

HK: Better-than-expected Recovery



Although there is still decline in exports, HK economy has been rapidly recovering amid the global stimulus measures. GDP rose a seasonally adjusted 3.3% in the second quarter from the previous three months, after dropping 4.3% in the first quarter, the government said last week. That is better than the median estimate in a Bloomberg News survey of seven economists for a 1.2% gain. At the same time, HK government raised its forecast for this year's GDP to a contraction of between 3.5% and 4.5% from a previous estimate of a 5.5% to 6.5% decline. On the stockmarket, the Hang Seng Index has gained over 80% from this year's low in March as the government has allocated HK\$87.6 billion, or about 5.2% of GDP, since 2008 for stimulus measures ranging from tax cuts to rent subsidies. In addition, China's record lending and 4 trillion yuan stimulus package help the city, which is a hub for trade and finance. Financial

Secretary John Tsang also said the economy would hopefully improve further in the second half and the city could not afford to be complacent because of uncertainties in the global economy. Across the Asia Pacific region, South Korea and Australia have bounced back after economic contractions and Singapore has climbed out of a recession as the worst global slump since the Great Depression eases, according to Bloomberg. In Europe, Germany and France unexpectedly emerged from recessions in the second quarter too. In fact, HK exports fell 12.4% from a year earlier after dropping 22.7% in the first quarter. Household consumption dropped 1% after falling 6%. Business investment slid 14%, following a 13.7% decline. Fortunately, exports to the mainland have picked up, counteracting the drop of

exports to overseas, while easy liquidity conditions there have contributed to recent bubble in HK's asset prices, providing a strong boost to domestic consumption. Although the Chief Executive Donald Tsang is unlikely to announce more relief measures in his October policy address, the need for further fiscal stimulus has in fact decreased. In the meantime, the global economy remains fragile. As a result, HK's recovery faces challenges including a jobless rate at a three-year high of 5.4%. Swine flu also crimped tourist arrivals and spending during the quarter. Consumers from overseas are expected to be very conservative about spending for the rest of the year. With low interest rate and the loosening monetary policies around the world, HK can still get huge benefit from capital free-flow. **B**

Microscope

Despite the stabilization of credit markets around the world, expansionary monetary policies are widely expected to still be in place as no one can risk earlier "exit". The relief initiatives in Asia and stronger demand from the mainland should lead to a pickup of the regional economies in the latter half of 2009 and further in 2010. HK exports should fare better during the second half of 2009 in tandem with a likely bottoming out of the global economy towards the year-end. But while there is a glimmer of hope for a more stable external trade environment, a mild turnaround in sales performance is likely to realize due to recovering confidence in Europe and Asia. For the whole of 2009, HK's total exports, dragged by the worse-than-anticipated turnout in global trade so far this year, are now forecast to drop 10-12% in value terms, according to HK Trade Development Council, vis-à-vis the 6% decline expected previously. Looking further ahead, HK exports should strengthen further in the course of 2010, as the global trade environment continues to pick up, barring any serious disruptions that could cause the incipient revival to halt. **B**

MARKET BRIEFING

YTD % (local curr)

US DJ	9,321 (6.2%)
Nasdaq	1,985 (25.9%)
Euro Stoxx 50	2,669 (8.9%)
HSI	20,893 (45.2%)
Japan NK225	10,597 (19.6%)
China Shanghai Composite	3,046 (67.3%)
Singapore	2,631 (49.4%)
India BSE30	15,411 (59.8%)
Brazil BOVESPA	56,638 (50.8%)
Aus All Ord	4,465 (22.0%)
US-10yr Bond	Yield 3.57%

As at 14/08/09

Insight: "REITs vs. Bond"

Compared with bonds, REITs on the aspect of yield, usually look better. Generally speaking, bonds guarantee the return of the original investment if held to maturity. If you purchase a \$10,000 bond with a 7% yield, you'll get your \$10,000 back when it matures plus you will have earned the 7% interest through the period. REITs will not guarantee the value of the shares at any given point in time. But, they will pay a dividend throughout the period of ownership, as by law they must return at least 90% of their operating profits to the share holders. REITs that are operating efficiently can increase their profits through

good management or increased rents with higher demand. They can also purchase and sell properties to create profits. Doing these things well results in financial performance that creates more demand for the REIT shares, thus their prices can rise like any normal stock. Although the price volatility of REITs may be much more than that of bonds, bonds are indeed sensitive to interest rate fluctuations. That is to say, if interest rates rise, the market value of a bond decreases. If the investor must sell at this time, they will receive less than face value. On the other hand, since many REITs are invested in commercial or residential properties with fixed mortgages, a rise in interest rates will not significantly impact their profitability. On the contrary, they can push potential home buyers into rentals, thus increasing demand and raising rents. **B**

A-Z Financial Tools

Guaranteed Investment Contract is a contract, that is typically issued by insurance company, guarantees the owner principal repayment and a fixed or floating interest rate for a predetermined period of time. Beside the tax benefit of which most institutions may take, this contract is usually issued with guaranteed returns which are suitable for pension benefits. **B**



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