

Jan 25, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The world economy is gaining momentum and bracing a robust pace of resilient growth as corporate earnings become stronger, oil and commodity prices rebound and geopolitical risks are skewed to the downside. Economic activities in the advanced economies and emerging markets have continued to improve, supported by recovering industrial production and surging global trade.
- The revised global growth forecasts for 2018 and 2019 to 3.9% from previous estimate of 3.7% by the International Monetary Fund (IMF) further justify that global economy is gaining strength.
- The optimism is also reflected in the equity market, with major indices breaking new highs since the start of 2018. In sum, the reawakening of global economic momentum will further strengthen global trade and investment, paving the way for a stronger growth for the global economy in coming years.

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Global growth upsurge

The world economy is gaining momentum and bracing a robust pace of resilient growth as corporate earnings become stronger, oil and commodity prices rebound and geopolitical risks are skewed to the downside. Economic activities in the advanced economies and emerging markets have continued to improve, supported by recovering industrial production and surging global trade. The revised global growth forecasts for 2018 and 2019 to 3.9% from previous estimate of 3.7% by the International Monetary Fund (IMF) further justify that global economy is gaining strength. The optimism is also reflected in the equity market, with major indices breaking new highs since the start of 2018. In sum, the reawakening of global economic momentum will further strengthen global trade and investment, paving the way for a stronger growth for the global economy in coming years.

Trump's massive \$1.5 trillion tax cuts to be the key to speed up U.S economic growth. The U.S. economy has been recovering faster than previously anticipated with fundamentals improving in varying degrees, giving a new impetus to world growth. The labor market continues to strengthen, leading to a 17-year low unemployment rate of 4.1% and a more optimistic outlook for U.S economy. Trump's "America First" policy has brought \$1.5 trillion tax cuts into effect with which cutting the corporate tax rate from 35.0% to 21.0% will spark a boom in business investment. Such fiscal stimulus will likely sustain the growth of the U.S economy for the next several years. We expect the U.S. economy will continue to enjoy a stable growth between 2.5% and 3.0% supported by stronger household consumption and private investment.

Eurozone to embrace stronger recovery in 2018. The Eurozone economy showed signs of healthy growth at 2.6% on an annual basis in 3Q2017 from 2Q2017's 2.3% with the unemployment rate hitting a nine-year low at 8.7% in November. The Eurozone's jobs grew at its fastest pace since debt crisis, propelled by strong demand and improved economic sentiment while exports also posted robust growth of 7.5% during 11M2017. The cyclical recovery was gaining momentum as the private sector and manufacturing growth climbed to near a six-year high while inflationary pressures were subdued. The European Central Bank (ECB) is likely to continue allowing economic momentum to build in the economy in an attempt to further boost inflation and lower unemployment though it begins

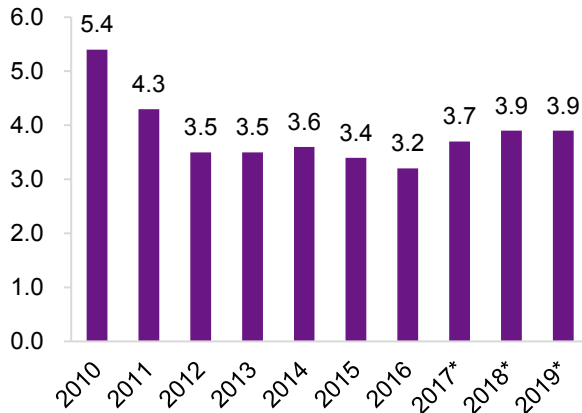
to normalize monetary stance by halving its monthly asset purchases to €30 billion starting in January 2018. ECB's GDP forecast has been revised up recently, showing that the bank is confident and supportive on the stronger recovery of the region in coming years. We believe Eurozone economy remains a mix of uncertainties and opportunities. Since the economy shows signs of strength and the ECB's monetary policy remains sufficiently accommodative, the economic growth of Eurozone is expected to edge up higher between 2.3% and 2.6% in 2018.

