View from the Dome

Newsletter, October 2019

Anti-government protests in Hong Kong are into their fourth month and show no signs of letting up

World markets update

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Anti-government protests in Hong Kong are into their fourth month and show no signs of letting up

After being returned to China in 1997 after a century of British rule and promised a ‘one country, two systems’ policy guaranteeing democratic rights for the city, people in Hong Kong have taken to the streets several times in recent years to protest at what they claim has been an erosion of those rights.

But the current wave of anti-government demonstrations, originally against a controversial extradition law that would have allowed criminal suspects to be sent to the mainland to face communist courts, are the longest and among the most violent in Hong Kong’s modern history. The Hong Kong government scrapped the proposed law in September and has since appealed for calm but the movement continues to draw momentum from what protesters allege to be police brutality and a lack of accountability.

Since June 9 when the first demonstration took place, thousands of people have been injured, as many as 1,400 arrested, and there have been unverified claims of people killed in protests. People have committed suicide, and fears have been raised of a military intervention by Beijing which claims the protests are a separatist movement guided by foreign powers.

On 1 October a police officer shot a young protester in the chest during the worst day of unrest to hit Hong Kong in half a century as Beijing celebrated the 70th anniversary of Communist Party rule in mainland China. Police confirmed the shooting, saying their officer fired in self-defence as the 18-year-old male swung at him with a metal bar. The teenager underwent emergency surgery and health officials listed his condition a short time later as critical.

as South-East Asia's premier financial and business hub.

Hong Kong has long been one of the world's major tourist destinations and tourism is a key industry in the economy. It is responsible for 5% of Hong Kong's GDP but employs more than 250,000 people, or 7% of the city's entire workforce.

The protests have already had a dire effect on visitor numbers.

According to official figures, in 2018 Hong Kong drew 30 million tourists, making it one of the world's most visited cities.

But in early September, Hong Kong Financial Secretary Paul Chan said visitor numbers had dropped 5% year-on-year in July and a whopping 40% in August.

The August decline was the biggest fall in overseas visitors since the deadly SARS epidemic in 2003.

During some of the protests innocent bystanders have fallen victim to police violence while others have faced mob attacks from protesters. Residents and shopkeepers in many areas of the city say they dare not go outside during demonstrations.

However, the violent, political instability gripping the city is not just having an effect on local society, it is already hurting the economy with the potential to do it more serious damage as well and is threatening Hong Kong's status

Bookings were also down in September and October.

The fall in visitors from mainland China has been extremely sharp with, according to the Travel Industry Council of Hong Kong, a 90% year-on-year fall in the number of mainland tour groups to the city in a single ten-day period at the start of September.

Meanwhile, air travel in and out of Hong Kong has been badly affected by a series of protests at the city's airport which left operations paralysed. It has been estimated that demonstrations at the airport on August 12 and 13 cost it USD 76 million.

In August alone, the local flagship carrier, Cathay Pacific, saw an 11% year-on-year drop in passengers while the airport itself registered 850,000 less travellers, equivalent to a 12% year-on-year fall.

The airline faced other problems too - while China's state-owned media called for boycotts of companies alleged to be supporting the Hong Kong protesters, Chinese authorities tried to force Cathay Pacific to suspend staff taking part in the protests. The company's CEO Rupert Hogg and Paul Loo, the chief customer and commercial officer, later resigned over the issue.

Hotels have also been suffering with many reporting well below average occupancy rates and bookings and local media reporting that hotel operators were asking staff to take unpaid leave as they looked to cut costs.

It is not just the tourist industry that is being battered.

Hong Kong's retailers are under pressure too as shoppers, probably deterred by photos and TV images of demonstrators and riot police fighting running battles along streets lined with designer boutiques and luxury shops, are staying away.

Official data has shown that retail sales in Hong Kong fell 11.4% year-on-year in July while according to unofficial data from the Retail Traders Association of Hong Kong there was a more than 50% drop in August.

Speaking to AFP news agency, one shopkeeper in the normally busy commercial Causeway Bay district, said that his takings were down 50% since the protests began in June. He explained that he had often had to close his shop as police and demonstrators clashed outside.

Another shopkeeper said he had had to lay off half of his staff and that he and others feared their businesses may not survive into next year.

> *"violent acts... Inevitably undermine and affect the international perception of Hong Kong's business environment"*
>
> *Carrie Lam*
> *Chief Executive of Hong Kong*

The protests have also hit the local property market with, according to Hong Kong Financial Secretary Chan, some areas seeing house prices fall by up to 70% in the past three months.

