Economic and Financial Monthly (Jun, 2018)

Summary

Escalating trade threats from the US triggered considerable downside risks for the world economic outlook. And, the Fed's latest projections showed a higher possibility for 4 rate hikes in 2018. In Eurozone, the ECB laid out its plan to end the asset purchase programme by 2018. The China's economy saw persistent moderation in its monthly economic indicators. PBOC announced a targeted cut in reserve requirement ratio, adding 700 billion RMB of liquidity into the financial system. Hong Kong announced new measures to manage the housing market.

■ The US threatened escalating trade tensions amid retaliations around the globe

Despite several rounds of talks with major trading partners, the US is on course to impose tariffs on steel and aluminum products from the EU, Canada and Mexico as well as against a list of Chinese products worth at US$ 50 billion. In response, China, the EU, Canada and Mexico recommended taking retaliatory tariffs against import from the US. Trade tariffs will not only increase costs for businesses, but also undermine business confidence. The trade disputes might fuel inflation and slow employment growth in the US. On monetary, the Fed raised rates by 0.25% to 2.00% in the June meeting. Its latest projections suggested a total of 4 hikes for 2018. As trade threats and higher US interest rates are set to hit the real economy, the world economy is facing considerable downside risks ahead.

ECB laid out its QE exit plan in the end of 2018

The European Central Bank announced that the net purchases under the asset purchase programme will be cut from 30 billion euro a month to 15 billion euro a month from October 2018 and ended in the end of 2018. However, overall monetary conditions in the Euro area will stay accommodative, as principal repayments from current bond holdings will continue to be reinvested, and key interest rates will be kept at current levels through 2019 summer. Besides, inflation jumped to 1.9% yearly growth in May. Purchasing Manager Indexes showed signs of stabilization in June, contributed by growth in services activities. However, manufacturing activities continued to soften. Furthermore, the US proposed taxing 20% on vehicles from the European Union, after retaliatory measures were made on a variety of US products.

China announced the third cut in reserve requirement ratio in the year

The China's economy saw persistent moderation in its major monthly indicators. In particular, growth in retail sales dropped from 9.4% in April to 8.5% in May, though part of the slowing down was due to holiday effects and delay in consumption for taking advantages of the cut in import duties in July. During the month, PBOC announced that it would cut the reserve requirement ratio by 50 basis points, injecting 700 billion RMB of liquidity, to accelerate the pace of debt-for-equity swaps and support lending to small and micro firms. The new measures will be effective on 5 July, a day before the scheduled implementation of tariffs by the US. During the month, both RMB and Chinese equities retreated substantially amid worries on trade threats.

Hong Kong rolled out new measures to manage the housing market

In the first five months of 2018, overall house price index in Hong Kong increased by 8.5%, indicating further worsening affordability. In addressing the imbalance in the housing market, the HKSAR Government announced new measures including altering the pricing mechanism of subsidized housing schemes, allocating more land supply for public housing units from the private market, imposing a tax on vacant first-hand properties, etc. These measures are expected to have significant changes in the supply dynamics of the housing market. Regarding the effects on house prices, it will depend on the measures' transmission to the demand side. In terms of economic performance, latest monthly data on external trade, retail sales and employment all pointed to a buoyant growth momentum.

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