Hong Kong: will we reach the weak-band in Q4?

- **USD/HKD could test 7.85 in early Q4 amid the widening US-HK rate gap, October dividend outflows and weak equity sentiment though seasonal tightening may help alleviate pressures into year-end.**
- **The US-HK rate gap will remain a structural headwind for the HKD with the US expected to raise rates at least two more times and still subdued HKD loan growth.**
- **We upgrade our Hong Kong 2026 GDP growth forecast to 4.1%, following stronger-than-expected H1 growth driven by AI-related re-exports, tourism and consumption. 2027 GDP growth is held at 3.0%.**



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Testing 7.85 in Q4

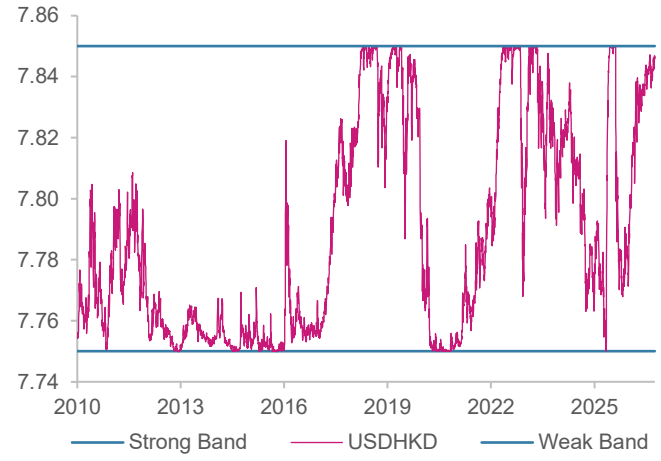
As we enter the final quarter of 2026, we are turning our focus back to HKD spot and liquidity dynamics. USD/HKD edged higher toward the 7.85 weak-side convertibility undertaking (CU) through Q3, but as we anticipated, the level was not reached. Our view had been that any test of 7.85 was more likely a Q4 story — and that is the call we revisit in today's note.

A key factor behind our belief that spot would take longer to reach 7.85 was the aggregate balance starting from a much lower level, which in turn kept HKD interest rates more responsive. This was evident in the climb in HIBOR rates into end-Q3, with one-week HIBOR rising to 3.27% – its highest since January. On 29 September, HKD TN points even moved into premium, echoing a similar dynamic seen at end-August. Taken together, these factors weighed on USD/HKD by reducing the widening of the US-HK rate differential despite a US rate hike. Following the quarter-end, however, we expect USD/HKD to find support again as HKD liquidity dynamics normalise. HIBOR rates have already fallen sharply in the first few days of October, with the spike in short-dated tenors unwinding quickly. There is scope for rates to continue edging lower in the coming weeks, particularly given that implied HKD rates are trading below HIBOR across the curve.

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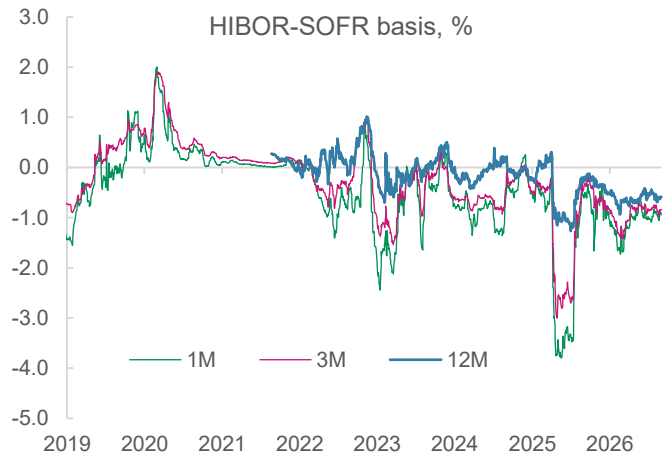
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USD/HKD edging towards 7.85



Source: Bloomberg, Crédit Agricole CIB

US Fed rate hikes to put more pressure on HKD



Source: Bloomberg, Crédit Agricole CIB

On the US side, upward pressure on rates persists, with the market now pricing three additional Fed hikes through end-2027. While the Fed raised rates at its September meeting – and the HKMA followed with a corresponding increase to the Hong Kong base rate – the decision by local banks not to raise the prime rate