There has also been damage to Hong Kong's international reputation as a safe and stable global financial hub and centre for business and trade. International conferences have been cancelled, as have major sports and entertainment events.

As Hong Kong leader Carrie Lam admitted at a press conference in September after it emerged the city's authorities had failed to find a PR firm willing to take on the job of rebuilding the city's image, the protests' "violent acts… inevitably undermine and affect the international perception of Hong Kong's business environment".

Hong Kong's economy had already been feeling the effects of the US-China trade war and the slowing mainland economy. Some analysts fear the damage done by the protests will tip the economy into recession in the third quarter, having contracted 0.4% in the second quarter.

Global ratings agency Fitch reflected the gloomy outlook for the city, downgrading Hong Kong's long-term foreign currency issuer default rating to AA from AA+ in September – its first downgrade for the city since 1995. It also changed its outlook for the city from stable to negative.

The group warned that the protests had "inflicted long-lasting damage" to international perceptions over Hong Kong's ability to maintain its "governance system and rule of law," and had "called into question the stability and dynamism of its business environment".

Local equities have struggled since the start of the protests. The Hang Seng index has seen some extreme volatility in recent months, swinging sharply on protest developments.

For example, having been one of the weakest markets in the world in August, losing 7.4% as violence flared, the Hang Seng gained almost 5% in a single day in early September after city authorities announced the controversial extradition law which led to the initial protests would be withdrawn.

By the middle of the month though, as protests showed little sign of abating, it went on a long losing streak and for the week ending September 20, local shares were the worst performers in the world, shedding 3.4%. They fell again for the week ending September 27.

Hong Kong has seen protests before, including the 2014 Umbrella Movement which brought the city to a virtual standstill as protesters, who were demanding the repeal of anti-democratic legislation, blockaded roads for months.

But that movement offers little guide to what might happen with the present protests. The Umbrella Movement was shorter and lost momentum relatively quickly as demonstrators argued among themselves over tactics.

This time, after four months, the protesters seem far more unified and as determined as ever and the demonstrations, and almost inevitable violence, will continue for some time to come.

So far Beijing's response to the protests has been to back Hong Kong's government officials and, as well as pushing for boycotts of companies supporting the demonstrations, to denounce the protesters as rioters, separatists and violent extremists.

However, in what many took as a clear warning of its ultimate power, exercises involving hundreds of China's People's Armed Police were carried out at a sports stadium in Shenzhen near the border between the city and the mainland in August, fuelling speculation China might be considering sending in troops to deal with the demonstrators.

And in September, China's Xinhua state news agency warned that "the end is coming for those attempting to disrupt Hong Kong and antagonise China".

However, some say that any crackdown by authorities to force protesters off the streets was unlikely to work as anything but a short-term measure.

Writing in The Conversation, Samson Yuen, an Assistant Professor of Political Science at Lingnan University, said that unlike the Umbrella protesters, who were divided over what tactics they should use for their protests, the current movement had much stronger solidarity and resolution in achieving their demands.

"If the Hong Kong government continues to refuse to heed what people are legitimately asking for, the people will undoubtedly return to the streets. As research from other social movement studies has taught us, protests take place in cycles. The current protest movement in Hong Kong may eventually quiet down after a while, but another one may be brewing on the horizon," he wrote.

Economically, though, any intervention from Beijing could have dire consequences.

Tracy Chen, portfolio manager and head of structured credit for Brandywine Global, told the Institutional Investor publication that sending Chinese troops into Hong Kong: "….could symbolize the failure of the 'One country, two system' model and jeopardize Hong Kong's status as a global financial centre with an independent legal system," adding that financial institutions may decide to rethink Hong Kong investments in such a situation.

Others have predicted many international companies already operating in the city would relocate elsewhere in Asia, and Hong Kong could be hit by international sanctions, damaging an already weakened economy.

Whatever happens next though, economic damage has already been done, and there is likely to be more.

As Hong Kong Financial Secretary Chan said: "It is worrying that so far there is no sign of improvement in the near future."

