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Summary

The US economy maintained moderate growth in Q1 2018 and announced a series of protectionist measures targeting China. China and the US are now in a negotiation phase, but the final results are still highly uncertain. Mainland economy slightly exceeded expectation in Q1 2018 and announced a number of opening measures, including significantly broaden market access, create more attractive investment environment, strengthen intellectual property rights protection, reduce tariffs and expand imports. In the Eurozone, its economy maintained moderate growth, though its momentum decelerated somewhat from its peak in late last year. Solid growth continued in Hong Kong. The Hong Kong dollar hit the weak-side convertibility level which formally kicked off the normalization of interest rate there. Hong Kong dollar interest rates are likely to increase gradually ahead, with its impact on asset prices worth close monitoring.

■ The US economy maintained moderate growth and announced a series of protectionist measures targeting China

In Q1 2018, the US economy expanded by 2.3% and 2.9% in seasonally-adjusted annualized and year-on-year terms respectively. In the former, the annualized growth rate decelerated since 2H 2017, while the year-on-year growth accelerated for seventh consecutive quarter, indicating the continuation of a moderate growth trend. Meanwhile, other economic indicators, such as unemployment rate, non-farm payrolls, industrial production, retail sales, and purchasing manager indices, etc. all pointed to moderate expansion. The implementations of tax reforms and infrastructure plan are also expected to stimulate growth ahead. On the other hand, the Federal Reserve is continuing its monetary policy normalization. The median forecasts of FOMC show a total of three rate hikes this year, with further gradual rate hikes in 2019 and 2020, likely supporting the moderate growth trend of its economy. However, the US announced the protectionist measures against China, involving goods amounted to around US\$50 billion annually. China also announced the retaliatory measures. Fortunately, the protectionist measures have yet been implemented, while China also announced a series of opening measures. The door of negotiation remains open for the both side. As

such, it is not likely that the two countries will implement all of their proposed measures, while the relation between the two sides are likely to remain rather tense during the negotiation phase. It is essential to keep updated on the latest development.

The economic momentum of Eurozone decelerated somewhat

Following the multi-year strong performance of Eurozone in 2H 2017, most of the economic indicators, such as manufacturing and non-manufacturing purchasing manager indices, consumer and economic confidence, industrial production and retail sales, etc. are still expanding, but at a decelerated rate. With the Eurozone economy maintains a steady pace of expansion and the unemployment rate declines to the lowest level since late 2008, its inflationary pressure remains low persistently. The European Central Bank is likely to maintain its highly accommodative monetary policy and will not rush to kick off its monetary policy normalization. In addition, the UK and European Union agreed to set up a transition phase for Brexit, likely alleviating the market worries of a no deal scenario. Furthermore, the temporary exemption of US import tariffs on steel and aluminum from European Union is extended, but whether the two sides could reach a deal is still to be seen.

Slightly better than expected growth in Q1, with the announcement of a series of opening measures

In Q1 2018, the Mainland economy was slightly better than expected at 6.8% year-on-year, the 11th quarter of growth between 6.7% and 6.9%. Other economic indicators, such as industrial value-added, retail sales, fixed asset investment and external trade were all slightly better than the full year of 2017, extending the moderate expansion trend. Meanwhile, the economic structure continues to improve, with new industries and new products also performed well. In view of the US protectionist measures targeting China, the overall impact on economic growth remains limited and the final negotiation outcome remains uncertain. In April, the President Xi and Governor Yi announced a series of opening measures at Boao Forum, including significantly broaden market access, create more attractive investment environment, strengthen intellectual

property rights protection, reduce tariffs and expand imports, which are part of China's plan to achieve its missions to pursue quality and steady growth in the new era.

Solid growth continued in Hong Kong, with Hong Kong dollar hit the weak-side convertibility level

In Q1 2018, Hong Kong economy maintained relatively fast growth, with a number of sectors, such as external trade, tourism, employment, consumption, retail sales and asset markets, etc. all performed well. The robust performance was mainly driven by the strong external environment, relatively low interest rate, strong financial and property markets, as well as the further connection between the financial markets of Hong Kong and the Mainland, etc. In addition, full employment boosted consumer confidence, while the recovery of tourism industry also supported the steady expansion of retail activities. Moreover, the Budget announced a number of measures to further develop the economy, invest for the future and share with the community. These measures could lead to both short-term and long-term benefits to the economy, likely supporting this year growth as well. However, if the trade conflicts between the US and China intensifies, the external performance of Hong Kong would no doubt be affected. Also, the normalization of Hong Kong dollar interest rate has kicked off. Interest rate arbitrage has led to capital outflows, driving Hong Kong dollar interest rate moderately higher and narrowing the interest rate spread with the US. Together with the further gradual increase of US interest rate, the asset prices in Hong Kong might face increasingly pressure ahead.

Choi Wing Hung