

## Economic and Financial Monthly (JUL, 2019)

### Summary

The US economy continues to grow at a moderate rate and the Fed conducted “preventative” interest rate cut. Economies of Eurozone, China and Hong Kong were underperformed in the second quarter. External uncertainties remain high. Sino-US trade war has further escalated, and the risk for the UK to carry out no-deal Brexit has risen.

#### ■ US: The Fed conducted “preventative” interest rate cut, Sino-US trade war further escalated

The annualized growth rate of the second quarter GDP in the United States was 2.1% QoQ, decelerated from the 3.1% growth in the first quarter, coherently the lowest growth rate since President Trump took office. The US economy continues to grow at a moderate rate. Retail sales in June were better than expected, growing by 0.4%. Both Core durable goods orders and personal consumption expenditures increased on month-on-month basis with the former figure being the largest increase since February last year. The Fed lowered the target range for the benchmark rate by 25 basis point to 2.00%-2.25%, in line with market expectation. The Fed also put an end to the Quantitative Tightening measures early. The Fed said that interest rate cut is “preventative” to support the continuous expansion of the US economy. US President Donald Trump announced that the remaining 300 billion US dollars of Chinese imports will be subject to a 10% tariff starting from September 1<sup>st</sup>, and threatened to raise tariffs to as much as 25%. The announcement was made after the 12th round of trade consultations between China and the United States. China is likely to take necessary countermeasures.

#### **Eurozone: Economic downturn, rising risk of no-deal Brexit in the UK**

Eurozone's Q2 GDP YoY growth slowed to 1.1%, the weakest performance in more than five years. The QoQ growth was also cut by half to 0.2% from Q1. The economic growth of major economies in Eurozone such as Germany and Italy slumped. The British Conservative Party Boris Johnson replaced his predecessor, Theresa May as the new prime minister for the UK. The new finance minister Sajid Javid announced to set aside GBP 1 billion of reserve

fund to emergency contingency in his first major policy announcement since Prime Minister Boris Johnson took power as the Brexit deadline approaches. The possibility for a No-deal Brexit in the UK rose accordingly.

### **Mainland: Economic growth slows while financial opening accelerates**

The Mainland's Q2 economic growth rate declined due to the stagnation in Sino-US trade progress and sluggish external demand and investments, making Q2 GDP growth declined by 0.2 percentage points from Q1 to 6.2%, a historical low for the quarterly growth rate since 1992, yet, the growth rate remains in line with market expectations. The economic growth in the first half of 2019 was also in line with expectations, with a YoY growth of 6.3%. The introduction of 11 financial opening measures in the Mainland will further promote market reforms in bond market, insurance and securities sectors, facilitating improvement of the financial industry and market regulations. In addition, the RMB's exchange rate fell below the key threshold of 7 against the USD for the first time since 2008, with CNH once hit the lowest at 7.08 since March 2008. China has also been listed as a currency manipulator by the US.

### **Hong Kong: Economic extends modest growth momentum**

The sluggish growth in Hong Kong's economy continued, with growth rate decelerating from 4.6% (in real terms) in Q1 2018 to 0.6% in the first and second quarters of this year. This is mainly due to the decline in global economic growth and the uncertainties rising from Sino-US trade disputes, hindering performance on foreign trade, confidence level on economy and asset market performance. Combining the performance in Q1 and Q2 of the year, Hong Kong's economy recorded a low growth rate at 0.6% in the first half of 2019. The negative impact on the large-scale strikes and protests in the past months has gradually emerged, inflicting on local consumption and investors' confidence.

Ivan Yim