

ASIA RESEARCH HONG KONG MONTHLY CHARTBOOK

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CONTRIBUTORS

Raymond Yeung
Senior Economist, Greater China
+852 3929 5480
Raymond.Yeung@anz.com

Li-Gang Liu
Head of Greater China Economics
+852 3929 5376
LiGang.Liu@anz.com

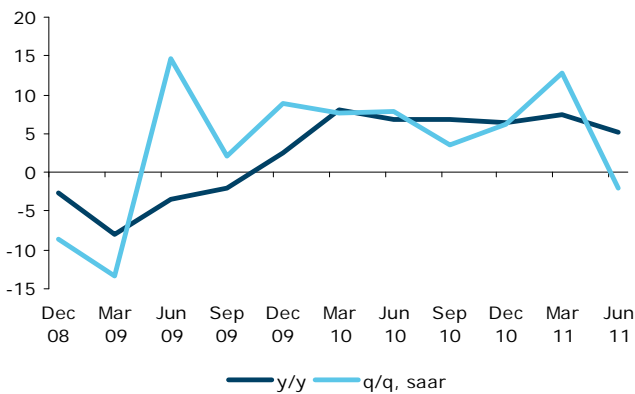
Louis Lam
Analyst, Greater China Economics
+852 2843 7245
Louis.Lam@anz.com

HONG KONG'S GROWTH COMPASS POINTING TO THE NORTH

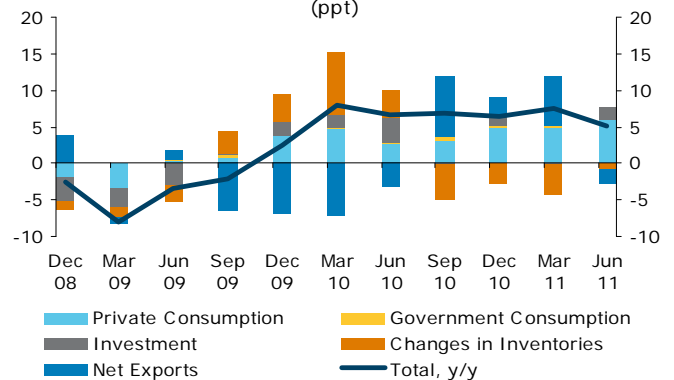
- In line with ANZ's forecast, Hong Kong's GDP growth slowed to 5.1% y/y in Q2, compared with Q1's 7.5%. On a sequential basis, GDP contracted by 2.1% saar after the strong gain of 12.8% in Q1.
- While private consumption and investment added 5.94ppts (9.2% y/y) and 1.75ppts (8.1%) to the annual gain, subdued exports (0.3% y/y) deducted 1.95ppts with its -11.1% q/q sa contraction. Government spending (0.11ppt) and inventory (-0.72ppt) barely contributed to the overall growth.
- Given the recent global market turmoils and poor consumer sentiments in the US and Europe, the trade outlook looks grim in Q3 and will continue to put a drag on Hong Kong's growth. Added by a potentially upward revision of Q2 figure, it is probable for Hong Kong to report a technical recession (i.e. two q/q sa contraction) in Q3.
- Future development, however, remains highly dependent on China's factor as the city's economy rests on the flows of capital, goods and people. Any easing of China's monetary or fiscal tightening in response to the global slowdown will reactivate Hong Kong's trades, tourism and financial services. As such, it is too early to conclude that Hong Kong will run into a prolonged recession. We expect the GDP will grow by 4.8% y/y in 2011.