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The Economic Damage

- Official data showed that August saw the biggest fall in overseas visitors to the city since the SARS epidemic of 2003.
- Tourist arrivals were down 40% year-on-year in August with a plunge in visitors from the Chinese mainland while, according to Hong Kong tourist industry figures, the first ten days of September saw a 90% year-on-year drop in the number of mainland tour groups.
- Local flagship airline Cathay Pacific saw an 11% annual drop in passengers for August while passenger numbers at Hong Kong's airport were down 12.4% on the previous month.
- Global ratings agency Fitch has downgraded Hong Kong because of the protests.
- The IHS Markit Hong Kong purchasing managers' index (PMI) reading fell to 40.8 in August from 43.8 in July – well in contraction territory – with new business orders from China dropping at a record rate.
- A survey by the American Chamber of Commerce in Singapore showed 120 Hong Kong businesses planned to move from the city, citing the protests - 91% of those firms said Singapore was their preferred destination. Meanwhile, 80% said the protests had played a part in their decision to stop future investment in Hong Kong.
- Some economists are predicting a fall in retail sales of up to 30% for 2019.
- Two massive IPOs totalling USD11bn have been cancelled since the protests started.
- The amount of money leaving the city was more than double the amount coming in during July and August, according to UK-based TransferWise.

WORLD MARKETS UPDATE

General

Global equities bounced back in September after a poor showing in August, posting gains as trade developments continued to dominate sentiment while markets also digested the latest moves from major central banks, rising geopolitical tensions and political problems in the US and UK. Both developed and emerging market equities advanced, posting similar-sized gains – the MSCI World index was up 2.2% and the MSCI EM index rose 1.9%.

Trade sentiment was somewhat improved for much of the month as progress appeared to be made between Washington and Beijing on their trade dispute. September ended on a sour note though as news broke that President Donald Trump was considering capital controls on US investment in Chinese firms.

Monetary policy was in focus too. The Federal Reserve's rate cut was met with a relatively muted response, as it had been widely expected. The European Central Bank's interest rate reduction and return to quantitative easing provoked a bit more a reaction, specifically in Europe where it gave a boost to equities. Japanese stocks, which had a very good month, also had some help from central bank policy, or rather expectations of policy easing in the near future.

Rising tensions in the Middle East caused a stir on markets too. Missile attacks on oil facilities in Saudi Arabia, swiftly blamed on Iran by the Saudis, sent oil prices soaring, albeit relatively briefly.

And politics on both sides of the Atlantic kept markets busy. In the UK the Brexit saga dragged on, this month at least introducing something new in the stunning ruling by the UK's Supreme Court that Prime Minister Boris Johnson's effective closing down of Parliament for five weeks was unlawful, and the prospect of the Prime Minister ignoring a law forcing him to seek a Brexit extension. All the while, the chances of Britain crashing out of the EU without a deal appear to be growing daily. And in the US, news at the end of the month that an impeachment inquiry had been started into President Trump weighed on sentiment.

Data releases from key countries did little to lift fears over the global economy. There were some mixed readings from the US, data showed weakness in Europe's economy, notably in Germany, and economic news out of China was underwhelming with the effects of the country's trade conflict with the US on the Chinese economy becoming starkly apparent.

US

S&P 500	1.9%	Dow Jones	2.1%
MSCI USA	1.8%	NASDAQ	0.5%

In the US, it was a good month for equities with all the major benchmarks closing higher. The MSCI USA gained 1.8%.

Trade sentiment was more positive for much of the month with news that negotiations between both sides would be resuming in October. But news at the end of the month that President Donald Trump was considering capital controls on US investment in Chinese firms dented recent optimism and underlined the volatility of the current trade relationship between Beijing and Washington.

Markets also faced headwinds in the second half of September as missile attacks on Saudi Arabian oil facilities, which the Saudis quickly blamed on Iran, sent Middle East tensions soaring, along with crude prices. This lent some support to energy stocks, however. Domestic political developments also weighed with news of an impeachment inquiry against President Donald Trump unsettling investors. The Federal Reserve's rate cut during the month had been widely expected and reaction was relatively muted.

Data was mixed with a larger than expected fall in consumer confidence in August while consumer spending grew at a measly 0.1% month-on-month, the weakest expansion in six months. There were also some disappointing labour and manufacturing readings. However, there was some encouraging productivity, factory orders and service sector data.

Europe

MSCI EMU	3.7%	DAX	4.1%
FTSE 250	3.1%	CAC 40	3.7%

European equities had a very good month with marked gains in major Eurozone markets. Local stocks took support from improved trade sentiment and wide-ranging monetary stimulus from the European Central Bank (ECB) with the bank looking to help drive growth as the region's economy appears to be close to stalling. The bank cut the deposit rate by 10 basis points, driving the rate deeper into negative territory, announced it was restarting quantitative easing and opened its forward guidance, along with other changes to targeted longer-term refinancing operations and reserve remuneration.

