Economic and Financial Monthly (MAR 2015)

Summary

Although the Fed removed the phrase “patience” from the statement in March, in the meantime, the Fed revised the median forecasts of Fed Funds rates at the end of this year and next year downward, showing that the Fed may increase interest rate more moderately. Eurozone economy kept expanding modestly, and the European Central Bank has launched QE. China’s economic data softened, implying a downward pressure on economic growth momentum. Subdued inflation provides room for monetary policy to ease further. Retail sales in Hong Kong remained sluggish.

■ U.S.: The Fed may increase interest rate more moderately

The Fed maintained the Fed Funds rate at 0-0.25% in the FOMC meeting in March. Although the Fed removed the phrase “patience” from the statement in March, in the meantime, the Fed revised down the median forecasts of Fed Funds rates at the end of this year and the next year to 0.625% and 1.875%, respectively, or cut by 50 bps and 62.5 bps. The Fed may increase interest rate more moderately, and the time of first interest rate hike may postpone from mid-year to the fourth quarter of this year.

Eurozone: Economy kept improving modestly, ECB has launched QE

Eurozone economy continued to expand modestly. The flash reading of composite PMI climbed to 54.1, the highest reading in almost 4 years. In addition, The European Central Bank (ECB) has launched QE and it would purchase EUR60bn assets per month. We believe QE stimulus help to consolidate the modest growth momentum in the currency bloc.

China: Economic growth was still facing downward pressure

China’s economic data softened, showing the growth momentum was still facing downward pressure. Retail sales grew 10.7% YoY for the first two months, a 1.2 percentage points lower than that in December last year. The growth rate of fixed assets investment continued to slow as overcapacity remained a serious problem. Fixed assets investment grew 13.9% YoY for the first two months, hitting the lowest level since 2001. Industrial production remained stagnant which only grew 6.8% from a year ago. Although annual growth of CPI rebounded to 1.4% in February, it was still far below the 3% target for this year. Subdued inflation provides room for monetary policy to ease further.

Hong Kong: Sluggish retail sector would contribute less to overall economic growth

As the Chinese New Year appeared in different months, the value of total retail sales rebounded substantially with YoY growth of 14.9% in February. However, it contracted by 0.3% YoY for the first two months. Retail sales growth slowdown is the result of structural adjustment, implying retail sector would contribute less to Hong Kong's economic growth.

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