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Summary

In Q2, the US, Europe, China and Hong Kong economies all maintained steady expansion. In July and August, the US and Europe continued its moderate recovery, while the Mainland faced increasing downward pressure. Moreover, the uncertainties about the timing of US rate hike, the adjustment of CNY fixing mechanism and the recent global financial market turmoil worth market attention.

■ US: Q2 GDP was revised upward to 3.7%, Fed still likely to raise rate this year

In the US, Q2 GDP growth was revised up from an annualised 2.3% to 3.7%, with private consumption expenditures, investment and government expenditures were all revised higher, indicating the negative impact of the transitory factors (the decline of energy-related investment, severe weather and port strike) faded and the momentum of the US economy remained strong. Moreover, unemployment rate, new and existing home sales, and housing starts were all performed well in July and August. However, the recent financial market turmoil might have hurt consumer and investment confidence. Against the background of an improving labour market, low energy prices, reduced pace of fiscal austerity as well as accommodative monetary policy, the US economy is expected to maintain its moderate pace of expansion ahead. Meanwhile, the Vice-Chairman of the Federal Reserve, Mr. Fischer, said, in the Jackson Hole Symposium, there is good reason to believe that inflation will move higher, reiterating fear of a September rate hike. On the other hand, some FOMC members might believe that the downside risk of the US economy is increasing, given the slowing Chinese economy, sharp decline in commodity prices and the global financial market turmoil. As such, it remains uncertain whether the Fed will raise rate in September, though it is still a high probability event before the year-end.

Europe: recovery in Q2 was not affected by the Greek debt crisis

In Q2, the euro area economy posted 0.3% and 1.2% growth over the previous quarter and previous year respectively. The former was slightly lower than 0.4% growth in Q1, while the latter accelerated from 1.0% in the prior quarter, signalling the region was not affected by the Greek debt crisis. Among the four largest economies in the region, Spain was the best performer, while the growth in France was rather volatile. Meanwhile, Greece recorded 0.8% and 1.4% growth over the previous quarter and previous year respectively. This might be because the Greeks rushed to stock up supplies before the country implemented capital control. Overall, the region maintained moderate growth in the first half and the latest composite PMI continued to register modest increases. Together with the low interest rate, low oil prices, low euro exchange rate, accommodative monetary environment as well as the relatively neutral fiscal policy stance, the region is likely to post the strongest growth since 2012 this year. Furthermore, Greece and its international creditors reached a new bailout package, greatly reducing the risk of Grexit. However, the Greece election on 20 September might bring uncertainty to the region again.

China: remained relatively weak in July, PBoC adjusted the CNY fixing mechanism

Following a 7% growth in the first half, the July indicators showed the Mainland economy remained relatively weak. For example, exports contracted further, and the growth of industrial value-added and fixed asset investment decelerated again. Property and manufacturing investment were also slowing, indicating the foundation of economic recovery was not firm enough. On the other hand, retail sales and non-manufacturing sector were relatively steady. However, the economic and investment confidence are likely to be hit by the recent financial market volatility and the financial sector could not be the driving force of the economy again. Against this background, it is essential to ensure the Mainland economy is within a reasonable range ahead. On 25 August, the PBoC reduced both interest rates and reserve requirement ratios again and the Mainland authority still has room to further ease policy to support growth ahead.

On the other hand, the PBoC announced to adjust the CNY daily fixing regime on 11 August, which will make reference to the closing spots on the previous day, market demand and supply condition and major currency movements. Under the new regime, CNY will have stronger influence on the fixing rate, while the fixing rate will move closer to CNY. However, CNH is still lower than

CNY, indicating the depreciation pressure on RMB. Nevertheless, given there is no change to the economic fundamentals of China, there is no basis for a continued depreciation of RMB.

Hong Kong: moderate growth in Q2, external and tourism sectors remained weak

Following the 2.4% growth in Q1, Hong Kong economy expanded 2.8% in Q2, leading to a 2.6% growth in the first half. This was slightly higher than the average 2.4% growth over the past three years, but was far lower than the 3.9% growth over the past decade. In Q2, Hong Kong GDP growth beat expectations. The domestic sector held remarkably resilient, thereby cushioning the overall economy against the lull in external trade. Private consumption expenditure grew strongly by 6.0% over a year earlier, on the back of full employment. Investment expenditure also made solid growth, supported by a notable rebound in building and construction works and further growth in machinery and equipment acquisition. However, global economic performance was weaker than expected, resulting in setback in exports growth. Exports of services also remained subdued, largely because of the sluggish trade flows and continued weakness in inbound tourism. Going forward, Hong Kong economy is expected to be supported by the steady labour and property markets, though it is necessary to pay more attention to potential ramifications of the recent financial market volatilities.

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