

## Macro & Markets Radar

# China: New US legislation on Hong Kong is mostly symbolic but adds to issues in the trade talks.

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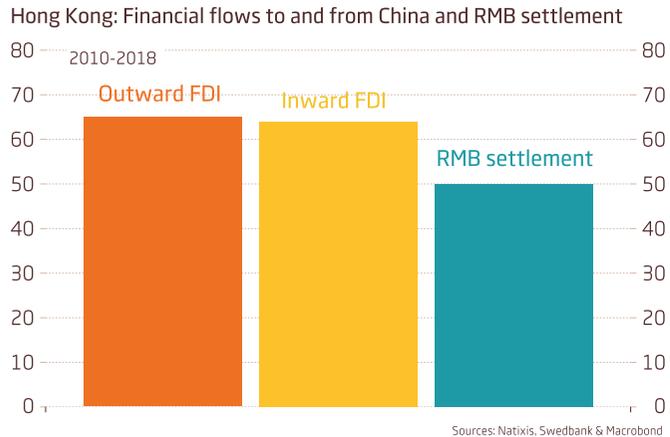
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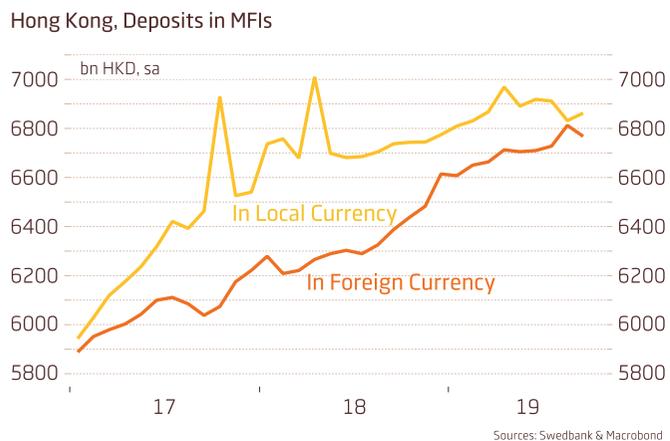
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# China: New US legislation on Hong Kong is mostly symbolic but adds to issues in the trade talks.

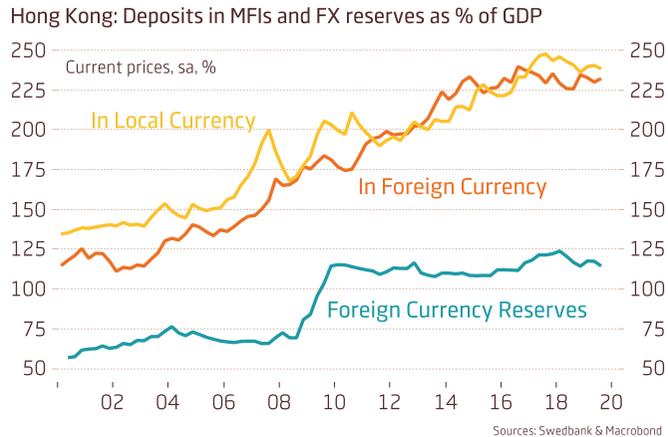
## Hong Kong is crucial for the Mainland economy, as an opening in its capital account...



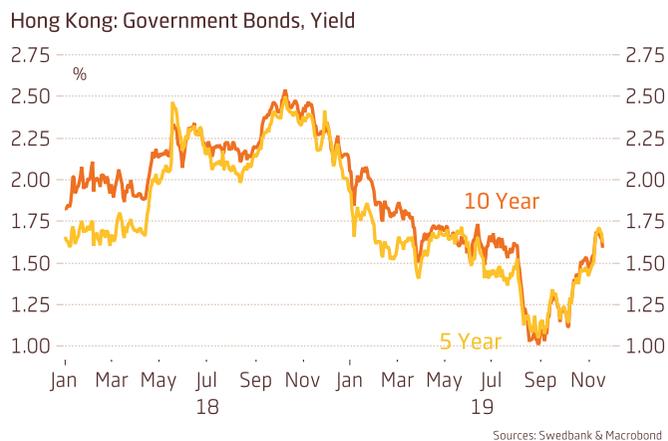
## HK deposits have stayed rather stable so far...



## ...while its deposits are larger than the FX reserve, making it possible for the peg to break.



## ...while assets have been affected but are supported by the pegged currency.



## New US legislation has no large direct effects.

- The HK financial hub relies on special US economic and trade policy, which could be withdrawn if the city is no longer seen as autonomous. The HK Human Rights and Democracy Act implies an annual review of this status. Acting on the conclusions would still be up to the president, however.
- The bill has no large immediate consequences but it is negative for US-China relations. The positive trade signals from China's part during the last few days suggest that China is ready to treat these two as separate issues, however.

