Financial leaders meet

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The Financial Leaders Forum chaired by Financial Secretary Paul Chan held its 18th meeting today, in which members were briefed on Hong Kong-Shenzhen financial collaboration, anti-money laundering and enhancing the city's attractiveness as a family office hub.

Participants were informed about the latest developments on deepening Hong Kong's financial co-operation with Shenzhen and Qianhai.

Since the promulgation of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area and the Plan for Comprehensive Deepening Reform & Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone, the Hong Kong Special Administrative Region Government has been working closely with relevant Mainland authorities to promote connectivity and co-operation in respect of capital, services and professions.

Members expressed their hope that the Government and relevant financial regulators would continue to leverage Hong Kong's unique advantages of "one country, two systems" to seize the opportunities brought about by bay area development and the Qianhai plan, in order to promote the further development of Hong Kong's financial sector and contribute to the reform and opening up of the country's financial market.

Meanwhile, the Financial Services & the Treasury Bureau elaborated on the legislative proposals to amend the Anti-Money Laundering & Counter-Terrorist Financing Ordinance, including the establishment of a licensing regime for virtual asset services providers, setting up a two-tier registration regime for dealers of precious metals and stones and other technical amendments.

The members said they believed that the proposed amendments would enable Hong Kong to fulfil its obligations under the Financial Action Task Force, thereby safeguarding the city's reputation as an international financial centre and enhancing its competitiveness as a virtual asset service platform.

As for strengthening Hong Kong's attractiveness as a family office hub, the participants learnt that such measures include creating a facilitating business environment for family offices, providing clarity on the licensing obligations of family offices, and the proposal to provide a tax concession for eligible family-owned investment holding vehicles.

Li Keqiang pledges more policy support for economy

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China will step up policy measures to support the economy while studying new stimulus plans, state media on Friday quoted Premier Li Keqiang as saying.

"Currently, some emergency events in the international and domestic environment have exceeded expectations, and economic operations are facing greater uncertainties and challenges," Li was quoted as telling a group of economists and company executives.

“We should implement policies in advance, step up policies in a timely way and study new contingency plans."

Analysts expect the country's central bank to lower borrowing costs or pump more cash into the economy to spur growth.

Beijing will strive to keep employment and prices stable, and help small businesses tide over difficulties, Li said.

It will also stabilise foreign trade and investment and keep the yuan basically stable, he added.

China signals reserve ratio cut on way

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Thursday, Apr 14, 2022

China's cabinet said the central bank would cut the amount of money that banks have to keep in reserve at the proper time, a further sign there is likely to be additional monetary stimulus to support the economy.

"China will use monetary policy tools including a reserve requirement ratio cut at an appropriate time, and will step up financial support to the real economy, especially industries and small businesses that have been hit hard by the pandemic," the State Council said after a meeting yesterday, according to state-run television.

The People's Bank of China usually announces a reduction within days of the State Council making such a statement.

China had cut its RRR by 0.5 percentage points on December 15, making the average rate for all banks at 8.4 percent.

A cut to banks' required reserved ratio may come soon, according to Bruce Pang, head of macro and strategy research at China Renaissance Securities Hong Kong. "This could be the last chance for China to make a monetary easing move in the near term before the potential shrinking of the Federal Reserve's balance sheet."

China's trade worsened in March amid Covid and analysts expect it will be even worse in April as more production lines may halt production.

Inbound shipments fell 0.1 percent in March from a year earlier, marking the first decline since August 2020, customs data showed yesterday. That compared with a 15.5 percent gain in the first two months of the year and an 8 percent increase forecast by analysts in a Reuters poll.

The decline was broad-based. China's imports of crude oil tumbled 14 percent in March and gas import volumes were the lowest since October 2020. Purchases of copper fell 8.8 percent, as Covid outbreaks hurt manufacturing and industrial demand for some raw materials remained soft.

Exports, a major driver of the economy, rose 14.7 percent in March, beating analyst expectations for a 13 percent rise, although slowing from a 16.3 percent gain in January-February.

