Economic and Financial Monthly (Nov, 2016)

Summary

The U.S. economic growth in the 3rd quarter of 2016 was revised upward. Key economic indicators mostly pointed to a moderate expansion. Interest rate hike in December is almost certain. The European Commission forecasted stable economic growth for the Eurozone in the coming two years. After the Brexit, the UK rolled out its fiscal stimulus packages to support the economy. Target for debt cut was deferred to after 2020. In China, the total value added of the industrial enterprises and private investment showed signs of stabilization, easing the concerns of weak economic growth. New round of cooling measures were enacted to tame the rising housing market in Hong Kong, dragging down the transaction volumes.

- **U.S.: The U.S. economy continued steady expansion, raising the likelihood of interest rate hike in December.**

The U.S. economic growth in the 3rd quarter of 2016 was revised upward, at an annual rate, from 2.9% in the advance estimate to 3.2% in the second estimate. Private consumption expenditures, exports and inventory investment were the major drivers for economic growth. The market kept optimistic on the economic policies by the Trump administration, leading to a steepened yield curve and propelling the US dollar index to hit 102, the highest level within the year. With a better quarterly growth than previously reported, the November Purchasing Managers' Index and Consumer Confidence Index both foresaw continuous growth in the US economy. It provided strong evidence in support of an interest rate hike in December. Interest-rate futures showed the chance of rate hike in December reached 100%. Hence, it is almost certain that the Fed will raise rate in the December meeting.

Europe: Stable growth in the Eurozone economy was expected with rising calls for fiscal stimulus.

In the Autumn Economic Forecast, the European Commission forecasted GDP growth in the Eurozone at 1.7% in 2016 and 1.5% in 2017. November composite Purchasing Managers' Index went up to 54.1 with both the manufacturing sector and service sector in expansion territory, revealing a positive outlook for the euro area. Moreover, the European Commission encouraged the whole Eurozone to provide fiscal expansion at 0.5% of gross domestic product, boosting the economic growth across the area. The UK also announced its fiscal stimulus plan in the autumn declaration. These measures included deferral of the target for cutting government debt and achieving fiscal balance to after 2020, and lowering the corporate tax from 20% to 17%.

China: Economic momentum gradually picked up, easing the concerns of weak economic growth.

Economic data in October showed signs of stabilization. Both total value added of the industrial enterprises and private investment reported stable growth. In October, the total value added of the industrial enterprises grew by 6.1%. In January - October, private investment recorded an increase of 8.3%. Credit growth remained steady with M2 rose by 11.6%. Foreign reserve dropped slightly, but the total balance still stayed above the level of 3 trillion US dollar. Due to the strong US dollar, RMB faced persistent depreciation pressure throughout the whole November.

Hong Kong: New cooling measures on the housing market were announced and the kick-off date of Shenzhen-HK Stock Connect was confirmed.

Housing market resumed to surge after a short contraction in the beginning of the year. In order to avoid overheating in the residential market, the government enacted a new round of cooling measures to increase a new flat rate of 15% of the ad valorem stamp duty for all residential property. Only Hong Kong permanent residents without owning a house can be exempted from the measures and pay the tax at old rates. After implementation, market participants sat on the sidelines. Transactions with substantial discounts were not seen. The transaction volumes thus contracted notably. The housing market is expected to enter consolidation. Besides, Shenzhen-HK Stock Connect was announced to start on 5 December, providing more investment channels for both places. Transaction volumes of the two equities markets were expected to grow gradually under the new scheme. Lastly, the CPI in Oct was moderate. External trade performance remained weak but some improvements could be identified.

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