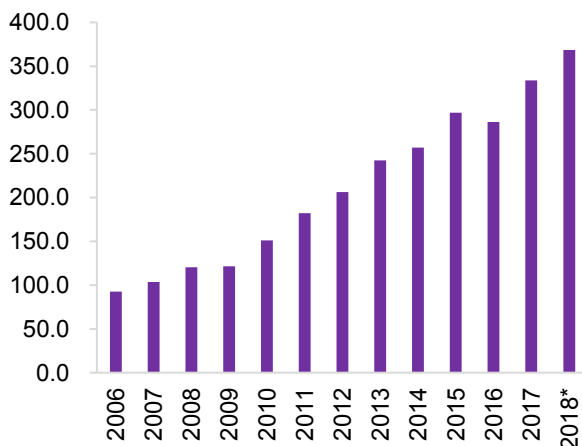
Fig. 3: HK Composite CPI (YoY%)



*January to April

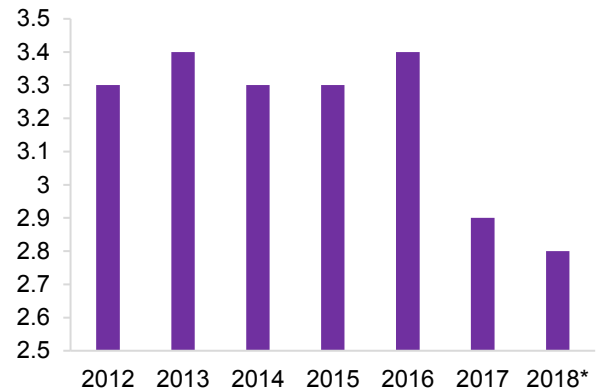
Source: Wind, Bloomberg and CEBI

Fig. 5: HK Private Property Price Index



Source: Wind, Bloomberg and CEBI

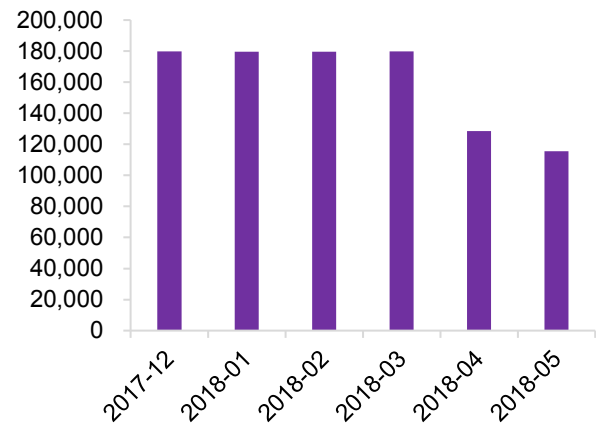
Fig. 2: HK Unemployment (%)



*February to April

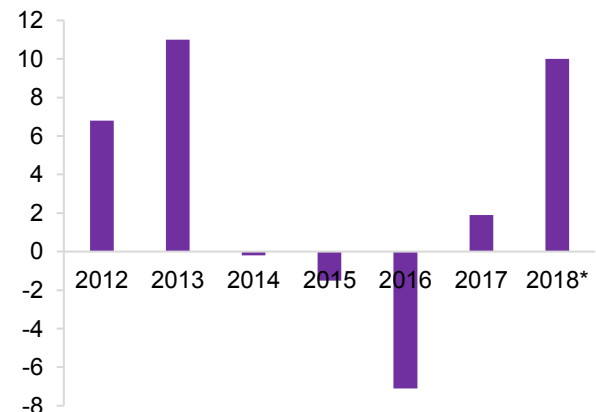
Source: Wind, Bloomberg and CEBI

Fig. 4: HK Aggregate Balance (HKD Million)



Source: Wind, Bloomberg and CEBI

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



*1Q2018

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
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

