Economic and Financial Monthly (July 2015)

Summary

Since the second quarter of this year, the US economy has slowly improved, especially in the jobs and real-estate markets. However, the strength of the dollar has kept commercial investment and exports at a relatively low level. It is estimated that the fourth quarter will see an increase in Fed funds rate. The ECB has maintained its quantitative easing policy and current interest rates level to stimulate the economy; the Greek debt crisis will not have a great impact on the European economy, and the third and fourth quarter will probably see increased growth. China has met its growth target of 7%, however the economy will come under increased pressure in the second half of the year, and the stock market will be unstable in the short-term. Hong Kong's economy is affected by the sluggish external demand and has seen a decline in retail and tourism.

■ US: Moderate economic growth in the second quarter; Fed funds rate will probably rise in the fourth quarter

US GDP rose at a 2.3% seasonally adjusted annual rate for the second quarter, worse than market expectations, the pace of recovery in the second half of this year is expected to remain unchanged. Recent data indicates that the American economy has improved during the second quarter, especially in the jobs market and real-estate markets. In the jobs market, the non-farm payroll employment gained by 220,000 during the second quarter, which is a major improvement over the first quarter's 195,000. Even though the unemployment rate of 5.3% and the labor participation rate have reached new lows, the long-term unemployment and temporary employee figures have been improving, and indicate an upward turn in the jobs market. In the real-estate sector, the May real-estate sales figures reached a seven-year high, helped in no small part by low interest rates and improvements in the credit and loan situation. Sales prices are also slowly increasing. Real-estate related expenditure and investment will further contribute to the economic environment, and should improve the US economy during the second half of the year. However, due to the strength of the dollar, gross commercial investment and exports have remained weak, which may cause the Federal Reserve to slow down an increase in interest rates. However, Federal Reserve Bank Board Chair Janet Yellen has stated during a congressional hearing that if economic growth match expectations, that it would be preferable to increase interest rates during this year. It is estimated that Fed funds rate will be increased during the fourth quarter.

Eurozone: Greek debt crisis has relatively small impact; economic growth slated for remainder of fiscal year

During its July meeting, the ECB decided to maintain its interest rates level and the monthly EUR 60bn quantitative easing policy to stimulate the economy. Due to the low oil prices, low interest rates, ECB quantitative easing, and the weak euro, the European economy should slowly improve during the third and fourth quarters. The data from July indicates that the European economy has not been overly affected by the Greek debt crisis: the July manufacturing PMI flash reading was 52.2, lower than the estimated 52.5, and was lower than the June final rate of 52.5 by 0.3%. The service PMI flash reading was 53.8, lower than the estimated 54.2, and was lower than the June final rate of 54.4 by 0.6%; the industrial output index dropped from 53.6 to 53.4; the export index dropped to a five months low of 51.8; the commercial expectations index dropped from 63.0 to 61.5, a new low for this year. German and French economic activity failed to match expectations for July, mainly due to the potential blowback from Greece leaving the Eurozone. Due to Greece having accepted the bailout, the Greek parliament having passed the second round reform plan, and the Greek government preparing to meet with creditors for the third round of bailout talks, the economic situation for August should continue to improve.

China: Economic growth stabilized for the second quarter; continuing waves in the stock market

Second quarter economic growth stabilized, with YoY economic growth remained steady at 7% and QOQ at 1.7%. The export improved for June, however import contraction enlarged, making it hard to reach the annual export goal of 6%. The growth rates for Industrial value added, fixed asset investment, and consumer growth have dropped slightly compared to first quarter results, while trade surplus has increased. Manufacturing PMI export index has improved, however certain industries still face high pressure on overcapacity problem. Last month’s figures indicated that China’s economy has stabilized. Due to negative external conditions and weak domestic demand, China’s economy faces strong headwinds; the government’s policy for the third and fourth quarter of this year will focus on stabilizing growth, and will probably roll out targeted measures to stabilize economic growth amid controlling risk. For the equity market, Shanghai Composite Index rebounded from 3500 points on July 8 to 4100 points within two weeks, following the Chinese government launched a series of stabilizing measures. However Shanghai Composite Index plummeted by 8.48% reaching an eight year drop range low on July 27. Over 2000 listings in the Shanghai and Shenzhen equity markets dropped to the decline limit, which illustrates that investor confidence has yet to return following the stock market crash. At the same time, the weekend rumors over stability maintenance funds divesting holdings and the news of investigations into off field distribution sparked further panic. Meanwhile the China Securities Regulatory Commission’s policies on deleveraging and increased oversight of leveraged funds will bring negative impacts to the market in the short-term. It is believed that equity market will remain volatile in the near future.

Hong Kong: Stock market growth potential notwithstanding weak external factors

Due to weak global economic recovery and a strong dollar, Hong Kong foreign trade and services export have performed weakly, with June total value of import and export goods dropping by 1.9% and 3.2%, respectively. Services export dropped by 0.6% due to a continuous four quarter decline in the tourism industry. Retail performance decline has narrowed, but tourism performance has not improved due to the tourist consumer model and tourist growth numbers not looking to change in the short-term. On the real-estate front, due to limited supply and low interest rates, the real-estate market has entered a high stability phase with housing prices reaching new highs. The labor market has remained stable with unemployment rate at 3.2%. Stable employment and improvement in the real estate market continue to bolster domestic demand performance. Third and fourth quarter performance will probably be heavily affected by external economic factors and the stock market in the Mainland. The loose monetary policies worldwide, the relatively low valuation of Hong Kong shares, and the opening up of Mainland financial market and stabilizing growth policies, such as Shenzhen-Hong Kong Stock Connect, quota expansion for Shanghai-Hong Kong Stock Connect, and QDII 2, etc, may launch in the near future. These changes may usher in a new period of growth for the Hong Kong stock market.

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