Global Asset Management

Hong Kong: back in business

Notes from the road

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"Historically, Chinese tourists came to Hong Kong to purchase luxury items that were unavailable locally and to frequent its restaurants and bars. Today, these items are all available in China."

I will always remember my first trip to Hong Kong some thirty years ago. Following the nerve-wracking landing at the old Kai Tak Airport, the city's incredible energy and vibrant atmosphere left a lasting impression.

In contrast, the mood on this trip and others in recent years feels noticeably downbeat. Corporate confidence is muted, restaurants and bars that once bustled with activity are now empty, and shopping malls feel eerily quiet.

Hong Kong had a particularly difficult Covid period and the recovery since then has been slow. The challenging pandemic experience was exacerbated by political tensions, with pro-democracy demonstrations culminating in the imposition of a new China security law and an effective PRC takeover in 2020, much earlier than was planned when the UK handed Hong Kong over in 1997.

The combined impact of political shifts, prolonged isolation under Covid and cultural changes in Hong Kong have led to a meaningful decline in the number of expats working in the city. At the same time, Shenzhen's appeal as a destination to party and shop has dramatically improved and instead of mainland tourists flooding to Hong Kong for the weekend, the opposite is happening. Historically, Chinese tourists came to Hong Kong to purchase luxury items that were unavailable locally and to frequent its restaurants and bars. Today, these items are all available in China. These factors have all weighted on recent economic growth in Hong Kong, which has been muted, and both property prices and tourist arrivals are down approximately 30% from their pre-Covid peaks[1].

[1] Census and Statistics Department Hong Kong.

Despite the negative news, Hong Kong has always excelled at reinventing itself, and beneath the surface there does seem to be a positive story emerging.

The exodus of expats has now stabilised, with many of Hong Kong's comparative advantages still intact. The cost of living and working there is markedly lower than other large financial centres. A key attraction of Hong Kong is its low flat tax system, as well as its light regulatory environment. While other Chinese cities have caught up in terms of bars, restaurants and shopping, Hong Kong still has the best schools, universities, country clubs, nature, marinas, and health system.

At the same time, Hong Kong is becoming Beijing's preferred platform for channeling Chinese capital abroad and foreign investment into China due to a combination of factors:

Gateway between China and the rest of the world: Driven by its developed financial infrastructure, convertible currency, legal system, and pool of international talent, Hong Kong handles approximately 80% of global offshore renminbi payments[2].

RMB internationalisation: Hong Kong is the largest offshore RMB hub[3], handling clearing, bond issuance, and investment flows via Stock and Bond Connect.

PRC limitations: China operates under capital controls, a less open and regulatory framework and restrictions on foreign financial firms.

> **"Hong Kong is the largest offshore RMB hub, handling clearing, bond issuance, and investment flows."**

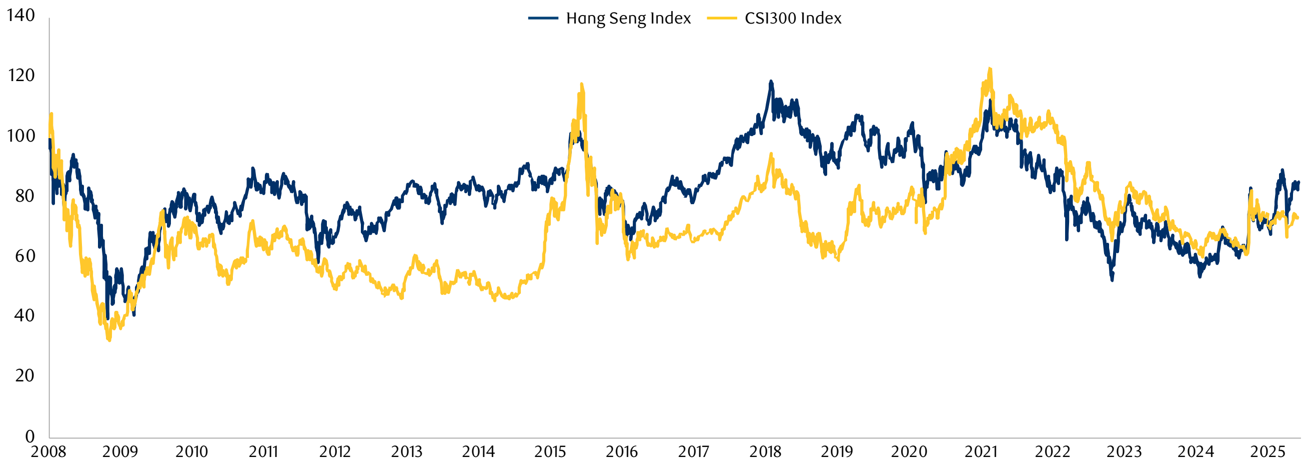
Shenzhen's appeal as a destination to party and shop is on the rise.

