Economic and Financial Monthly (SEP, 2019)

Summary

In September, China and the US raised tariffs against each other, but they will resume trade negotiation in October. The US Federal Reserve cut rates again. The UK Prime Minister takes a tough stance, leading to a still uncertain Brexit path. The Mainland economy remains resilient amid increasing downward pressure, with more stabilizing measures are expected. Against challenging environment, Hong Kong economy likely records negative growth in Q3.

■ US: Trade war escalated further, and Federal Reserve cut rates again in September

After China and the US trade frictions escalated further in August, the US officially raised tariffs against US$ 125 billion worth of Chinese products on 1 September and China retaliated by raising tariffs against US$ 75 billion worth of US products. Currently, China and the US confirmed that they will hold another round of ministerial meeting in October and showed a friendly gesture ahead of the meeting, though the expectation of a comprehensive trade deal in near term remains low. Meanwhile, the US economy continues its moderating growth trend, with purchasing manager indices, consumer confidence indices and non-farm payrolls slowed gradually. Given global economic slowdown and elevated uncertainties related to China and US trade frictions, and Brexit, etc., the Federal Reserve cut rates by 25 bps to 1.75%-2.00% in its September meeting in a bid to extend the current economic expansion, with further rate cuts in Q4 could not be ruled out.

Eurozone: The probability of hard Brexit remains elevated, while ECB delivered rather significant stimulus package

After Boris Johnson has officially become the prime minister of UK, he takes a hard stance on Brexit and determines to take UK out of the European Union (EU) after the end of October no matter there is a new agreement with the EU or not. Nevertheless, the UK has yet presented any workable solution on Irish backstop. The UK Parliament has worked actively to prevent a hard Brexit, implying the uncertainties related to Brexit remain high. Meanwhile, the economic momentum decelerated further and inflation stayed low in the Eurozone. The European Central Bank (ECB) delivered rather significant stimulus package, including lowering the rate on deposit facility by 10 bps to -0.5%, restarting asset purchase program at a monthly pace of €20 billion, reinvesting maturing principal payments in full, offering more generous terms for TLTRO III, and introducing a two-tier system for reserve remuneration. The ECB provided an open-ended forward guidance, with rates will not be raised until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% level, while asset purchases will run as long as necessary.

Mainland: Its economy moderated slowly, with more stabilizing measures expected

Against the background of slowing global economic growth and elevating trade tensions, the Mainland authorities implemented fiscal and monetary policies to stabilize growth. In the first eight months of 2019, the growth of retail sales, fixed asset investment and industrial value-added increased 8.2%, 5.5%, and 5.6% respectively, just down slightly by 0.8, 0.4, and 0.6 percentage points from full year 2018 level, reflecting the resilience of Mainland economy. A recent State Council meeting called for the timely use of tools including broad and targeted reserve-ratio cuts to support the economy as well as faster implementation of measures to reduce real borrowing costs. The government also called for an acceleration of the issuance of special bonds by local governments, and expanding the sectors the funds could be used, etc. All these measures aim to stabilize the economy and ensure its growth momentum to hold within a reasonable range. Against this background, the Mainland authorities announced numerous measures, including 20 measures to help improve domestic consumption, the loan prime rate (LPR) reform, a universal 50 bps required reserve ratio (RRR) cut, and a total 100 bps targeted RRR cut for city commercial banks in two phases, etc. in a bid to support the development of real economy.

Hong Kong: The economy likely records negative growth in Q3 2019

Currently, the economic outlook of Hong Kong is rather unfavorable. The economic momentum has slowed notably, with tourism, hotel accommodation, retail and import-export trade sectors are hit negatively. Meanwhile, unemployment rate edges up, Hong Kong dollar strengthens in tandem with the solid performance of US dollar, and the asset prices stay elevated. Therefore, Hong Kong economy should record negative growth in Q3 2019. Fortunately, the financial system continues to operate as normal and the international investors show their votes of confidence on the financial system and capital markets of Hong Kong, with measured correction in equity prices only. Going forward, the economic and asset market outlook of Hong Kong will depend on the development of China and US trade tension, local social situation and the SAR government's effort to stabilize the economy, etc.

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