

Economic and Financial Monthly (FEB, 2020)

Summary

US Economic data were solid in the first two months of the year until the spread of COVID-19 caused the Fed to cut policy rates by 50 bps and the Whitehouse to sign a USD 8.3 bn spending bill. Eurozone and UK economic growth improved in the first two months as markets awaited monetary easing from the ECB and BOE, even though they have less room to ease than the Fed. China keeps its 10-year pledge to double GDP by 2020 amid the virus-led slowdown. Hong Kong's economic indicators continued to slump as the government rolled out a relief package that is projected to drive its fiscal deficit to almost 5% of 2019 GDP.

■ US unleashes monetary and fiscal policy as coronavirus roils markets

US Economic data were solid in the first two months of the year until the spread of COVID-19 globally stunned markets in late February. ISM manufacturing and service PMIs showed expansion in February at 50.1 and 57.3 respectively. Retail sales in January increased 0.3% from the previous month, same as in December. 273K new jobs were created to pull the unemployment rate down to 3.5% in February. Core PCE inflation edged up from 1.5% to 1.6% YOY in January. The Fed responded to the 15% correction in the S&P 500 by cutting rates unexpectedly by 50 bps on March 2nd. However, markets continued to remain volatile and was pricing in another 75-100 bps of cuts to the fed funds rate by the end of 2020. The Whitehouse signed a USD 8.3 bn spending bill in early March to help develop a vaccine and assist local business and governments.

Eurozone and UK growth improves slightly in the first two months as markets await monetary easing

Economic data from the eurozone and the UK were improving slightly in the first two months of the year. Eurozone's manufacturing PMI increased from 47.9 in January to 49.2 in February, while service PMI increased from 52.5 to 52.6. Eurozone retail sales also increased from -1.1% MoM in December to 0.6% in January. Inflation slowed in February as Eurozone CPI dropped to 1.2% YoY from 1.4% in January. UK manufacturing PMI increased from 50 in January to 51.7 in February, while its services PMI decreased from 53.9 to 53.2. UK retail sales increased to 0.9% in January after declining by 0.5% in December. UK's

Q4 GDP came in at 1.1% YoY, while CPI increased from 1.3% YoY in December to 1.8% in January. In early March, the swaps market priced in a total of 38 bps of policy rate cuts from both ECB and BOE by the end of 2020.

China keeps 10-year pledge to double GDP by 2020 amid virus-led slowdown

As seen by the official manufacturing PMI falling from 50 to 35.7 and services PMI falling from 54.1 to 29.6 in February, China's economy was hit hard by the coronavirus outbreak that extended the China Lunar New Year holiday by one to two weeks in major provinces. The Caixin manufacturing PMI declined less from 51.1 to 40.3, but its response rate was also lower due to a higher proportion of SMEs. The combined Jan/Feb merchandise trade balance became negative for the first time since March 2018, mostly due to declining exports. Inflation in February at 5.2% YoY continues to be higher than China's 2019 policy target of 3% due to the lingering effect of low pork supply, but core inflation lowered to 1% from 1.5%.

Even though the coronavirus has hit the Chinese economy and delayed the annual two sessions scheduled for early March, officials continue to focus on achieving the 10-year goal of doubling GDP. Both one-year loan prime rate and medium-term lending facility rate dropped by 10 bps in February, to 4.05% and 3.15% respectively. Total social financing in January increased to CNY 5.1 Trillion from CNY 2.1 Trillion in December, mostly due to new loans increasing to CNY 3.3 Trillion from CNY 1.1 Trillion. Fiscal deficit to GDP ratio is likely to increase from 2.8% in 2019 to help China achieve at least 5.6% in GDP growth in 2020, which is the minimum needed to double GDP from 2010.

Economic slump continues in Hong Kong as government rolls out relief measures

Economic data for January continued to be battered by domestic social unrest and economic slowdown in the mainland. Retail sales went down 21.4% relative to last year compared to -19.4% in the previous month. Trade balance was down to USD -30.6 bn compared to USD -32.5 bn in the previous month. Visitor arrivals dropped to -57.8% YoY compared to -57.2% in the previous month. PMI improved from 42.1 to 46.8 in January, but it dropped sharply to 33.1 in February due to the Coronavirus situation. Inflation in January dropped to 1.4% YoY

compared to 2.9% in the previous month due to one-time government relief measures. The government will hand out HKD 10,000 to every permanent resident over age 18 in a relief package that is projected to drive the fiscal deficit to HKD 139 bn in 2020, which is almost 5% of 2019 GDP.

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