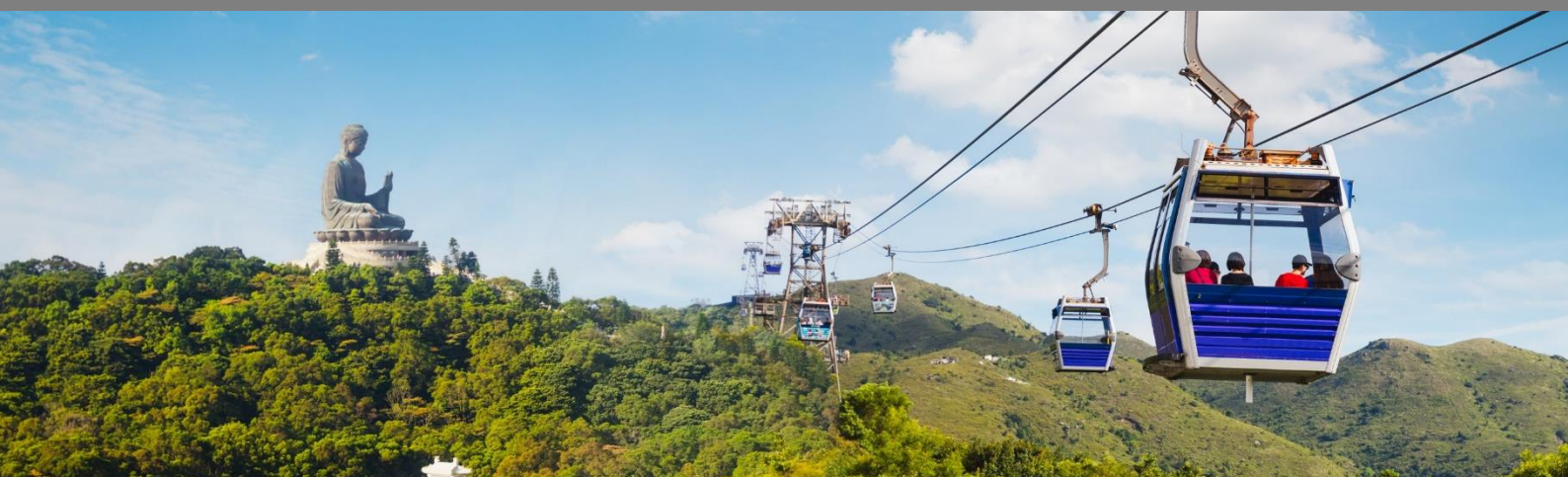


Market Monitor – Hong Kong

Expected Border Reopening Boosts an Accelerated Recovery



The Hong Kong economy remained weak in November 2022

Local consumption and external trade will take time for a more meaningful recovery.

Despite the further relaxation of pandemic-related rules and the improvement in the labour market, retail sales stayed soft and declined 4.2% year-on-year (YoY) in November 2022. The unemployment rate from September to November edged down by 0.1 percentage point to 3.7% compared with the period from August to October. Unemployment in consumer and tourism-related industries (i.e. retail, accommodation and food services), hit hard by the outbreak, also fell to 5.0%, the lowest since October 2019. In recent months, the SAR government has not changed its direction of relaxing Covid restrictions, which stabilizes the labour demand and households' income. However, the post-pandemic condition and border reopening will unleash pent up demand, which may lead to short-term manpower shortages and thereby add pressure to the enterprises.

However, deteriorating external environment and disruptions to cross-boundary land transportation has affected external trade performance.

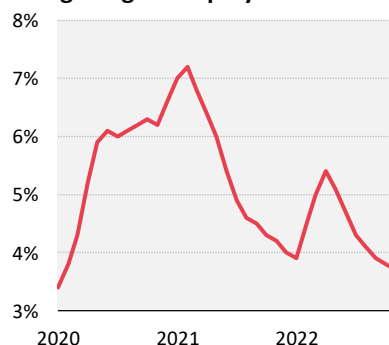
In November, merchandise exports and imports fell by 24.1% and 20.3% YoY respectively, with the former hitting a new low since May 1954. Faced with geopolitical tensions, high inflation and tightening monetary policies, advanced economies have led the decline in demand, and the overall exports value to the US and the UK has recorded significant double-digit YoY contractions. The global economic outlook is slowing down, and its downward pressure on Hong Kong's external trade performance is expected to continue until the 1H 2023. However, as the mainland optimizes pandemic control measures, the situation of cross-border land transportation is expected to improve, which may partially offset the downward pressure.

Local consumption and external trade will take time for a more meaningful recovery.

The SAR government has almost fully relaxed Covid restrictions, and the quarantine-free travel between the Mainland and Hong Kong is imminent.

Hong Kong's economy is expected to quickly recover after the pandemic.

Hong Kong Unemployment Rate



Source: Hong Kong Census and Statistics Department

Residential property market continues to consolidate

The residential property market further consolidated amid high mortgage cost and subdued economic outlook. Following the Federal Reserve's (Fed) accumulative rate hike of 4.25%, commercial banks in Hong Kong raised their prime rate by another 25 basis points (bps) in mid-December 2022, bringing the rate up by a total of 62.5 bps in 2022. As of the 30th December, 2022, the 1-month and 3-month Hong Kong dollar interbank offered rates (HIBOR) remained elevated, up 419 and 473 bps respectively from the end of 2021. Given the US inflation continues to stay far higher than the Fed's policy target, the Fed is expected to raise rates at least twice in 1H 2023, with the prime rate of large banks in Hong Kong being raised to slightly above 6%. The pace of subsequent rate hikes in Hong Kong will depend on the US Fed's policy stance. In November, the private residential property price index fell by 13.8% compared with the end of 2021, and the monthly decline widened to 3.3%.

