

November 9, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- At the conclusion of the seventh Federal Open Markets Committee (FOMC) policy meeting in 2018 on 8th November, the U.S. Federal Reserve (the Fed) left the target range of the Fed fund rates (FFR) unchanged at 2.0% to 2.25%.
- The Fed reiterated that job creation and household spending grew strongly along with moderated growth in business fixed investment, keeping the unemployment rate at low level. Both overall inflation and core inflation stayed at above 2% on a yearly basis, reflecting stable upswing in pricing pressures of the U.S economy.
- Despite global growth headwinds, the Fed is still optimistic on the resilient growth momentum of the U.S. economy with which gradual rate hike cycle remains intact to ensure price stability and prevent U.S. economy from overheating. We believe there will be one more rate hike in 2018.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

The Fed to keep rates on hold while hinting rate hike in December

At the conclusion of the seventh Federal Open Markets Committee (FOMC) policy meeting in 2018 on 8th November, the U.S. Federal Reserve (the Fed) left the target range of the Fed fund rates (FFR) unchanged at 2.0% to 2.25%. The Fed reiterated that job creation and household spending grew strongly along with moderated growth in business fixed investment, keeping the unemployment rate at low level. Both overall inflation and core inflation stayed at above 2% on a yearly basis, reflecting stable upswing in pricing pressures of the U.S economy. Despite global growth headwinds, the Fed is still optimistic on the resilient growth momentum of the U.S. economy with which gradual rate hike cycle remains intact to ensure price stability and prevent U.S. economy from overheating. We believe there will be one more rate hike in 2018.

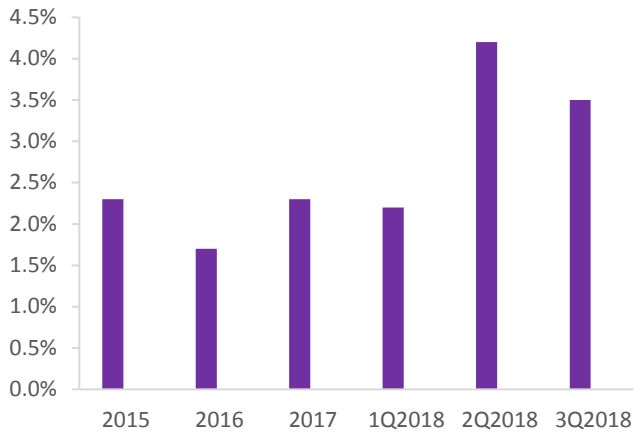
Continued uptrend of economic activities with upswing in inflation. The U.S economy gained more traction as 3Q2018 GDP grew at an annualized rate of 3.5%, indicating that the recovery momentum is on track. Job creation surged as the unemployment rate stayed at low level of 3.7% in September, the lowest level since 1969. The latest wages and prices grew more than 2% YoY which has reached the Fed's 2% inflation target, indicating that inflation is trending upward and more rate hikes are likely in coming FOMC meetings. Looking forward, despite Trump's view that interest rate hikes have already gone too far and sharp correction of stock market in October, the Fed will continue to stick to their plan of gradual rate hikes, thus ensuring a smooth transition to a normalized monetary policy and avoiding disruption of economic recovery.

Continuation of monetary normalization in sight despite headwind of global slowdown. The U.S. dollar Index has rebounded year-to-date 5.0% against major currencies in 2018 on an upbeat U.S economic performance. The strengthening of U.S dollar indicates that economic momentum of the U.S. economy surges along with tight labor market and rising inflation. Although

the ongoing escalation of trade tensions, mounting geo-political risks, Brexit's deadlock and turbulence of emerging market (EM) currencies are dragging down market sentiment and weighting on the growth momentum of global economy, the U.S economy remains resilient in coming quarters with recovery expanding to all sectors and corporate profits surge with acceleration of investment and consumption. We believe pricing pressures will increase steadily, signaling the continuation of gradual rate hikes in 2018 and 2019.