	Apr 17	May 17	Jun 17	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18
Real GDP	-	-	6.9	-	-	6.8	-	-	6.8	-	-	6.8	-
PMI – Manufacturing %	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4
PMI- Non-manufacturing%	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8
Exports (RMB YoY %)	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2	(9.8)	3.7
Imports (RMB YoY %)	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)	5.9	11.6
Trade Balance (RMB/bn)	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9	(29.8)	182.8
Export (USD YoY %)	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5	(2.7)	12.9
Import (USD YoY %)	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4	21.5
Trade Balance (USD/bn)	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7	(5.0)	28.8
CPI (YoY %)	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8
PPI (YoY %)	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4
FAI (YTD/ YOY %)	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0
Real Estate Investment (YTD/ YoY %)	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3
Industrial Production (YoY %)	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0
Retail Sales (YoY%)	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4
New Lending (RMB/bn)	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0
M2 (YoY %)	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3
Aggregate Financing (RMB bn)	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3059.7	1173.6	1330.0	1560.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,886.81	18.77	0.48
S&P 500	2,733.29	20.95	0.40
NASDAQ	7,425.96	24.55	0.37
EUR			
FTSE 100	7,788.44	13.82	0.70
DAX	12,976.84	14.47	0.05
CAC40S	5,565.85	17.61	-0.03
STOXX EUR 600	392.58	16.51	-0.16
Asia			
HSI	30,760.41	12.53	-1.12
HSCEI	12,152.62	9.09	-2.31
CSI300	3,827.22	14.73	-0.95
SSE Composite	3,154.65	15.45	0.01
SZSE Composite	1,827.06	29.75	0.24
NIKKEI 225	22,437.01	17.35	-1.76
KOSPI	2,466.01	11.93	0.25
TWSE	10,936.93	14.89	0.95
S&P/ASX 200	6,037.08	17.59	-0.94
MSCI Index			
MSCI WORLD	2,122.89	18.84	0.00
MSCI DEVELOPED	515.86	18.20	-0.23
MSCI EMERGING	1,133.10	14.43	-1.90
MSCI US	2,605.61	21.38	0.41
MSCI UK	2,250.72	13.94	0.64
MSCI France	160.34	17.38	0.06
MSCI Germany	157.14	15.14	-0.50
MSCI China	92.98	15.82	-1.44
MSCI Hong Kong	16,140.96	11.67	-0.81
MSCI Japan	1,061.60	14.27	-0.17

* As of 24/5/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	71.51	0.04
ICE Brent Oil	USD/bbl	79.30	0.00
NYMEX NatGas	USD/MMBtu	2.93	2.34
Basic Metals			
LME Alum.Cash	USD/MT	2,262.00	-3.20
CMX Cop.Active	USD/lb.	308.80	-0.05
LME Steel Rebar	USD/MT	555.00	-1.77
LME Lead Cash	USD/MT	2,469.00	6.32
Precious Metals			
CMX Gold	USD/KRW	1,296.91	0.72
Gold Futures	USD/KRW	1,302.20	0.54
CMX Silverbn	USD/KRW	16.52	0.74
NYMEX Platinum	USD/T. oz	907.86	2.08
Agri, Products			
CBOT Corn	USD/bu	410.50	3.86
CBOT Wheat	USD/bu	534.75	7.49
NYB-ICE Sugar	USD/lb.	12.41	7.35
CBOT Soybeans	USD/bu.	1,047.25	5.25

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)	1.74	0.07
US Treasury (1 Yr)	2.28	-0.01
US Treasury (5 Yr)	2.84	-0.10
US Treasury (10 Yr)	3.01	-0.10
US Treasury (30 Yr)	3.17	-0.08
1-Month LIBOR	1.97	0.03
3 Month LIBOR	2.33	0.01
Japan 1-Yr Gov. Bond	-0.14	-0.01
Japan 10-Yr Gov. Bond	0.05	-0.01
German 1-Yr Gov. Bond	-0.65	-0.04
German 10-Yr Gov. Bond	0.52	-0.12
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.13	0.16
China 5-Yr Gov. Bond	3.42	-0.04
China 10-Yr Gov. Bond	3.67	-0.05
O/N SHIBOR	2.53	-0.07
1-mth SHIBOR	3.85	0.01
HK Base rate	0.18	0.04
O/N HIBOR	0.18	0.04
1-mth HIBOR	0.98	0.00
O/N CNH HIBOR	2.94	-1.17
1-mth CNH HIBOR	4.20	-0.05
Corporate Bonds (Moody's)		
Aaa	4.05	-0.02
Baa	4.89	0.00

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	93.69	0.24
Euro/USD	1.1737	-0.47
GBP/USD	1.3403	-0.69
AUD/USD	0.7564	0.53
USD/CAD	1.2855	0.59
USD/JPY	109.73	-0.77
USD/CHF	0.9926	-0.93
USD/CNY Midpoint	6.3816	0.22
USD/CNY	6.3826	0.24
USD/CNY NDF		
12-mth Spot pr.	6.4880	0.33
USD/CNH	6.3752	0.31
USD/HKD	7.8479	-0.02
CNY/HKD	1.2296	-0.27
CNH/HKD	1.2310	-0.34
USD/KRW	1,079.65	0.17
USD/TWD	29.921	0.07
USD/SGD	1.3409	-0.11
USD/INR	68.341	0.95

All data sources: Bloomberg, CEBI, NBS

Disclosures

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