

November 28, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Entering 4Q2018, global equity markets drift lower as escalation of U.S.-China trade tensions, dollar strength, mounted geo-political risks and sharp drop of oil prices keep the bulls out of the market.
- The plunge in the U.S market, especially the technology stocks sell-off, triggers hiking volatilities in equities across the globe and shakes investors' confidence over economic outlook. The pressure exerted by strong recovery of U.S. economy on the rest of the world via higher U.S. interest rates and stronger dollar have been elevated in the sense that emerging markets (EM) economies face a high risk of capital outflows and market volatility.
- Upcoming G20 summit may help defuse US-China trade conflicts but it is unlikely to strike a trade deal for removal of all tariffs. In sum, investors have become more cautious about market outlook and volatile swings in the index are expected for the rest of 2018 and 2019.

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## Global equity markets encountering elevated volatilities

Entering 4Q2018, global equity markets drift lower as escalation of U.S.-China trade tensions, dollar strength, mounted geo-political risks and sharp drop of oil prices keep the bulls out of the market. The plunge in the U.S market, especially the technology stocks sell-off, triggers hiking volatilities in equities across the globe and shakes investors' confidence over economic outlook. The pressure exerted by strong recovery of U.S. economy on the rest of the world via higher U.S. interest rates and stronger dollar have been elevated in the sense that emerging markets (EM) economies face a high risk of capital outflows and market volatility. Heightened geo-political risks have also added anxiety and confusion to the market that threatens financial stability. Upcoming G20 summit may help defuse US-China trade conflicts but it is unlikely to strike a trade deal for removal of all tariffs. In sum, investors have become more cautious about market outlook and volatile swings in the index are expected for the rest of 2018 and 2019.

**4Q2018 becoming a nightmare for the global equity markets.** Dow, S&P 500, and NASDAQ underperformed in 4Q2018, posting QoQ negative growth of 6.9%, 8.3% and 12%, respectively, while Hang Seng index and Hang Seng China Enterprises index plunged 4.0% and 3.5% QoQ respectively. With the continuous credit tightening in the U.S, the momentum of draining liquidity is strengthening which puts downward pressures on major financial markets. EM economies have raised interest rates to resist capital outflow at a cost of economic deceleration. In sum, escalation of trade tensions, sharp drop of oil prices in 2H2018 and the dollar strength signal that the world economy is entering an era of slow-motion growth. Global macroeconomic recovery is derailing which makes financial markets embrace more volatilities in coming quarters.

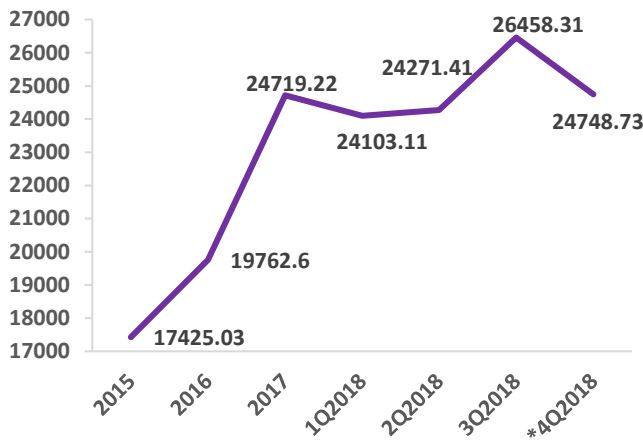
**UK parliament decision on Brexit's deal turning to be the major headwind to the market.** After 20 months of negotiations, the European Union (EU) has approved the agreement on Brexit by

endorsing the terms of the withdrawal. British Prime Minister Theresa May have obtained the approval of the deal from UK Cabinet but the orderly withdrawal still requires the approval of UK parliament. However, she faces political setback from her Cabinet as several ministers including Brexit secretary resigned, expressing his dissatisfaction over the unfairness of the deal. She is likely to come across more struggle of getting UK parliament to approve Brexit deal. In sum, UK's leadership crisis and uncertainties surrounding EU and UK over the completion of the deal continue to be a drag on market outlook of EU and UK.

