China CITIC Bank International's latest market outlook

Global economic outlook sluggish as second-half improvement expected of mainland China's and Hong Kong's economies

(Hong Kong: 18 July 2022) China CITIC Bank International Limited (the "Bank" or "CNCBI") today releases its latest economic outlook, which reveals that elevating inflation pressure is dampening the global economic outlook and that the risk of stagflation is rising across developed economies. Conversely, economic activities in mainland China and Hong Kong are steadily heading towards normalisation. The economy of the two regions is expected to improve in the second half of the year with full-year growth of 4% to 4.5% and 1% to 2% respectively.

Mainland China to see more impetus for growth in lower 2022 as supported likely by fiscal measures

As a result of the epidemic control measures, the scale of the Chinese economy contracted in the second quarter compared to the first. Mr Tristan Zhuo, Chief Economist, China CITIC Bank International said, "As economic activities normalise gradually, mainland China's impetus for growth is expected to improve significantly in the second half of the year, with a growth forecast of 4% to 4.5% for the whole year. However, retail sales performance will continue to lag behind that of exports, industrial production and fixed asset investment. The imbalances in the economy are to be improved."

The monetary policy divergence between mainland China and the US has led to a Treasury bond yield inversion, shrinking to an extent the room for further monetary accommodation on the part of mainland China. Together with a need to keep inflation mild, Mr Zhuo pointed out, it is believed that mainland China would adopt a more prudent approach to monetary policy adjustment with fiscal measures likely to become the primary tools for stabilising growth.

Hong Kong to see low single-digit annual growth as HKD interbank rates pick up pace

The gradual relaxation of epidemic control measures is contributing to the normalisation of economic activities in Hong Kong. Unemployment rates are expected to drop. Mr Zhuo said, "Improvement is expected of the Hong Kong economy in the second half of the year. Due to the sluggish first-half performance, however, full-year GDP growth may only reach a low single-digit of 1% to 2%." Turning to interest rates, adjustments to the Hong Kong dollar prime rate have continued to lag behind those of the Federal funds rate while the fluctuating interbank rates climbed further up. In spite of the stable prime rates, the interest rate environment has started to tighten.

Recession risk on the rise　US rate-hike cycle expected to end in 2023

As inflation is already far higher than the Fed's 2% target, the Fed has been forced to actively tighten its monetary policy. According to the Fed's latest forward guidance, the Fed funds rates could rise to 3.5% by the end of 2022. However, due to the rising risk of a recession and in view of the magnitude of rate hikes this year, this rate hike cycle is likely to end in 2023.

Please visit https://www.cncbinternational.com/_document/personal/investments/en/market_express.pdf for more market insights. You may also access the mobile edition of Market Express on the Bank's inMotion (Open the inMotion app and tap "Wealth Management" at the bottom right corner).

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Mr Tristan Zhuo, Chief Economist, China CITIC Bank International forecasts that mainland China's and Hong Kong's economies will grow by 4% to 4.5% and 1% to 2% respectively for 2022

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