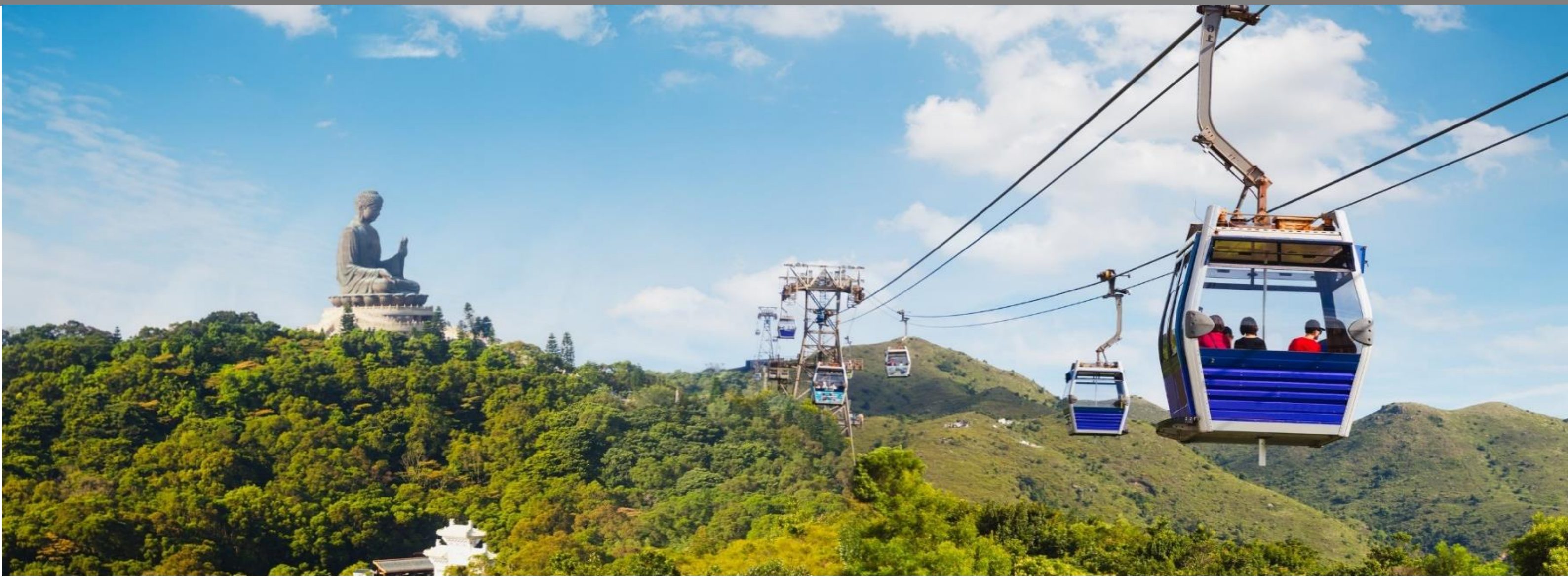
Economic Research

July 2025

Market Monitor – Hong Kong

Lower interest rates laid the ground for the revival of activities

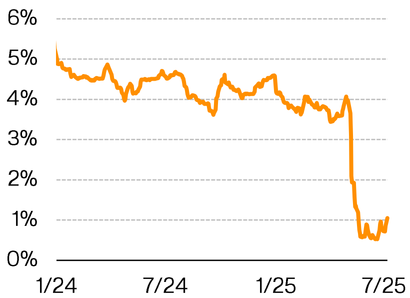


- Low interest rates paved the way for the revival of property and financial market activities which, in turn, will support the broader economy.
- Hong Kong's merchandise trade maintained solid growth in May.
- Hong Kong continued to strengthen its position as a leading international financial centre.

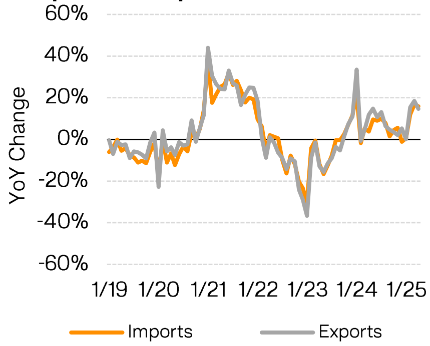
Economic activities gradually revived amid lower interest rates

Ample liquidity drove interest rates down in Hong Kong. In view of steady economic expansion and technological breakthroughs in the Mainland, as well as the potential de-risking from US assets, investor confidence towards Hong Kong financial markets improved over the past few months. This led to a round of fund inflows to Hong Kong in May. The ample liquidity led to a notable decline in HIBORs, as the 1-month HIBOR plunged from over 4% to 0.6%-0.7%. Low interest rates have the potential to stimulate the revival of property and financial market activities which, in turn, will support the broader economy. As the unprecedented interest rate spread between the Hong Kong dollar (HKD) and the US dollar (USD) is unsustainable, the HKD exchange rate hit the weak-side convertibility undertaking in late June, triggering fund outflows. However, it is believed that HKD interest rates will continue to stay far lower than that of the USD, given the abovementioned positive factors.

