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Summary

Monetary policies in the Euro-zone and the U.S. began to diverge. While the Fed will end its QE program soon and raise interest rates next year, the ECB cut its benchmark interest rate to the lower bound and will likely embark on asset purchases. China's growth momentum weakened markedly in August. In Hong Kong, inflationary pressure continued to ease.

■ The U.S.: QE will come to an end in late October

The Fed continued to reduce the size of its asset purchase program. Monthly purchases dropped from 25 billion dollars to 15 billion dollars. The Fed will likely terminate its quantitative easing program after the FOMC meeting in late October. It is worth noting that the pace of future rate hikes could accelerate. According to the estimates of FOMC policymakers, the median projection of Fed funds rate rose from 1.125% to 1.375%.

Europe: ECB may struggle to launch Full-fledged QE

The benchmark interest rate in the Euro-zone has declined to 0.05%, a record low. As interest rates reached the zero bound, the ECB signaled its intention to purchase asset-backed securities and covered bonds. However, it may find it difficult to launch full-fledged QE by purchasing government bonds. For one thing, Germany is likely to be firmly opposed to the idea of financing government deficits with central bank liquidity. For another, buying public debts may do little good. European yields have plunged to record lows, and the yields of two-year government bonds are in negative territory in a number of European countries. The ECB's easing measures will boost asset markets but may have limited impact on growth.

China: Growth momentum weakened markedly

China's major macro indicators slowed considerably in August. Fixed asset investment grew at the slowest rate since 2001. Industrial production expanded at the weakest pace in 68 months, with electricity production registering a rare year-over-year decline. Expansion of retail sales was steady yet weaker than expected. Meanwhile, even though bank lending rebounded strongly in August, total social financing was still relatively anemic.

Hong Kong: Inflationary pressure eased

The inflation rate for August came in at 3.9%, compared with 4.0% in July. Excluding government relief measures, underlying inflation was 3.2%, also lower than July's 3.3% reading. The underlying rates are less volatile and, being at a 19-month low, signal that inflationary pressure may continue to ease.

Tristan Zhuo