Emerging Asia (EA) to benefit from strong global growth.

EA economies continue to grow on the back of a solid performance in the external sector driven by strong exports demand from the U.S, Eurozone and China and healthy domestic activities. Looking forward, the normalization of monetary policies by the U.S Federal Reserve (Fed) and the ECB is likely to tighten the global financial conditions, which could lead to the volatility of capital flows. But EA economies appear well positioned to mitigate the external shocks and avoid the build-up of financial risks and external imbalances amid strong economic fundamentals. By factoring in the positive signs of economic improvement in past several years, we anticipate EA economies will continue to show resilient growth between 6.5% and 7.0% in 2018.

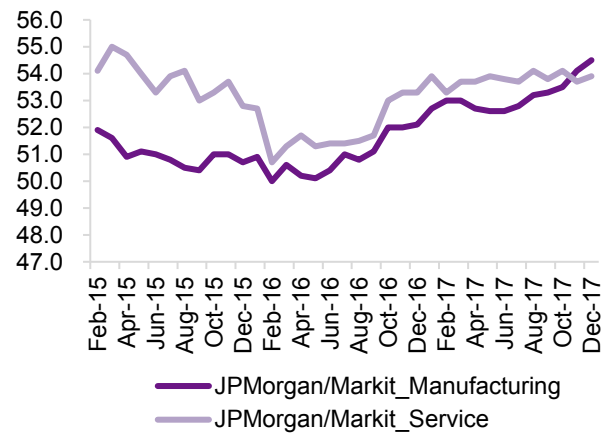
Investment strategy under stronger global recovery environment. The global upsurge trend will impact the financial markets with which low-risk assets are likely to underperform with surging inflation. Equities will outperform, attracting investors to increase risk appetite and rekindling animal spirits. The bright prospect for global growth is currently driving up the equity markets, which, in our view, will be further supported by expansionary fiscal policies of major economies, improving corporate earnings, and surging oil and cyclical commodity prices.

Fig.1: Global GDP growth (YoY%)



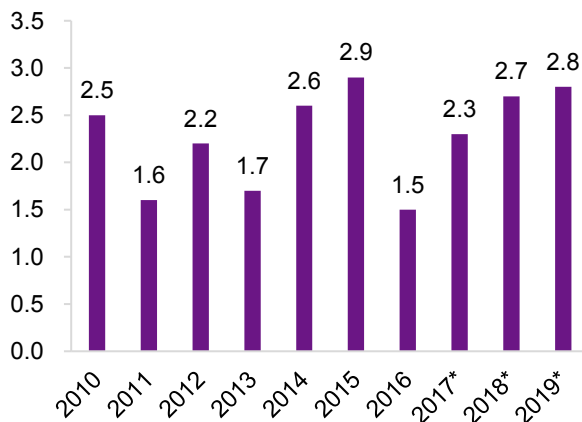
Source: Wind, Bloomberg and CEBI
* IMF Forecasts

Fig. 2: JPMorgan/Markit PMI



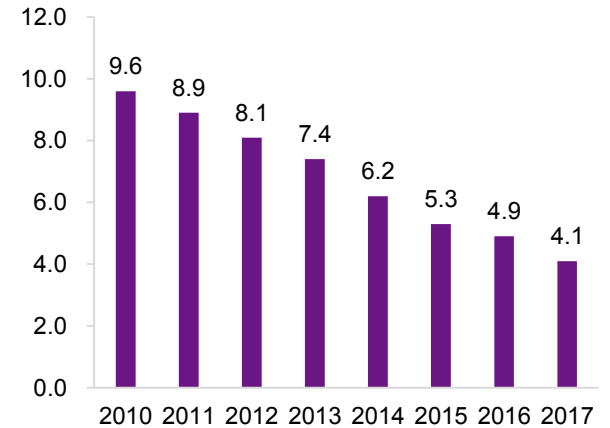
Source: Wind, Bloomberg and CEBI

Fig.3: U.S GDP growth (YoY%)