"Due to the severe disruptions in factory operations, road transport and port congestion as a result of the worst Covid wave and the most severe lockdowns since spring 2020, we expect export growth in dollar terms to slump to 0.0 percent year-on-year in April, while import growth is likely to drop further to minus 3.0 percent," Nomura said in a note.

Many analysts expect trade conditions to worsen in April, on slower customs clearance and as the impact from a lockdown in Shanghai is felt

More than 30 Taiwanese companies including Pegatron and Macbook maker Quanta Computer have now halted production in the electronics hubs of eastern China to comply with local Covid-related restrictions, spelling more trouble for an already fragile global tech supply chain.

PBOC keeps medium-term policy rate unchanged

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Friday, Apr 15, 2022

China's central bank kept borrowing costs unchanged for a third straight month as expected on Friday, although markets expect other monetary stimulus measures to be forthcoming from Beijing.

The People's Bank of China (PBOC) said in an online statement it was keeping the rate on 150 billion yuan worth of one-year medium-term lending facility (MLF) loans to some financial institutions unchanged at 2.85 percent to keep banking liquidity “reasonably ample".

On Wednesday, the State Council called for the timely use of monetary tools such as a reduction in the amount of cash banks must set aside as reserves. Global investment banks including Citi expect such a reserve requirement ratio (RRR) reduction could be delivered as early as Friday.

"We doubt the forthcoming RRR cut will be the last easing move either," said Julian Evans-Pritchard, senior China economist at Capital Economics.

"We continue to anticipate another 20 basis points of policy rate cuts this year and a further acceleration in credit growth."

The recent fast spread of Covid-19 cases has induced lockdowns in cities across the mainland, raising concerns over disruptions to economic activity. The central government has indicated that it is ready to use policy measures to ensure the economy stays on course for growth of around 5.5 percent.

Mainland GDP beats estimates despite headwinds

by news.rthk.hk
Monday, Apr 18, 2022

The mainland's economy grew at a faster than expected clip in the first quarter, official data showed on Monday, expanding 4.8 percent year-on-year, but the risk of a sharp slowdown over coming months has risen as Covid-19 curbs and the Ukraine war take a toll.

Gross domestic product (GDP) had been forecast to expand 4.4 percent from a year earlier, according to a Reuters poll of analysts, picking up from 4.0 percent in the fourth quarter last year.

On a quarter-on-quarter basis, GDP rose 1.3 percent in January-March, compared with expectations for a 0.6 percent rise and a revised 1.5 percent gain in the previous quarter.

Industrial output rose 5.0 percent in March from a year earlier, down from a 7.5 percent increase seen in the first two months of the year, data from the National Bureau of Statistics showed on Monday.

The reading was stronger than a 4.5 percent increase predicted by analysts in a Reuters poll.

Retail sales in March contracted 3.5 percent year-on-year amid increasing Covid-19 outbreaks and lockdowns, after increasing 6.7 percent in January and February. The figure was well below expectations for a 1.6 percent decrease.

Heightened global risks from the war in Ukraine, Covid-19 lockdowns and a weak property market are putting a choke hold on the world's second-largest economy, and some economists say the risks of a recession are rising.

Late on Friday, the People's Bank of China announced it would cut the amount of cash that banks must hold as reserves for the first time this year, releasing about 530 billion yuan in long-term liquidity to cushion a sharp slowdown in economic growth.

The mainland has targeted slower economic growth of around 5.5 percent this year as headwinds gather, but some analysts say that may now be tough to achieve without more aggressive stimulus measures.

HKU expects HK's real GDP to grow by 0.9pc in second quarter

by www.thestandard.com.hk
Friday, Apr 22, 2022

The University of Hong Kong estimates Hong Kong's real GDP to grow by 0.9 percent in the second quarter of this year, with Hong Kong's economy expected to manage a mild growth of 1.6 percent to 2.6 percent for the whole year.