**Upcoming G20 summit likely to strike a partial trade deal only.**

Much of the attention at the upcoming G20 summit is focused on whether leader of the U.S. and China can resolve trade conflicts. A possible full-blown trade war will do no good for global economic recovery. Risk appetite measures, VIX index, was up 57% QoQ in 4Q2018, indicating that macroeconomic uncertainty is building up from the punitive tariffs placed by the U.S. and China on their trading products with the result of board global market sell-off. Trade war woes have created significant negative impact on global growth momentum as most of the developed and developing economies have seen deceleration of economic activities in 3Q2018. The scale of damage to the global economic growth from the trade war is huge and uncertain, which may further enhance market volatility and weaken market sentiment over investment. In our view, the summit offers the best chance to defuse US-China trade conflicts but trade issues between the two countries are complicated in the sense that it is difficult for the U.S to remove all tariffs on China's products. Partial trade deal focusing on removal of tariffs on some products and reduction of tariffs rates is likely to achieve to alleviate trade tensions, leaving more room for negotiations after the summit.

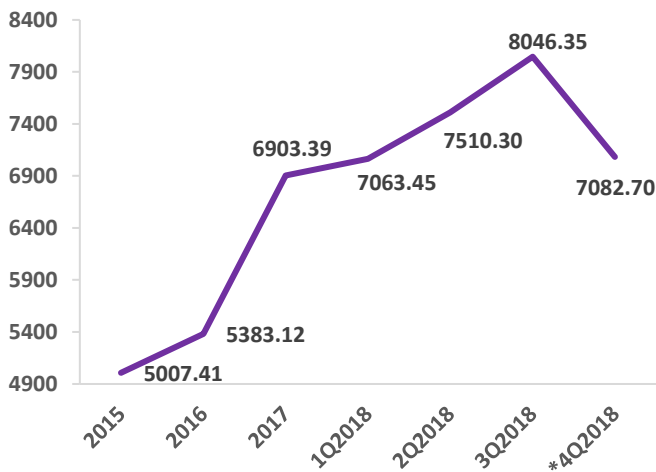
**Fig. 1: DJIA**



\* 27th November 2018

Source: Wind, Bloomberg and CEBI

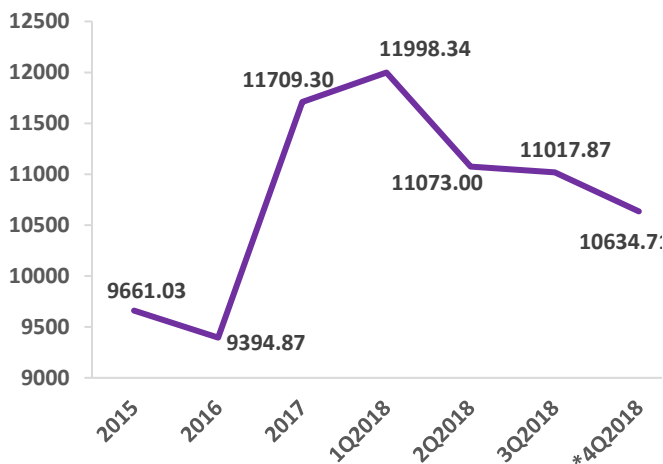
**Fig. 3: NASDAQ**



\* 27th November 2018

Source: Wind, Bloomberg and CEBI

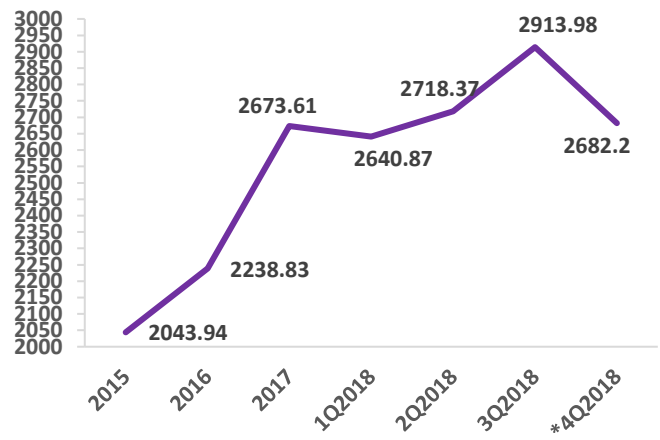
**Fig. 5: HSCEI Index**



\* 28th November 2018

Source: Wind, Bloomberg and CEBI

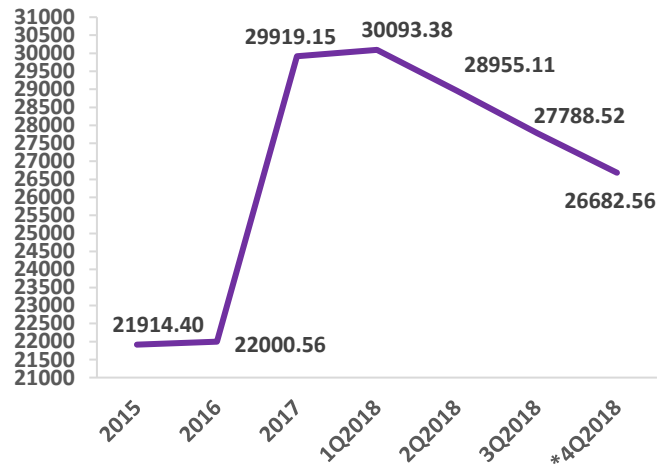
**Fig. 2: S&P 500 Index**



\* 27th November 2018

Source: Wind, Bloomberg and CEBI

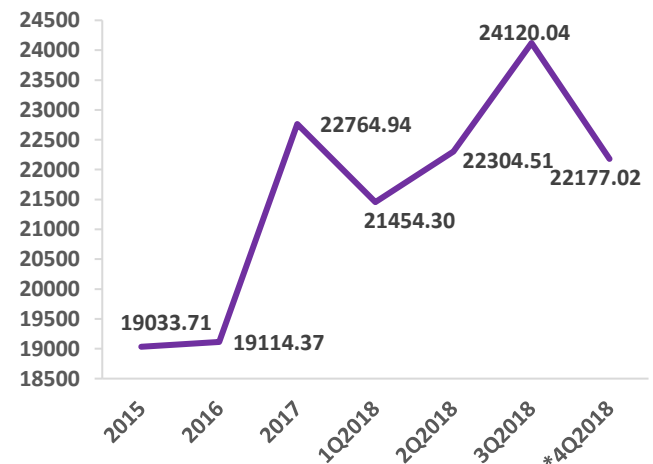
**Fig. 4: Hang Seng Index**



\* 28th November 2018

Source: Wind, Bloomberg and CEBI

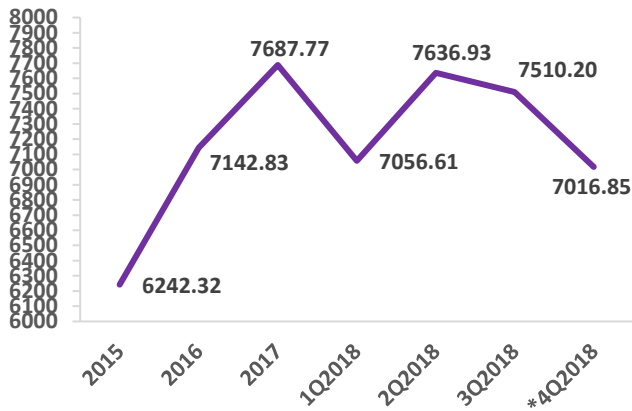
**Fig. 6: NIKKEI 225**



\* 28th November 2018

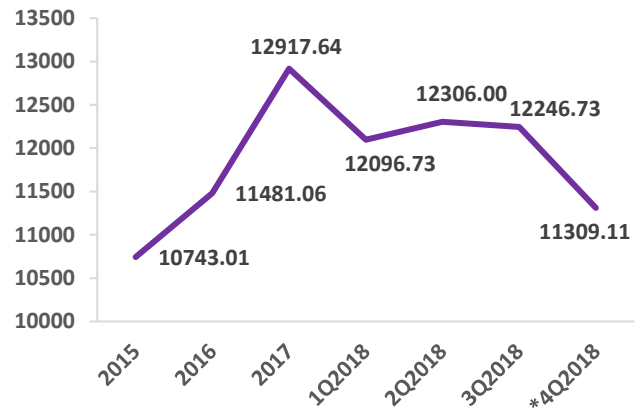
Source: Wind, Bloomberg and CEBI

**Fig. 7: FTSE 100**



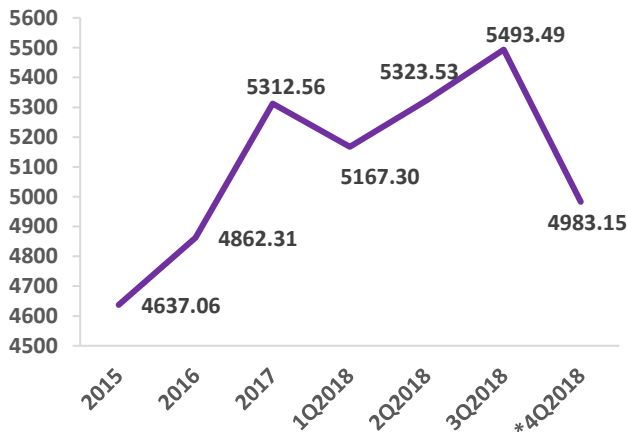
\* 27th November 2018  
Source: Wind, Bloomberg and CEBI

