Economic and Financial Monthly (MAR, 2019)

Summary

In the US, growth momentum moderated in Q1 after recording strong growth of 2.9% in 2018. The Federal Reserve held interest rate unchanged, revised its interest rate forecasts lower and announced plan to end its balance sheet runoff at the end of September. The market continues to monitor China and US trade negotiation outcome. In Eurozone, the economy has slowed rather notably, and the European Central Bank pushed back its rate hike plan. The European Union agreed to a short extension for Brexit. In the Mainland, its economy held large steady in the first two months of 2019. The Government Work Report set out the growth target to be 6% to 6.5% for 2019, with more policy measures are expected to stabilize economic growth ahead. In Hong Kong, the economic performance was mixed early this year. Hong Kong dollar exchange rate hit weak side convertibility level again, and the asset markets gradually stabilized.

■ US:Q1 economic growth moderates notably

Supported by tax reform and relaxing regulatory requirements, the US economic growth accelerated to 2.9% in 2018, with its Q4 GDP rose 3.0% year-on-year. However, the US economic growth moderates notably in Q1, with the fading positive impact from tax reform, escalating China and the US trade frictions, huge volatilities of financial markets, as well as a month-long government shutdown, etc. The business and consumer confidence were then greatly affected, with the manufacturing and non-manufacturing PMIs as well as Conference Board consumer confidence index all recorded correction. The Federal Reserve Bank of Atlanta estimated that the Q1 GDP will slow substantially in annualized terms. Separately, the Fed held interest rate unchanged in March and stated again that they will remain patient in adjusting interest rate in the future. The FOMC members also significantly revised the number of rate hikes from a median of 2 times to no more rate hike for 2019. The Federal Reserve will also end its balance sheet runoff at the end of September, and there will also be a taper down in the pace of runoff of Treasuries, starting in May when the caps are reduced from US$ 30 billion to US$15 billion. All these showed that the Fed's monetary policy stance has become dovish, which is expected to provide some support to its economy and asset markets.

Eurozone: postponing its rate hike plan

Since the beginning of 2018, the Eurozone economy has slowed rather notably, with its Q4 GDP growth decelerated to 1.1% year-on-year. The economic growth rate of its major member states, i.e. Germany, France, Italy and Spain, has decelerated to 0.6%, 0.9%, 0.0% and 2.4% year-on-year respectively. Meanwhile, its more recent indicators, such as manufacturing and non-manufacturing PMIs, etc. also showed softening growth momentum. Separately, the Eurozone will also be affected by numerous political events this year, including protests in French, Brexit, European Parliament election, US and European Union trade negotiation, etc., which might dampen growth as well. Against this background, the European Central Bank (ECB) revised its economic growth forecast for 2019 from 1.7% to 1.1%, pushed back its guidance on rates from through the summer to through the end of 2019, and announced launching a series of seven TLTROs starting from September 2019. ECB’s measures are likely to support the region’s financial institutions and overall economy.

Mainland: targeting 6%-6.5% growth for 2019

Against a complex external environment, merchandise trade recorded weak performance in the first two months of 2019, with exports and imports declined 4.6% and 3.1% year-on-year, worse than the 0.1% and 2.1% decline of November and December average, partly because of front-loading activities ahead of the implementation of tariffs as well as Chinese New Year. Other economic indicators showed relatively stable performance, with fixed asset investment, industrial value-added and retail sales increased 6.1%, 5.3% and 8.2% year-on-year in the first two months of 2019, similar to its 5.9%, 6.2% and 9.0% growth in 2018 as a whole. In March, the Mainland announced the Government Work Report, which set out the growth target to be 6% to 6.5%, new employment to be at least 11 million, inflation to be around 3%, deficit to be 2.8%, money supply M2 and total social financing to grow roughly in line with the nominal GDP level. Moreover, the Government Work Report stated that proactive fiscal policy to be more forceful and prudent monetary policy to have appropriate amount of intensity. It is believed that the government authorities will implement more support measures to stabilize economic growth ahead.

Hong Kong: Mixed economic performance and Hong Kong dollar exchange rate hit weak side convertibility level again

In the beginning of 2019, Hong Kong external performance was affected by the escalating China and the US trade frictions, with merchandise exports and imports declined 3.1% and 5.0% in the first two months of 2019 respectively. Meanwhile, retail sales and number of visitor arrivals rose 7.1% and 27.2% in January respectively, reflecting the mixed performance of Hong Kong economy. Currently, the market is increasingly pricing in China and the US could finally reach a trade deal and the Federal Reserve has turned more dovish on its monetary policy stance, leading to the sharp rebound of the asset markets. Hang Seng Index increased from its low of 24,500 in October to 29,000 level, while the residential property market also stabilized in January. Together with the supporting and development measures announced by the latest Budget, the downward pressure of the economy could be alleviated. Separately, the financial system in Hong Kong continues to have a high liquidity level after the global financial crisis. The relatively large Hong Kong dollar and US dollar interest rate spread has triggered capital outflows. Hong Kong Monetary Authority then purchased Hong Kong dollar at the weak side convertibility in March, which is a normal operation under the linked exchange rate system.

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