The move came amid persistent worries over the region's economy with more weak data releases in the month, including the lowest preliminary Eurozone manufacturing Purchasing Managers' Index (PMI) reading in almost seven years. There are particular concerns over the health of the German economy with the country's manufacturing PMI reading dropping to 41.4 in September from 43.5 in the previous month while the German Ifo Institute has cut its forecast for German economic growth this year to 0.5% and slashed its forecast for 2020 to 1.2% from 1.7%. There are also concerns that weakness in manufacturing is spreading to the services sector.

Meanwhile, UK stocks, as proxied by the FTSE 100 index, also finished in positive territory, despite ongoing Brexit turmoil. The Brexit saga continued to deliver more twists and turns in September, including a stunning ruling by the UK's Supreme Court that Prime Minister Boris Johnson's effective closing down of Parliament for five weeks was unlawful, and the prospect of the Prime Minister ignoring a law forcing him to seek a Brexit extension. All the while, the chances of Britain crashing out of the EU without a deal appear to be growing daily. With the country due to leave the bloc at the end of October unless an extension is requested, and granted, the chances of a deal being agreed between London and Brussels by the deadline appear slim. The exact effects of a no-deal Brexit on business and the economy are difficult to predict, but most commentators have put them somewhere between apocalyptic and challenging, at least in the short-term.

Asia

MSCI Asia ex-Japan	1.7%	Shanghai Composite	0.7%
MSCI ASEAN	-0.7%	Nikkei 225	5.8%
		SENSEX	3.6%

Asian markets were positive overall for the month, despite some varied performance among markets across the region. Most took succour from global markets' generally more positive sentiment on the US-China trade dispute, which was spurred by signs, at least in the early part of the month, that tensions between Washington and Beijing were easing. The US Federal Reserve's rate cut also provided support for stocks in some local markets.

China was a notable underperformer in the region as continuing concerns over the trade dispute with the US and economic worries weighed on sentiment. During the month, falling factory prices and car sales fuelled anticipation the government would soon have to move to help the slowing economy. Heeding government calls to reduce borrowing costs, the central bank announced a half a percentage point cut in the required reserve ratio for all banks and a one percentage point cut for some city commercial lenders, pushing RMB900bn (USD126bn) of liquidity into the country's financial system. Meanwhile, Chinese exports unexpectedly fell in August, dropping 1% year-on-year, while exports to the US were down 16% year-on-year. Equities in Hong Kong had a volatile month against a backdrop of worries over the mainland economy and trade, as well as increasingly violent anti-government protests. In Taiwan, latest trade developments were eyed closely by investors, but local stocks were supported by rising tech demand – Apple launched three new iPhones - and a recovery in the semiconductor sector. It was a similar story in South Korea, although trade developments remained a notable concern.

Equities in the ASEAN region finished September moderately lower as trade fears waxed and waned and regional markets reacted to a weakening Chinese economy and major central bank moves, including rate cuts in the US and from the European Central Bank. The MSCI ASEAN index lost 0.7%.

In India, markets posted strong gains, climbing towards the end of the month on the back of tax cuts announced by the government as it looks to boost the slowing economy. The local benchmark Sensex index finished almost 4% higher while the S&P BSE Mid-Cap and S&P BSE Small-Cap indices did even better, advancing 5%. The tax changes laid out by the government included a cut in the corporate tax rate to 22%, down from 30%. Analysts have pointed to the positive effect of the tax breaks on corporate earnings in the coming quarter. However, with an estimated tax revenue of USD20.5bn due to be lost because of the cuts there are concerns the government may not be able to hit its fiscal deficit target for 2019-20. The move comes as the government looks to boost economic growth which hit a six-year low in the last quarter, coming in at 5%.

Japanese stocks outperformed with the MSCI Japan index climbing more than 6% (in local currency terms) and the benchmark Nikkei 225 index posting a similar sized gain. Expectations of policy easing by the Japanese central bank next month were partly behind local equities' advance. But latest data painted a gloomy picture of Japan's economy with second-quarter GDP growth at 1.3% compared to a previous estimate of 1.8% and business confidence among manufacturers down in September for the fourth month in a row.

Latin America

MSCI Latin America	2.6%	FBOVESPA	3.6%
MSCI Brazil	2.5%	MSCI Mexico	2.6%
MSCI Argentina	8.5%		

Latin American markets were the best performers among emerging markets in September.

Expectations of a rate cut from the US Federal Reserve – and those expectations eventually being fulfilled – as well as signs of progress in the US-China trade dispute helped Brazilian stocks over the month. The MSCI Brazil 20-50 index rose 2.5% while the local benchmark Bovespa gained 3.6%. Meanwhile, key pensions reforms being pushed through by President Jair Bolsonaro moved a step closer to being realised after getting approval from the Senate constitutional affairs committee. The central bank cut interest rates to a historic low of 5% as authorities look to give a boost to the sluggish economy.