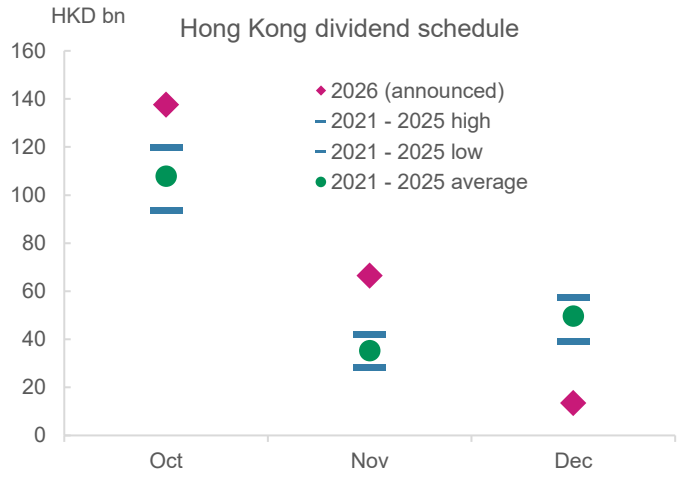
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signals that they still view HKD liquidity conditions as ample. The HKD loan to deposit fell to 69.3 in August, falling below 70 for the first time since 2009. HKD loan growth in particular remains pretty subdued reducing a source of HKD demand and also constraining the rise in HKD rates. This reinforces the view that any sustained rise in HKD rates is likely to lag the US and enhances the attractiveness of carry in being long USD/HKD. Our own base case calls for only two more Fed hikes, with one before end-2026, which would still work to widen the US-HK rate spread and lend support to USD/HKD.

Combined with upcoming dividend season dynamics and softening equity sentiment, we see a credible path for USD/HKD to reach 7.85 in early Q4. We estimate c.HKD140bn in dividends will be paid in October 2026 – a new high for the month of October – and the associated outflows, compounded by underperformance in Hong Kong equities, should weigh on the HKD. That said, in the event that 7.85 is reached, we expect the draining of the aggregate balance from HKD54bn to be slow and the low of HKD45bn back from mid-2025 is likely to hold.

If spot fails to reach 7.85 then we see the odds of the weak side CU being reached fading into year-end, as seasonal liquidity tightening reasserts itself. This is generally attributed to increased funding demand by banks and corporates towards year-end, which could add to liquidity tightening. Given the above dynamics, our forecast is for a tightening in HKD liquidity into year-end driven by seasonal tightening which would be further amplified by any draining of the aggregate balance. This should narrow the US-HK rate gap and weigh on USD/HKD. Our forecast is for USD/HKD to end the year at 7.81. That in turn could offer an attractive opportunity to once more enter long USD/HKD spot positions in order to position for a renewed widening in rate differentials supporting USD/HKD as seasonal tightening in liquidity fades.

HK dividend payment to weigh on HKD in early Q4



Source: CEIC, Crédit Agricole CIB

Potential of seasonal liquidity tightening into year-end

Number of Months where HIBOR rises MoM in past 10Y

Month	1M HIBOR	3M HIBOR
Jan	1	1
Feb	3	3
Mar	7	5
Apr	5	5
May	3	6
Jun	9	8
Jul	3	2
Aug	5	6
Sep	8	7
Oct	4	6
Nov	7	7
Dec	7	6

Source: CEIC, Crédit Agricole CIB

Raising our macro forecasts

We are raising our Hong Kong macro forecasts as the economy show more signs of gaining momentum.

Crédit Agricole CIB forecasts

	2025	2026	2027
GDP (% YoY)	3.2	**4.1** *(3.1)*	3.0
CPI (% YoY)	1.4	**2.0** *(1.8)*	2.0
Current Account (% GDP)	12.3	11.2	9.5