FEATURE CHARTS OF THE MONTH

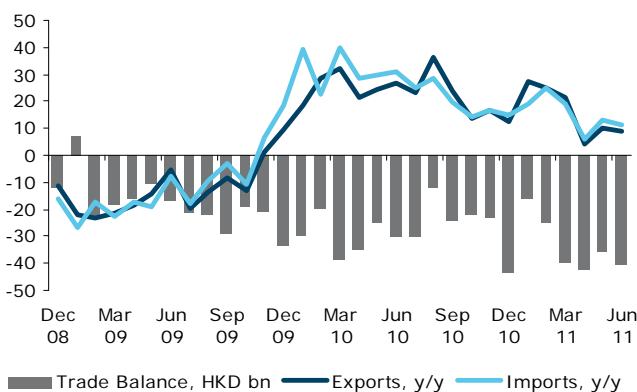
Hong Kong - GDP



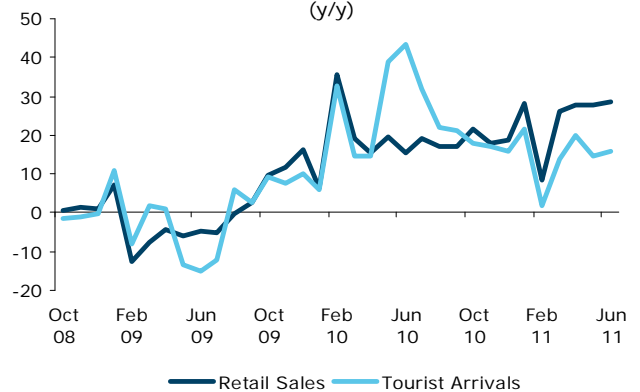
Hong Kong - Contributions to GDP Growth (ppt)



Hong Kong - Trade Developments



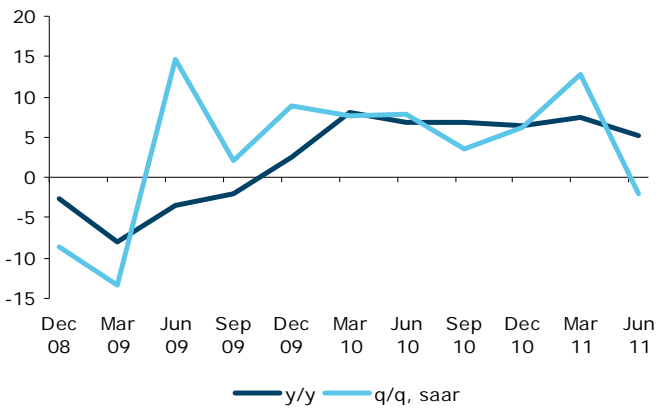
Hong Kong - Retail Sales (y/y)



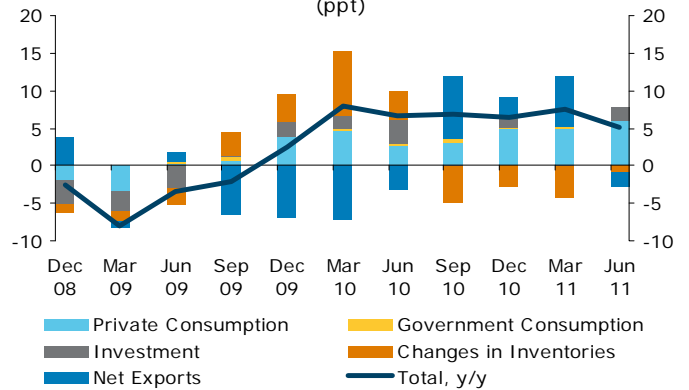
REAL ACTIVITY: GDP MODERATED ON SOFT EXTERNAL DEMAND

- GDP growth moderated to 5.1% y/y in Q2, down from an upwardly revised 7.5% in Q1. Domestic demand remained supportive as private consumption and investments grew 9.2% and 8.1%, contributing 5.9ppts and 1.8ppts, respectively. Meanwhile, net exports dragged GDP by 2.0ppts following supply chain disruptions caused by Japan's disasters and China's monetary tightening.
- Retail sales continued to register strong growth at 28.8% y/y in June, compared with 27.8% in the previous month. Sales of clothing and luxury items remained strong, boosted by large tourist inflows.

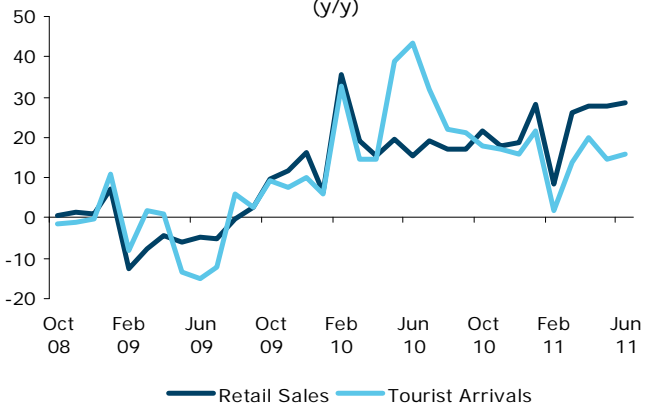
Hong Kong - GDP



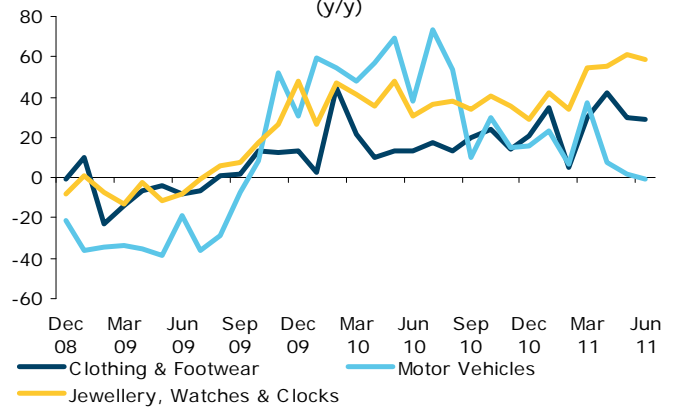
Hong Kong - Contributions to GDP Growth (ppt)



