Economic and Financial Monthly (Sep, 2018)

Summary

Falling unemployment in the U.S. justifies further gradual rise in the Fed funds rate; The ECB reaffirmed its guidance of ending QE by the end of 2018, yet rate hikes will have to wait until the second half of 2019; China's economic momentum weakens somewhat; The Hong Kong dollar prime rate rose, and higher interest rates will pressure asset prices.

■ U.S.: Rate hikes could reach four times ion 2018

In September, the Fed raised interest rates for the third time in 2018 by 25 basis points to 2.0%-2.25% and upgraded its guidance of rate hikes to four times this year. The unemployment rate declined to 3.7% in September, supporting further gradual rate hikes. The Fed's monetary policy stance is substantially tighter than those of other major central banks, supporting the dollar's exchange rate. However, due to elevated valuation, U.S. equities are unlikely to continue setting record highs against the backdrop of rising interest rates.

Europe: Monetary policy remains accommodative

The ECB reaffirmed its guidance of ending QE by the end of 2018, yet rate hikes will have to wait until the second half of 2019. Uncertainties including the slowing economy in the Euro-zone, Italy's clash with the EU on fiscal targets, and Brexit negotiation stalemate suggest that interest rates will remain at zero in the short term.

China: Growth momentum weaken

China's external trade remains buoyant, in spite of rising trade tensions. However, the international trade environment will inevitably become increasingly complicated given escalating trade tensions between China and the U.S. and rising tariffs. As for the domestic economy, momentum has weakened somewhat. Fixed-asset investment slowed to the weakest in the current century, while inflation-adjusted retail sales decelerated to about the same pace as overall economic activities.

Hong Kong: Prim rates rose

Faster rate hikes by the Fed finally compelled Hong Kong banks to raise their Hong Kong dollar prime rates, which may pressure asset markets including equities and properties. As the prime rate began to move upwards, future rate hikes by the Fed are likely to lead to adjustments in the Hong Kong dollar prime rate.

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