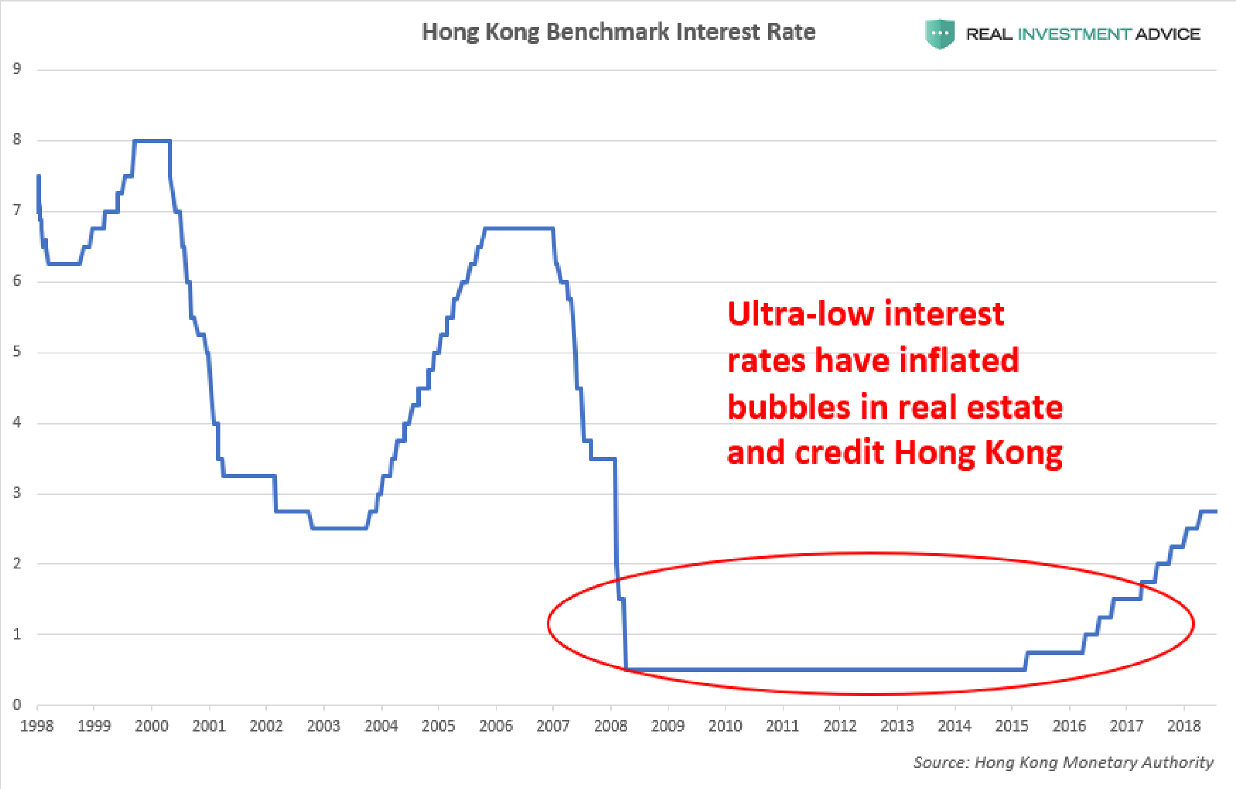
The escalating trade war between the U.S. and China is creating numerous unintended consequences around the world and this conflict may only be in its infancy. One of those serious risks is that that the trade war may burst a massive property bubble that has been developing in Hong Kong over the past decade, as Bloomberg reports -

> Record high home prices in Hong Kong have prompted some economists to forecast a bursting of the bubble.
>
> Residential property values in the city reached an all-time high last week after relentless gains over the past three months. Prices have risen by 8.6% since the beginning of the year, Centaline data show.
>
> However with Hong Kong exposed to the trade war between China and the U.S. and the city?s stock market taking a hit, analysts say the likelihood of home prices declining is even greater now. The recent equities sell-off has been so widespread that about a third of Hang Seng Index constituents entered oversold territory last Friday -- a technical indicator that traders use to evaluate whether buying or selling of a security has become too extreme -- the most in almost one year.
>
> ?Sentiment is likely to turn more cautious over the next several months or probably for an even longer period,? said Tommy Wu at Oxford Economics Ltd. in Hong Kong. ?If the stock market continues to come under pressure, especially if there?s no sign of U.S.-China trade tensions getting any major relief,? then home prices will fall, he said.

