Economic and Financial Monthly (Feb, 2018)

Summary

The rapid surge of U.S. Treasury yields triggered a global equity market correction. The new Fed Chair Powell delivered upbeat comments on the U.S. economy, pushing up the market expectations on further rate hikes. The Eurozone economy registered the highest growth in 10 years, up by 2.5% in 2017. Bank of England hinted a faster rate path than the market expected. Preliminary economic data saw a continuing growth outlook in China in 2018. The Hong Kong Government announced the 2018/2019 Budget, which would invest HK$50 billion into innovation and technology development and forecast a GDP growth of 3-4% in 2018.

■ Rising Treasury yields triggered a global equity market correction

A series of indicators pointed out that inflation pressure in the U.S. gradually built up, including the acceleration of employment cost index and hourly earnings as well as a higher than expected consumer price index in January, which was up by 2.1% yearly. Meanwhile, Congress approved a budget deal with US$300 billion more spending than previously planned, raising concerns over deteriorating government deficits. Also, a document from the Treasury Department revealed that the net borrowing in 2018 would balloon to over US$900 billion, so as to support the U.S. Government's simulative measures. Concerns over inflation, deficits and supply jacked up the 10-year Treasury yield to above 2.8%, triggering a global equity market correction. Furthermore, the new Fed chair Powell in a congressional testimony commented that the U.S. economic outlook remained upbeat and the rate normalization would continue. These remarks spurred the market expectations on the fourth rate hike in the year.

Eurozone full-year economic growth reached 2.5%, the highest in 10 years

Eurozone GDP grew by 2.5% in 2017, the fastest growth since 2007. Most members reported better performance, reflecting a broad-based recovery in the region. Eurozone inflation remained modest. The consumer price index in February was up by 1.2% yearly. Labor market showed further improvement with unemployment rate falling to 8.6% in January. Both business climate and consumer confidence in February stayed in the expansionary territory, implying a sustained momentum for the Eurozone economy. Besides, the Bank of England announced a faster hike path. As the prospects for the UK economy still remained clouded by the Brexit uncertainties, a tighter monetary policy is expected to have limit boost for the sterling.

Preliminary data in China showed a sustained growth in 2018

Foreign trade maintained solid growth in January. Imports rose by 37% yearly and exports increased by 11% yearly (both in dollar terms). New loan registered a record high at RMB 2.9 trillion in January. Due to seasonal effects, official purchasing manager indices for manufacturing and services activities in February retreated to 50.3 and 54.4 respectively. On balance, major economic activities maintained a steady growth momentum. The foreign reserve recorded 12 consecutive months of increase, reaching to US$ 3.16 trillion. But the February reading would be subject to heightened downward pressures amid the dollar rebound and rising U.S. bond yields. China Securities Regulatory Commission announced that RMB-based oil future will be launched on 26 March.

The Hong Kong Budget unveiled additional investment into innovation and technology and forecast GDP growth in 2018 at 3-4%

The Government delivered the 2018/2019 Budget, which also released the full year GDP growth of 3.8% in 2017. In the fiscal year ending March 2018, the government is estimated to have a surplus of HK$ 138 billion. Around 40% of the surplus will be returned to the public by a variety of concessionary measures (e.g. tax cut). In the meantime, the Government would invest HK$ 50 billion into innovation and technology development. And, HK$ 300 billion would be set aside for supporting the local hospital development plan. The Government forecast GDP to grow by 3-4% and underlying inflation to increase by 2.5% in 2018. For the medium term, the Government would continue a new fiscal philosophy, under which the public expenditure would be raised to 21% of GDP in the next five years, rendering a solid support for economic growth.

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