中國銀行(香港)有限公司
BANK OF CHINA (HONG KONG) LIMITED

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Summary

US monetary policy was under the spotlight in March. The Fed continued cutting its asset purchase by 10bn. Meanwhile, Janet Yellen broached the idea that the first rate hike could start six months after the QE completely ends, which was out of market expectation. Eurozone showed some momentum in March given better performance of France. Recent key economic indicators in China were sluggish, pointing to relatively weak GDP growth in 1Q14. Meanwhile, RMB exchange rate stabilized in late March.

■ U.S.: QE tapering continued as rate hike could come sooner than expected

QE program was scheduled to scale back by USD 10bn to USD 55bn per month in April as market expected. If the reduction on asset purchases continues at the current pace of 10bn cut at each FOMC meeting, QE policy would be completely halted by October 2014.

Market is now shifting their focus towards the timing of rate hike. There were mainly two things worth noticing, a qualitative forward guidance and the timing of rate hike suggested by Janet Yellen. The headline unemployment rate was deemed less indicative of overall employment condition as it was heading towards the initial threshold of 6.5% at a faster pace than expected. Instead, policy makers would take a range of economic indicators into consideration instead of targeting a single indicator. Hence the new forward guidance would rule out an imminent rate hike. However, Janet Yellen hinted during the press conference that a rate hike could take place six months after QE ends. That means the Fed may raise policy rate no later than mid-2015 at current QE tapering pace, which was earlier than market consensus of the second half of 2015.

We do not expect significant market fluctuations in the short-term as QE policy is tapering orderly. Besides, the 6-month timeframe would have limited impact on the market as tight monetary policy following QE tapering is anticipated, and the timing Janet Yellen suggested was not much earlier from that of market consensus.

Eurozone: PMI showed some momentum while disinflation was worsening

March Eurozone composite PMI was relatively flat, registering at 53.1 from 53.3 in February. Germany posted a slight decline to 54.3 but still stayed firmly in expanding territories. France's performance was encouraging, with the gauge bouncing back to 51.8, recording a 31-month high.

Meanwhile, Eurozone flash inflation in March further dropped to 0.5% YoY from 0.7% YoY in February, reaching the lowest level since November 2009. The disinflation situation might trigger discussion by policy makers on measures to shore up inflation. But we believe the leeway for them to further loosen monetary policy is limited.

China: Difficulties surrounding the economic reform

Key economic indicators underperformed since late last year, and there is no clear sign of improvement so far this year, reflecting difficulties surrounding the economic reform. The weakness was broad-based and worse than market expectation. Retail sales slipped to a 3-year low level at 11.8% YoY in Jan-Feb 2014 from 13.6% in December 2013. Industrial production also declined to 8.6% YoY in Jan-Feb 2014 from 9.7% YoY in December 2013. FAI dropped to 17.9% YoY in Jan-Feb 2014 from 19.6% YoY in December 2013. Besides, monetary policy remained relatively tight compared to that last year, leaving GDP growth in 1Q14 likely lower than the target for the whole year. Market hence expected fine-tuning measures to be introduced soon so as to fulfil the GDP target of 7.5%.

RMB exchange rate against USD stabilized at about 6.2 in late March after a significant decline since mid of February. PBOC widening RMB daily trading band to 2% from 1% effective 17 March was a step further to liberalize RMB exchange rate. We expect one-way appreciation of RMB exchange rate to be gradually replaced with two-way fluctuation. In other words, exchange rate would be increasingly influenced by economic fundamentals.

Hong Kong: unemployment rate stayed at a record low level

Statistics released in March were relatively mediocre. Retail sales in February registered a negative growth of 2.3% YoY, while the figure increased by 6.6% YoY if combined with the number in January. Unemployment rate remained at a 16-year low of 3.1%, which was partly down to tight labour supply. We expect Hong Kong's overall economy to grow at a mild pace this year.

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