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Economic Acumen

Commentary by CEBI Research Team

In Brief

- 2017 was a year of harvest in the global stock market. Dow, S&P 500, NASDAQ and Nikkei posted YoY growth of 25.1%, 19.4%, 28.3% and 19.1% while Hang Seng Index (HSI) and Hang Seng China Enterprises Index (HSCEI) soared 36.0% and 24.6%.
- The global business cycle continues to evolve with global economies demonstrating a steady upswing in economic activities and the monetary stance of major economies becomes clearer and more transparent.
- Stable tightening of liquidity to suppress potential hiking of inflation, improving financial market conditions and gradual restoration of confidence are at the root of sustaining the growth of economic activities. As strong economic growth boosts corporate earnings, global equity markets can rise further. We expect the global economic recovery to gain more traction, thus extending equity market rally in 2018.

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Equity markets carrying new highs in 2018

2017 was a year of harvest in the global stock market. Dow, S&P 500, NASDAQ and Nikkei posted YoY growth of 25.1%, 19.4%, 28.3% and 19.1% while Hang Seng Index (HSI) and Hang Seng China Enterprises Index (HSCEI) soared 36.0% and 24.6%. The global business cycle continues to evolve with global economies demonstrating a steady upswing in economic activities and the monetary stance of major economies becomes clearer and more transparent. In sum, stable tightening of liquidity to suppress potential hiking of inflation, improving financial market conditions and gradual restoration of confidence are at the root of sustaining the growth of economic activities. As strong economic growth boosts corporate earnings, global equity markets can rise further. We expect the global economic recovery to gain more traction, thus extending equity market rally in 2018.

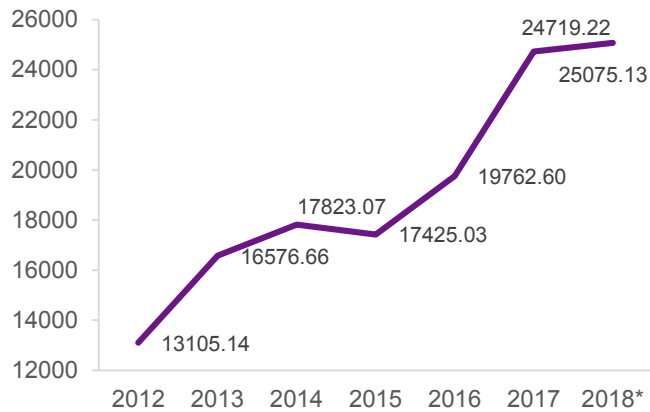
Positive equity market outlook for 2018. With economic cycle bottomed, stock markets across the globe have been on the upswing in 2017, which was mainly driven by robust economic recovery, ample liquidity flow and falling equity risk premium. For 2018, investors would be likely to increase their optimism on the accelerating pace of global economic growth and corporate earnings. Stable expansion of economic activities will maintain growth momentum of the global economy and rising profitability of enterprises will empower equity returns, thus sustaining robust performance of equity market.

Worldwide liquidity to remain abundant amid orderly liquidity tightening. A marked improvement in economic conditions of developed and emerging worlds attract the attention of central banks to watch out global liquidity conditions and inflationary pressures. The Federal Reserve (Fed) continues to normalize its monetary policy gradually and European Central Bank (ECB) begins to unwind its monetary stimulus, planning to cut its bond purchases from January 2018. The divergent monetary normalization strategies by the Fed and the ECB augur well for an orderly and gradual tightening of credit conditions and reduction in global liquidity. In general, the stable tightening of global liquidity to suppress potential inflation hikes turns to be a norm, but a favorable interest rate environment

is still expected to maintain for the global economy in 2018. Worldwide liquidity conditions still remain loose, suggesting a positive backdrop for equities.

