

Market Monitor – Hong Kong

Job Market Improves as Threat of Pandemic Abates



Unemployment may have peaked despite a rebound of new infections

Hong Kong’s Covid situation was under control in May, but the number of confirmed new cases rebounded in June. 779 confirmed new cases were recorded as of end-June (rolling 7-day average), versus the lowest reading of 99 cases since the 5th wave of Covid-19. In order to curb the spread of infection, the SAR government has maintained some social distancing rules and is taking a wait-and-see approach about implementing the third phase of loosening anti-Covid restrictions.

The labour market showed early signs of recovery, with unemployment having peaked in April when Hong Kong started to ease its anti-Covid measures. The seasonally adjusted unemployment rate dropped from 5.4% in the February – April period to 5.1% in the March – May period. Unless the SAR government sharply tightens social distancing restrictions again, the labour market is expected to see gradual improvement in the months ahead.

On the other hand, Hong Kong’s price pressure remains mild compared to other major economies. The year-on-year increase in the headline consumer price index edged down from 1.3% in April to 1.2% in May due to the electricity charge allowance. As domestic cost pressures remain subdued, including rents in private housing, Hong Kong’s overall inflationary pressure is expected to stay moderate in the near term.

Upcoming consumption voucher distribution to boost consumption

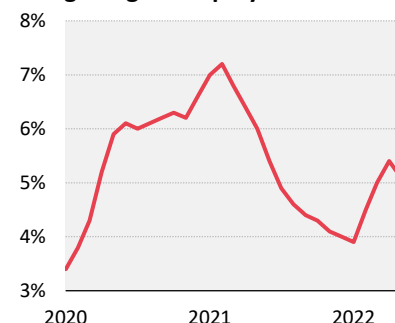
Retail sales declined mildly by 1.7% year-on-year in May, reversing from a strong year-on-year rebound of 11.7% recorded in April. Nonetheless, taking the two months together there was still a year-on-year increase of 4.7% as local Covid situation improved and the first batch of consumption vouchers was distributed. Looking forward, the SAR

Unemployment rate peaks in Q1 as threat of Covid-19 abates.

Retail sales are likely to support the economic recovery ahead, with another round of consumption vouchers slated for distribution.

Although upward pressure on HKD interest rates alongside the US Fed’s rate hikes may weigh on property market sentiment, residential property prices are likely to hover within a few percentage points.

Hong Kong Unemployment Rate



Source: Hong Kong Census and Statistics Department, data as of 17/6/2022

government will disburse the second round of consumption vouchers in August. If the threat of Covid-19 continues to abate in the coming months, retail and overall consumer activity should regain some momentum but a full recovery of local retail sector will still hinge on how the pandemic evolves in the region and whether inbound tourism resumes.

Disruption to exports may alleviate as mainland China eases curbs

Total exports of goods recorded a weaker than expected year-on-year decline of 1.4% in May, after a year-on-year increase of 1.1% in April and a year-on-year rise of 1.9% in the first five months of 2022.

Looking ahead, the gradual removal of pandemic control measures and the resumption of production in mainland China may support Hong Kong's external trade. However, the global economic outlook has suffered amid rapidly changing monetary policy stances by major central banks, elevated inflationary pressure driven by energy and food prices and the supply chain disruption caused by the ongoing Russia-Ukraine conflict, and of course the evolving pandemic. Against this background, Hong Kong's export sector may only see a moderate gain in the near term (partly driven by higher prices) despite an ongoing normalisation of cross-border land transport and a relatively stable Covid situation.

Hong Kong equities outperform global peers, backed by supportive government policies

Hong Kong's equity markets climbed to nearly a three-month high at one point in June as mainland China's authorities rolled out a series of policy measures and signalled an easing of scrutiny on its technology sector. Nonetheless, upbeat US inflation and a 75-bp rate hike by the Federal Reserve (Fed) continue to weigh on market sentiment.

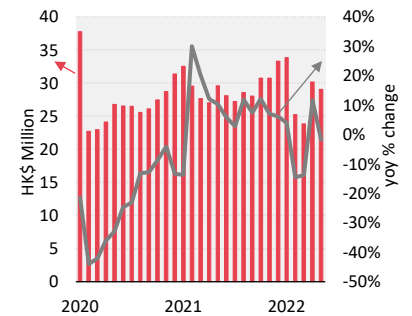
The Hang Seng Index closed at 21,859.8 points on 30th June, representing a rise of 2.1% from end-May. The Hang Seng Tech Index climbed by 8.6% to end-June at 4,870.3 points. In comparison, the Shanghai A-share index rose by 6.7% over the same period, whereas the Dow Jones Industrial Average fell by 6.7% and global stocks by 8.4%.

Rising interest rates could put more pressure on the residential property markets going forward

According to figures released by the Rating and Valuation Department (RVD), as of end-May 2022, the property price index was down 0.3% month on month, reversing from a 1% gain in April. Meanwhile, residential rents stayed flat month on month.

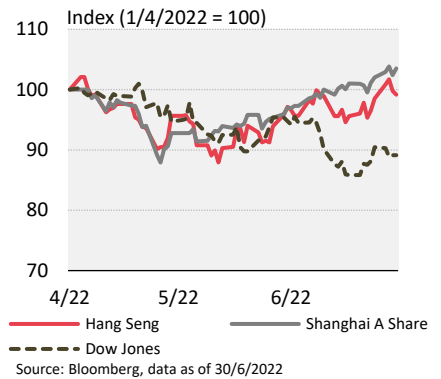
With the Fed having raised its policy rate by 75 bps in June, HKD interest rates will likely follow suit at a faster pace than previously expected, with the HKD soon returning to a more neutral liquidity level. The rise in interest rates may put more pressure on sentiment, but the fundamentals of Hong Kong's property markets remain largely steady, together with the phased relaxation of social distancing measures, which may help to alleviate downside pressure on the residential property market. Hong Kong's residential property prices are expected to hover within a range of a few percentage points this year.

Hong Kong Retail Sales



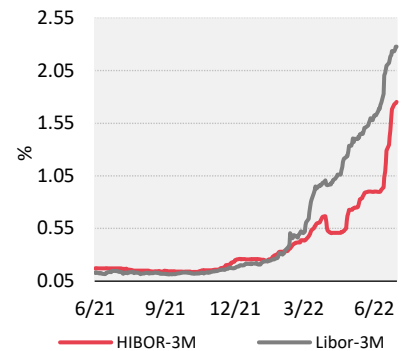
Source: Hong Kong Census and Statistics Department, data as of 30/6/2022

Stock Market Indices



Source: Bloomberg, data as of 30/6/2022

HIBOR and LIBOR



Source: Bloomberg, data as of 30/6/2022

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