Economic and Financial Monthly (Jun, 2016)

Summary

The U.S. yield curve continues to flatten, dashing hopes of any rate hikes in the foreseeable future. The impact on the British economy of the Brexit referendum remains to be seen, but major central banks have used the event as an excuse to be even more accommodative. While the Chinese economy is faced with strong headwinds, firming inflation has all but ruled out any rate cuts for the remainder of the year. Hong Kong's economy is rapidly losing steam, but housing prices are beginning to stabilize.

■ U.S.: Rate hikes over

The rate hikes in December of last year was supposed to usher in a new tightening cycle. However, due to the Fed's dithering, the optimal timing for rate hikes is long gone. Plunging bond yields and a flattening yield curve are sending strong warning signals against an upcoming recession. Fed Chair Yellen recently reiterated her belief that the U.S. economy was doing fine, but the Fed's credibility is under scrutiny, to say the least. The next move for the Fed may well be rate cuts and the resumption of quantitative easing.

Europe: Brexit a handy excuse for more central bank action

The U.K. economy will inevitably suffer in the immediate aftermath of Brexit, but any long-lasting consequences may prove elusive. First, the U.K. economy has far outperformed the EU in the 21st century, growing 35% through 2015 compared with 25% for the EU. Second, although trade deals will have to be renegotiated, it is only a matter of time before the U.K. and the EU reach an agreement. As the U.K. is the second largest economy of Europe, it is virtually impossible for the EU to halt free trade with the U.K. Third, the U.K. referendum may be imitated in other member states given the almost universal plunge of the EU's popularity over the past decade. Thus, it may be the EU's stability, instead of the U.K. economy, to bear the brunt of Brexit. Nevertheless, the Bank of England has wasted little time to hint at prospective easing measures. Looking ahead, the uncertainties surrounding the exact manner of Brexit may provide policymakers in the U.K. and other major central banks with a perfect excuse to become increasingly accommodative.

China: Economic headwinds remain

China’s fixed asset investment and industrial production remain subdued. Meanwhile, the manufacturing sector continues to be plagued by overcapacity. As for international trade, exports in dollar terms have been in contraction for ten months in a row on a six-month moving average basis. Even though China’s economy is shifting from an export and investment led model, consumption cannot remain immune to weakness elsewhere. Throughout the first five months of the year, real retail sales grew by less than 10%. In the meantime, monetary easing in the form of interest rate cuts is highly unlikely given firming inflationary pressure. The consumer price index had remained at 2% for three consecutive months before inching downward to 2% in May. By contrast, reserve requirement ratio for major banks, at 17%, remains historically high and has plenty of room to fall.

Hong Kong: Housing prices stabilizing in spite of slowing growth

Hong Kong’s growth momentum has weakened considerably, with most major indicators mired in a persistent downtrend. Retail sales have shrunk for 15 straight months; private consumption slowed sharply; exports keep contracting; unemployment has apparently bottomed. On the other hand, as the probability of rate hikes has become extremely remote, the decline in property prices has been arrested for now. Prices of private residential units rose a cumulative 1.6% in April and May after dropping for six months in a row but were still 10.0% below the peak in September of last year.

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