**Fig. 8: DAX Index**



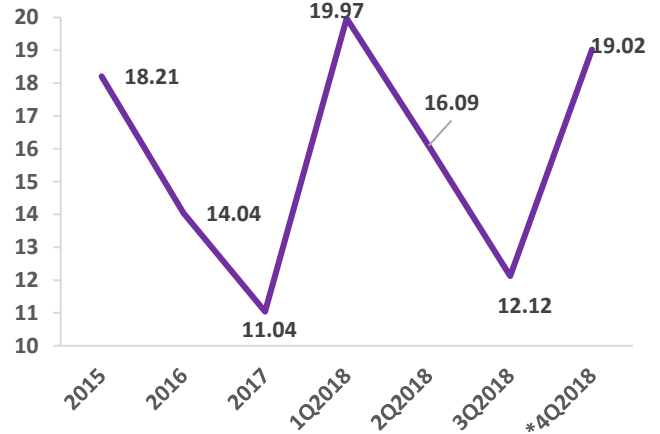
\* 27th November 2018  
Source: Wind, Bloomberg and CEBI

**Fig. 9: CAC40 Index**



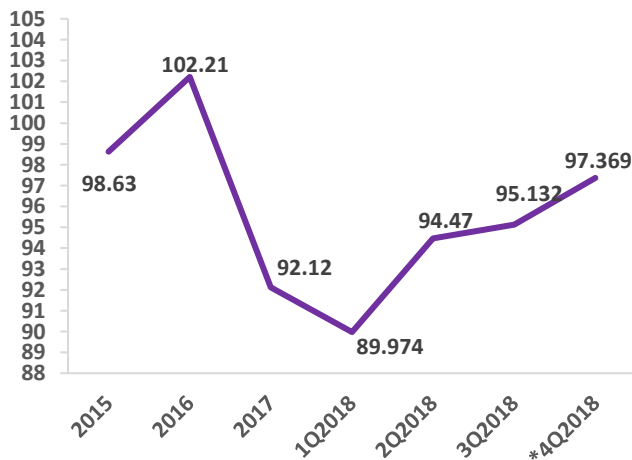
\* 27th November 2018  
Source: Wind, Bloomberg and CEBI

**Fig. 10: VIX Index**



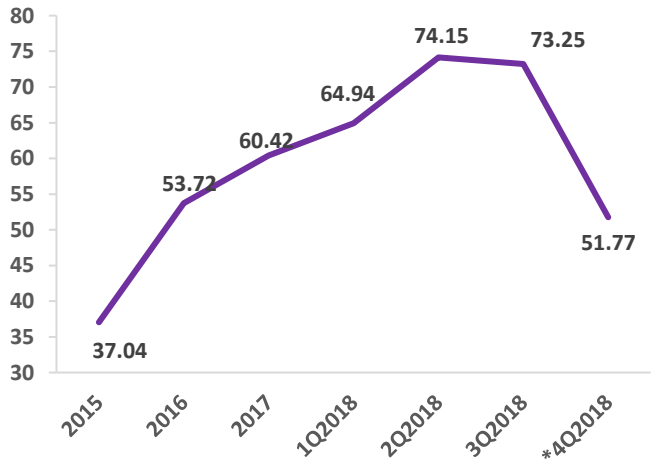
\* 27th November 2018  
Source: Wind, Bloomberg and CEBI

**Fig. 11: US dollar index**



\* 27th November 2018  
Source: Wind, Bloomberg and CEBI

**Fig. 12: WTI Crude Oil Futures (per barrel)**



\* 27th November 2018  
Source: Wind, Bloomberg and CEBI

## 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	5.4	5.7
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	9.7
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	5.9
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	8.6
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	697.0
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	8.0
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	728.8
Urban Unemployment Rate (%)	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9	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	4.7

