Economic and Financial Monthly (OCT, 2019)

Summary

The US economy grew by 1.9% qoq in Q3, better than market expectations. The Fed decided to cut rates by 0.25% in Oct meeting but signaled a pause for further adjustments. The eurozone economy maintained modest expansion with 1.1% yoy growth in Q3. After the risks of "no-deal" Brexit diminished, the UK is on way to another snap election in Dec. The China economy grew by 6.0% in Q3. Domestic consumption and infrastructure investment are expected to fuel growth in the near-term. The Hong Kong economy fell into contraction in Q3, dragged by trade tensions and domestic social unrest.

■ US GDP grew 1.9% qoq (annualized) in Q3 and the Fed cut rates again

US reported its flash estimate for Q3 GDP with 1.9% qoq growth versus 2.0% growth in Q2. Consumer spending remained robust at 2.9% qoq growth, contributing most of the GDP growth in the quarter. However, private domestic investment was down by 1.5% qoq, indicating the weakness in business confidence. Net exports were also negative as global demand kept softening. In respect of monetary policies, the Fed began to expand its balance sheet again by buying $60 billion of Treasury bills per month from 15 Oct to the Q2 2020. The new purchases are expected to avoid the similar spike in money market rates happened in Sep. While the Fed officials emphasized the actions are technical in natural, the size of the operation was far above market expectations. Besides, the Fed cut interest rates by 0.25% to 1.5-1.75% in the Oct FOMC meeting, which was the third cut this year. The post-meeting communications revealed that the mid-cycle adjustment is likely to take a pause, implying rates to hold on until the year-end.

Eurozone economy maintained modest growth in Q3

The eurozone economy grew by 1.1% yoy and 0.2% qoq in Q3, slightly better than market expectations. These figures indicated that the eurozone economy stabilized from further slowing down. Inflation continued to stay at low levels with CPI at 0.7% yoy and core CPI at 1.1% yoy in Oct. Unemployment rate remained stable at 7.5% in Sep. However, the outlook for the eurozone remained uncertain, business sentiment and consumer confidence kept falling. Particularly, the room for further for monetary easing by the ECB is limited. Despite a weak economic outlook, the risks of “no-deal” Brexit diminished after an agreement was reached between the EU and the UK. With another Brexit extension till the end of Jan 2020, the UK is preparing a snap election on 12 Dec.

China reported Q3 GDP growth at 6.0% yoy

The China economy grew by 6.0% yoy in Q3 2019. In the first three quarters, overall GDP expanded by 6.2%, suggesting high possibility to reach the full-year target of 6.0-6.5%. In terms of contributions to GDP growth, consumption, investment and net exports accounted for 60.5%, 19.8% and 19.6% of GDP growth in the first three quarters. The positive contributions by net exports were mainly driven by the wider trade surplus as imports slowed faster than exports. External demand is expected to be the major headwind for China, as global growth momentum continued to soften. Manufacturing PMI in Oct was still in contraction at 49.3%, down from 49.8% in Sep. That said, job creations in the first three quarters exceeded expectations at 10.97 million, almost achieving the annual target of 11 million. Near-term drivers for growth are expected to rely on domestic consumption and infrastructure investment.

Hong Kong GDP growth slipped into negative territory in Q3

Hong Kong released its advance estimates of GDP for Q3, in which growth fell into a negative 2.9%. The contraction was widely anticipated, given the impacts of trade tensions and domestic social unrest. Nearly all economic activities were in negative growth except the Government’s spending. Unemployment rates in Sep kept steady at 2.9%, but upward pressures had been seen in tourism-related sectors like catering. Despite the weaknesses in the Hong Kong economy, asset markets were expected to stabilize under an improved outlook for China-US trade negotiations and ample liquidity in the financial market. The residential property market saw a rising number of transactions, after the Policy Address announced to raise the cap on the value of properties eligible for the Mortgage Insurance Programme, which is a measure to encourage the public to buy house.

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