After a terrible time in August when local stocks lost an astonishing 50%, Argentine equities recovered in September as the government and central bank moved to bring in currency controls in a bid to prop up the currency and help stop the depletion of Argentina's foreign exchange reserves. The MSCI Argentina index closed 8.5% higher and the local benchmark Merval was also well up.

Equities in Mexico were also higher for the month with the MSCI Mexico index posting a solid 2.6% gain. Stocks made only small gains at the start of the month amid concerns about the slowing global economy but made headway later after the Federal Reserve's rate cut and some positive domestic data releases. However, concerns about the local economy remain and the Mexican central bank reduced its overnight interbank interest rate – the second reduction since July - as it looks to spur growth. The month ended with local investors concerned over the fate of a trade agreement between the US, Mexico and Canada in the wake of the impeachment investigation into US President Donald Trump.

Africa

MSCI Africa	0.2%	FTSE/JSE	-0.5%
MSCI South Africa	-1.2%	NSE	0.4%
MSCI Kenya	2.5%		

African markets failed to make any real ground in September with local equities, as proxied by the MSCI FM Africa index, little changed for the month. Performance was mixed across the major markets, however.

In South Africa, the MSCI South Africa index was down for the month, as was the main benchmark JSE gauge (in USD terms). The index's overall fall was in large part down to poor performance from local tech giant Naspers which has an exaggerated weighting in the index. Industrials and financials were the best performers, but telecoms and technology lagged. Economic news was mixed – GDP growth in the second quarter was 3.1%, making up for a 3.1% fall in the first quarter of the year. But business confidence is poor at the moment. The RMB/BER Business Confidence Index (BCI) reading stood at 21 for the third quarter, a drop from 28 in the previous quarter and a 20-year low. Meanwhile, Moody's rating agency, the only major ratings agency still giving South Africa an investment grade rating, said during the month it was unlikely to change its current rating anytime soon. Officials did, however, give a warning about the country's economic growth outlook having revised down its 2019 growth forecast to 0.7% because of policy uncertainty, slow implementation of structural reforms and a worsening global economy.

In some of the other major regional markets, gains in USD terms were good – the MSCI Nigeria index was up more than 5% for the month – but in local currency terms performance was less impressive (the Nigerian benchmark NSE All Share barely broke even for the month). In other news, investors in the Kenyan market were spooked by the collapse of another locally-listed company. Mumias Sugar Company went into statutory management after defaulting on an estimated USD125m of debts. This comes after a string of similar incidents in recent years, including the forced administration of cement maker ARM and fashions retailer Deacons (EA) last year and concerns over the corporate health of a number of other major companies listed on the local bourse.

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Cornhill Sales Diary

Welcome to the Cornhill Sales Diary… here we outline the upcoming movements of our Sales team. If you would like to meet with any of them while they are in your region, please drop them a line.

IN ASIA this month...

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October

Su	Mo	Tu	We	Th	Fr	Sa
29	30	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31	1	2

November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Hong Kong

Tokyo

Jakarta

IN CONTINENTAL EUROPE this month...

Colin MacLean

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October

Su	Mo	Tu	We	Th	Fr	Sa
29	30	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31	1	2

The Netherlands

Belgium

November

Su	Mo	Tu	We	Th	Fr	Sa
27	28	29	30	31	1	2
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10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

Germany /The Netherlands

Spain Gibraltar

IN THE MEDITERRANEAN this month...

Kenneth Hughes

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October

Su	Mo	Tu	We	Th	Fr	Sa
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13	14	15	16	17	18	19
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Bangkok

Thailand

Hong Kong

November

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17	18	19	20	21	22	23
24	25	26	27	28	29	30

Hong Kong

Asia

IN THE MIDDLE EAST, AFRICA AND ASIA this month...

Simon Smith

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Middle East, Africa and India

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October

Su	Mo	Tu	We	Th	Fr	Sa
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17	18	19	20	21	22	23
24	25	26	27	28	29	30

India

Kenya

UAE

IN THE MIDDLE EAST, AFRICA AND ASIA this month...

David Oliver

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Covering South Africa, Botswana, Zimbabwe and Mauritius

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October

Su	Mo	Tu	We	Th	Fr	Sa
29	30	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
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27	28	29	30	31	1	2

Botswana
Mauritius

November

Su	Mo	Tu	We	Th	Fr	Sa
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3	4	5	6	7	8	9
10	11	12	13	14	15	16
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24	25	26	27	28	29	30

Cape town
Zimbabwe
Bulawayo
Harare