The U.S. mid-term election results signaling more reliance on monetary policy. The results of mid-term election set the stage of more political and legislative gridlock regarding Trump's tax cuts and fiscal stimulus as the Democrats may exercise their power in the House to vote against controversial government policies. Possible fiscal standoff will lead to higher risks of an extended government shutdown. With derailed agenda of fiscal policy, the Fed will play more important role to maintain the rate hike cycle tactfully, thus striking a balance between solid economic growths and surging price level.

Fig. 1: US GDP (YoY)



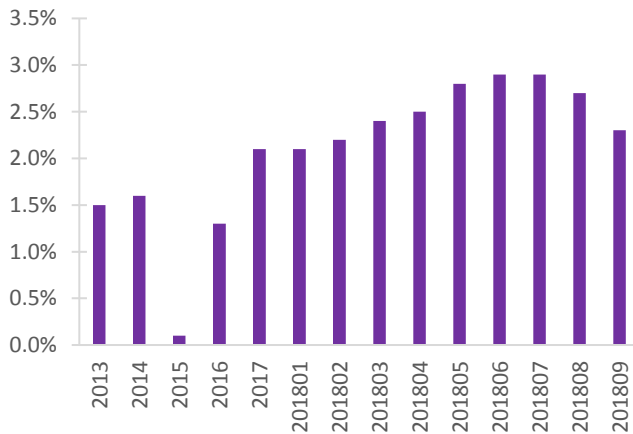
Source: Wind, Bloomberg and CEBI

Fig. 2: US Unemployment rate



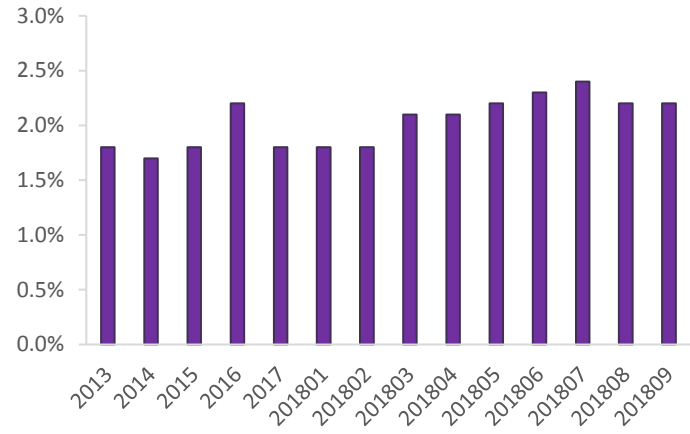
Source: Wind, Bloomberg and CEBI

Fig. 3: US CPI Inflation (YoY)



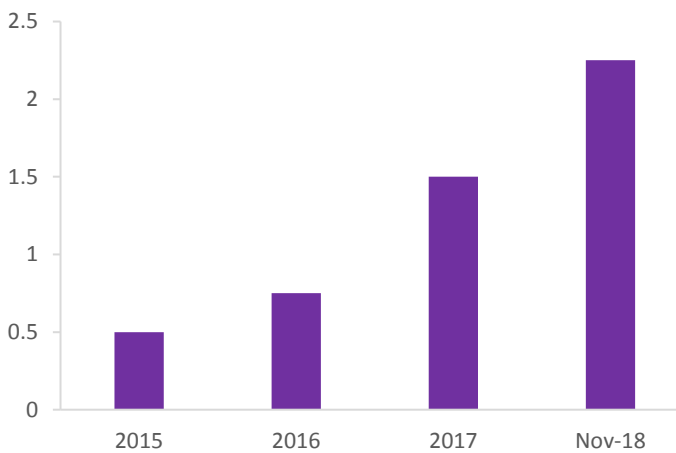
Source: Wind, Bloomberg and CEBI

Fig. 4: US Core CPI Inflation (YoY)