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	24,748.73	16.51	-1.07
S&P 500	2,682.17	18.37	-0.32
NASDAQ	7,082.70	39.61	0.77
<b>EUR</b>			
FTSE 100	7,016.85	15.93	0.99
DAX	11,309.11	12.42	2.19
CAC40S	4,983.15	15.36	1.18
STOXX EUR 600	357.40	16.01	1.81
<b>Asia</b>			
HSI	26,682.56	9.98	2.74
HSCEI	10,634.71	7.88	1.42
CSI300	3,178.93	11.58	-1.47
SSE Composite	2,601.74	11.96	-1.88
SZSE Composite	1,355.38	21.59	-2.24
NIKKEI 225	22,177.02	15.18	2.75
KOSPI	2,108.22	10.03	1.53
TWSE	9,884.31	13.11	1.47
S&P/ASX 200	5,725.08	15.82	1.46
<b>MSCI Index</b>			
MSCI WORLD	2,000.07	16.55	1.17
MSCI DEVELOPED	481.24	15.82	1.13
MSCI EMERGING	980.16	11.76	0.78
MSCI US	2,549.36	18.52	-0.27
MSCI UK	2,032.87	16.20	0.95
MSCI France	144.57	15.56	1.30
MSCI Germany	137.88	13.05	2.22
MSCI China	74.38	11.79	2.25
MSCI Hong Kong	14,285.96	9.83	2.00
MSCI Japan	981.64	12.49	0.28

\* As of 28/11/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	52.12	-2.47
ICE Brent Oil	USD/bbl	60.81	-4.21
NYMEX NatGas	USD/MMBtu	4.19	-7.36
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	1,920.50	-0.45
CMX Cop.Active	USD/lb.	274.40	-1.17
LME Steel Rebar	USD/MT	499.00	-0.99
LME Lead Cash	USD/MT	1,885.00	-2.84
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,213.58	-0.75
Gold Futures	USD/KRW	1,219.40	-0.62
CMX Silverbn	USD/KRW	14.14	-1.73
NYMEX Platinum	USD/T. oz	833.54	-1.46
<b>Agri, Products</b>			
CBOT Corn	USD/bu	369.00	-0.87
CBOT Wheat	USD/bu	506.25	-0.39
NYB-ICE Sugar	USD/lb.	12.34	-3.59
CBOT Soybeans	USD/bu.	876.00	-0.57

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)	2.25	0.03
US Treasury (1 Yr)	2.68	0.02
US Treasury (5 Yr)	2.88	-0.01
US Treasury (10 Yr)	3.06	-0.01
US Treasury (30 Yr)	3.31	0.00
1-Month LIBOR	2.34	0.04
3 Month LIBOR	2.71	0.06
Japan 1-Yr Gov. Bond	-0.13	0.03
Japan 10-Yr Gov. Bond	0.10	0.01
German 1-Yr Gov. Bond	-0.65	-0.01
German 10-Yr Gov. Bond	0.34	-0.04
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	-0.15	0.01
China 5-Yr Gov. Bond	3.19	0.00
China 10-Yr Gov. Bond	3.41	0.02
O/N SHIBOR	2.54	-0.04
1-mth SHIBOR	2.70	0.00
HK Base rate	2.50	0.00
O/N HIBOR	0.67	0.30
1-mth HIBOR	1.11	0.12
O/N CNH HIBOR	1.74	-1.33
1-mth CNH HIBOR	3.82	-0.22
<b>Corporate Bonds (Moody's)</b>		
Aaa	4.18	-0.07
Baa	5.23	-0.01

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	97.51	0.83
Euro/USD	1.13	-0.89
GBP/USD	1.27	-0.28
AUD/USD	0.72	-0.04
USD/CAD	1.33	0.25
USD/JPY	113.85	0.65
USD/CHF	1.00	0.44
USD/CNY Midpoint	6.95	0.07
USD/CNY	6.96	0.42
<b>USD/CNY NDF</b>		
12-mth Spot pr.	7.02	0.18
USD/CNH	6.95	0.23
USD/HKD	7.83	-0.05
CNY/HKD	1.13	-0.48
CNH/HKD	1.13	-0.27
USD/KRW	1,126.55	-0.41
USD/TWD	30.91	0.03
USD/SGD	1.38	0.26
USD/INR	70.72	-1.31

All data sources: Bloomberg, CEBI

## Disclosures

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We, LAM Chiu Kei, Banny (CE Number: AGH217), being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company(ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company(ies) covered in this report.

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