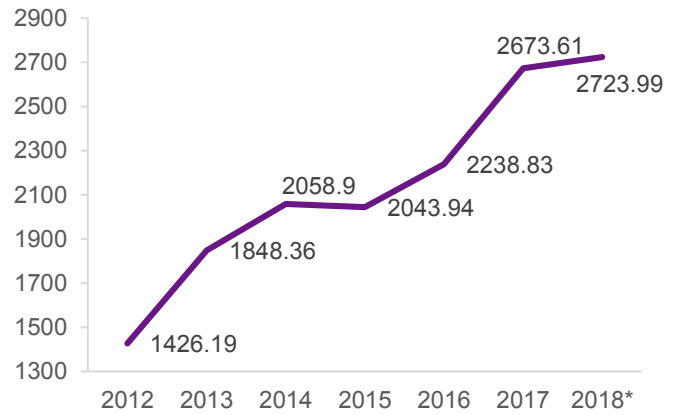
Hong Kong's stock market will benefit from the positive economic outlook of China. While Hong Kong's economy has become increasingly linked to mainland China, its monetary policy is still tied to the U.S. through the dollar peg system. Hong Kong's stock market has been increasingly affected by China's economic conditions as well as the path of interest rate hikes in the U.S. As the U.S. Fed maintains that there would be a gradual path of rate hikes along with shrinking of the balance sheet in 2018, uncertainties among investors have been reduced. With China's policymakers intending to call for more structural reforms to consolidate the nation's recovery, we believe the favorable macroeconomic environment will add fuel to Hong Kong's stock market in 2018. We forecast that the HSI and HSCEI will reach 32,500 and 14,800 by end-2018.

Fig. 1: Dow Jones Industrial Average



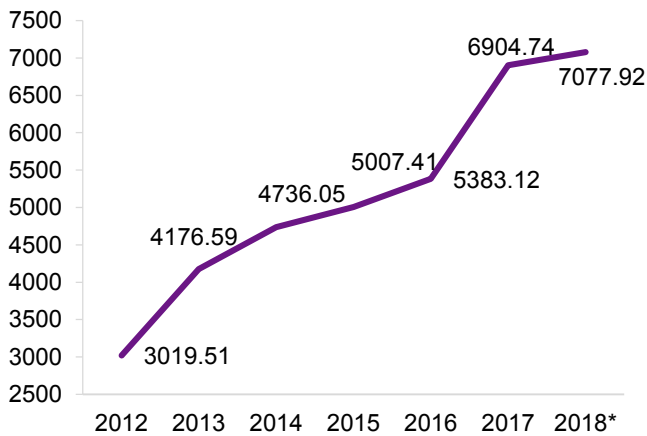
* 4 January 2018
Source: Bloomberg, Wind and CEBI

Fig. 2: S&P 500 Index



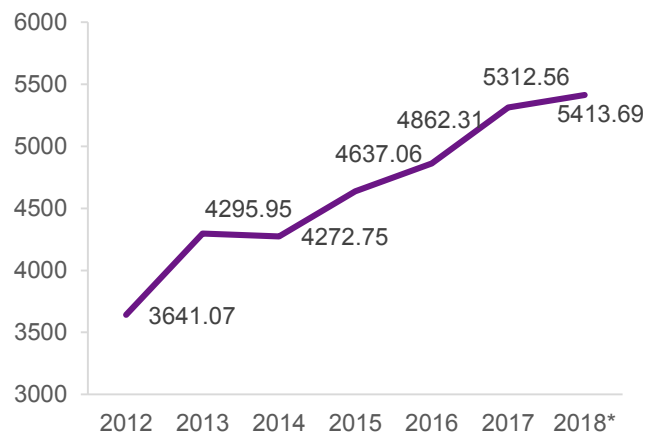
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Source: Bloomberg, Wind and CEBI

Fig. 3: NASDAQ



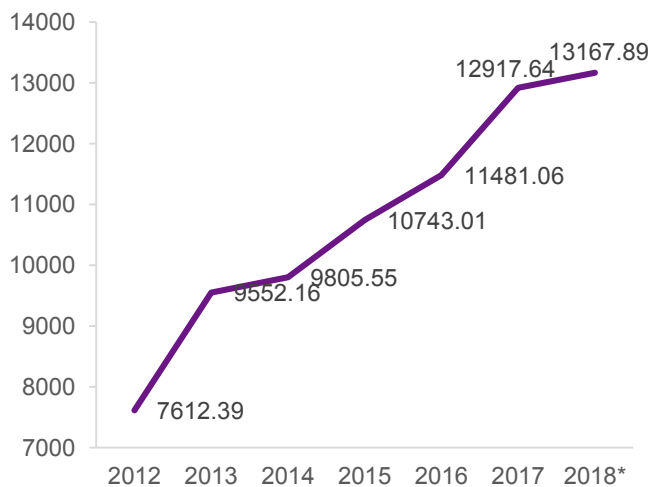
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Fig. 4: CAC40