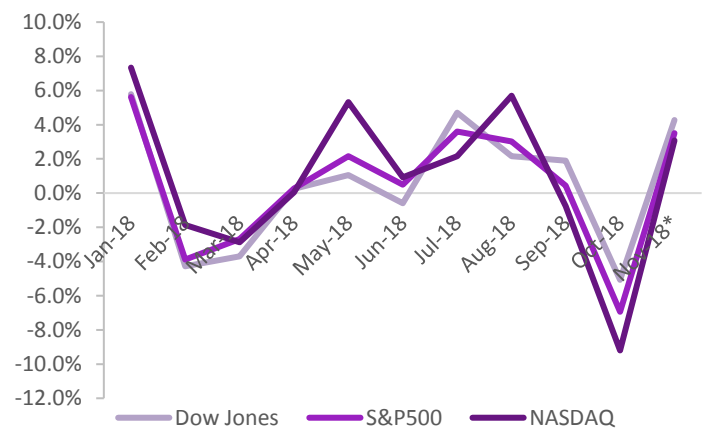
Source: Wind, Bloomberg and CEBI

Fig. 5: US Federal Funds Rate (%)



Source: Wind, Bloomberg and CEBI

Fig. 6: US Stock Market Performance (MoM)



Source: Wind, Bloomberg and CEBI
*8 November 2018

China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	3Q2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.5
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	50.8
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	54.9
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.4	2.6	9.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	11.7	11.1	18.8
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	303.21	573.51	555.3
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.5	11.6
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	20.1
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.1	90.93	85.4
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.3
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.7	4.1	4.1
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	5.4
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.9
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.0
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.0
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	4170.0	4110.0
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.3
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	22396.9	5821.2	4203.6	5350.1

	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18	Sept 18	Oct 18
Real GDP (YoY%)	-	-	6.8	-	-	6.8	-	-	6.7	-	-	6.5	-
PMI – Manufacturing %	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8	50.2
PMI- Non-manufacturing%	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9	53.9
Exports (RMB YoY %)	9.5	7.4	16.3	5.5	35.3	(10.1)	2.8	2.5	2.4	5.4	7.7	16.9	20.1
Imports (RMB YoY %)	15.4	0.9	22.9	30.9	0.1	6.2	12.3	15.7	5.8	20.6	19.4	17.5	26.3
Trade Balance (RMB/bn)	248.2	255.4	362.0	122.8	215.4	(35.1)	166.2	147.5	255.5	173.1	169.5	210.4	233.6
Export (USD YoY %)	6.3	11.5	10.9	10.6	43.5	(3.0)	11.9	11.9	10.6	11.6	9.6	14.4	15.6
Import (USD YoY %)	17.1	17.6	4.5	37.6	6.6	14.8	22.2	26.1	13.8	27	20.6	14.5	21.4
Trade Balance (USD/bn)	37.2	39.0	54.7	18.4	32.3	(5.8)	26.2	23.5	40.6	27.4	26.4	31.3	34.0
CPI (YoY %)	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5
PPI (YoY %)	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3
FAI (YTD/ YOY %)	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3	3.6	-
Real Estate Investment (YTD/ YoY %)	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1	9.9	-
Industrial Production (YoY %)	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	-
Retail Sales (YoY%)	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	-
New Lending (RMB/bn)	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0	1380.0	-
M2 (YoY %)	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	-
Aggregate Financing (RMB bn)	1200.4	1913.9	1586.5	3067.3	1185.4	1568.5	1772.6	945.8	1485.2	1216.1	1928.6	2205.4	-
Urban Unemployment Rate (%)	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9	-
Urban Unemployment Rate in 31 major cities (%)	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9	4.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	26,191.22	17.56	3.19
S&P 500	2,806.83	19.29	2.43
NASDAQ	7,530.89	40.76	1.30
EUR			
FTSE 100	7,140.68	15.41	0.37
DAX	11,527.32	13.74	0.51
CAC40S	5,131.45	15.83	0.90
STOXX EUR 600	367.08	16.44	1.10
Asia			
HSI	25,601.92	9.93	-3.34
HSCEI	10,431.46	8.02	-2.40
CSI300	3,167.44	11.85	-3.73
SSE Composite	2,598.87	12.24	-2.90
SZSE Composite	1,328.19	21.65	-1.70
NIKKEI 225	22,250.25	15.47	0.03
KOSPI	2,086.09	10.07	-0.47
TWSE	9,830.01	13.27	-0.77
S&P/ASX 200	5,921.85	16.47	1.24
MSCI Index			
MSCI WORLD	2,082.47	17.24	2.04
MSCI DEVELOPED	499.57	16.44	2.06
MSCI EMERGING	993.53	11.98	2.27
MSCI US	2,667.73	19.46	2.26
MSCI UK	2,067.32	15.64	0.36
MSCI France	149.02	16.09	0.98
MSCI Germany	140.63	13.81	0.31
MSCI China	74.44	11.82	2.08
MSCI Hong Kong	13,978.45	9.55	2.76
MSCI Japan	1,003.95	12.83	3.01