Infrastructure and legal system: Hong Kong offers a strong regulatory regime, a top tier stock exchange, and a thriving IPO market, as well as strong property rights and an independent judiciary.

All these factors have helped the Hong Kong Stock Exchange become the leading exchange globally for listings by volume in the last 12 months and the local Hang Seng Index has rallied strongly from its early 2024 lows, outpacing the leading China A share index (CSI300) (Exhibit 1).

Exhibit 1: Hang Seng strong year-to-date versus CSI300

Normalised index price indexed to 1 January 2008



Source: Hang Seng Indexes Company Ltd, as at June 2025.

[2] brandhk.gov.hk/docs/default-source/factsheets-library/hong-kong-themes/2024-04-05/international-financial-centre_en_apr-2024.pdf

[3] hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/dominant-gateway-to-china

I met with Bonnie Chan, the very impressive CEO of Hong Kong Exchanges, to get a fuller picture. Hong Kong Exchanges has been seeing strong demand from mainland Chinese companies seeking a listing in Hong Kong to raise capital for their global expansions. These are increasingly high-quality businesses with strong balance sheets, some of whom I met during my trip. A good example is China's leading electric vehicle giant, CATL, which raised HKD5.3 billion last month[4]. In addition to local Chinese companies looking to tap the Hong Kong market, Chan is increasingly focusing on other global companies that have outgrown their domestic market, as well as potential US listed Chinese companies considering relisting in a more friendly environment.

High-quality Chinese companies are increasingly interested in listing in Hong Kong.

Given these developments, it is interesting to observe the development of the A/H share premium in recent years (Exhibit 2). The premium tracks the price of the China A listing relative to the Hong Kong H listing for the same company, and can be impacted by a range of factors including size, liquidity, profitability, sector, and currency. Exhibit 2 shows that, after expanding between 2019 and 2024, the A/H share premium for the overall market has declined in the last 18 months. Indeed, the recent CATL Hong Kong listing is trading at a premium to the A share.

"Hong Kong Exchanges has been seeing strong demand from mainland Chinese companies seeking a listing in Hong Kong to raise capital for their global expansions."

Exhibit 2: A/H share premium rose from 2019-2024 but is now declining

Source: Hang Seng Indexes Company Ltd, as at June 2025.

