

## MEDIA SYNOPSIS

22 November 2013

Channel NewsAsia – AM Live!

# As the Fed changes hands, whither the global economy?



*The US Federal Reserve is likely to keep the US on the path to recovery, with an increasing focus on reducing unemployment. On the other hand, while the Bank of Japan puts the final nail in the coffin of two decades of deflation, China's reforms might stimulate growth at home and abroad. Pang Zhi Jian, Senior Consultant at Spire Research and Consulting, was invited to share his views on the global economy on Channel NewsAsia – AM Live!*

Pang remarked that the US is clearly on the path to recovery. But the path will not be a straight upward line. The US Federal Reserve now seems more

focused on tapering – reducing the rate of buying US Treasury bonds - rather than interest rate policy. However, tapering will be executed cautiously, with more focus on unemployment reduction rather than merely controlling inflation.

Other global economies are unlikely to reverse the positive US story.

Pang commented that upcoming Fed Chair Janet Yellen gives more weight to the role of government intervention for unemployment reduction versus controlling inflation, and would probably take a more cautious stance on tapering. He also observed that the Fed is not likely to do anything dramatic on benchmark interest rates for some time, though it may use secondary tools to influence interest rates.

Meanwhile, two issues lingering on every investor's mind are:

- Keeping tapering orderly and not disruptive; and
- Apprehension about earnings, particularly as China has slowed and Europe remains weak.

The economic outlook in Japan is positive, because the country is likely to overcome deflation and entrench inflationary expectations. The Bank of Japan is aiming to ensure continued inflation at a low level, so as to drive the final nail in the coffin of two decades of deflation.

Pang also discussed how reforms in China could give markets more control in allocating sources. These reforms will still leave key decisions to the state, especially in respect of state-owned enterprises' dominance of key industries. But more space will be given for price movements, increased access for private firms to capital markets and some RMB liberalization.

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