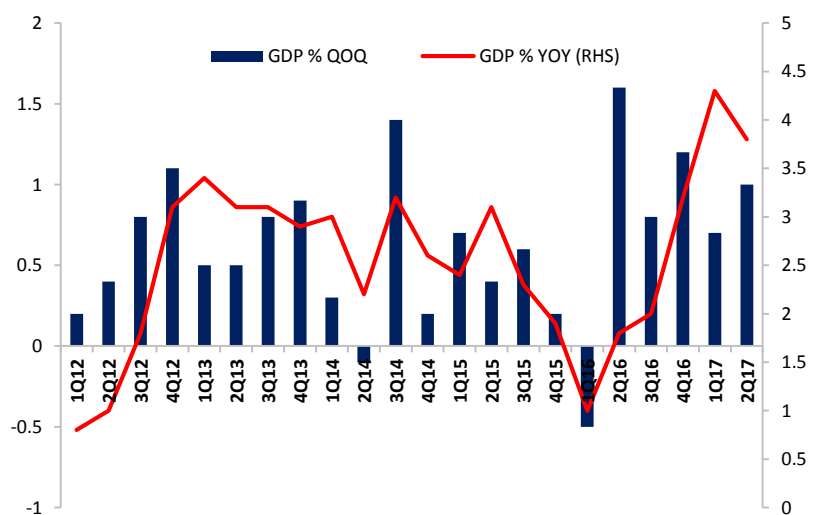


Global Markets Research
Economics – Hong Kong

Slower growth in 2Q, but still decent

Hong Kong's GDP grew at a softer pace in 2Q, but the figure remains decent compared to recent quarters. Growth was driven by acceleration in household and government spendings as well as investment. Recent performance of Hong Kong economic indicators have been on a slight uptick, suggesting that while conditions remain fragile it is nonetheless on slow recovery. Recent commendable growth pace in 1Q and 2Q have raised expectations on performance going forward, however, we note that economic expansion is likely to moderate but may manage well enough to best expectations.

Figure 1: Hong Kong GDP Growth



Source: HKMA and Bloomberg

The economy grew 3.8% YOY in 2Q, moderating from 4.3% in 1Q

Household and government spendings as well as investment were major growth drivers

Hong Kong's economic growth moderated in 2Q, managing a 3.8% YOY increase compared to 4.3% in 1Q. Even so, the figure remains decent as it beat economists' estimates of slowdown to 3.3%. On a quarterly basis, GDP picked up slightly to 1.0% from 0.7%, also beating estimates of a slowdown to 0.6%.

Breaking down by expenditure components, growth accelerated in household consumption, government expenditure and investments while both exports and imports saw softer expansions. Household consumption grew at the quickest pace since 2Q 2015, accelerating to 5.3% from 3.9% in the preceding quarter. Government expenditure inched slightly higher (2Q: +3.2% vs 1Q: 3.1%) while investments increased at a pace not seen since 4Q 2012 (2Q: +8.0% vs 1Q: +5.9%). Exports eased to 5.6% from 9.3% in 1Q, while imports moderated to 6.2% from 10.0% previously.

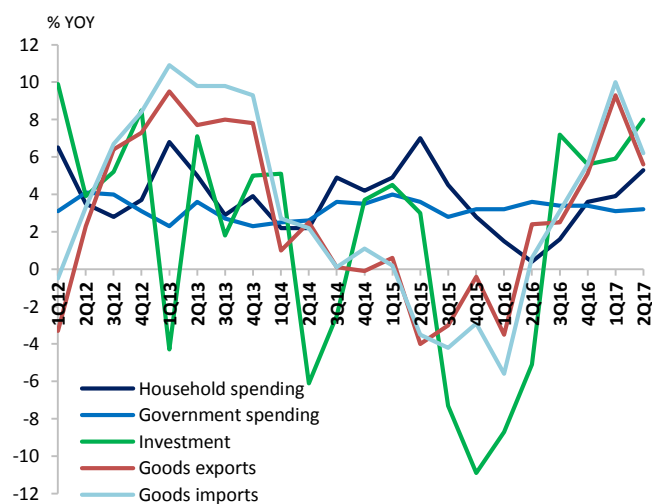
Exports accelerated in Jun, surging 11.1% YOY from 4.0% in May. Demand was strong from China (Jun: +12.2% vs May: +3.8%) and Japan (Jun: +13.4% vs May: +6.3%), while shipments to the US slowed (Jun: +0.6% vs May: +1.0%). Meanwhile, imports also jumped 10.4% in Jun, accelerating from 6.6% previously. Global demand appears to be ticking higher, thus it

Better growth outlook after recent 1Q and 2Q performances; growth likely to moderate but given recent upticks in various indicators, expansion may still beat estimates

would not be surprising to see another set of strong Jul figures.

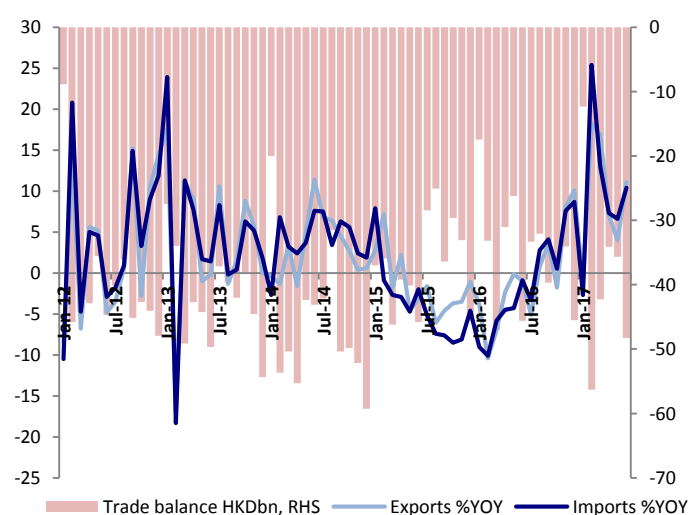
The better than expected growth figures in 1Q and 2Q have raised expectations on the full year performance. The government followed-up with an upward revision to growth projections, raising the full year growth forecast to between 3% and 4%, from 2% and 3% previously. Even so, we opine that growth is likely to continue moderating going forward, though may still outperform expectations. As mentioned, global demand is on an uptick while retail spending is also on a firmer footing compared to the months prior Feb 2017, indicating that conditions may be improving albeit slowly. On top of these is the resilient economic growth in China, which will provide some support.

Figure 2: GDP Expenditure Components



Source: HKMA and Bloomberg

Figure 3: External Trade



Source: HKMA and Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 6, Wisma Hong Leong

18, Jalan Perak

50450 Kuala Lumpur

Tel: 603-2773 0469

Fax: 603-2164 9305

Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.