The HK Macroeconomic Forecast published by the university noted that the city's tight social distancing measures eroded output growth in the first quarter.

"Consumer sentiment was heavily dampened with retail sales volume dropping by 17.6 percent in February 2022. Hong Kong's real GDP is estimated to drop by 2.9 percent in 22Q1, reflecting the impact of the disruption from the epidemic," it wrote.

Meanwhile, the unemployment rate is expected to go down to 4.4 percent in the second quarter as the relaxation of infection-control measures comes into effect, according to the university forecast.

Need to defend HKD may come more often: HKMA

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The Monetary Authority said on Thursday that it expects the Hong Kong dollar to touch the weak end of its narrow trading band with the greenback more often than usual this year, as the US Federal Reserve hikes rates to tame inflation.

Under a linked exchange rate system with the US dollar, the authority will defend the Hong Kong dollar by buying or selling it if the local currency breaches either side of its trading range of HK$7.75 - 7.85 to the greenback.

A deputy chief executive of the authority, Edmond Lau, said he believes the Fed may raise rates more aggressively and at a faster pace compared to what it did between 2016 and 2018.

Speaking at a media session, Lau also said he expects that interbank lending rates here will not track the pace of US rate increases closely, as there is an abundant liquidity of HK$330 billion in the local interbank markets.

He said capital will flow from the Hong Kong dollar to the greenback when local rates fall further behind US interest rates.

He noted that smaller stock trading volume and fundraising activities due to weaker market sentiment could also lead to lower demand for the Hong Kong dollar.

But he added that the US-dollar peg system here is capable of handling an expected outflow to the greenback.

Officials from the authority also urged prospective property buyers to be vigilant against medium-to-long term risks, warning of an apparent upward trend for borrowing costs here even if local rates do not rise in tandem with the US.

China needs open capital markets for yuan to be global currency, IMF's Gopinath says

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If China wants its yuan to become a globally used currency, Beijing would need to have open capital markets and full currency convertibility, the International Monetary Fund's No. 2 official said on Tuesday.

IMF First Deputy Managing Director Gita Gopinath, speaking about the global lender's new institutional view on capital flow measures at a Peterson Institute for International Economics event, said history has shown that reserve currencies widely used in global trade transactions, such as the dollar and the British pound, do not have capital restrictions, as China does.

"If a country is aspiring to be a global currency, then in that case, you would need to have, you know, basically fully and freely mobile capital, full capital account liberalization, full convertibility of exchange rate, which is not the case right now in China," Gopinath said in response to a question on China's capital restrictions.

The IMF on March 30 updated its institutional guidance on capital controls to allow for the use of pre-emptive measures to reduce the risks of abrupt capital outflows causing financial crises or deep recessions.

Under the new guidance, countries would no longer have to wait until capital flow surges materialize and can impose such measures to counter a gradual buildup of foreign currency debt that is not backed by foreign currency reserves or hedges.

Gopinath said some countries with fixed exchange rates might have more reason to employ capital flow measures pre-emptively because they would have fewer tools to counteract sudden capital outflows.

But she cautioned against using the capital flow measures to achieve certain policy goals that are better handled with domestic tools, such as controlling a run-up in housing prices.

While housing price jumps are sometimes blamed on an influx of money from foreign buyers, housing bubbles are often due to other factors, such as interest rates that are too low, or a lack of adequate housing supply, she said.

The IMF would be "skeptical" about using capital inflow controls to deter property investment by foreign buyers, she said, adding that such inflows would have to be so distortive as to pose a clear macroeconomic stability risk.

"So we would think of this as, you really need to deal with this using your domestic intervention tools, because that's often the reason why you have unaffordable housing prices, and of course, also increasing supply of housing and so on," Gopinath said.

The capital flow measures should also not be used by countries to counteract unsustainable fiscal policies, or to influence a country's exchange rate for competitive advantage.

"It's not about you influencing your exchange rate to keep it weak for competitiveness purposes," Gopinath said.