BEA 東亞銀行

Economic Research

September 2022

Market Monitor – Hong Kong

Quarantine Cut for Arrivals but Infection Cases Surge

Hong Kong shortens hotel quarantine for arrivals while local infections start to increase again.

Domestic activity continues to recover, but external trade is still subject to downside pressure.

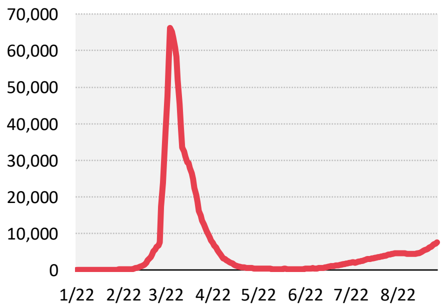
Prime rate hike is expected imminently, while rising mortgage rates are denting property market sentiment.

Hong Kong shortens hotel quarantine for arrivals

The SAR government has introduced a health-code system and is paving the way to a gradual re-opening of its borders. The entry rules have been eased for international arrivals, with the city's mandatory hotel quarantine being shortened from 7 days to 3 days as of early August. On the other hand, a two-colour health code has been implemented on top of the vaccine pass scheme to limit the movement of local patients and international arrivals.

Concerns have resurfaced about the relaxing of social distancing measures, as the number of locally infected cases rose to a 7-day average of 8,772 at end-August, the highest level since late March. Although officials may strengthen some pandemic control rules and expand the scope of Covid tests in the short run, the SAR government's policy direction appears to be leaning towards relaxation rather than tightening in the medium term given the receding threat of the pandemic around the globe. Looking ahead, the progress towards a full re-opening remains rather slow, with the SAR government maintaining a cautious approach amid the evolving pandemic situation.

New Covid-19 Cases in Hong Kong



Sources: Hong Kong Center for Health Protection, data as of 27/8/2022
Remark: New cases are 7-day rolling average

Significant improvement in jobs market could boost domestic activity

Retail sales rose 4.1% year on year (YoY) in July and sales volume increased 1%, amid a relatively low base of comparison, the evolving Covid-19 situation and ahead of the city's second disbursement of consumption vouchers this year. However, a rather quick recovery in the labour market is expected to help boost domestic activity. The seasonally adjusted unemployment rate dropped from its peak of 5.4% in the February – April period to 4.3% in the May – July period. Rates of unemployment in pandemic-sensitive sectors (namely retail, accommodation, and food services) fell from the previous peak of 10% to 6.5% during the same period. Labour market resilience has boosted the private sector, with the Hong Kong PMI having stayed above the boom-or-bust line for five straight months, despite falling to 51.2 in August.

Inflation is heating up slightly but remains under control. The consumer price index climbed 1.9% YoY in July, up from a 1.8% rise in June following a surge in food prices and electricity charges. Looking ahead, elevated inflationary pressure around the globe is likely to increase food and energy costs going forward, though this may be partially offset by a subdued recovery of rents and other domestic items.

Merchandise exports down again

Following Hong Kong's 2.6% YoY economic contraction in 1H 2022, the SAR government revised its annual growth forecast range from 1–2% to between -0.5% and 0.5% amid a gloomier global economic outlook. On the external front, merchandise exports declined further against a worsening external environment and disruptions to cross-border land transport. The YoY contraction of 8.9% in July marked the fourth decline in the past 5 months. Merchandise imports also declined significantly, falling 9.9% YoY in July. The sharp decline in imports caused the monthly trade deficit to shrink from HK$68.5 billion in June to HK$27.6 billion in July, which improved the economic picture on its surface.

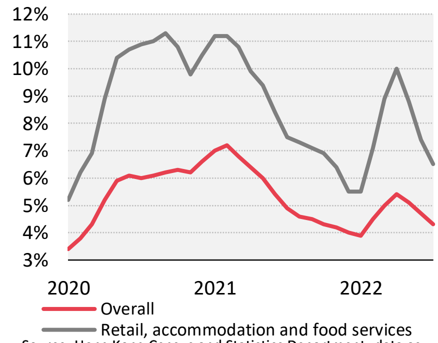
Hong Kong's gradual domestic recovery belies expected headwinds to the export sector in 2H amid rising global risks, including rapid monetary tightening by major central banks, supply chain disruptions, elevated inflationary pressure, and a likely shift of consumer patterns from goods to services following the global economic reopening.

