Economic and Financial Monthly (Oct 2014)

Key Points:

- US: The Federal Reserve as expected ended its bond purchase programs & third quarter GDP growth topped expectation
- Japan: Bank of Japan will expand the monetary base
- Europe: ECB began to purchase private-sector securities
- China: Third quarter GDP growth was the weakest since the first quarter of 2009
- HK: Inflation was quite stable and retail sales rebounded

US

The Fed was the focus of October, and ended the quantitative easing as planned. Meanwhile, most of the economic indicators were positive.

As expected, the Federal Open Market Committee (FOMC) announced that it ended the asset purchase programs. In its statement, the FOMC largely dismissed recent financial market volatility, grim growth in Europe and a weak inflation outlook. The fed funds rate range remained at zero to 0.25 percent, which has been unchanged since December 2008. The FOMC said that it would likely remain near zero for a "considerable time" following the end of the bond purchases. The timing and pace of interest rate increases would depend on economic and financial data.

The initial estimate for Q3 GDP growth posted at 3.5 percent annualized, following 4.6 percent boost in Q2. Q3 GDP growth was beyond expectations, which were for 3.0 percent.

Japan

As anticipated, the Bank of Japan (BoJ) left its key interest rate range at zero to 0.1 percent. However, the BoJ surprised markets — it announced its intention to expand the monetary base at an annual rate of about ¥80 trillion, up from ¥60 trillion to ¥70 trillion previously.

Europe

The European Central Bank has announced that it will purchase private-sector securities including ABS and covered bonds.

September M3 money supply accelerated to 2.5 percent on the YoY basis, up 0.4 percent from August rate and at its highest mark since May 2013. October economic sentiment index climbed to 100.7 after a reading of 99.9 in September. With all of the major economic sectors registering a slight pick-up, October's limited gain was broad-based. October flash CPI was up 0.4 percent on the YoY basis, up for the first time since April. However, the pick-up in the headline did not match the core. September jobless people were down 19,000, leaving the unemployment rate unchanged at 11.5 percent for a fourth month.

China

Q3 GDP grew 7.3 percent from the same quarter a year ago after increasing 7.5 percent in Q2. It was the weakest growth since the first quarter of 2009. The weakness of GDP growth was mainly due to the rapid decline in real estate investment growth.

September industrial production grew 8 percent on the YoY basis after increasing only 6.9 percent in August, which was its lowest since 2008. September retail sales were up 11.6 percent on the YoY basis after increasing 11.9 percent in August. September trade balance was US$ 31.0 billion, down from US$ 49.9 billion in August. September CPI grew 1.6 percent on the YoY basis after increasing 2.0 percent in August. Producer price index declines accelerated in September, dropping 1.8 percent on the year after gaining a negative 1.2 percent in August.

HK

September retail sales grew 4.8 per cent on the year after increasing only3.5 percent in August. September export and import grew 4.1 per cent and 3.9% separately on the year. September consumer prices were up 6.6 percent on the year after increasing 3.9 percent in August. This is mainly due to the Government's payment of public housing rentals in September 2013, resulting in a low base of comparison. Excluding the impact of all Government's one-off relief measures, the underlying inflation rate in September rose 3.3%, a slight increase of 0.1 percentage points compared with August. Overall, inflation was quite stable.

Kerry Liu