Economic and Financial Monthly (JUN, 2019)

Summary

The global economic outlook remains cautious, amid the trade tension between China and US, Brexit uncertainty, etc. The dovish shift of the monetary policy stance of major central banks around the world, together with the additional policy support from the Chinese authorities (if needed) would help offset the downward pressure of the global economy.

■ US: Increasing chance of rate cut in Q3

The economic growth momentum of US slowed further in Q2, with manufacturing PMI and consumer sentiment indices, etc. declined somewhat from its peak. The average monthly non-farm payrolls declined to 164,000 in the first five months of 2019, lower than the 223,000 monthly averages in 2018. Inflationary pressure remains subdued, with the private consumption expenditure headline price and core price indices increased by 1.5% and 1.6% in May respectively. Given the uncertain economic outlook, the policy statement of the Fed's June meeting stated that the Committee will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective. The "dot chart" showed the median fed funds rate forecast of 17 committee members to remain unchanged for this year, with 8 of them expected an easing this year. 7 of those eight members even looked for a 50 bps cut in the funds rate by the end of the year. Currently, the fed fund futures implied that the Fed will cut rate as soon as July. A dovish shift of Fed's monetary policy stance could help stabilize the overall economic and financial market performance ahead.

Eurozone: Subdued growth momentum continues

Eurozone economy continues its subdued growth momentum, given a slowing global economic momentum and many of its member states are highly reliance on external trade. The protectionism of the US is not only targeting on China, certain sectors, such as autos and auto parts, etc. are also under the trade investigation by the US. In addition, Europe is also facing some regional issues, such as Brexit and weak financial discipline of Italy, etc., indicating that the Eurozone economy is likely to remain subdued in the near term. The European

Central Bank maintains its highly accommodative monetary policy.

Mainland: Stabilizing growth ensures full year growth target within reach

The Mainland economy remains largely steady. Even though there were huge volatilities related to the different timing of Chinese New Year, VAT reform and several rounds of US tariffs, etc., the economic data indicated the economy remains largely steady, with merchandise trade (in US dollar terms) still edged higher, fixed assets investment, industrial value-added and retail sales, etc. decelerated modestly. Meanwhile, the financial markets remain highly rational and do not repeat the sharp correction like 2H 2018. Going forward, both the Chinese and US presidents agreed to resume trade negotiation, with the implementation of new tariffs to be on hold. The risk of a full-blown trade war is reduced, and the Mainland authorities still have further policy rooms to stabilize the overall economic momentum, if needed. The government target of 6% to 6.5% this year is within reach.

Hong Kong: Subdued growth with rising uncertainty

The economy of Hong Kong maintains relatively low growth. In early May, the tension between China and US trade negotiation heats up again, with the financial market of Hong Kong declined more than 10% to below 27,000 level in early May. The recent economic indicators were mixed. Retail sales and merchandise exports recorded 1.3% and 2.4% year-on-year decline in May respectively. The number of visitors continued to increase sharply by 19.5% year-on-year in May, and the private residential property price index hit a fresh record high. Nevertheless, the economic outlook of Hong Kong is still hinged on the trade negotiation outcome between China and US, the global economic development and the policy stance of the US Federal Reserve.

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