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Economic Acumen

Commentary by CEBI Research Team

In Brief

- G20 summit at Argentina this year was overwhelmingly shadowed by the working dinner between the leaders of the two largest economies over the trade disputes. The trade talk is gaining progress that the U.S. will leave the tariffs at 10% on \$200 billion worth of imported Chinese products unchanged for 90 days while China agrees to buy substantial amount of agricultural, energy, industrial and other products to reduce the trade imbalance between the two countries.
- In addition to temporary suspension of new tariffs, both sides have agreed to begin negotiation on resolving some of business issues in their economic relationship. Tariff rate raising from 10% to 25% remains intact if the trade agreement cannot be reached during 90-day negotiation period.
- In sum, the tariffs' reprieve offered by the U.S. will only soften the negative impact of trade war on global economic growth in the near term but the existing tariffs and possibility of unsuccessful trade deal still cloud the economic outlook of 2019.

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Halting the escalation of trade disputes for 90 days

G20 summit at Argentina this year was overwhelmingly shadowed by the working dinner between the leaders of the two largest economies over the trade disputes. The trade talk is gaining progress that the U.S. will leave the tariffs at 10% on \$200 billion worth of imported Chinese products unchanged for 90 days while China agrees to buy substantial amount of agricultural, energy, industrial and other products to reduce the trade imbalance between the two countries. In addition to temporary suspension of new tariffs, both sides have agreed to begin negotiation on resolving some of business issues in their economic relationship regarding forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and theft, services and agriculture. Tariff rate raising from 10% to 25% remains intact if the trade agreement cannot be reached during 90-day negotiation period. In sum, the trade war woes have already demonstrated signs of inflicting damages to the economies of both the U.S. and China, denting global growth momentum and triggering substantial volatilities in financial markets. Most of the developed and developing economies have seen deceleration of economic activities in 3Q2018 and 4Q2018. The tariffs' reprieve offered by the U.S. will only soften the negative impact of trade war on global economic growth in the near term but the existing tariffs and possibility of unsuccessful trade deal still cloud the economic outlook of 2019. A trade deal between the U.S. and China is of paramount importance in sustaining growth momentum of the world economy and financial markets.

A partial trade truce signaling progress of revolving trade disputes. The principal agreement reached during the G20 Summit between the U.S and China was considered as a breakthrough for preventing further expansion of economic friction between the two countries and opening up new room for more meaningful talks and negotiations. Although the trade truce is partial in the sense that there exist chances of failure of reaching trade agreement within 90 days, the current progress indicates both sides have expressed their optimism on resolving the trade disputes. Nonetheless, global

growth momentum has been damaged by the existing tariff plan, surging U.S interest rates and correction of financial markets. The deceleration of global growth for 2019 is inevitable and we hope that the trade deal will be reached successfully within the next 90 days, thus helping to revive growth momentum and market sentiment of the world economy.

Temporary ceasefire of trade war slowing growth moderation of China's economy. The halting move by the U.S. to keep the tariff rate at 10% on \$200 billion worth of Chinese goods for 90 days will partially alleviate the growth headwind against China's economy. However, China's economy still faces moderation of growth, exacerbated by existing trade tariffs plan, weak market sentiment and correction of stock market. The latest official manufacturing PMI dropped from 50.2 in October to 50.0 in November, below consensus estimate of 50.2 and the weakest level in over two years, thus reflecting the deceleration of growth momentum. In our view, the temporary ceasefire of trade war along with intensive stimulus measures will help strengthen growth of economic activities, thus ensuring soft-landing of the economy.

The U.S. economy feeling the hit from the trade war. Trump's tariffs have shown negative impact on the U.S economy which decelerate the growth momentum of manufacturing sector, undermine profit growth and damage investment confidence. Driven by correction of equity market and oil prices as well as softening expectation of corporate profit growth, the Fed's Chairman Jerome Powell has turned dovish, hinting that current level of interest rate is "just below" the neutral rate and future tightening decisions are subject to growth momentum of the U.S economy. His views reflect that the U.S economy is experiencing a steady growth path with stable inflationary pressures. We expect the Fed will only adopt two 25bps rate hikes in 2019, significantly lower than four rate hikes in 2018 and the U.S. economy will continue to demonstrate modest recovery with its GDP slowing to 2.6% YoY in 2019. In our view, the surging damage of trade protectionism on the U.S economy will prompt Trump's administration to strike a trade deal with China within the next 90 days.

