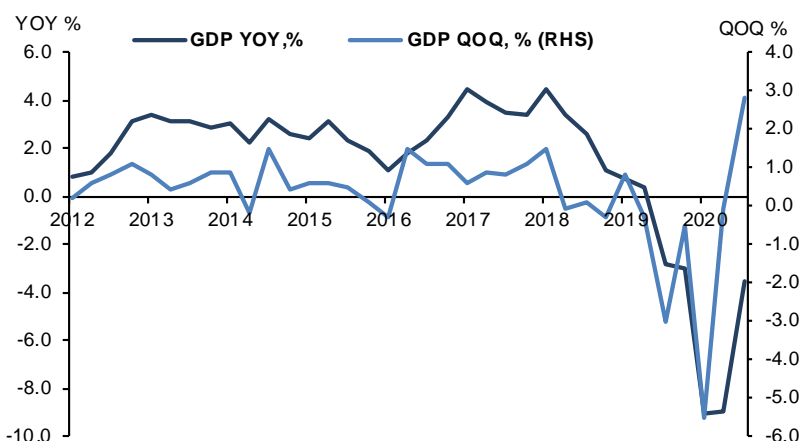


Global Markets Research
Economics – Hong Kong

Silver Lining Emerges

Hong Kong GDP expanded by 2.8% QOQ in the third quarter, offering sign of an economic revival amid well contained pandemic situation and mainly because of robust demand from China. Its near-to-medium term outlook has now improved substantially based on the latest local indicators as well as those of China's, barring from any surge in infections that would trigger stricter social distancing measures.

Figure 1: Hong Kong GDP Growth


Source: Bloomberg

Downturn slowed in 3Q with GDP posting first QOQ growth since early 2019.

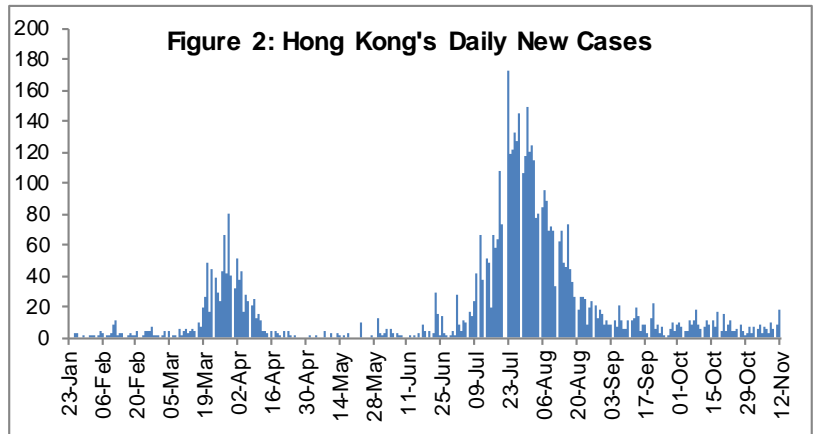
Final report confirmed that Hong Kong economy contracted at a smaller rate in the third quarter, indicating that the pace of recession has slowed down concurrent with the recovery in Mainland China.

3Q real GDP posted a 2.8% growth on a seasonally adjusted QOQ basis for the first time since 1Q19, smaller than initial estimate of 3.0%. This translates to a more modest 3.5% YOY contraction (1Q: -9.0%), versus -3.4% in the advance report. Prior to this, GDP had fallen 9.0% YOY for two consecutive quarters. Nonetheless, the latest print marked GDP's fifth consecutive YOY contractions since 3Q 2019, putting Hong Kong in a more-than-year-long downturn given that domestic unrests had first disrupted the economy prior to the global pandemic.

Household spending rebounded by 2.5% QOQ, its biggest quarterly growth since 1Q18. Compared to the same quarter last year, spending remained 8.2% YOY lower (2Q: -14.2%). Government spending grew 7.0% YOY (2Q: +9.7%) while domestic investment fell 11.1% YOY (2Q: -21.4%).

Chinese demand fueled recent exports growth

Goods exports made a positive contribution of 6.2ppts to headline GDP as the international trade sector turned around in September in response to the robust recovery in China. Goods exports posted its first YOY growth since 3Q18 at 3.9% (2Q: -2.2%) driven by higher exports to China which remained the largest buyer of Hong Kong goods. Shipments to the mainland have consistently recorded growth (except for August) since February and hitting as high as 17% in September. On the other hand, services exports declined 34.6% YOY (2Q: -45.6%). Good imports also came in positive at 1.8% YOY (2Q: -6.7%) while services imports dropped 36.8% YOY (2Q: -44.5%).



Source: Bloomberg

Pandemic well contained for now

On the domestic front, the pandemic situation is now well contained since the last wave in July. Daily new cases had been kept below 20 since 21-September, allowing the authority to relax social distancing rules, a plus for the services sector. Despite that, retail sales continued to record double-digit decline albeit at smaller rates in both August and September. Some return in local consumer demand helped alleviate the pain; the absence of foreign visitors continued to weigh.