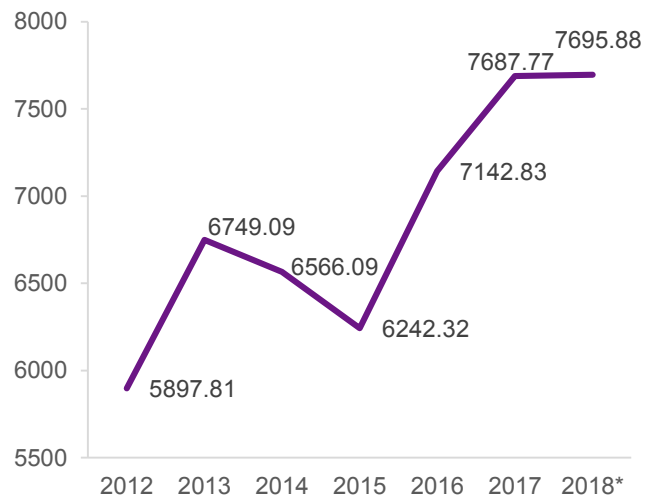
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Fig. 5: DAX Index



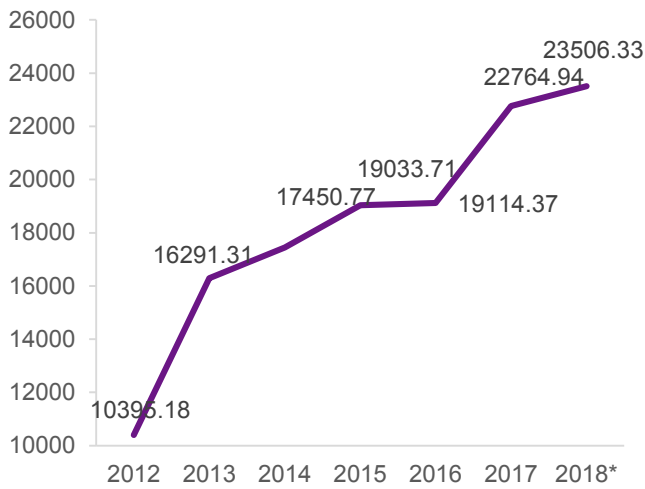
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Fig. 6: FTSE100



