



## Economic and Financial Monthly (May, 2018)

### Summary

Trade tensions continued to dominate the global economic headlines. The latest round of trade talk between China and the U.S. showed signs of constructive development, but the future negotiations are expected to remain lengthy and complex. Growth momentum in the Eurozone economy stayed cool with moderate inflation, rising doubts on the path for monetary normalization by the European Central bank. April economic indicators revealed a stable economic momentum in China. In Hong Kong, Q1 real GDP hit the fastest growth in 5 years, driven by strong internal and external demand.

### ■ The U.S. and China will have lengthy trade talks ahead

On 19 May, the U.S. and China completed a two-day trade talk. After the meeting, both sides issued a joint statement, stating that a consensus was reached in reducing the bilateral trade deficits. And, the U.S. side will send a team to China for further discussion, which is scheduled on 2-4 June. Given the complexity and linkage between the two economies, the U.S-China trade talks ahead are expected to be lengthy. In terms of monetary policy, the FOMC minutes in May hinted a rate hike in the June meeting. And, the Fed added 'symmetric' in mentioning the inflation target, which might mean a slightly higher tolerance for inflation to overshoot the 2% level. However, the futures market suggested a higher chance for 4 hikes in 2018 amid firming economic data and rising inflation readings. During the month, the U.S. dollar went up rapidly with the 10-year Treasury yield once rising above 3.1%, the highest level since 2011.

### Economic growth in the Eurozone might slow down the ECB's tightening agenda

The Eurozone GDP growth fell to 2.5% yearly in Q1 2018, after reaching its recent peak in Q4 2017. April CPI and core CPI edged lower to 1.2% and 0.7%. Latest projections from European Commission expect real GDP to grow by 2.3% with 1.5% inflation in 2018. Considering the slowing down of economic activities and mild inflation, the ECB's

tightening agenda might be slower than expected. Purchasing Manager Indexes in May showed a persistent moderation in the Eurozone economy, partly due to the holiday effects. Besides, the global financial market was shocked by the political development in Italy, in which a new election would raise further uncertainties for the future of euro.

### **April data showed a steady growth outlook in China**

Monthly data in April suggested a largely stable economic growth in China. Industrial production accelerated to 7.0% yearly growth, while retail sales slowed slightly to 9.4% yearly growth. In the first 4 months of 2018, fixed-asset investment expanded by 7.0%, lower than the 7.5% growth in Q1. Externally, both export and import reported double-digit growth in dollar terms. In regard to the credit market, M2 money supply grew by 8.3% yearly in April. Effects of the RRR cut on 25 April have not yet been reflected in the macro data. PBOC announced new measures for offshore clearing banks to tap RMB liquidity from the onshore interbank market, providing greater facilitation for the inclusion of A-shares into the MSCI's benchmark indexes on 1 June.

### **Hong Kong GDP growth in Q1 2018 hit the highest in 5 years**

In Q1 2018, the Hong Kong economy grew by 4.7% yearly and 2.2% quarterly. Both internal and external demand registered robust growth in the quarter, in which private consumption rose by 8.6% and goods exports expanded by 5.2%, both in real terms. The stellar economic performance lowered the unemployment rate further to 2.8% in April. In the money market, the interest rate differentials between the HK dollar and US dollar continued to widen in the absence of massive IPO activities, dragging the HK dollar to the lower limit. Considering the rising U.S. interest rates, it is expected that the HK interest rates will soon be adjusted upward.

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