Note: Our previous forecasts are in brackets, Source: Crédit Agricole CIB

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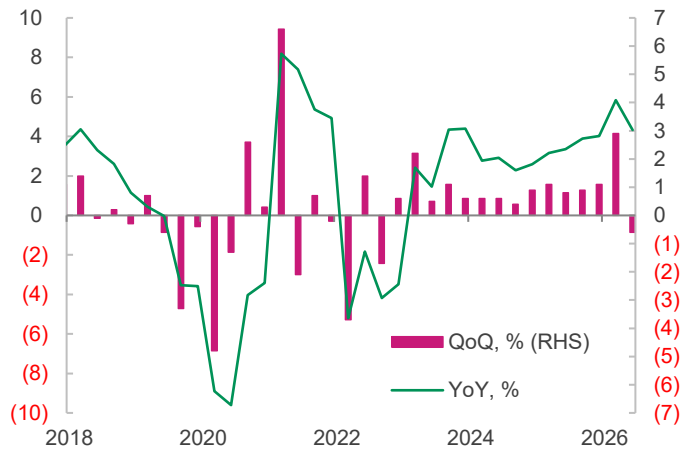
Hong Kong's economy delivered its strongest H1 performance in five years, with GDP growing 5.1% YoY in H126. This expansion was driven by a surge in AI-related electronics re-exports, robust tourism arrivals (up 10.5% YoY through August), resilient financial services activity and strengthening domestic consumption. The labour market has remained broadly stable, with the unemployment rate at 3.8% in August and employment earnings climbing steadily.

In light of this stronger-than-expected performance, we are revising our full-year 2026 growth forecast to 4.1% YoY (from 3.1%), broadly consistent with the government's recently upgraded range of 3.5-4.5%. We expect the key drivers – AI exports, tourism, and consumption – to remain supportive through year-end, though the pace of expansion is likely to moderate given the stronger H225 base and signs from Q2 that growth momentum is slowing. Our H226 growth forecast stands at 3.2% YoY.

Despite strong H1 growth, several challenges persist. Business confidence remains subdued, with the Business Tendency Survey printing at -4% in Q326, marking an eighth consecutive quarter in negative territory. While retail sales have posted consecutive months of growth, values remain below pre-Covid historical highs, partly reflecting continued cross-border consumption by Hong Kong residents as travel access improves. Externally, the outlook faces headwinds from US-China trade tensions, uncertainty over the US interest rate path, questions about the sustainability of the AI investment boom, and ongoing geopolitical conflicts – particularly the Middle East situation. These factors underpin our decision to keep our 2027 growth outlook unchanged pending greater clarity.

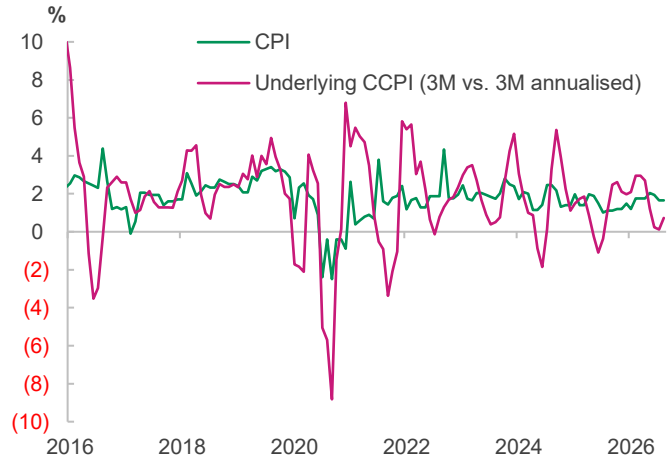
We are raising our 2026 CPI inflation forecast to 2.0% (from 1.8%), though inflation remains moderate and largely contained with little sign of broad-based price pressures. Our 2.0% forecast sits below the government's 2.6% projection for headline inflation, and we believe there is scope for the official estimate to be revised lower as the year progresses. The primary upward driver is energy-related passthrough, with electricity, gas and water prices up over 10% YoY and transport costs climbing 5% YoY. However, Hong Kong benefits from structural insulation against energy shocks given: its low energy intensity (1.0 megajoule per unit of GDP vs the APAC average of 2.4), minimal energy weight in the CPI basket (c.3% vs 4-12% across APAC) and limited exposure to Strait of Hormuz disruptions.. Elsewhere medical services inflation has accelerated, rising 12% YoY. However, outside energy and medical services, price pressures remain subdued, with housing and food inflation in the low single digits.

Slowing growth momentum in Q2 could extend into year-end



Source: CEIC, Crédit Agricole CIB

Inflationary pressures remain moderate and contained



Source: CEIC, Crédit Agricole CIB

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Source: RMA by Crédit Agricole CIB

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