Economic and Financial Monthly (Nov 2014)

Key Points:

- US: The FOMC released minutes; Most economic indicators are positive
- Europe: Most of the economic data in Europe are disappointing
- Japan: The Bank of Japan released minutes; trade deficit improved
- China: PBoC cut its benchmark interest rates; PMI declined
- HK: Inflation still remains moderate; unemployment unchanged

USA

The FOMC minutes points to a number of key points. First, most of the participants saw risks to US economy as essentially balanced. Second, in terms of global economy, there was discussion of headwinds from Europe, China and Japan. The dollar was quite strong, but the impact of overseas economies on the US economy might be very limited. They believed that the US had a solid foundation of recovery. Third, the participants expected inflation down in the near term mainly because of the drop in gasoline price, but expecting heading to the target rate of 2% during the next couple of years. Many participants believed that the Fed should be concerned about whether there were more signs that the long-term inflation expectations were downward.

Most economic indicators are positive, including: the Q3 GDP growth rate revised up to 3.9%; October durable goods orders mixed; October consumer data moderately upward; October real estate market basically stable (weak new home sales but steady growth of existing home sales and home construction); October CPI and PPI prices moderate; October industrial production lower than expected.

Europe

Most of the economic data in Europe are disappointing. Its November CPI slowed down to 5-year low. The PMI data for Germany and France are both disappointing. For the Eurozone, the November composite output index dropped to 51.4, the lowest score within seventeen months. However, the retail sales news from the UK was positive with rebounding more than anticipated, and the economic sentiment index of European Union slightly improved in

November.

Japan

The Bank of Japan released the minutes of its October 31 monetary policy board meeting where the BoJ left its official interest rate range unchanged. However, surprisingly the BoJ announced its intention to expand the monetary base at an annual rate of about Y80 trillion, up from Y60 to Y70 trillion previously. The minutes said that four out of the nine BoJ board members were opposed to conducting additional easing policy as they were worried about its side effects. It was unclear what the side effects would be. Some of the board members believed that it was unnecessary to conduct additional easing policy as the economic recovery remained intact. Many board members were worried over the impact of weak crude oil prices on inflation expectations.

Better than expected, October merchandise trade deficit narrowed. Its export grew 9.6% YoY, higher than expected. Its import growth is slower than both expected and September.

China

The People's Bank of China (PBoC) cut its benchmark interest rates for the first time since July 2012. The one year lending rate was reduced by 40 basis points to 5.6 percent, while the one year deposit rate was lowered by 25 basis points to 2.75 percent, effective November 22. However, the upper limit of the floating range of interest rates on deposits expanded by 1.2 times from 1.1 times to the benchmark interest rate. The process of interest rate liberalization has substantially speeded up.

According to the PBoC, "This interest rates adjustment is a neutral operation and doesn't mean any change in monetary policy direction." As China is still able to keep medium to high growth rates, it "has no need to take strong stimulus measures, and the direction of prudent monetary policy won't change."

Both of the CFLP Manufacturing PMI index and HSBC Manufacturing index in November declined.

Hong Kong

Excluding the impact of all Government's one-off relief measures, the underlying inflation rate in October rose 3.4 percent, a slight increase of 0.1 percentage points compared with September. Inflation still remains moderate. October unemployment rate is 3.3%, which has remained unchanged for four consecutive months. October trade deficit is HK$ 49.8 billion, a slight improvement over the previous month.

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