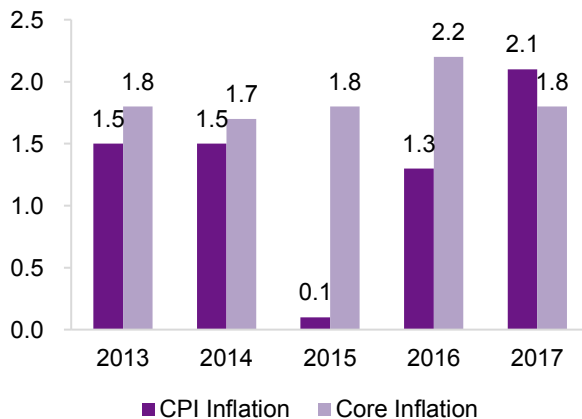
Source: Wind, Bloomberg and CEBI
* Forecasts

Fig.4: U.S unemployment rate (%)



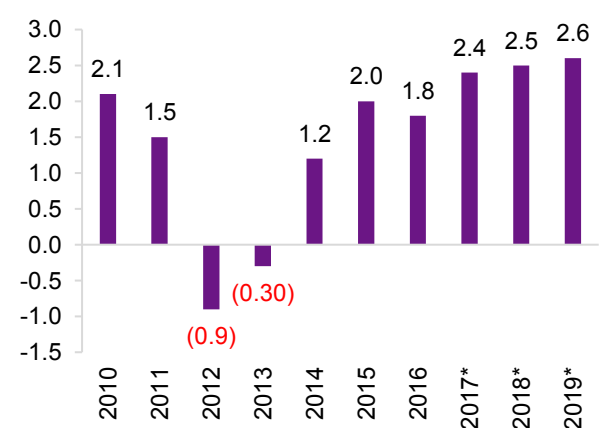
Source: Wind, Bloomberg and CEBI

Fig.5: U.S inflation (YoY%)



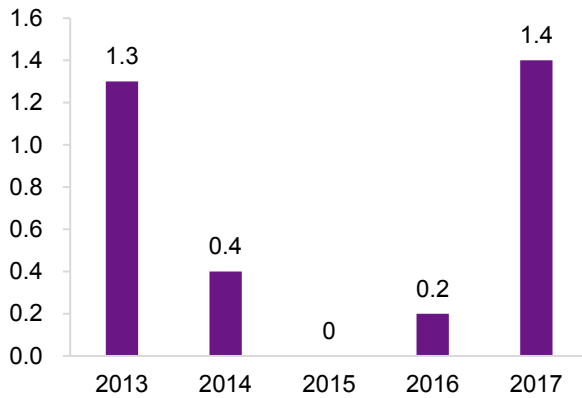
Source: Wind, Bloomberg and CEBI

Fig.6: Eurozone GDP growth (YoY%)



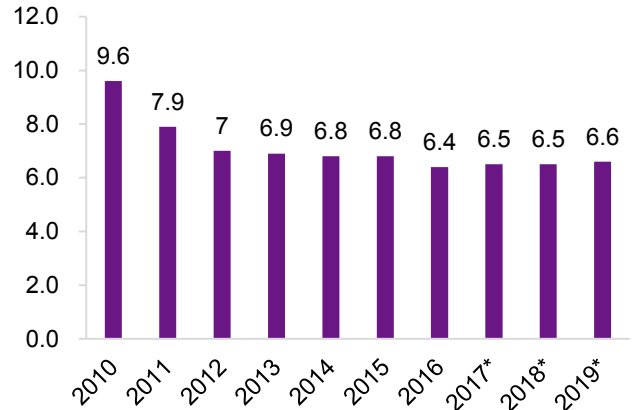
Source: Wind, Bloomberg and CEBI
* Forecast

Fig.7: Eurozone inflation (YoY%)