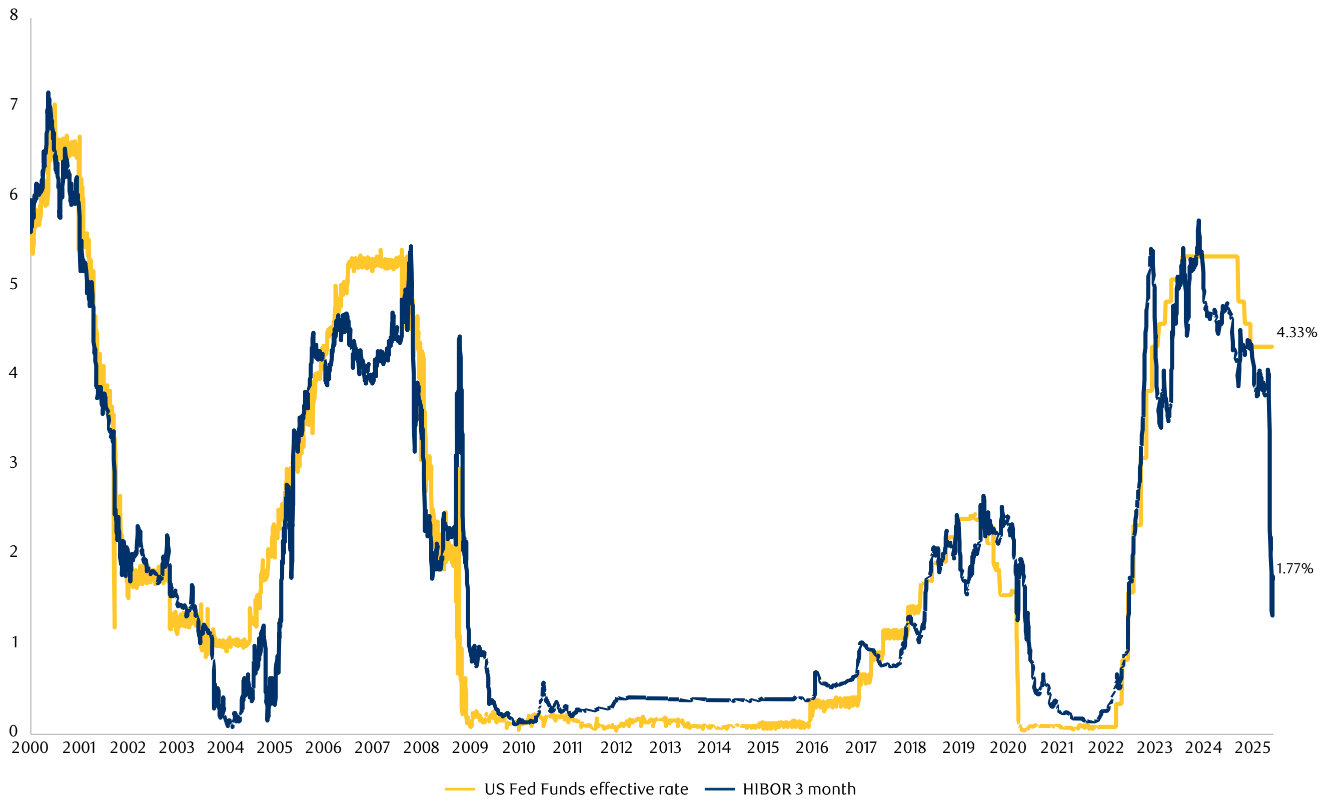
[4] straitstimes.com/business/catl-shares-clouded-by-bleak-outlook-after-mega-hong-kong-debut

One consequence of these strong capital flows into Hong Kong, as well as increasing signs that Asian currencies have commenced an era of sustained appreciation, is that we have begun to see upward pressure on the Hong Kong dollar which is pegged to the US dollar. Based on the territory's currency board system, upward pressure on the currency leads to a decline in local interest rates. Exhibit 3 shows how the gap between local interest rates (Hibor) and US Fed Funds rate has moved to the highest level in recent decades. In this system, if the currency cannot appreciate, the upward pressure filters to local asset prices.

The narrative in Hong Kong has certainly evolved in the last 30 years and particularly in the last five years, as Hong Kong emerges with a new identity. While the city may have lost some of its once extraordinary energy, its role as a leading Chinese city and as China's premier international financial centre is still in the early stages. And although landing at Chek Lap Kok lacks the "thrill" of the old Kai Tak Airport, crossing the Hong Kong-Zhuhai-Macau Bridge from the airport to the City, representing the world's longest sea crossing, is itself an unforgettable experience.

> **"While the city may have lost some of its once extraordinary energy, its role as a leading Chinese city and as China's premier international financial centre is still in its early stages."**

Exhibit 3: Largest gap in recent decades between Hibor and US Fed Funds rate



Source: Federal Reserve Bank of New York, as at June 2025.

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