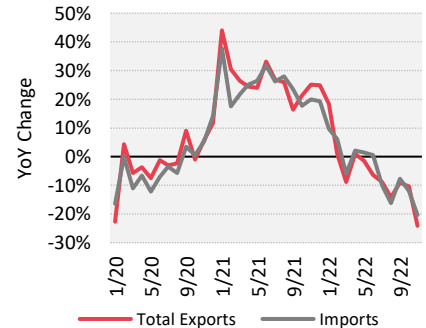
The decline in residential property prices is expected to narrow in 2023. If Hong Kong economic recovery accelerates, cross-border restrictions are relaxed and the SAR government enhances measures to attract investment and talents, it is expected that economic vitality will be strengthened and there will be a more balanced population flow. In addition, the prudent measures for mortgage loans effectively controlling excessive borrowing, the largely stable housing policy and supply in the short-to-medium term, etc. are expected to alleviate the downward pressure on the residential property market. The private residential property prices are only expected to adjust moderately in 2023.

Covid restrictions are almost fully relaxed

The SAR government has almost completely relaxed the pandemic control measures, with the imminent implementation of quarantine-free travel between Mainland China and Hong Kong. Starting from the end of September 2022, the SAR government has gradually relaxed the quarantine and testing requirements for inbound travellers to enhance Hong Kong's attractiveness to overseas tourists. According to the Hong Kong Tourism Board, the number of tourists visiting Hong Kong in November 2022 reached 110,000, expanding from 22% month-on-month (MoM) growth in October to about 42% MoM. In December 2022, the SAR government announced the removal of almost all pandemic control measures, including mandatory PCR testing requirements for inbound passengers, Vaccine Pass scheme and limits on diners in restaurants, etc. The imminent border reopening between Mainland China and Hong Kong, which will benefit Hong Kong as a whole, will trigger an early and full recovery of the tourism and retail related industries as well as overall economy.

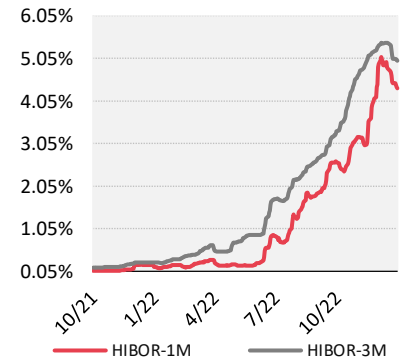
Looking ahead, the momentum of Hong Kong's recovery still depends the global economic outlook, reopening progress, property market and monetary conditions. Even though the global economic outlook is uncertain, clouded by high inflation and interest rates, the Hong Kong economy will benefit from a low base in 2022, the almost full relaxation of pandemic control measures, and the imminent implementation of quarantine-free travel between Mainland China and Hong Kong. As a result, Hong Kong will strengthen its economic, trade and investment ties between Mainland China and the rest of the world, bringing Hong Kong's economy to a new level. At the same time, the Chief Executive put forward a number of measures to attract investment and talent, strengthen competitiveness, dovetail with national strategies, and enhance development momentum. Hong Kong's economy is expected to speedily recover after the pandemic.

Hong Kong Exports and Imports



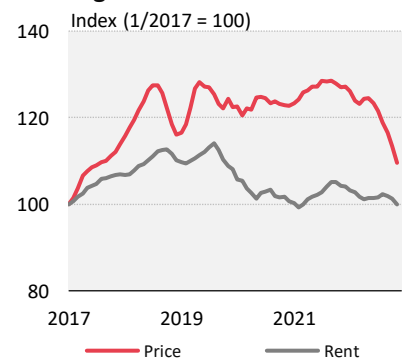
Source: Hong Kong Census and Statistics Department

Hong Kong Interbank Rates



Source: Bloomberg, data as of 30/12/2022

Housing Price and Rent Indices

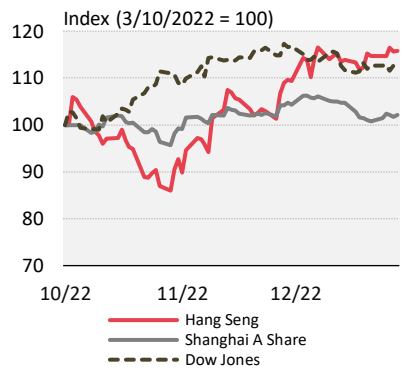


Source: Rating and Valuation Department

Hong Kong equity markets further recovered

In December 2022, the sentiment of Hong Kong equity markets turned optimistic. Mainland China and Hong Kong have significantly relaxed the pandemic control measures, with the border reopening to be implemented in January 2023. In addition, the Central Economic Work Conference called for strengthening consumption as the top priority, and supporting the development of platform companies, etc., also boosting the stock market performance. As of 30th December 2022, the Hang Seng Index closed at 19,781.41, up 6.4% from the end of November. During the period, the Shanghai A shares and the Dow Jones Industrial Average fell by 2.0% and 4.2% respectively.

Stock Market Indices



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