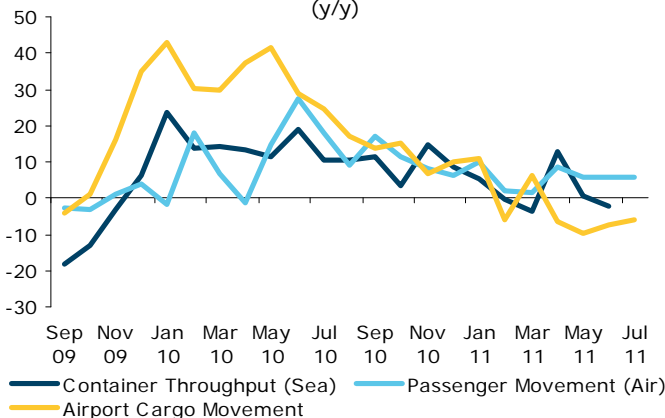
Hong Kong - Retail Sales (y/y)



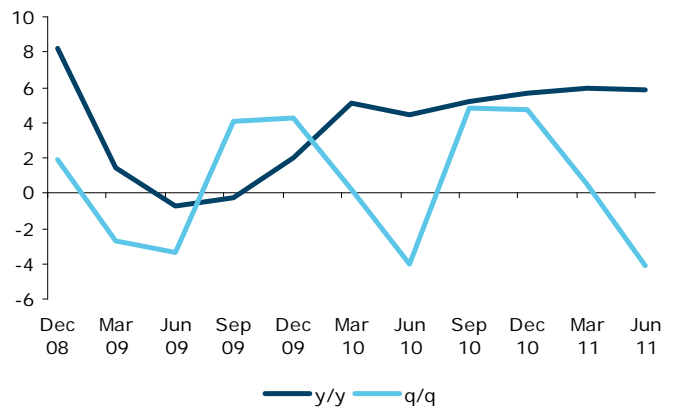
Hong Kong - Retail Sales Components (y/y)



Hong Kong - Logistics Activities (y/y)



Hong Kong - Restaurant Receipts



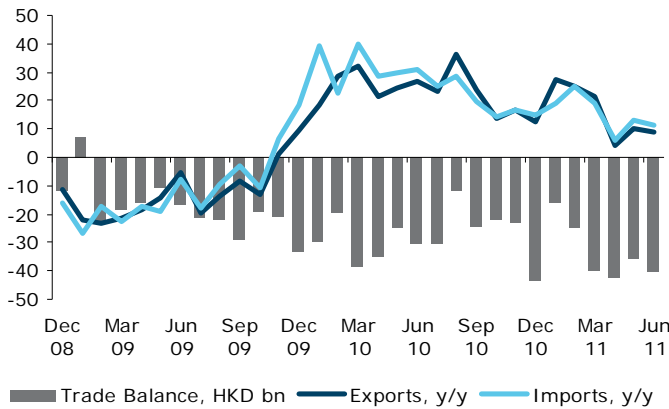
Sources: CEIC, ANZ Research



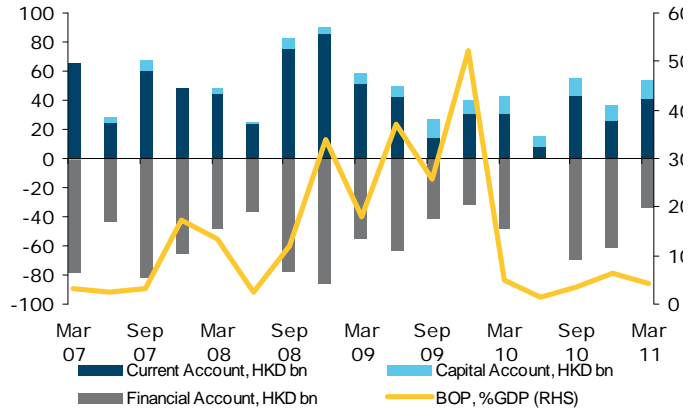
EXTERNAL SECTOR: TRADE GROWTH CONTINUED TO SLOW

- Exports rose 9.2% y/y in June, down from 10.1% in July. Exports to the US dropped 5.2% following a 2.4% contraction in May as demand remained sluggish. Meanwhile, exports to China slowed to 6.0% in June, from 8.8% in May given China's monetary tightening. However, exports to the EU grew 7.5%, up 0.8ppt from May.
- Imports grew 11.5%, 1.5ppt lower than the previous print of 13.0%. As a result of slower growth of exports than imports, trade deficit widened to HKD40.3bn.

