

Economic and Financial Monthly (Dec, 2016)

Summary

The U.S. raised interest rate again in December. Both the U.S. dollar and U.S. equity climbed on improved economic outlook; The constitutional referendum in Italy was rejected, the upcoming three elections in the Eurozone will likely increase the Euro volatility; The Mainland economy showed further signs of growth monument in areas including the industrial sector, investment, retail, and external trade; The house prices in HK surged to a historical high, economic indicators were mixed.

■ U.S.: The Fed raised interest rate again after a year

The 3rd quarter real GDP growth was revised upward to increase at an annual rate of 3.5% from preceding quarter. It evidenced solid economic growth. The Fed decided to raise the Fed funds rate by 0.25% to 0.75%, which was widely expected before the meeting. After the rate hike, investors boosted the outlook for the U.S. economy, fuelling rally of the U.S. dollar and the U.S. equity. Economic data in November showed the economy grew at a stable pace: labor market conditions strengthened, unemployment rate reduced to 4.6%, personal income and expenditures climbed, inflation stayed moderate. As for the December indicators, both consumer confidence index and composite purchasing manager index revealed stable economic expansion. The US was expected to achieve stable growth in the 4th quarter. Besides, the home prices in October jumped to a record high, surpassing the 2006's peak before the subprime mortgage crisis. President Donald Trump will take office on 20 January. Details of his economic policies will become a focus of attention in 2017.

Europe: Voters rejected Italian constitutional referendum, the three elections in 2017 will likely increase the Euro volatility

In early December, voters in Italy rejected the referendum on constitutional reform, reflecting the mistrust towards the government. The Euro dropped to a 20-month low against the U.S. dollar. The Prime Minister Mr. Renzi resigned after the defeat, and Foreign Minister Mr. Gentiloni take over as the new Prime Minister. In the short term, the impact of the referendum on the Eurozone economy will be limited, but it gave rise to mounting Euroscepticism in Italy,

which would elevate the political uncertainties for the three elections of Netherland, France and Germany in 2017. Since the U.S. rate hike, the Euro was under pressure and dropped to as low as 1.04 level. Elevated political risks in 2017 will likely increase the volatility and downward pressure for the Euro. Also, the European Central Bank announced to reduce its monthly assets purchase from 80 billion Euro to 60 billion Euro from April 2017, but extend the program deadline till end of 2017.

China: Overall economic performance improved

November data indicated a stable growth of economic activities with improvements in the industrial sector, investment, retail, and external trade. And, the consumer price index and producer price index grew modestly. Overall social financing expanded at a stable pace. The weighting of medium-long term household debt in new RMB loans increased, reflecting the credit growth was boosted by the property sector. As impacts of official cooling measures gradually emerged, the property related credit growth would likely ease. The purchasing manager indices in December pointed to a steady economic expansion.

Moreover, the Central Economic Work Conference concluded "stable and progressive" economic growth next year. The Government will implement proactive fiscal policy and prudent monetary policy, and continue the tasks of cutting industrial overcapacity, bringing down housing inventory, reducing leverage levels, lowering corporate costs and improving weak economic links in 2017. It also underlined the objective of stable and healthy development of the property market. It is regarded that the rising property market is closely monitored. More cooling measures may be rolled out if the house prices go higher.

Hong Kong:

The house prices in November went up to a historical level, 0.2% higher than the peak in September 2015. In the first eleven months in 2016, house prices rose by 7.6%. Thanks to the US rate hike, the 1-month Hong Kong Interbank Offered Rate surged from 0.4% to 0.75%. Under the new rounds of cooling measures on the property market, transaction continued to contract and house prices hovered at high level. Economic data in November showed mixed

performance: unemployment rate kept low, external trade rebounded, but retail sales and visitor arrivals remained sluggish.

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