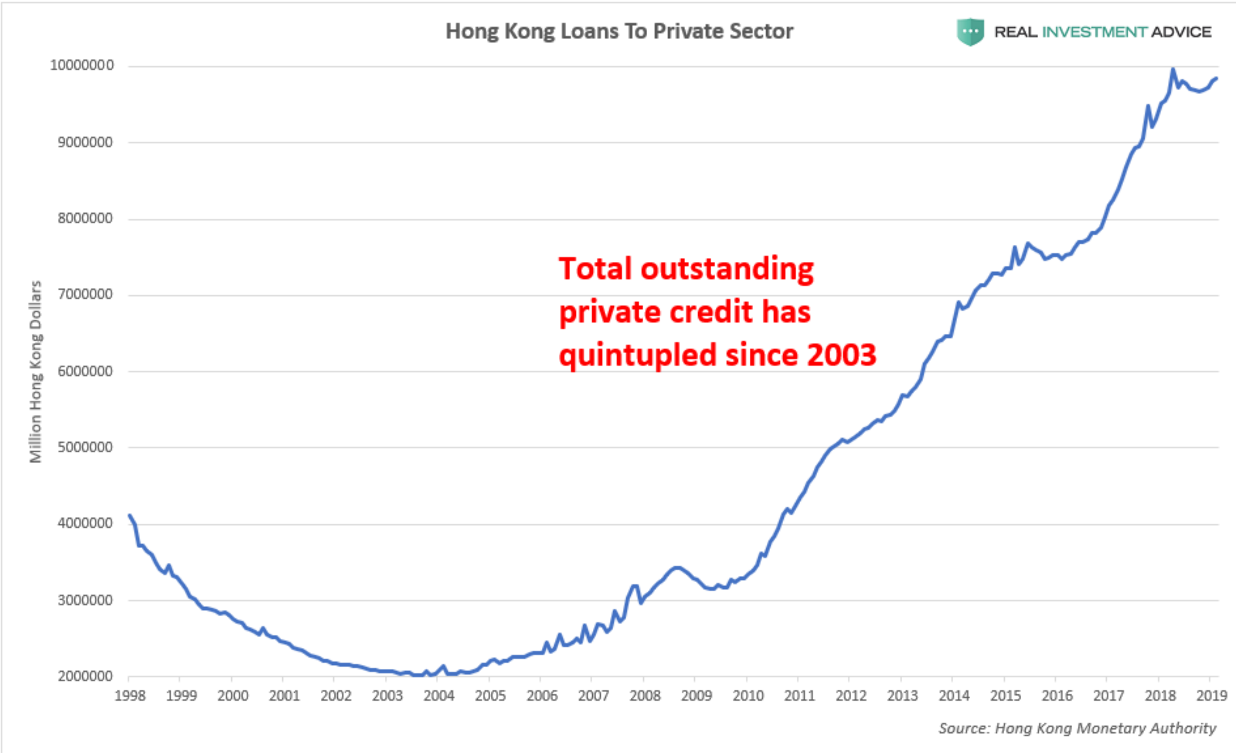
I have also been warning about Hong Kong's property *and* credit bubble for the past several years. These bubbles have inflated because Hong Kong has held its benchmark interest rate at record low levels since the Global Financial Crisis. These interest rates were *far too low* for Hong Kong?s economy ? this anomalous situation only occurred because Hong Kong was trying to match U.S. interest rates to keep the currency exchange rate between the two countries stable. After 2008, the U.S. was a post-bust economy that was struggling with deflationary pressures ? Hong Kong was not.



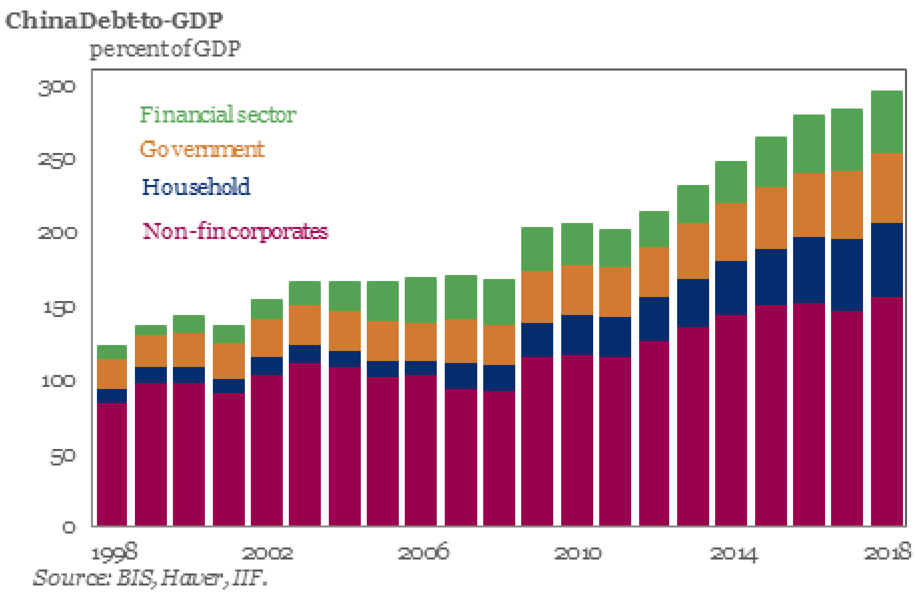



Hong Kong?s housing prices have quintupled since 2003:

Similarly, total outstanding private sector loans have quintupled since 2003:




Mainland China has also been experiencing a tremendous credit bubble in the past decade that has been artificially boosting economic growth:




Hong Kong's property and credit bubble is bound to burst violently one way or another and the trade war is just one of the potential catalysts, in addition to rising interest rates. While many American investors probably think "who cares? I don't live or invest in Hong Kong!," the reality is that Hong Kong's massive property and credit bubble is one of the many ticking time bombs around the world that threaten your investments and way of life. Because we have a truly global, interconnected economy now, nobody can afford to have an insular, America or Western-centric mindset anymore.