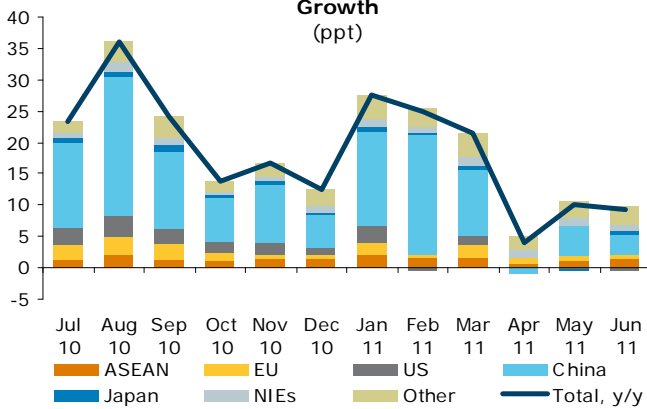
Hong Kong - Trade Developments



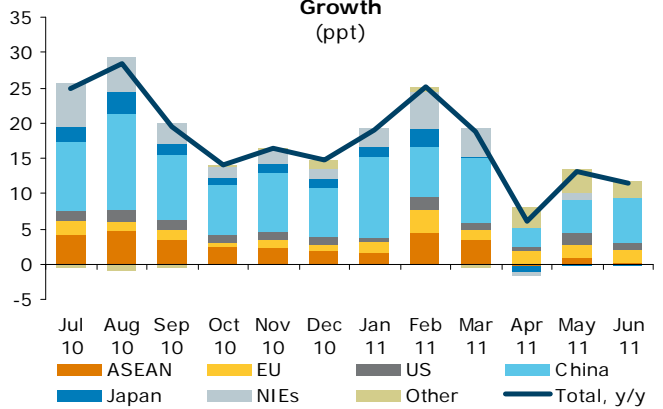
Hong Kong - Balance of Payments



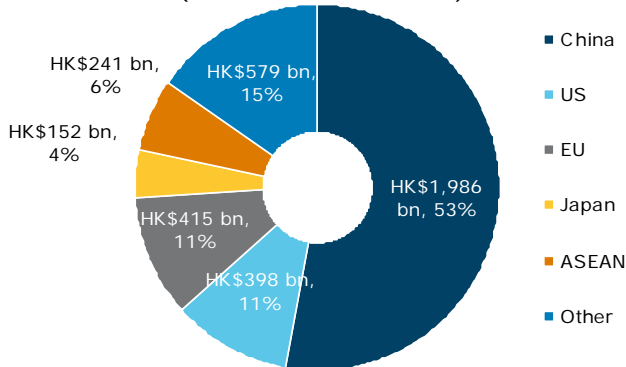
Hong Kong - Regional Contributions to Export Growth (ppt)



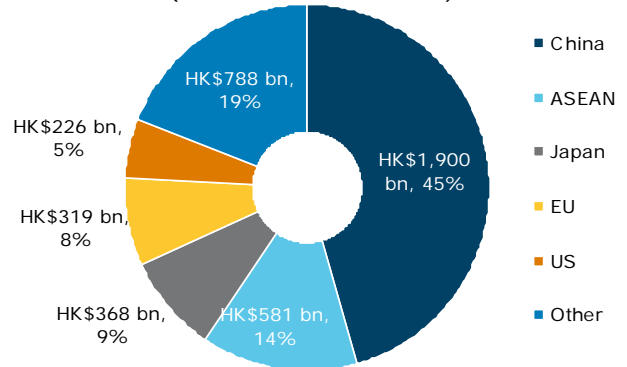
Hong Kong - Regional Contributions to Import Growth (ppt)



Hong Kong - Exports by Destination (12 months to June 2011)



Hong Kong - Imports by Origin (12 months to June 2011)