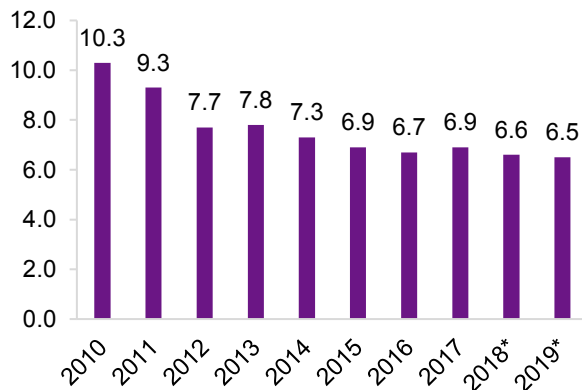
Source: Wind, Bloomberg and CEBI

Fig.8: Emerging and Developing Asia GDP growth (YoY%)



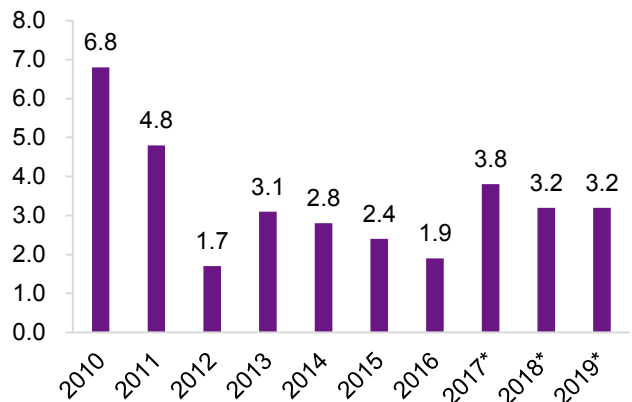
Source: Wind, Bloomberg and CEBI
* Forecasts

Fig. 9: China GDP growth (YoY%)



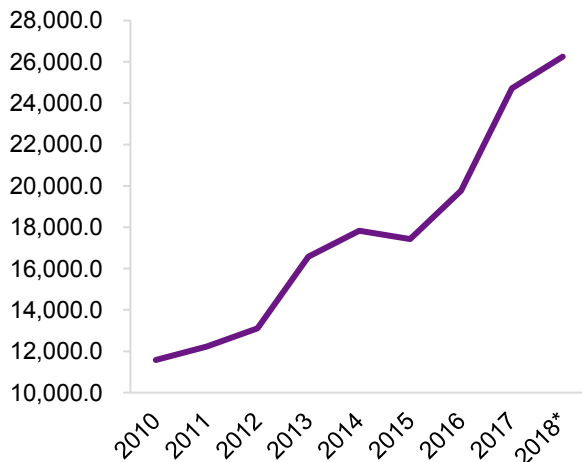
Source: Wind, Bloomberg and CEBI
* Forecasts

Fig. 10: Hong Kong GDP growth (YoY%)



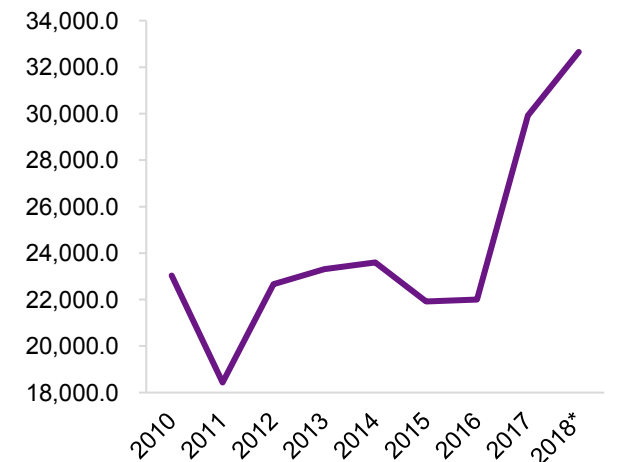
Source: Wind, Bloomberg and CEBI
* Forecasts