3-month HIBOR approaching a 3-year high

A nearly two-year low aggregate balance of around HK$124.9 billion helped push up the Hong Kong dollar interbank rates, in addition to short-term funding demand driven by IPO activity. At one point in August the 1-month HIBOR hit 1.9%, the highest since March 2020 while the 3-month HIBOR topped 2.6%, the first time since mid-2019. Hong Kong banks are continuing to experience pressure to raise their prime rates, and we are soon likely to see the first prime rate hike in almost 4 years. Meanwhile, the Hong Kong dollar's exchange rate eased away from the "weak-side Convertibility Undertaking" (the level at which the HKMA will intervene in the market to drive up the value of Hong Kong dollars) amid a marked narrowing of the yield spread between the US and Hong Kong dollars.

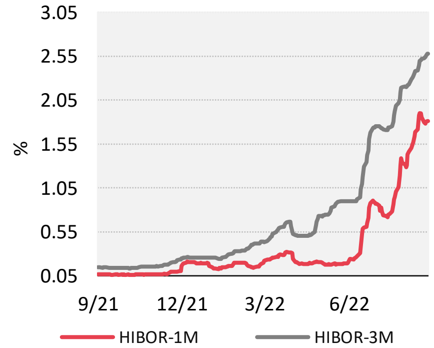
According to the latest data from the Rating and Valuation Department, Hong Kong residential property prices dropped 1.6% month on month (MoM) in July or 4.5% year-to-date (YTD), while rents recorded another MoM rebound of 0.6% in July. Given that the HIBOR has already pushed up the mortgage rate, property market sentiment has undoubtedly been dampened in the near term, with some housing demand possibly being diverted into the rental market. Although the property market is still subject to some downside pressure, a recovering economic performance, a steady housing policy, and the supply environment may mitigate the risk of a sharp property market correction.

Hong Kong Unemployment Rate



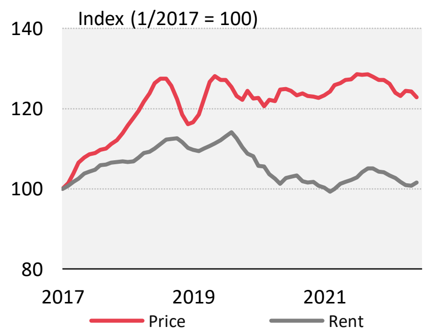
Source: Hong Kong Census and Statistics Department, data as of 22/8/2022

Hong Kong Interbank Rates



Source: Bloomberg, data as of 26/8/2022

Housing Price and Rent Indices

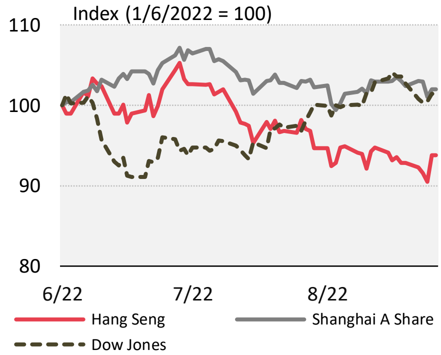


Source: Rating and Valuation Department, data as of 27/7/2022

Hong Kong equities rebound from 3-month low

Hong Kong's equity markets recovered from a 3-month low of 19,190 points (or a 4.8% decline from end-July), following the mainland's new round of rate cuts and fiscal measures, which are associated with the preliminary audit inspection deal reached by the US and China. The Hang Seng Index closed at 19,954 points on 31st August, representing a drop of 1% from end-July. The Shanghai A-share index declined by 1.6% over the same period, while the Dow Jones Industrial Average fell by 4.1%, after a 6.7% rebound in July.

Stock Market Indices



Source: Bloomberg, data as of 31/8/2022

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