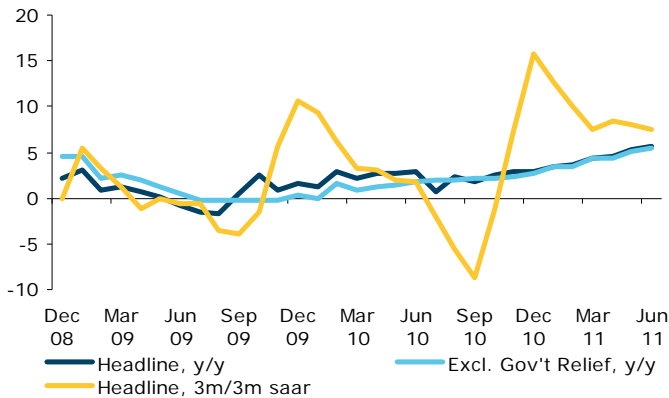
Sources: CEIC, ANZ Research



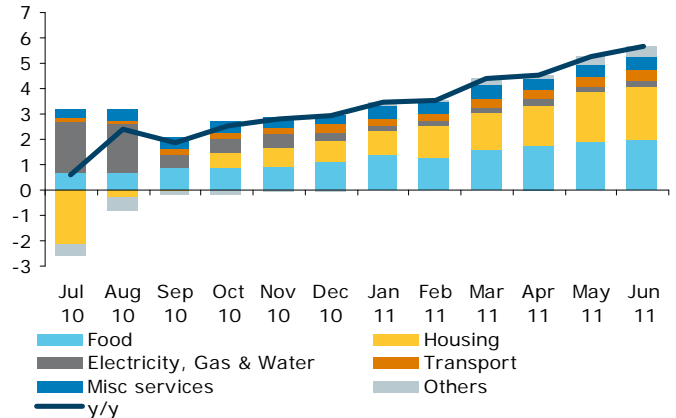
PRICES: INFLATION SURGED ON HIGHER FOOD PRICES AND RENTS

- Headline CPI surged to a 35-month-high 5.6% y/y in June, up from 5.2% in May. Prices were driven up by food and housing costs, which increased 7.3% and 6.5% respectively. Inflationary pressures remain on the back of prolonged weakness of USD relative to Asian currencies and further increase in food costs, notably rice prices.
- The unemployment rate remained unchanged at 3.5% sa in June. Recent market turmoils have adversely affected business sentiments and will hinder further improvement in the labour market.

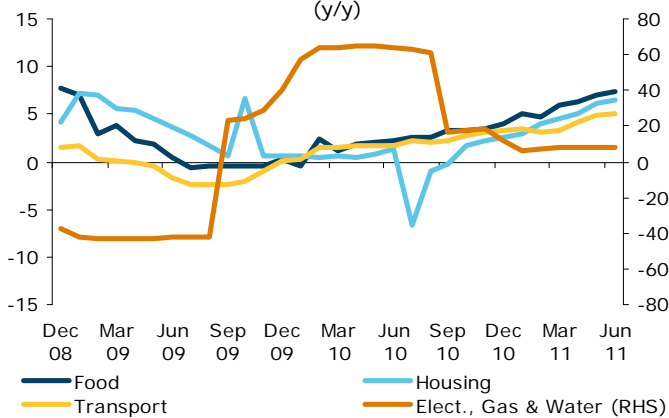
Hong Kong - Inflation



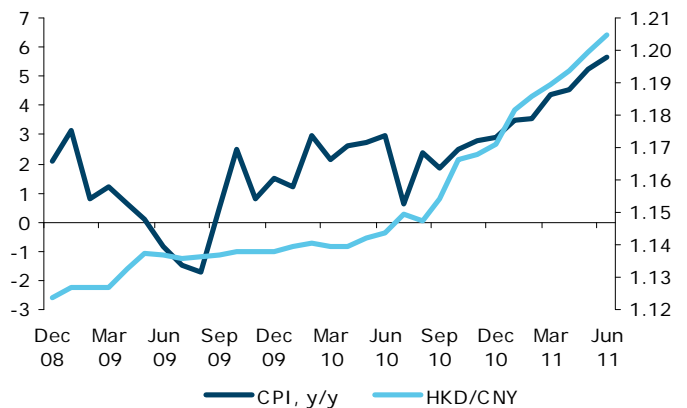
Hong Kong - Contribution to Inflation



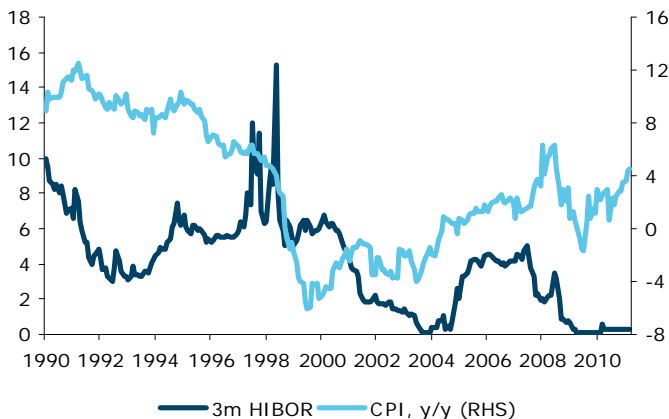
Hong Kong - Inflation (y/y)



