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Summary

The shift in the U.S. monetary tightening and a potential trade deal between China and the U.S eased two major uncertainties for the world economy in 2019. In Eurozone, economic growth kept weakening, whereas the ECB noted increased downside risks for the region. In China, full-year GDP growth reached 6.6% with stabilization seen in the December readings. Hong Kong's economic momentum continued to soften, as both retail sales and export slowed sharply.

■ The U.S.: Slower monetary tightening and a potential trade deal with China eased uncertainties

After a severe sell-off in the end of 2018, liquidity conditions and uncertain global economic outlook were calling for a slower Fed's hike path in 2019. In January FOMC meeting, the Fed signaled a dovish monetary stance in 2019 by shifting to a patient approach to future moves. Besides, China and the U.S. entered a new round of trade negotiations on 30-31 Jan. A deal is widely expected in this round of talks given the pressures from moderating growth momentum. The shift to modest tightening and a potential trade deal helped ease the world economic uncertainties, providing a boost to market confidence. Several key indicators were delayed for release due to the government shutdown. On balance, the U.S. economy appeared to be expanding, as evidenced by the solid labor market report in December.

The Eurozone economy kept slowing

While the unemployment rate in the Eurozone improved further to 7.9% in November, the region witnessed a sharp fall in industrial production in November, down by 3.3% compared to the same period in last year. For 2018, Germany's economy grew only by 1.5%, the slowest in five years. In the January monetary meeting, the ECB acknowledged that the economic risks have moved to the downside. Market participants generally priced in a no-hike scenario in the Eurozone and expected the ECB to alter their communication on rates in subsequent monetary meetings. As for the development in the U.K., the Brexit proposal was voted down by the parliament. The future trade relations between the E.U and the U.K. remained highly uncertain.

China's economy grew by 6.6% in 2018

Given the escalating trade threats, China saw a gradual decline in its quarterly GDP growth from 6.8% in Q1 to 6.4% in Q4. That said, the monthly readings of retail sales, fixed asset investment and industrial production in December were all stabilizing. January official purchasing manager indices for both manufacturing and services activities improved, easing concerns over the downside pressures on China's economy. To cushion the uncertain outlook, a string of stimulus programs have been enacted including tax cut, acceleration of infrastructure investment and targeted monetary easing. These policies were expected to boost domestic consumption and channel credit for the private sector. If China and the U.S. reach an agreement to stop the tariff threats in the upcoming trade talks, further stabilization on China's economic momentum can be expected.

Hong Kong's growth is softening in Q4

Retail sales in December increased slightly by 1.4% yoy, while exports contracted by 5.8% yoy. These indicators suggested a visible slowdown for GDP growth in Q4. Despite the headwinds, Hong Kong's labor market stayed solid with unemployment rate at a low level of 2.8%, providing support for domestic consumption. Regarding the housing market, overall home prices and transaction volumes kept cooling based on the December figures. However, resilient demand was observed from the strong sales performance in the primary market, in which developers offered discounts to boost sales. Given a bouncing equity market, improved sentiments are likely to boost the turnover in the housing market ahead.

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