

Economic and Financial Monthly (Feb, 2017)

Summary

In the US, Fed officials including Chair Yellen delivered hawkish comments, pushing up the expectations of March hike. The US economic data in January pointed to steady growth. The impacts of elections in Europe gradually emerged. Economic data in China suggested a good start in 2017. Hong Kong economy grew by 3.1% in 2016Q4. And, the Government Budget forecast fiscal surplus of over HK\$90 billion.

■ U.S.: Expectations of March Hike Surged. Economic data pointed to steady growth

Fed officials including Chair Yellen delivered hawkish comments in a series of speeches, substantially raising the market expectations of a rate hike in March. It moved the US\$ index to rebound by 1.6% in February. The first revised figure of US real GDP growth remained unchanged at 1.9% yearly. Data in January pointed to a steady economic growth: Personal income and outlays continued to expand; Manufacturing output increased for three consecutive months. Boosted by higher energy prices, inflation hit at 4-year high with Consumer Price Index jumped by 2.5% yearly and Personal Consumption Expenditure Price Index rose to 1.9% yearly. Purchasing Manager Indices and Consumer Sentiment in February edged lower but stayed at high levels. While details of Trump's economic programs were not yet released, investors kept optimistic about his policies. Major equity indices in the US reached to all-time highs.

Europe: Impacts of elections gradually emerged

In 2017, 3 major elections will be held in the Eurozone, including the Dutch election in March; the French election in April/May; and the German election in September. The French far-right candidate Marine Le Pen sought to exit both the European Union and the Eurozone. Although recent polls suggested that she had not gathered sufficient support to win the presidency, her popularity had been surging. It elevated the uncertainties over the French election results and widened the yield spread between the French 10-year bonds and similar-maturity German debts. Moreover, the House of Lords in the UK voted to amend

the Brexit legislation, which was sent to the House of Commons for reconsideration. But it is still likely for the Government to trigger the Brexit talks by the end of March. The Eurozone Consumer Price Index in February reached the ECB's target at 2.0%, however it would not alter the ECB monetary policies in the short run.

China: A good start in 2017

External merchandise trade continued to improve in January with export growth returning to positive of 7.9% yearly rise. All 3 major export destinations, the US, the EU and the ASEAN, recorded increase. Despite the Lunar New Year effect, Purchasing Manager Indices stood at high levels, reflecting buoyant economic activities. Consumer Price Index remained modest, up by 2.5% yearly. Producer Price Index attained a five-year high at 6.9% yearly growth, suggesting strong demand for the industrial sectors. Foreign reserves dropped below the 'psychological level' of US\$3 trillion. RMB was relatively stable in February with the spread between onshore and offshore spot RMB contracted sharply after the Lunar New Year.

Hong Kong: Economy grew by 3.1% in 2016Q4. Fiscal surplus exceeds HK\$90 billion

Economic performance in 2016Q4 beat estimates by growing 3.1% yearly. The whole-year growth in 2016 was 1.9%. GDP per capita in 2016 climbed to US\$43,600. The Government forecast GDP growth of 2-3% in 2017, in which 1.1% was estimated to come from the stimulus effect of short-term relief measures. The economic foundation of HK was solid with low unemployment rate at 3.3%. The external environment also showed signs of gradual improvements, as both export of services and goods reported positive growth in 2016Q4. The Government Budget forecast a surplus of \$92.8 billion for 2016/2017. The Budget also proposed to slightly reduce the spending in short-term relief measures to HK\$35.1 billion, and increase investment of HK\$61 billion into livelihood programs and support the innovation and technology industry. It evidenced the Government's commitment in effective use of financial resources for long-term development.

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