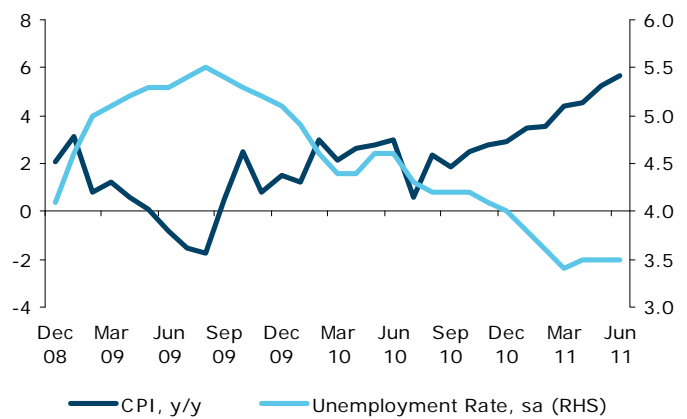
Hong Kong - CPI and CNY



Hong Kong - CPI and Liquidity



Hong Kong - CPI and Unemployment Rate



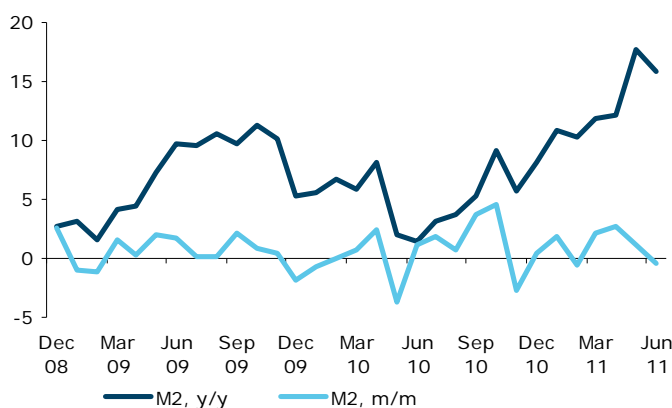
Sources: CEIC, ANZ Research



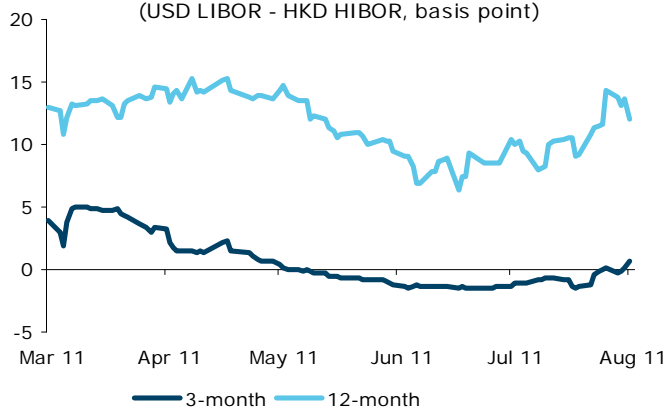
MONEY, BANKING AND THE EXCHANGE RATE: LOAN-DEPOSIT RATIO HEIGHTENED FURTHER

- Total deposits in Hong Kong shrank 0.9% m/m in June, led by a 1.6% contraction in HKD deposits. Foreign currency deposit fell marginally by 0.2% in June. On the other hand, total loans expanded 1.7%. As deposits decreased and loans increased, Hong Kong's loan-deposit ratio rose to 84.3% at the end of June, from 82.4% at the end of May.
- RMB deposits rose a mere 0.9% m/m in June, compared with 7.5% in the previous month. The slowdown in deposit growth was a result of fewer cross-border trade settlements from the Mainland to Hong Kong than vice versa. We think the June result will be temporary as deposits will again pick up as the RMB continues to appreciate.