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(%)
U.S.			
DJIA	25,538.46	17.03	5.16
S&P 500	2,760.17	18.90	4.85
NASDAQ	7,330.54	41.04	5.64
EUR			
FTSE 100	6,980.24	15.84	0.39
DAX	11,257.24	12.34	0.58
CAC40S	5,003.92	15.44	1.15
STOXX EUR 600	357.49	15.99	0.99
Asia			
HSI	26,506.75	10.04	2.23
HSCEI	10,621.74	7.96	2.24
CSI300	3,172.69	11.71	0.93
SSE Composite	2,588.19	12.06	0.34
SZSE Composite	1,337.74	21.60	0.19
NIKKEI 225	22,351.06	15.45	3.25
KOSPI	2,096.86	9.99	1.91
TWSE	9,888.03	13.31	2.28
S&P/ASX 200	5,667.16	15.61	-0.86
MSCI Index			
MSCI WORLD	2,041.36	16.87	3.36
MSCI DEVELOPED	490.86	16.11	3.27
MSCI EMERGING	994.72	11.90	2.64
MSCI US	2,623.85	19.05	4.83
MSCI UK	2,022.30	16.11	0.41
MSCI France	145.12	15.63	1.16
MSCI Germany	137.04	12.97	0.56
MSCI China	75.76	12.01	3.78
MSCI Hong Kong	14,279.85	9.82	1.22
MSCI Japan	993.74	12.65	2.17

* As of 30/11/2018 closing for all markets

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	50.93	1.01
ICE Brent Oil	USD/bbl	58.71	-0.15
NYMEX NatGas	USD/MMBtu	4.61	7.06
Basic Metals			
LME Alum.Cash	USD/MT	1,957.25	0.98
CMX Cop.Active	USD/lb.	278.75	0.07
LME Steel Rebar	USD/MT	464.00	-1.69
LME Lead Cash	USD/MT	1,960.50	0.89
Precious Metals			
CMX Gold	USD/KRW	1,220.52	-0.21
Gold Futures	USD/KRW	1,226.00	-0.25
CMX Silverbn	USD/KRW	14.20	-0.60
NYMEX Platinum	USD/T. oz	798.10	-5.38
Agri. Products			
CBOT Corn	USD/bu	377.75	1.96
CBOT Wheat	USD/bu	515.75	1.68
NYB-ICE Sugar	USD/lb.	12.84	2.97
CBOT Soybeans	USD/bu.	894.75	1.56

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)	2.30	0.09
US Treasury (1 Yr)	2.68	0.02
US Treasury (5 Yr)	2.81	-0.05
US Treasury (10 Yr)	2.99	-0.05
US Treasury (30 Yr)	3.29	-0.01
1-Month LIBOR	2.35	0.03
3 Month LIBOR	2.74	0.05
Japan 1-Yr Gov. Bond	-0.14	0.00
Japan 10-Yr Gov. Bond	0.09	-0.01
German 1-Yr Gov. Bond	-0.63	0.01
German 10-Yr Gov. Bond	0.31	-0.03
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.50	-0.05
China 5-Yr Gov. Bond	3.14	-0.05
China 10-Yr Gov. Bond	3.38	-0.04
O/N SHIBOR	2.64	0.29
1-mth SHIBOR	2.70	0.01
HK Base rate	2.50	0.00
O/N HIBOR	1.53	0.84
1-mth HIBOR	1.20	0.12
O/N CNH HIBOR	1.80	-1.44
1-mth CNH HIBOR	3.95	-0.16
Corporate Bonds (Moody's)		
Aaa	4.21	-0.01
Baa	5.29	0.06

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	97.27	0.37
Euro/USD	1.13	-0.18
GBP/USD	1.27	-0.51
AUD/USD	0.73	1.01
USD/CAD	1.33	0.41
USD/JPY	113.57	0.54
USD/CHF	1.00	0.05
USD/CNY Midpoint	6.94	0.07
USD/CNY	6.96	0.17
USD/CNY NDF		
12-mth Spot pr.	7.01	0.09
USD/CNH	6.95	0.07
USD/HKD	7.82	-0.02
CNY/HKD	1.12	-0.19
CNH/HKD	1.13	0.11
USD/KRW	1,120.80	-0.86
USD/TWD	30.84	-0.18
USD/SGD	1.37	-0.18
USD/INR	69.58	-1.58

All data sources: Bloomberg, CEBI

Disclosures

Analyst Certification

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