* 4 January 2018
Source: Bloomberg, Wind and CEBI

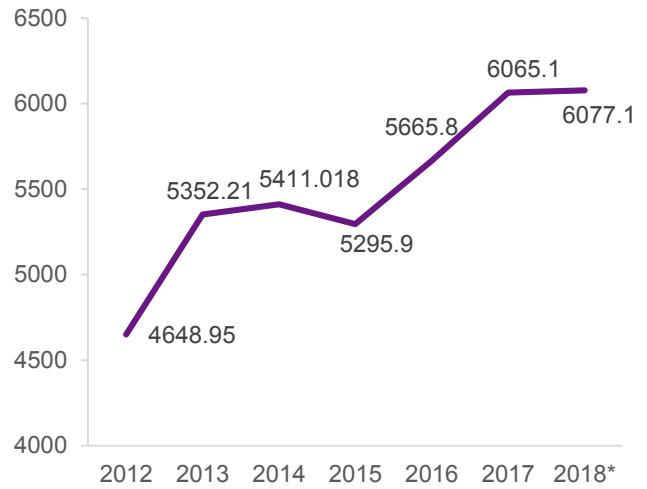
Fig. 7: Nikkei 225



* 4 January 2018

Source: Bloomberg, Wind and CEBI

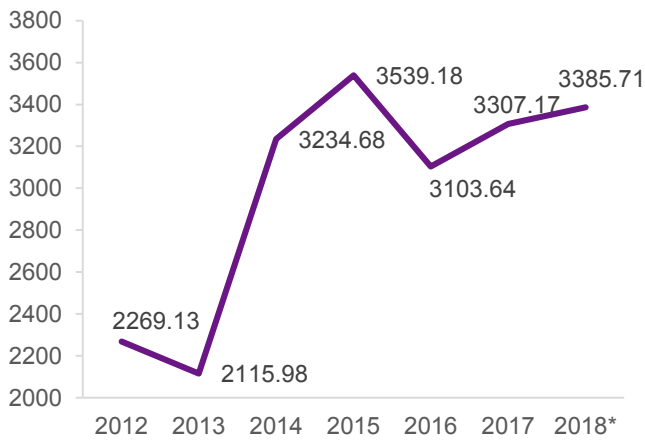
Fig. 8: S&P/ASX200



* 4 January 2018

Source: Bloomberg, Wind and CEBI

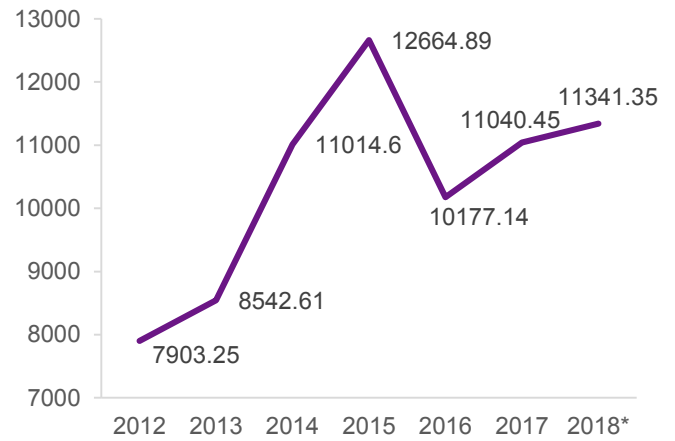
Fig. 9: Shanghai Composite Index



* 4 January 2018

Source: Bloomberg, Wind and CEBI

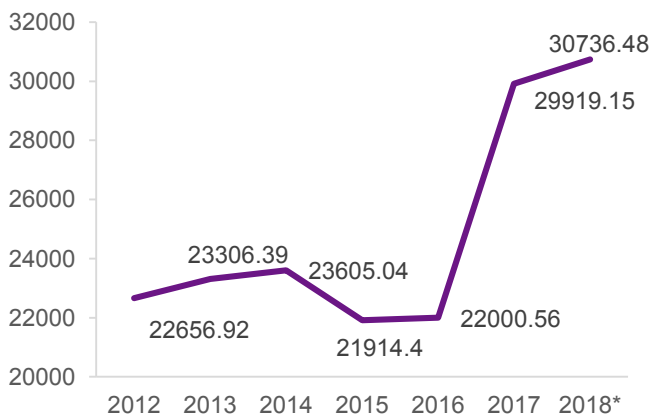
Fig. 10: Shenzhen Component Index



* 4 January 2018

Source: Bloomberg, Wind and CEBI

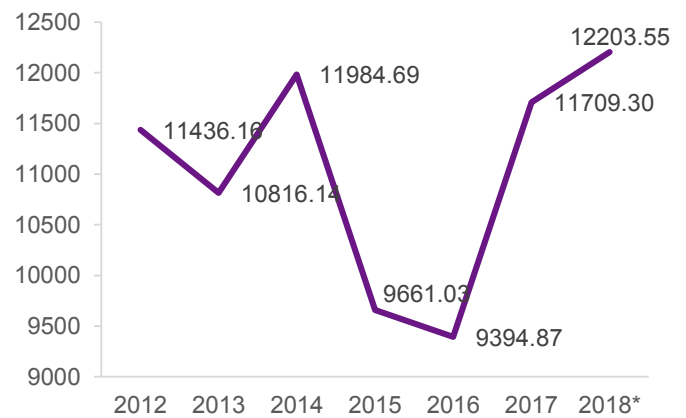
Fig. 11: Hang Seng Index



* 4 January 2018

Source: Bloomberg, Wind and CEBI

Fig. 12: Hang Seng China Enterprises Index



* 4 January 2018

Source: Bloomberg, Wind and CEBI

China Economic Indicators

	2014	2015	2016	1Q2017	2Q2017	1H2017	3Q2017
Real GDP	7.3	6.9	6.7	6.9	6.9	6.9	6.8
PMI Manufacturing (%)	50.1	49.7	51.4	51.8	51.7	51.7	52.4
PMI Non-Manufacturing (%)	54.1	54.4	54.5	55.1	54.9	54.9	55.4
Exports (RMB YoY %)	4.9	(1.9)	(1.9)	14.4	15.4	15.0	9.0
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	31.0	21.1	25.7	16.3
Trade Balance (RMB/bn)	2352.6	3683.1	3345.2	445.9	832.3	1278.2	800.7
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.8	9.1	8.5	6.9
Imports (USD YoY %)	0.4	(14.1)	(5.5)	24.0	14.5	18.9	14.5
Trade Balance (USD/bn)	383.1	593.9	509.7	64.3	120.8	185.1	117.2
CPI (YoY %)	2.0	1.4	2.0	1.4	1.4	1.4	1.6
PPI (YoY %)	(1.9)	(5.2)	(1.4)	7.4	5.8	6.6	6.2
FAI (YTD/ YOY %)	15.7	10.0	8.1	9.2	8.6	8.6	7.5
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	9.1	8.5	8.5	8.1
Industrial Production (YoY %)	8.3	6.1	6.0	6.8	6.9	6.9	6.3
Retail Sales (YoY%)	12.0	10.7	10.4	10.0	10.8	10.4	10.3
New Lending (RMB/bn)	9781.3	11719.9	12645.9	4220.0	3750.0	7970.0	3785.5