## Hong Kong is important for China's economy.

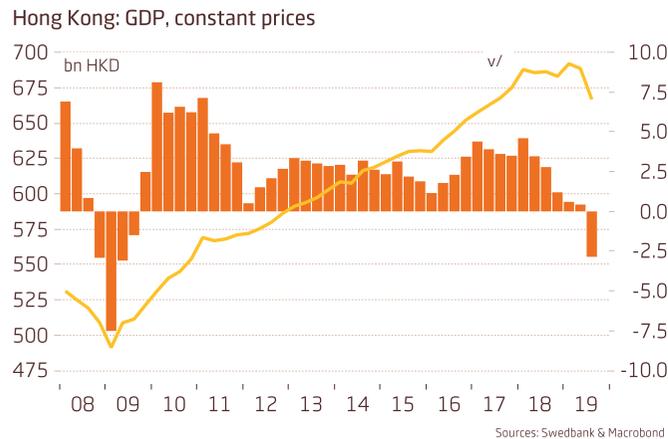
- The HK financial sector is important for the Mainland due to its rule of law and free movement of capital. Around 70 % of China's FDI flows pass through HK, while mainland banks accounted for 37% of HK banking assets 2018. Other exchanges cannot replace it in the short term.
- Our main scenario is that an economic slowdown continues in Hong Kong, affecting Mainland exports but not causing larger damage. So far HK deposits and assets have remained relatively stable, supported by pegged HKD.
- Still, large scale capital flight is a risk. This could potentially lead to the HKD peg breaking and a financial crisis, also hurting mainland. Beijing could supply reserves and liquidity, however. A more extreme, and unlikely, scenario is that a change in Hong Kong's status causes a stop in the movement of capital in and out of China through HK.

## The law complicates trade talks on the margin.

- The US legislation is unlikely to lead to large scale sanctions under Trump, remaining mostly symbolic. It will make the optics of the trade deal even trickier, however, due to China's increased pressure not to appear weak to domestic audiences.

# Financial instability in Hong Kong is a risk, also for our home markets. So far deposits and asset prices do not point at danger.

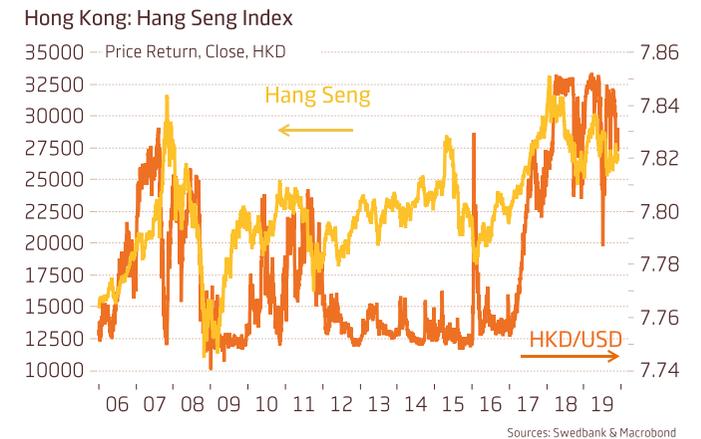
## The Hong Kong economy is in recession...



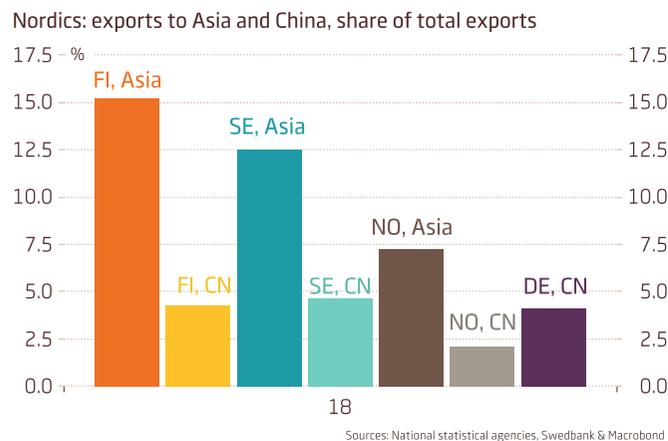
## ...and stock markets have been affected...



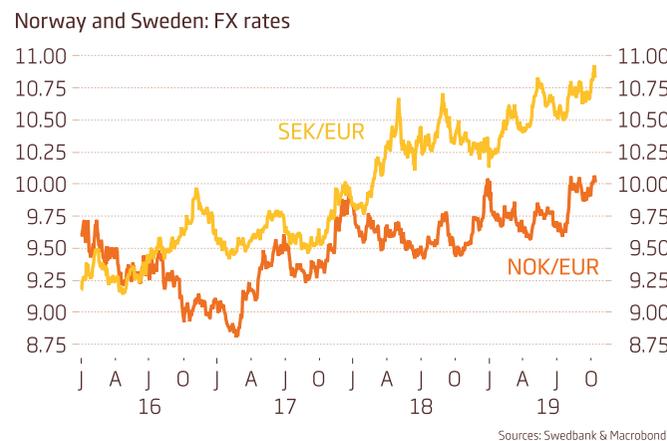
## ...but not drastically, due to pegged currency.



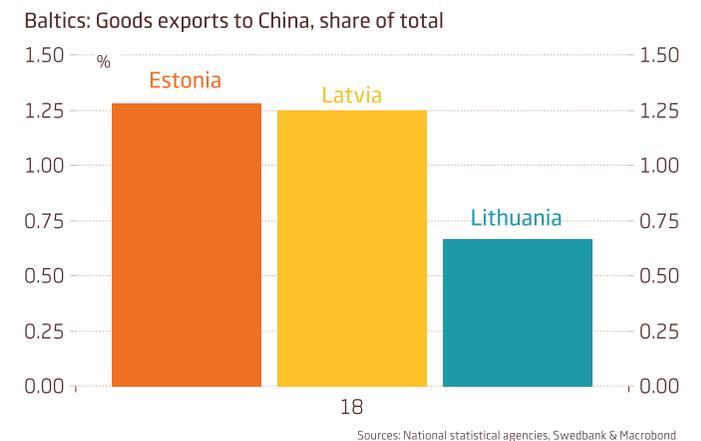
## Trade with Asia is important to Nordics...



## ...and crisis in Asia would weaken SEK and NOK.



## Baltics trade much less with China.



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