

Economic and Financial Monthly (Sep, 2017)

Summary

The Fed announced asset reduction plan to start in Oct. The latest dot plot indicated a higher possibility for Dec rate hike. In Europe, Merkel is going to serve the 4th term as the German Chancellor. UK softened Brexit stance as revealed by the PM's speech. S&P downgraded China's sovereign rating, but only mild impacts are expected. Housing policy becomes the focus of Oct Policy Address.

■ U.S.: The Fed will start unwinding and raise rates concurrently.

The Fed decided to kick started the QE exit plan in Oct after its latest meeting. Initially, the Fed will reduce US\$ 10 billion assets each month (US\$ 6 billion treasuries and US\$ 4 billion agencies). As the asset reduction process will be conducted in a gradual and predictable manner, merely moderate market impacts are expected. Regarding interest rates, the latest dot plot showed that one more rate hike in 2017 is still on the table. And, there would be three rate hikes for 2018 and 2019 as suggested from members' projections. Apart from that, the Republicans unveiled the tax reform framework, which included simplification of tax code, reduction of tax brackets, cutting corporate tax rate to 20%, etc. But detailed draft of the tax reform is still pending.

Europe: Angela Merkel secured the 4th term and U.K. PM delivered Brexit speech

Angela Merkel successfully rescued the 4th term as German Chancellor in the 2017 election, but her Christian Democratic Union obtained less support than the last election with a decline close to 9%. In the meantime, the election saw a remarkable rise of the far-right party, bringing challenges to the new government. These uncertainties dragged down the EUR. On monetary policy, ECB revealed that adjustments of the Asset Purchase Program would be rolled out in the Oct meeting. During the month, U.K Prime Minister Theresa May delivered a Brexit speech, in which she proposed a two-year transition period and agreed to honor financial commitments to the EU budget. That said, the speech did not help expedite the Brexit talks, since the EU still had not decided to start the trade deal negotiations along with the Brexit talks. BOE expressed concerned about the rising inflation in UK and hinted a possible rate

rise in coming months. The rate rise expectation once triggered a surge for the Pound.

Mainland China: S&P downgraded China's rating and Aug economic growth eased

Standard and Poor's lowered China's sovereign rating from AA- to A+, as a prolonged period of strong credit growth has increased China's economic and financial risks. At present, three major credit agencies (S&P, Moody's and Fitch) assign the same rating level to China with a stable outlook. After the cut, the market remained fairly stable. It is expected that the S&P's decision will not have significant impacts on the China economy. Aug economic data suggested that growth eased somewhat. The slowing down was partly due to the adverse weather conditions and the lower growth in high energy consumption sector. At the beginning of Sep, PBOC reduced the costs on FX hedging, which helped stabilize the RMB after its sharp appreciation in Aug.

Hong Kong: Housing policy becomes the focus of Oct Policy Address

There are lots of new developments in the HK housing policy. First, the government formed a "Task Force on Land Supply" to conduct research on land supply options and offer recommendations of land supply strategy. The task force will also launch public discussions. And, a research report will be submitted by the task force in 18 months. Second, the government will introduce a new housing project called "Starter Homes" for first-time buyers who are Hong Kong permanent residents. Lastly, local NGOs are proposing "Low-rent Shared Housing Project" and "Container Home" to provide affordable housing for the needy families and increase the housing supply. These new measures put housing policy into the focus of upcoming Policy Address in Oct. In respect of the economic performance in Aug, the Hong Kong economy continued to expand steadily, as growth was seen in retail sales as well as external trade and unemployment rate stayed low.

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