* As of 09/11/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	60.37	-4.39
ICE Brent Oil	USD/bbl	70.51	-3.19
NYMEX NatGas	USD/MMBtu	3.59	9.41
Basic Metals			
LME Alum.Cash	USD/MT	1,979.50	1.55
CMX Cop.Active	USD/lb.	269.35	-4.04
LME Steel Rebar	USD/MT	513.50	-0.10
LME Lead Cash	USD/MT	1,985.25	2.80
Precious Metals			
CMX Gold	USD/KRW	1,220.72	-0.99
Gold Futures	USD/KRW	1,222.10	-0.91
CMX Silverbn	USD/KRW	14.36	-2.38
NYMEX Platinum	USD/T. oz	862.23	-0.69
Agri, Products			
CBOT Corn	USD/bu	371.75	0.13
CBOT Wheat	USD/bu	505.50	-0.64
NYB-ICE Sugar	USD/lb.	12.84	-2.65
CBOT Soybeans	USD/bu.	876.00	-1.32

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.25	0.00
US Prime Rate	5.25	0.00
US Discount Window	2.75	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	2.19	0.01
US Treasury (1 Yr)	2.72	0.05
US Treasury (5 Yr)	3.07	0.03
US Treasury (10 Yr)	3.21	0.00
US Treasury (30 Yr)	3.40	-0.05
1-Month LIBOR	2.32	0.01
3 Month LIBOR	2.60	0.04
Japan 1-Yr Gov. Bond	-0.16	-0.02
Japan 10-Yr Gov. Bond	0.12	-0.01
German 1-Yr Gov. Bond	-0.64	0.01
German 10-Yr Gov. Bond	0.43	0.00
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.70	-0.14
China 5-Yr Gov. Bond	3.31	-0.07
China 10-Yr Gov. Bond	3.50	-0.02
O/N SHIBOR	2.04	-0.44
1-mth SHIBOR	2.67	-0.02
HK Base rate	2.50	0.00
O/N HIBOR	0.52	0.06
1-mth HIBOR	1.03	-0.07
O/N CNH HIBOR	1.50	-0.59
1-mth CNH HIBOR	3.13	-0.49
Corporate Bonds (Moody's)		
Aaa	4.23	-0.04
Baa	5.18	0.00

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.81	0.28
Euro/USD	1.13	-0.40
GBP/USD	1.30	0.37
AUD/USD	0.72	0.74
USD/CAD	1.32	0.60
USD/JPY	113.80	0.54
USD/CHF	1.01	0.43
USD/CNY Midpoint	6.93	-0.06
USD/CNY	6.94	0.78
USD/CNY NDF		
12-mth Spot pr.	7.00	0.41
USD/CNH	6.94	0.65
USD/HKD	7.83	0.16
CNY/HKD	1.13	-0.77
CNH/HKD	1.13	-0.49
USD/KRW	1,128.30	0.58
USD/TWD	30.81	0.23
USD/SGD	1.38	0.15
USD/INR	72.67	-1.74

All data sources: Bloomberg, CEBI, NBS

Disclosures

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**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**