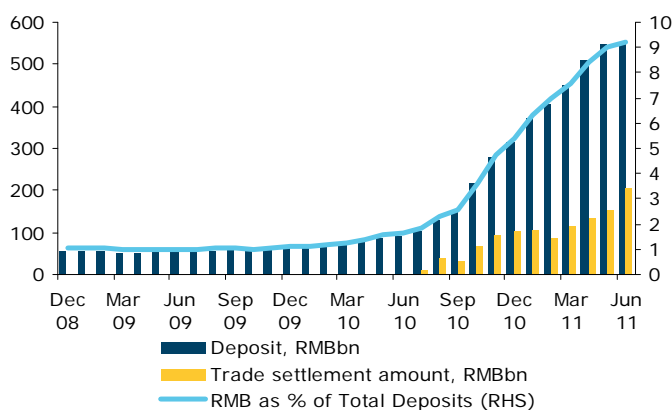
Hong Kong - Money Supply



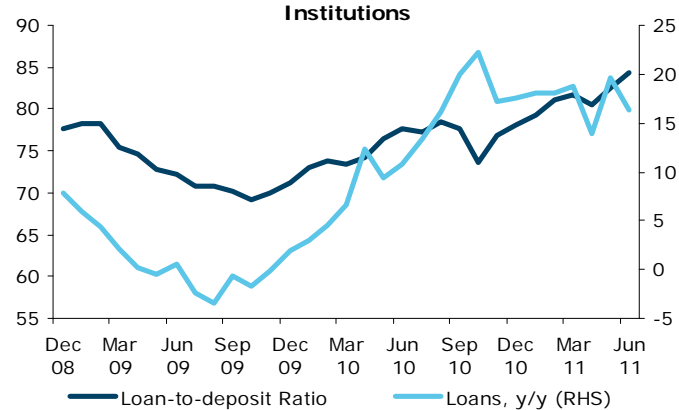
Hong Kong - Interest Rate Spread (USD LIBOR - HKD HIBOR, basis point)



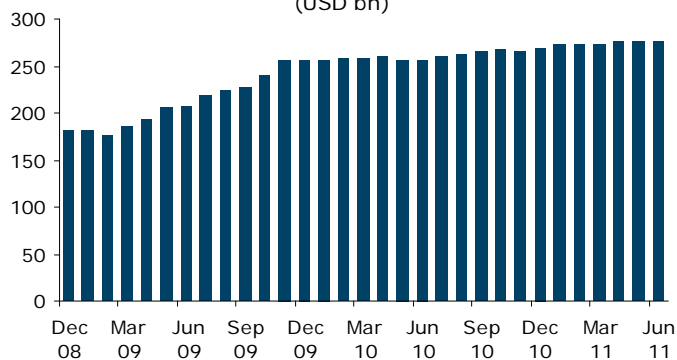
Hong Kong - RMB Deposits



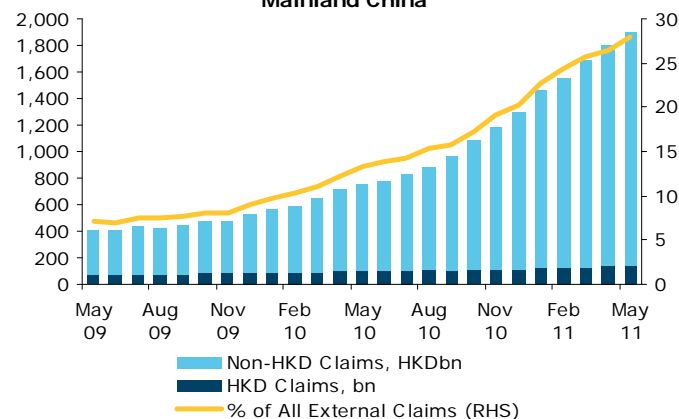
Hong Kong - HKD Loans made by Authorised Institutions



Hong Kong - FX Reserves (USD bn)



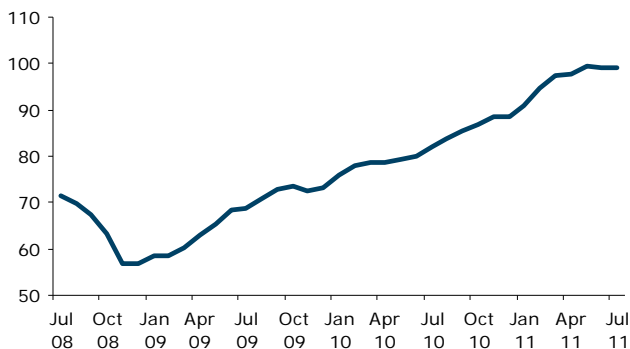
Hong Kong - Banks' Claims on Customers in Mainland China



