

Market Monitor – Hong Kong

Business Environment Remains Broadly Positive



Business environment remains broadly positive

Hong Kong's economy maintained its growth momentum and grew at 7.5% in Q2, albeit down from 8% in Q1. Goods exports were the main driver of Hong Kong's economic rebound in the first half of this year, rising by a rapid 30% annually in the first half of this year, while imports rose by 26.8% over the same period.

The broader business environment also remained positive, with Markit's Hong Kong Purchasing Managers' Index (PMI) staying in expansionary territory for 6 consecutive months, although it fell to 51.3 in July from a 7-year high of 52.5 in May. A volatile global pandemic situation has adversely affected new business orders, while rising wages and input prices have been putting pressure on corporate profitability.

Meanwhile, Hong Kong's unemployment rate in the April-June period dropped sharply to 5.5%, down from 6% in the previous 3 months, aided by a further easing of restrictions for a number of business sectors including restaurants, bars, entertainment venues and fitness centres. Unemployment stood at about 213,000 people.

Recovery still slow for retail sales

Retail sales in June were HK\$28.1 billion, an increase of 5.8% year-on-year. This represents an average annual 10.7% decline from the same period in 2019. The government's HK\$36 billion e-voucher scheme will be positive for the retail sector, offering HK\$5,000 to every adult Hong Kong resident from August onward.

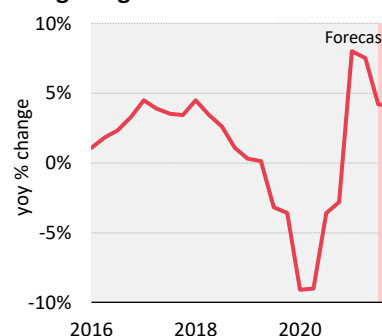
Yet the retail sector is dependent on face-to-face services, and a full recovery is not expected unless there is a full opening of Hong Kong's borders, especially with Mainland China. According to the Chief Executive, Guangdong provincial authorities have set no definite criteria for reopening the border. She estimated that around a 70% local

Hong Kong's business environment remains broadly positive, but downside risks emerge.

Unemployment rate drops more sharply than expected amid relaxation of social distancing measures.

Residential property prices continue to soar, with interbank rates trending downward.

Hong Kong GDP Growth



Sources: Hong Kong Census and Statistics Department; BEA Economic Research Department, data as of 30/7/2021

Economic Research

August 2021

vaccination rate against Covid-19 might be a minimum requirement.

By 31st July, about 3.23 million people had received at least one dose of vaccine, or about 43.1% of the population, up from 30% at end-June. Of those, about 2.44 million people were fully vaccinated. If Hong Kong can keep to a rate of 30,000 doses per day, 70% of its population could have received at least one dose of vaccine by October. However, some medical experts have commented that the “herd immunity” threshold should be set higher given the more contagious delta variant, citing information from the US Centres for Disease Control (CDC). The CDC found that a carrier could infect 4 to 5 people on average, compared with 2.5 people for the alpha variant.

In general, with an improving epidemic situation in Hong Kong, social distancing measures are expected to be gradually relaxed, and in the meantime exports will continue to perform well. These factors point to a gradual economic recovery, with full-year economic growth estimated to be 5.8%.

Heavy regulatory clampdowns weigh on market performance

The Hang Seng Index dropped sharply by over 1,120 points or at 4.1% on 26th July, wiping out the gains made thus far in 2021. In particular, the stricter regulatory requirements imposed in China led to a price fall in education and tech stocks, with the Tech Index falling by 8% in a single day. The Chinese authorities announced that private educational training institutions can no longer be listed on the stock market or have foreign ownership, and shall henceforth be run as not-for-profit organisations. These institutions are also forbidden from teaching during weekends and public or school holidays.

Meanwhile, the authorities have ordered Tencent to give up its exclusive music licensing rights and fined the company for anti-competitive behaviour, and at the same time have issued guidelines to protect the rights of food-delivery drivers employed by tech platforms such as Meituan. Regulators also ordered internet giants to fix anticompetitive practices and data security threats.

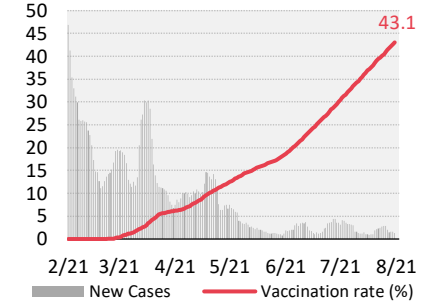
The Hang Seng Index closed at 25,961 points on 30th July, 2021, representing a drop of 9.9% from the end of June. In comparison, the Shanghai A-share index fell by 5.4% over the same period, while the Dow Jones Industrial Average rose by 1.7%.

Property prices continue to soar

Property prices have continued to soar since the start of this year. As of end-June, the property price index released by the Rating and Valuation Department (RVD) was up 3.8% from end-2020, just 0.6% below the peak level seen in May 2019. Meanwhile, residential rents have also seen an uptick since April, rising by 0.1% month-on-month in June – an increase of 0.7% from end-2020.

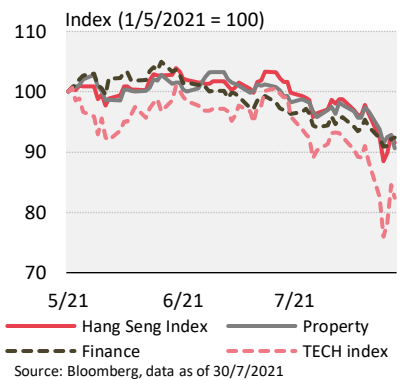
At present, Hong Kong’s market is flooded with ample liquidity, keeping the Hong Kong interbank rates at low levels. The 1-month HIBOR (which is related to the mortgage rate) had dived lower to 0.0827% as of 30th July, while the 3-month HIBOR hit 0.1487%. Low interest rates will prevail in the short term, which will support the property market.

Hong Kong Covid-19 Cases and Vaccination Rate



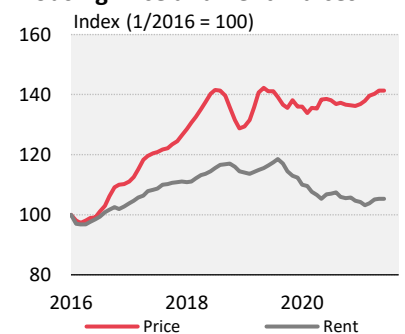
Source: Our World in Data, data as of 31/7/2021
Remark: New cases are 7-day rolling average

Stock Market Indices



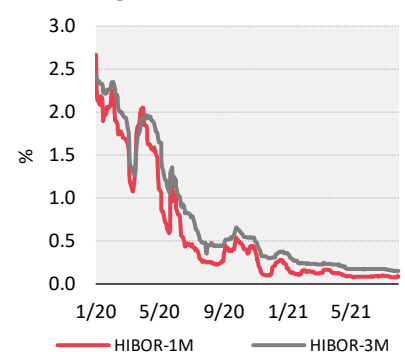
Source: Bloomberg, data as of 30/7/2021

Housing Price and Rent Indices



Source: Rating and Valuation Department, data as of 28/7/2021

HKD HIBOR



Source: Bloomberg, data as of 30/7/2021

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