Economic and Financial Monthly (MAY, 2019)

Summary

The probability of the Fed cutting interest rates rose considerably as long yields remained depressed and yield curve inversion worsened. The poor performance of the Euro-zone economy has all but ruled out any rate hikes by the ECB and raised the possibility of rate cuts instead. The Chinese economy slowed, and its future performance may hinge on the developments on trade negotiations. Hong Kong's labor market remains strong even as retail sales and external trade sagged.

■ U.S.: Rate cuts probability rose

Due to slowing growth, mild inflation, financial markets volatility, low bond yields, and a gloomy outlook for the global economy, the Fed has publicly hinted at the possibility of rate cuts. However, as yield curve inversion worsened, with the Fed funds rate higher than medium to long-term treasury yields, it remains to be seen if prospective rate cuts will occur in time to prevent the business cycle from turning.

Europe: Monetary policy to remain ultra-accommodative

The ECB has changed its forward guidance as the Euro-zone economy slowed, ruling out any rate hikes and opening the door for more accommodation. Starting September, the ECB will begin a new round of TLTRO to stimulate lending. As many central banks either have begun to cut interest rates or are contemplating such measures, the ECB will remain ultra-accommodative.

China: Investment and industrial production weakened

In May, China's major economic indicators slowed, especially fixed-asset investment and industrial production. For the first five months of the year, fixed-asset investment rose 5.6%, half a percentage points lower than the pace in April, while industrial production grew only 5%. China's economy will meet the 6.0-6.5% GDP target for 2019, but whether it can stabilize will hinge on the developments of trade negotiations.

Hong Kong: Robust labor market in spite of slowing growth

Hong Kong's retail sales and external trade have weakened markedly, but the labor market remained strong. The unemployment rate remained at 2.8%, the lowest level in the current expansion cycle.

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