Fig.11: U.S Equity Market Performance – Dow Jones Industrial Average Index (YoY%)



Source: Wind, Bloomberg and CEBI
* 24 Jan 2018

Fig.12: Hong Kong Equity Market Performance – HangSeng Index (YoY%)



Source: Wind, Bloomberg and CEBI
* 25 Jan 2017

China Economic Indicators

	2015	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017
Real GDP	6.9	6.7	6.9	6.9	6.8	6.8	6.9
PMI							
Manufacturing (%)	49.7	51.4	51.8	51.7	52.4	51.6	51.6
Non-Manufacturing (%)	54.4	54.5	55.1	54.9	55.4	55.5	55.5
Exports (RMB YoY %)	(1.8)	(2.1)	10.5	12.5	7.7	7.1	10.8
Imports (RMB YoY %)	(13.2)	0.4	30.3	20.8	16.4	9.7	18.7
Trade Balance (RMB/bn)	3686.5	3347.3	458.5	838.2	800.7	881.4	2871.6
Exports (USD YoY %)	(2.9)	(7.7)	7.6	8.7	6.6	10.1	7.9
Imports (USD YoY %)	(14.1)	(5.5)	24.2	14.2	14.4	12.6	15.9
Trade Balance (USD/bn)	593.9	509.7	62.3	119.7	115.8	133.0	422.5
CPI (YoY %)	1.4	2.0	1.4	1.4	1.6	1.8	1.6
PPI (YoY %)	(5.2)	(1.4)	7.4	5.8	6.2	5.9	6.3
FAI (YTD/ YOY %)	10.0	8.1	9.2	8.6	7.5	7.2	7.2
Real Estate Investment (YTD YoY %)	1.0	6.9	9.1	8.5	8.1	7.0	7.0
Industrial Production (YoY %)	6.1	6.0	6.8	6.9	6.3	6.2	6.6
Retail Sales (YoY%)	10.7	10.4	10.0	10.8	10.3	9.9	10.2
New Lending (RMB/bn)	11719.9	12645.9	4220.0	3750.0	3785.5	2367.6	13523.1
M2 (YoY %)	13.3	11.3	10.6	9.4	9.2	8.2	8.2
Aggregate Financing (RMB bn)	15408.6	17802.2	6906.4	4222.9	4518.6	3795.1	19443.0

	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17
Real GDP	6.8	-	-	6.9	-	-	6.9	-	-	6.8	-	-	6.8
PMI – Manufacturing %	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6
PMI- Non-manufacturing%	54.5	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5
Exports (RMB YoY %)	0.6	15.0	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4
Imports (RMB YoY %)	10.8	25.7	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9
Trade Balance (RMB/bn)	275.4	354.5	(60.4)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0
Export (USD YoY %)	(6.1)	7.0	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9
Import (USD YoY %)	3.1	17.1	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5
Trade Balance (USD/bn)	39.6	49.5	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7
CPI (YoY %)	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8
PPI (YoY %)	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9
FAI (YTD/ YOY %)	8.1	-	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2
Real Estate Investment (YTD/ YoY %)	6.9	-	8.9	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0
Industrial Production (YoY %)	6.0	-	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2
Retail Sales (YoY%)	10.9	-	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4
New Lending (RMB/bn)	1040.0	2030.0	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4
M2 (YoY %)	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2
Aggregate Financing (RMB bn)	1626.0	3697.0	1090.8	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	26,252.12	21.84	0.52
S&P 500	2,837.54	23.65	1.25
NASDAQ	7,415.06	39.10	1.60
EUR			
FTSE 100	7,643.43	22.79	-1.06
DAX	13,414.74	19.74	1.75
CAC40S	5,495.16	18.88	0.02
STOXX EUR 600	400.79	21.58	0.71
Asia			
HSI	32,654.45	15.32	1.66
HSCEI	13,388.16	10.64	2.24
CSI300	4,365.08	17.99	2.19
SSE Composite	3,548.31	18.10	2.12
SZSE Composite	1,953.30	29.88	1.51
NIKKEI 225	23,669.49	20.37	-0.40
KOSPI	2,562.23	13.20	1.85
TWSE	11,165.95	16.32	0.85
S&P/ASX 200	6,050.02	18.00	0.59
MSCI Index			
MSCI WORLD	2,232.30	22.74	1.47
MSCI DEVELOPED	545.99	21.90	1.65
MSCI EMERGING	1,258.75	17.27	2.95
MSCI US	2,701.16	24.05	1.30
MSCI UK	2,215.44	23.35	-1.11
MSCI France	157.75	19.07	-0.04
MSCI Germany	166.02	19.62	1.43
MSCI China	100.77	19.61	4.19
MSCI Hong Kong	16,714.57	14.09	0.95
MSCI Japan	1,129.94	16.98	0.52