Unemployment rate climbed further

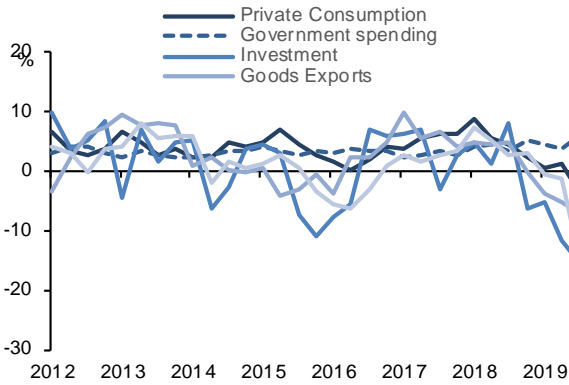
Unemployment rate however continued to trend up since October last year, surging to 6.4% in September, the highest since 2004 and further away from its pre-recession range of 2.8-2.9%. With the recent improvements, there is possibility that some jobs may return to the market.

Official forecast revised to -6.1% for 2020

Hong Kong's near-to-medium term outlook has now improved substantially based on the latest local indicators as well as those of China's, barring from any surge in infections that would trigger stricter social distancing measures. Consumption and business sentiment have turned less gloomy after the July outbreak was contained. China remained at the forefront and the main driver affecting Hong Kong's trajectory as the recovery outlook for Hong Kong's other trading partners is now at risk given the recent surge in Covid-19 cases globally. The official forecast for 2020 was revised to -6.1% for 2020 from -6 to -8% prior.

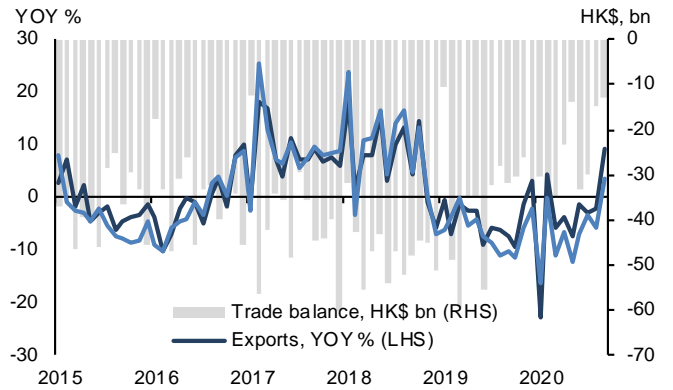
Hong Kong Overview:

Figure 3: GDP Expenditure Components



Source: Bloomberg

Figure 4: External Trade



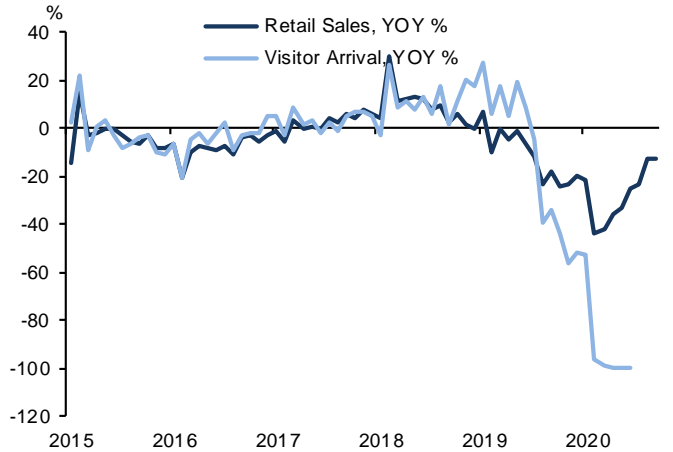
Source: Bloomberg

Figure 5: Exports to China, YOY %



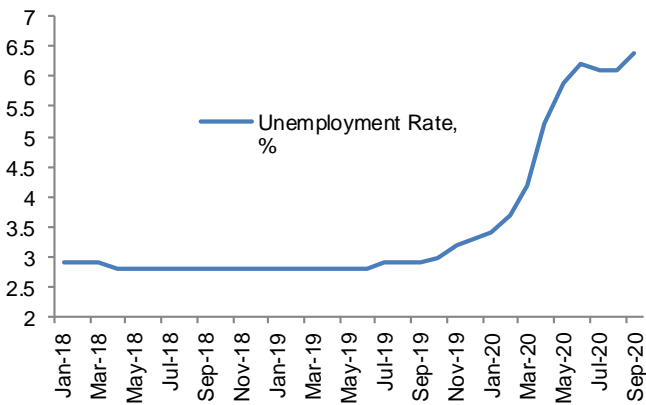
Source: Bloomberg

Figure 6: Retail Sales and Visitor Arrival



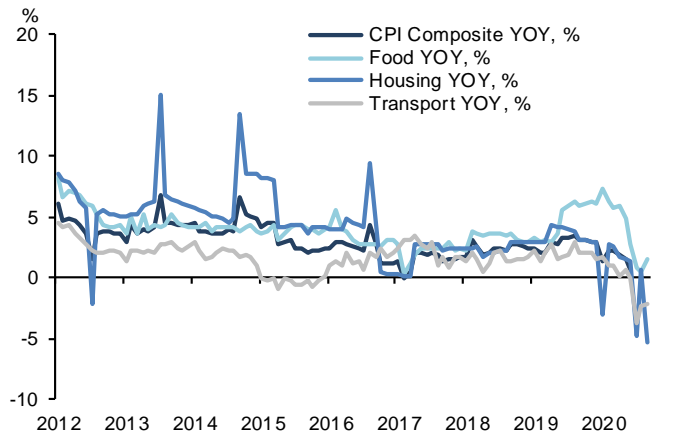
Source: Bloomberg

Figure 7: Unemployment Rate



Source: Bloomberg

Figure 8: CPI and Major Components



Source: Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

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.