1 month HIBOR



Source: Bloomberg



Source: Bloomberg

Hong Kong's merchandise trade maintained solid growth in May. Despite tariff uncertainties, merchandise exports and imports rose by 15.5% year-on-year (YoY) and 18.9% in May, respectively. Strong export growth was driven by trade with the Mainland and other major Asian markets, such as Japan, Malaysia, Taiwan, Vietnam, and India, while exports to the US fell by 18.2% YoY in May, following a 1.0% increase in April. With import growth surpassing that of exports, the total trade deficit in April and May stood at HKD 43.3 billion, compared to HKD 22.3 billion in the same period last year. Given the rapid escalation and de-escalation of trade tariffs, front-loading has been a major source of volatility for Hong Kong's trade performance in recent months. It remains to be seen if global trade momentum will hold up in 2H 2025.

Retail sales posted a small gain in May. Supported by the strong recovery in inbound tourists, especially during the five-day labour day holidays, retail sales posted a small gain of 2.4% YoY in May, the first positive growth since February 2024. Looking ahead, the tourism sector is expected to recover further, driven by the continuous increase in visitor arrivals, the weakening of the HKD exchange rate, and the implementation of the Guangdong southbound car scheme later this year. Moreover, lower interest rates and the gradual revival of financial and property market activities are conducive to a recovery in retail and consumption.

Strengthening position as an international financial centre

New policies have been introduced to deepen financial connectivity and promote digital asset innovation. On 10th June, the Central Government issued new guidelines on deepening reforms in Shenzhen, which allow qualified Hong Kong-listed companies to issue depositary receipts and Hong Kong-listed companies in the Greater Bay Area to dual-list in Shenzhen. The new policy is set to encourage more companies to list in Hong Kong, as a single application would facilitate fundraising in both Shenzhen and Hong Kong markets. On 20th June, the HKMA and the People's Bank of China launched Payment Connect, which links Hong Kong's Faster Payment System with the Mainland's Internet Banking Payment System. The new scheme allows instant remittances and enhances cross-border financial connectivity. On 26th June, the SAR Government also issued the Policy Statement 2.0 on the Development of Digital Assets. It focuses on four key areas to support digital asset innovation: legal and regulatory streamlining, expanding the suite of tokenised products, advancing use cases and cross-sectoral collaboration, and people and partnership development.

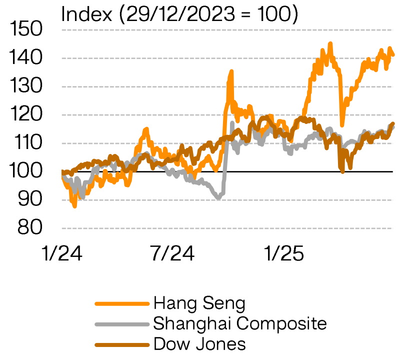
Hong Kong reclaimed the rank as one of the top 3 most competitive economies in the world. In the latest World Competitiveness Yearbook 2025, Hong Kong's ranking moved up by two spots to 3rd, marking its return to the global top three for the first time since 2019. Specifically, Hong Kong secured the top rankings in "tax policy" and "business legistlation," and ranked 2nd in "international investment," "education," and "finance," and 3rd in "international trade" and "management practices."

The financial market recorded a strong performance in June

The stock market recorded a strong gain in June. Despite volatility related to the conflict in the Middle East, the Hang Seng Index (HSI) rebounded strongly after Israel and Iran reached a ceasefire, China and the US agreed on a trade deal framework, and lower local interest rate environment. In June, the HSI surged by 3.4% MoM. The capital market has been active this year, with total IPO proceeds reaching HKD 106.8 billion in 1H 2025, a notable increase from HKD 13.3 billion in the same period last year. This propelled Hong Kong to the top of the global IPO rankings.

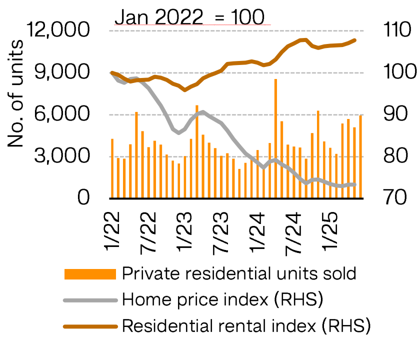
Property prices gradually stabilised. The official residential property price index edged up by 0.03% month-on-month (MoM) in May, marking the second consecutive month of increase and narrowing its year-to-date decline slightly to 0.9% in May. The rental market remained resilient, with the rental rate rising by 0.7% MoM in May. Property sales rose 16.7% MoM to 5,955 transactions in June. Looking ahead, improving homebuyer sentiment and lower interest rates are poised to support the housing market toward a gradual recovery.

Equity Indices



Source: Bloomberg

Private Residential Sales, Price and Rental Rate Indices



Source: Bloomberg

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