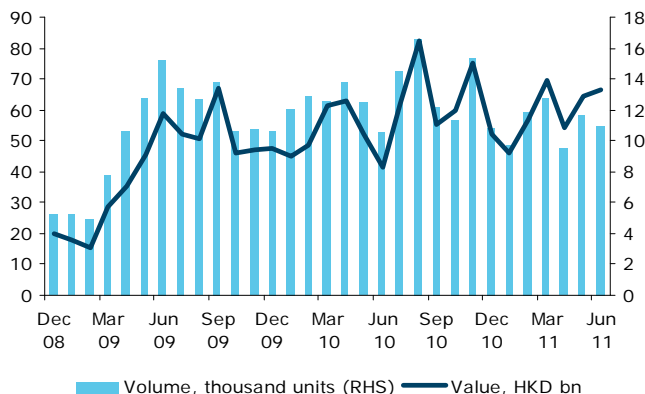
PROPERTY MARKET: THE US FED'S LOW RATE REGIME WILL LEND FURTHER SUPPORT

- Property prices remained flat for the second consecutive month. The Centa City Leading Index fell marginally to 99.1 in July, compared with 99.2 in June.
- As the US declared to maintain a low interest rate regime until 2013 and inflation is rising, the buy-rent gap will be widened, providing a solid fundamental support to Hong Kong's property prices. Low unemployment rate and volatility of other asset class also lend further support to the city's property market. Although the recent market turmoil may hinder buyers' sentiments and hence will slow the pace of price rise, we do not expect to see a sharp correction in such a manner of what happened in the previous crisis.

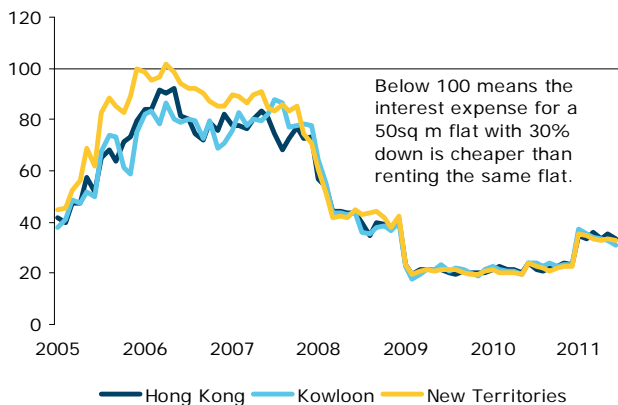
Hong Kong - Centa City Leading Index



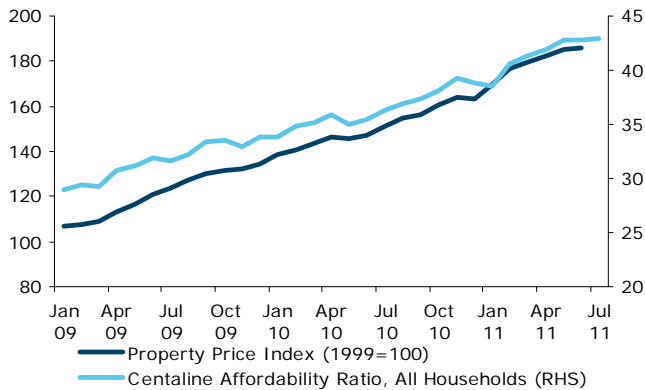
Hong Kong - Property Sales Transactions



Hong Kong - Mortgage Interest to Rental Ratio



Hong Kong - Housing Market



Sources: CEIC, ANZ Research



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Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands,
 Victoria 3008, Australia
 Telephone +61 3 9273 5555 Fax +61 3 9273 5711

CHINA

Australia and New Zealand Banking (China) Company Limited
 15th Floor and Unit 12B, Mirae Asset Tower, 166 Lujiazui Ring Road,
 Pudong, Shanghai, 200120, People's Republic of China
 Telephone +86 21 6169 6000 Fax +86 21 6169 6199

HONG KONG

Australia and New Zealand Banking Group Limited
 Level 31, One Exchange Square, 8 Connaught Place, Central, Hong
 Kong
 Telephone +852 2176 8888

NEW ZEALAND

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 Level 7, 1-9 Victoria Street, Wellington, New Zealand
 Telephone +64 4 802 2000

SINGAPORE

Australia and New Zealand Banking Group Limited
 1 Raffles Place, Level 46, One Raffles Place, Singapore 048616
 Telephone +65 6535 8355 Fax +65 6539 6111

UNITED KINGDOM

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
 Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA

ANZ Securities, Inc. (Member of FINRA (www.finra.org) and registered
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 31st Floor, 277 Park Avenue, New York, NY 10172, United States of
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