

## Economic and Financial Monthly (May, 2017)

### Summary

In the US, Q1 growth slowed temporarily, with the Fed likely to raise rate in June. The US President Trump announced budget proposal and a trade deal with China. In the Eurozone, its economy continued to grow steadily amid terrorist threats and political uncertainties. In China, the Belt and Road Initiative Forum was concluded successfully, with the growth momentum moderated somewhat in April. In Hong Kong, the economy recorded robust growth in Q1. The residential property prices also hit new high, with the HKMA announced new prudential measures for mortgage loans.

#### ■ US: Growth momentum remained steady, Fed likely to raise rate in June

The US GDP growth was revised upward to 1.2% and 2.0% in seasonally adjusted annualized and year-on-year terms in Q1 respectively. Even though it was still somewhat slower than 2H 2016, the Fed believed that the slowing in Q1 was likely to be transitory, with the labour market continued to strengthen, the fundamentals underpinning consumption growth remained solid, and inflation has been running close to the Fed's 2% longer-term objective. Thus, the moderate growth trend of the US economy remains largely intact. According to the latest FOMC minutes, most participants judged that if economic information came in about in line with their expectations, it would soon be appropriate for the Committee to take another step in removing some policy accommodation. The fed funds future also currently priced in 88% chance of rate hike in June. In addition, the Committee agreed that it would be appropriate to begin reducing the Fed's securities holdings this year. It also indicated that, rather than fully redeeming the Fed's securities holdings as principal payments are received, the Committee is leaning toward a system of "caps" that will limit the redemption of securities to a set amount each month, only shrinking the Fed's balance sheet slowly.

Meanwhile, Trump administration announced its budget proposal, including spending cuts to lower-income social security programmes, and rosy assumptions about the impact of its tax cut measures. The budget is likely to face some opposition from the Congress and it remains uncertain about when

it will become law. Separately, Trump administration announced a deal with China to boost exports. It covers the opening of Chinese markets to American beef, LNG, electronic payment services providers and financial institutions etc. With the two sides will begin discussing a one-year plan to further solidify actions in promoting their economic cooperation, the trade relations between China and the US are improving and the chance of a full-fledged trade war likely declines.

### **Eurozone: Economy grew steadily, sentiment jumped to multi-year high**

In Q1, the economic growth in Eurozone maintained its moderate pace of expansion, rising 0.5% and 1.7% over the previous quarter and previous year respectively. Meanwhile, the manufacturing and non-manufacturing PMI, consumer confidence and economic sentiment indices all jumped to multi-year high, while the unemployment rate declined to the lowest level in the current expansion. With the inflationary pressure remains subdued, the European Central Bank will continue its quantitative easing programme until the end of 2017. Moreover, many countries also adopted a somewhat relaxing fiscal policy stance. The Eurozone economy is likely to grow steadily or even accelerate slightly ahead. Separately, anti-EU presidential candidate, Ms Marine Le Pen, lost in the French election, greatly alleviating the concern over the Eurozone stability. The European leaders agreed on Brexit negotiation guideline, while the UK will have early election in early June. The lengthy negotiation between the two parties is likely to start in June.

### **China: Growth momentum moderated somewhat in April**

The Mainland economic growth continued its stabilising trend since 2H 2016, with Q1 GDP growth accelerated another one-tenth to 6.9% over the previous year. However, the major economic indicators, like industrial value-added, investment in fixed assets, retail sales of consumer goods, as well as merchandise trade etc, showed the growth momentum slowed somewhat in April, though their growth rates were still stronger than Q4 and 2016 averages. Meanwhile, the producer price index increased 6.4% in April over the previous year, indicating the effectiveness of supply-side reform and de-leveraging. It could also help improve business environment and alleviate the downward pressure of the Mainland economy. Going forward, stability is the key focus of this year. With the support of proactive fiscal policy, prudent and neutral

monetary policy, intensifying supply-side reform, controlling property market risk and maintaining financial stability, the economic growth in China will likely achieve the government target of around 6.5% in 2017. Separately, the Belt and Road Initiative (BRI) Forum was concluded successfully. China will provide more funding for the BRI projects, via Silk Road Fund (RMB 100 billion), Chinese commercial banks (RMB 300 billion), China Development Bank and the Export and Import Bank of China (RMB 380 billion). The BRI has now entered into a new phase, with construction in full swing.

### **Hong Kong: Robust growth in Q1**

Since the beginning of this year, the major economies around the world, including the US, China and Eurozone, all maintained stable growth, with the global political uncertainties did not derail the recovery. Moreover, the market even has strong expectation on the tax cut and infrastructure plans proposed by the US President, which boosted both the financial markets performance and economic confidence there. With the improving global economic outlook, Hong Kong economy grew robustly by 4.3% over the previous year in Q1 2017, accelerating from the 3.2% growth in Q4 2016. Even though the tourism and retail industries are still suffering from structural adjustment, the number of visitor arrivals, merchandise trade, and employment market all showed improvement in the first four months of 2017. In addition, the low interest rate environment and buoyant property market also supported private consumption and overall economic performance. Going forward, with the slightly stronger global economy, low local interest rates, solid employment and property markets, Hong Kong economy is likely to reach the government forecast of 2%-3% growth this year. Separately, the Hong Kong Monetary Authority announced another round of prudential measures for property mortgage loans. It is worthwhile to have a close monitoring of its impact on the property markets.

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