M2 (YoY %)	12.2	13.3	11.3	10.6	9.4	9.4	9.2
Aggregate Financing (RMB bn)	16457.1	15408.6	17800.0	6938.5	4573.4	11163.3	4502.7

	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17
Real GDP	-	6.8	-	-	6.9	-	-	6.9	-	-	6.8	-	-
PMI – Manufacturing %	51.7	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8
PMI- Non-manufacturing%	54.7	54.5	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8
Exports (RMB YoY %)	5.9	0.6	15.0	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3
Imports (RMB YoY %)	13.0	10.8	25.7	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6
Trade Balance (RMB/bn)	287.9	267.3	342.0	(69.0)	158.9	254.7	279.3	290.7	314.4	282.5	194.2	253.7	263.6
Export (USD YoY %)	0.1	(6.1)	7.0	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3
Import (USD YoY %)	6.7	3.1	17.1	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7
Trade Balance (USD/bn)	43.1	39.6	49.5	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2
CPI (YoY %)	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7
PPI (YoY %)	3.3	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8
FAI (YTD/ YOY %)	8.3	8.1	-	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2
Real Estate Investment (YTD/ YoY %)	6.5	6.9	-	8.9	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5
Industrial Production (YoY %)	6.2	6.0	-	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1
Retail Sales (YoY%)	10.8	10.9	-	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2
New Lending (RMB/bn)	794.6	1040.0	2030.0	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0
M2 (YoY %)	11.4	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1
Aggregate Financing (RMB bn)	1736.6	1630.0	3696.8	1090.2	2118.4	1387.8	1063.0	1771.8	1193.5	1487.4	1832.4	1035.0	1598.3

