

Economic and Financial Monthly (Mar, 2017)

Summary

In the U.S., the Fed raised rate again in March. And, the Trump Administration withdrew the healthcare reform. Uncertainties in the Eurozone eased after the Dutch Election. The UK formally initiated the Brexit procedures. In the Mainland China, the Government Work Report 2017 put much emphasis on economic reform. In Hong Kong, Mrs Carrie LAM was elected as the next Chief Executive. Mainland-HK Bond Connect will have first trial-run in 2017.

■ U.S.: The Fed raised rate again in March. The Trump Administration withdrew the healthcare reform.

The Fed raised rate again in the March meeting, lifting the Fed Fund Target Rate by 0.25% to 0.75%-1%. As the rate hike decision was widely expected by market participants, it triggered only a mild reaction from the financial markets. According to the Fed's latest forecasts, economic outlook remained broadly the same as in the December meeting, economic growth was projected at 2.1% for 2017-18. The Fed's dot plots also revealed a moderate interest rate path with 2 more hikes in the rest of 2017 and 3 hikes in 2018 and 2019, raising the Fed Fund Target Rate to 3% level. Moreover, the Trump Administration withdrew the healthcare reform bill, after failing to garner sufficient support within the Republicans. The setback showed the difficulties faced by Trump to unite a variety of interests among the Republicans. The incident increased the uncertainties regarding his economic stimulus programs such as tax reform, financial deregulation, and infrastructure investment plan.

Europe: Uncertainties in the Eurozone eased after the Dutch Election. The UK formally initiated the Brexit procedures

Results of the Dutch election on 15 March turned out that the far-right Freedom Party failed to be the biggest party as the previous polls suggested, easing the market concerns over the spread of Populism across the Europe. The Euro rebounded sharply after the election, approaching the highest level in recent months. On 23 April, the first round of the French Election will be held, which will receive much more attention. The far-right candidate Marine Le Pen and the independent

candidate Emmanuel Macron were both leading in the polls and expected to enter the second-round election on 7 May. Le Pen advocated for abandoning the Euro and leaving the EU, thus if she gets elected, it will result with mounting uncertainties in the Eurozone, putting a greater pressure on the Euro. On 29 March, the UK formally initiated the two-year Brexit negotiations by triggering the Lisbon Treaty. The UK will possibly face tough negotiations with the EU in a range of issues including the UK's fiscal commitments to the EU before the Brexit, the rights of EU citizens residing in the UK, the agenda priority in negotiations, etc.

Mainland China: The Government Work Report 2017 put much emphasis on economic reform

In the Government Work Report 2017, goals for economic growth and the M2 monetary supply growth were lowered to around 6.5% and 12.0% respectively. The Report underlined the Government's commitments in continuing structural economic transformation and ensuing adequate job creation. On the fiscal side, the Government would provide proactive support for the economy with fiscal deficit set at 3.0% of GDP, which would include tax cut, reduced fees and enhanced infrastructure investment. The economic data in January-February 2017 indicated an improving growth momentum. In particular, the private investment in fixed assets recorded a considerable turnaround, reflecting stronger confidence from the private investors. Both the Manufacturing and non-Manufacturing Purchasing Manager Indices jumped to the highest levels in recent months, suggesting buoyant business activities. Besides, further cooling measures in the housing market were implemented by a number of major cities. In this connection, the house prices in top-tier and second-tier cities are unlikely to report a similar growth as in 2016.

Hong Kong: Mrs Carrie LAM was elected as the next Chief Executive. Mainland-HK Bond Connect will have its first trial-run in 2017

Mrs Carrie LAM was elected as the fifth Chief Executive, being the first female leader in HK. Her economic policies included introduction of a

two-tier profits tax system (lower tax rate for first HK\$2 million in profits) to relieve the tax burden on enterprises, and adding a new layer of 'Starter Home' in the housing system. Also, Premier Li announced that Mainland-HK Bond Connect will have its first trial-run in 2017. The Mainland bond market ranked the world third largest with a balance of over US\$ 9 trillion. Foreign ownership of on-shore bonds was still small. Hence, it will bring tremendous business opportunities and strength HK's position as an offshore RMB center. In the first two months of 2017, Asian market helped boost the growth of external trade, but the retail sector continued to retreat given its structural problems. After the rate hike in the U.S., the interbank lending rate in HK stayed unchanged, and the HK dollar was still traded around the strong-side undertaking level. It evidenced abundant liquidity in the HK banking sector.

David Wong