* As of 25/1/2018 closing for Asian markets, previous closing for others.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.25	3.60
ICE Brent Oil	USD/bbl	71.03	2.48
NYMEX NatGas	USD/MMBtu	3.53	10.76
Basic Metals			
LME Alum.Cash	USD/MT	2,246.00	2.44
CMX Cop.Active	USD/lb.	323.05	1.00
LME Steel Rebar	USD/MT	564.00	0.00
LME Lead Cash	USD/MT	2,638.50	3.84
Precious Metals			
CMX Gold	USD/KRW	1,357.64	2.08
Gold Futures	USD/KRW	1,362.60	2.30
CMX Silverbn	USD/KRW	17.51	2.43
NYMEX Platinum	USD/T. oz	1,015.60	1.39
Agri, Products			
CBOT Corn	USD/bu	356.75	1.49
CBOT Wheat	USD/bu	434.25	2.12
NYB-ICE Sugar	USD/lb.	13.16	-1.94
CBOT Soybeans	USD/bu.	995.00	2.26

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)	1.24	-0.03
US Treasury (1 Yr)	1.75	-0.01
US Treasury (5 Yr)	2.42	0.01
US Treasury (10 Yr)	2.64	0.01
US Treasury (30 Yr)	2.92	0.02
1-Month LIBOR	1.56	0.01
3 Month LIBOR	1.75	0.01
Japan 1-Yr Gov. Bond	-0.14	0.00
Japan 10-Yr Gov. Bond	0.09	0.00
German 1-Yr Gov. Bond	-0.60	0.01
German 10-Yr Gov. Bond	0.58	0.01
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.52	-0.06
China 5-Yr Gov. Bond	3.86	-0.03
China 10-Yr Gov. Bond	3.96	-0.01
O/N SHIBOR	2.56	-0.20
1-mth SHIBOR	4.13	0.03
HK Base rate	0.16	-0.33
O/N HIBOR	0.16	-0.33
1-mth HIBOR	0.92	-0.02
O/N CNH HIBOR	3.07	0.24
1-mth CNH HIBOR	4.18	0.12
Corporate Bonds (Moody's)		
Aaa	3.57	0.08
Baa	4.27	0.07

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.14	-1.50
Euro/USD	1.2405	1.44
GBP/USD	1.4249	2.79
AUD/USD	0.8074	1.11
USD/CAD	1.2322	-0.97
USD/JPY	109.16	-1.88
USD/CHF	0.9425	-1.83
USD/CNY Midpoint	6.3724	-1.05
USD/CNY	6.3342	-1.34
USD/CNY NDF		
12-mth Spot pr.	6.4635	-1.40
USD/CNH	6.3366	-1.31
USD/HKD	7.8172	-0.01
CNY/HKD	1.2341	1.35
CNH/HKD	1.2336	1.31
USD/KRW	1,058.65	-1.11
USD/TWD	29.064	-1.67
USD/SGD	1.3072	-1.13
USD/INR	63.610	-0.38

All data sources: Bloomberg, CEBI, NBS

Disclosures

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