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,075.13	20.94	1.21
S&P 500	2,723.99	22.77	1.54
NASDAQ	7,077.92	55.86	2.00
EUR			
FTSE 100	7,695.88	22.97	0.99
DAX	13,167.89	19.37	0.75
CAC40S	5,413.69	18.60	0.84
STOXX EUR 600	393.68	21.05	0.80
Asia			
HSI	30,736.48	14.31	3.85
HSCEI	12,203.55	9.54	5.04
CSI300	4,128.81	16.92	3.45
SSE Composite	3,385.71	17.17	3.36
SZSE Composite	1,940.96	29.22	3.31
NIKKEI 225	23,506.33	20.17	2.47
KOSPI	2,466.46	12.85	1.61
TWSE	10,848.63	15.88	3.45
S&P/ASX 200	6,077.08	18.07	0.12
MSCI Index			
MSCI WORLD	2,142.75	21.71	1.70
MSCI DEVELOPED	523.27	20.89	1.90
MSCI EMERGING	1,192.56	16.29	3.38
MSCI US	2,592.49	23.15	1.54
MSCI UK	2,230.09	23.48	0.97
MSCI France	155.46	18.53	0.82
MSCI Germany	163.08	19.03	0.90
MSCI China	93.66	18.07	4.84
MSCI Hong Kong	16,142.94	13.57	1.81
MSCI Japan	1,104.25	16.17	1.77

* As of 4/1/2018 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	62.01	3.97
ICE Brent Oil	USD/bbl	68.07	2.45
NYMEX NatGas	USD/MMBtu	2.88	5.19
Basic Metals			
LME Alum.Cash	USD/MT	2,235.00	-0.30
CMX Cop.Active	USD/lb.	326.30	-0.64
LME Steel Rebar	USD/MT	561.00	0.36
LME Lead Cash	USD/MT	2,593.50	2.59
Precious Metals			
CMX Gold	USD/KRW	1,313.65	2.14
Gold Futures	USD/KRW	1,321.60	2.34
CMX Silverbn	USD/KRW	17.15	3.05
NYMEX Platinum	USD/T. oz	953.15	3.18
Agri. Products			
CBOT Corn	USD/bu	351.00	-0.78
CBOT Wheat	USD/bu	434.00	1.40
NYB-ICE Sugar	USD/lb.	15.25	2.14
CBOT Soybeans	USD/bu.	967.75	0.03

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.50	0.00
US Prime Rate	4.50	0.00
US Discount Window	2.00	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.26	0.09
US Treasury (1 Yr)	1.80	0.07
US Treasury (5 Yr)	2.27	0.03
US Treasury (10 Yr)	2.45	0.02
US Treasury (30 Yr)	2.79	0.03
1-Month LIBOR	1.56	-0.01
3 Month LIBOR	1.70	0.01
Japan 1-Yr Gov. Bond	-0.15	-0.01
Japan 10-Yr Gov. Bond	0.06	0.00
German 1-Yr Gov. Bond	-0.60	-0.01
German 10-Yr Gov. Bond	0.43	0.01
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.67	-0.18
China 5-Yr Gov. Bond	3.89	0.04
China 10-Yr Gov. Bond	3.94	0.04
O/N SHIBOR	2.51	-0.16
1-mth SHIBOR	4.48	-0.45
HK Base rate	1.75	0.00
O/N HIBOR	0.42	-0.18
1-mth HIBOR	1.06	-0.15
O/N CNH HIBOR	2.05	0.13
1-mth CNH HIBOR	3.86	-0.53
Corporate Bonds (Moody's)		
Aaa	3.50	-0.03
Baa	4.21	-0.04

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	91.85	-0.81
Euro/USD	1.2051	1.33
GBP/USD	1.3549	1.04
AUD/USD	0.7850	0.99
USD/CAD	1.2519	-1.05
USD/JPY	112.56	-0.27
USD/CHF	0.9753	-1.46
USD/CNY Midpoint	6.5043	-0.58
USD/CNY	6.4935	-0.96
USD/CNY NDF		
12-mth Spot pr.	6.6335	-1.03
USD/CNH	6.4957	-0.90
USD/HKD	7.8188	0.05
CNY/HKD	1.2038	1.03
CNH/HKD	1.2036	0.96
USD/KRW	1,062.15	-1.30
USD/TWD	29.580	-1.19
USD/SGD	1.3288	-0.84
USD/INR	63.410	-1.05

All data sources: Bloomberg, CEBI, NBS

Disclosures

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