Insider

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Global Markets :

Liquidity Trap or Flood?

While central banks around the world have been cutting interest rates aggressively, they are still digging deeper into their tool kits in search of innovative ways to unclog bank lending and keep a weakening world economy afloat. With the fifth anniversary of the financial crisis approaching in August, policy makers from the Federal Reserve, the European Central Bank (ECB) and the Bank of England (BOE) all meet within 24 hours this week. Central banks, facing a global recovery that's sputtering even after they delivered trillions of dollars of liquidity and near-zero interest rates, are having to consider fresh strategies to combat the slowdown. Among the options up for consideration by the monetary authorities in addition to potentially doubling-down on previous policies, forcing commercial banks to pay for parking cash in central banks' coffers may be more effective. It's not obvious central banks have been effective, but they're going to keep trying. Fed Chairman Bernanke's FOMC meets July 31 and Aug. 1, a day before ECB President Mario Draghi's Governing Council and BOE Governor Mervyn King's Monetary Policy Committee. The institutions' last meetings ended with the Fed extending its Operation Twist program, the ECB cutting its benchmark rate to a record low 0.75 and the BOE restarting bond buying. According to Bloomberg, faced with a European debt crisis that's engulfing Spain and a stagnating US labor market with unemployment at 8.2%, they may need to do more soon. The International Monetary Fund this month cut its 2013 growth outlook for the advanced economies to 1.9% from 2.1%. It left its 2012 estimate at 1.4%. It is widely expected that Draghi at the ECB may reiterate openness to further rate cuts. As such, the ECB will reduce its key rate to 0.5% in September to protect price stability and make it cheaper for cash-strapped banks to borrow from it. In addition, the central bank for the 17 euro countries will also lower the rate it pays on overnight deposits to minus 0.25% from zero, to encourage banks to use the money for more productive purposes, according to Bloomberg. However, the trouble is that low interest rates, floods of cash and bond-buying have failed to ignite full-fledged recoveries after the financial crisis left banks reluctant to lend. Banks in countries using the euro are further hamstrung by the ever-less-valuable bonds they own of cash-strapped peripheral nations. Meanwhile, commodities started picking up again in the wake of agricultural shortage concern. Cheap money may be flowing into this asset class.

Microscope

International Properties - "RICHARD"

The forth factor affecting the property market is the housing policy. HKSAR's Chief Executive, CY Leung, emphasized that it's needed to provide more public housing. This, in no doubt, will increase supply in the long run. However, he announced recently that starting next year, the government will allow up to 5,000 non-public housing tenants to buy flats under the Home Ownership Scheme (HOS) - without paying a land premium. This news caused the market to react in quite the opposite manner. HOS homeowners immediately chose to believe this new policy will boost demand for their properties - pushing prices of some HOS homes to record high levels. What is more, it caused an upward ripple effect on the private housing market. The new HOS home policy has lifted buying sentiment for users, and a buying spree for upgraders is expected to follow. The measure seems providing a room for Hongkongers to create a "Housing Ladder" in the long run. Although the increase of housing supply will have a negative impact, such "Housing Ladder" is just right to dampen the supply concern. As yet, the housing policy seems to be neutral to HK property price.

MARKET BRIEFING

YTD % (local curr)

	YTD %
US DJ	13,075 (7.0%)
Nasdaq	2,958 (13.5%)
Euro Stoxx 50	2,301 (-0.7%)
HSI	19,274 (4.6%)
Japan NK225	8,566 (1.3%)
China Shanghai Composite	2,128 (-3.2%)
Singapore	2,998 (13.3%)
India BSE30	16,839 (9.0%)
Brazil BOVESPA	56,553 (-0.4%)
Aus All Ord	4,234 (3.0%)
US-10yr Bond	Yield 1.55%

As at 27/07/12

Insight:

"Retirement Planning Pitfalls"

Someone says managing your financial life is simple. Spend less than you make and regularly sock away some money for the future. Or, you may have heard that you should save 10% of your income, like our MPF. That's a fine rule of thumb, but it ignores an important question: What are you saving for? If the answer is "I'm saving so I can retire at age 50 on my own beachfront property," 10% may not be enough - especially if you start saving late. If you think you are too old to save, or that the market is just too risky for your long-term stash, we ask you to reconsider. Perhaps you think it's too late to really make a difference in your golden years. Sure, the earlier you start, the better off you are. In fact, it is "better late than never." Beside we should save for living expenses, retirement planning now also necessitates health-care planning. Failing to factor in health costs can cripple your retirement. The cost of health care in HK has been increasing at a double-digit pace in recent years. These rising costs should be disconcerting to every Hongkongers, but it is an especially important topic to retirees. Last but not the least, to truly stay on track with your retirement planning, it is essential to think long-term. If you aren't retiring for another 20 years and the stock market just tanked, take comfort in knowing you have plenty of time to make up the losses. Often the best reaction to market volatility is no reaction.

A-Z Financial Tools

Horizontal Spread is an option strategy that is involving the purchase and sale of same type of options having the same strike price but different expiration dates. Investors adopt the strategy in order to capture the movement of the underlying assets with the low cost of investment. It is because the purchase cost of option can be subsidized by the sale of another option.

Next Insight

"Financial Crisis History"