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Summary

The Fed will end balance sheet reduction by the end of 2019, derailing monetary policy normalization. The poor performance of the Euro-zone economy has all but ruled out any rate hikes by the ECB in 2019. Slowing global growth has finally taken its toll on China's external trade. Hong Kong's labor market remains strong even as growth slows.

■ U.S.: Balance sheet reduction to end by the end of 2019

Due to slowing growth, mild inflation, financial markets volatility, low bond yields, and a gloomy outlook for the global economy, the Fed has made clear its intention to end balance sheet reduction by the end of 2019. Meanwhile, these factors are also likely to derail interest rate hikes and monetary policy normalization.

Europe: Rate hikes on hold indefinitely

The poor performance of the Euro-zone economy has all but ruled out any rate hikes by the ECB in 2019. In fact, not only is the ECB unable to normalize interest rates, it is planning to inject more liquidity to the banking system. Starting September, the ECB will begin a new round of TLTRO to stimulate lending.

China: Exports and imports in negative territory

Just as the prospects for trade relations began to brighten, consistently slowing global growth has finally taken its toll on trade. For the first two months of the year, China's total merchandize trade dropped by 3.9% in dollar terms, with exports declining by 4.6% and imports by 3.1%. The OECD recently cut its forecast for world GDP growth in 2019 from 3.5% to 3.3%, with growth for the Euro-zone being slashed heavily from 1.8% to 1.0%. Looking ahead, should China-U.S. trade frictions be resolved in the near future, a weakening global growth outlook would become the single biggest risk factor for trade.

Hong Kong: Robust labor market in spite of slowing growth

Hong Kong’s economy expanded by 3% in 2018, compared to 3.8% in 2017. As the global economy slowed, Hong Kong’s GDP growth in the fourth quarter weakened to only 1.3%. However, the labor market remained buoyant, with the unemployment rate remaining at 2.8%.

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