

Feb 1, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- At the conclusion of the first Federal Open Markets Committee (FOMC) policy meeting in 2018 on 31st January, the U.S. Federal Reserve (the Fed) voted to left target range of the Fed fund rates (FFR) unchanged, at 1.25% to 1.50%.
- The Fed points out that gains in employment, household spending, and business fixed investment have turned solid along with low unemployment rate and inflation is expected to rise throughout the year.
- We believe that the Fed will launch gradual rate hikes and unwind the balance sheet in an orderly manner to ensure a smooth transition to a normalized monetary policy by avoiding disruption of economic recovery and increase of market volatility.
- In our view, the U.S. economy is on a steady growth path, with employment and inflation staying on track. The upbeat resilience of the U.S. economy and equity market, accompanied by a faster-than-expected pace of global economic recovery, will likely to warrant four rate hikes in 2018.

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## FOMC leaves rates unchanged after the first meeting in 2018

At the conclusion of the first Federal Open Markets Committee (FOMC) policy meeting in 2018 on 31st January, the U.S. Federal Reserve (the Fed) voted to left target range of the Fed fund rates (FFR) unchanged, at 1.25% to 1.50%. The Fed points out that gains in employment, household spending, and business fixed investment have turned solid along with low unemployment rate and inflation is expected to rise throughout the year. We believe that the Fed will launch gradual rate hikes and unwind the balance sheet in an orderly manner to ensure a smooth transition to a normalized monetary policy by avoiding disruption of economic recovery and increase of market volatility. In our view, the U.S. economy is on a steady growth path, with employment and inflation staying on track. The upbeat resilience of the U.S. economy and equity market, accompanied by a faster-than-expected pace of global economic recovery, will likely to warrant four rate hikes in 2018.

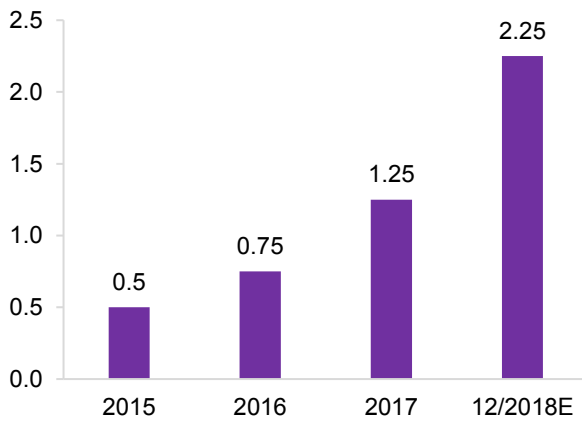
**Gradual pace of monetary normalization favoring faster recovery of the U.S. economy.** The Fed's gradual path of rate increases will hinge on a continued pickup in inflation. The Fed indicates that inflation on a 12-month basis is expected to move up this year and to stabilize, around the Fed's 2% target over the medium term, warranting gradual rate hikes in coming FOMC meetings. Given that the U.S. economy is gaining strengths, the Fed has set the ultimate goal of restoring the normal path of monetary policy. In sum, the Fed is approaching the process cautiously by adopting gradual pace for rate hikes and small size of balance sheet shrinking in an attempt to leave room for the U.S. economy to recover faster and stronger in 2018.

**Gradual rate hikes and unwinding of balance sheet to continue in 2018 amid weak U.S dollar.** The U.S. dollar Index has depreciated 9.9% and 3.2% against major currencies in 2017 and January 2018 respectively despite an upbeat U.S economic performance. The weakening of U.S dollar over a year indicates that market worries about the negative impact of tax cuts on fiscal deficit and cast doubt on the pace of rate hikes. In sum, the U.S economy remains strong in 2018 with recovery expanding to all sectors. Corporate profits surge along with accelerating investment and

consumption. We believe pricing pressures will increase steadily, signaling the continuation of gradual rate hikes and balance sheet shrinkage in 2018.

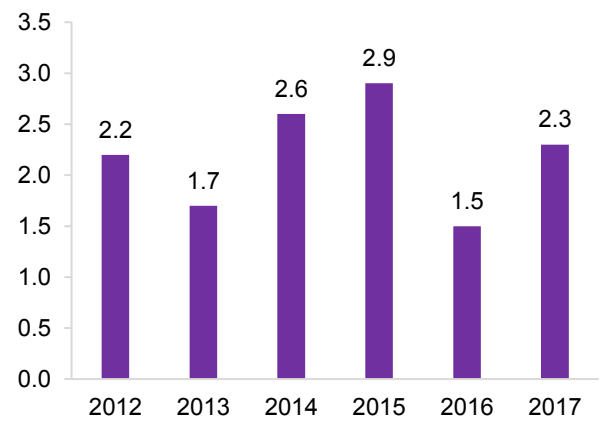
**Impact of the Fed's decision on emerging markets.** A marked improvement in economic conditions of developed and emerging worlds attract the attention of central banks to watch out global liquidity conditions and inflationary pressures. The monetary stance of major economies becomes clear and more transparent as the Fed continues to normalize its monetary policy gradually and European Central Bank (ECB) begins to unwind its monetary stimulus in January 2018. But Japan shows no signs of retreat from its expansionary monetary policy. In general, the stable tightening of global liquidity to suppress rising inflation turns to be a norm, but a favorable interest rate environment is still expected to maintain for global economic recovery. We believe emerging economies in Asia will continue to benefit from rebounding external trade activities and surging investment from developed economies.

**Fig.1: Federal funds rate (%)**



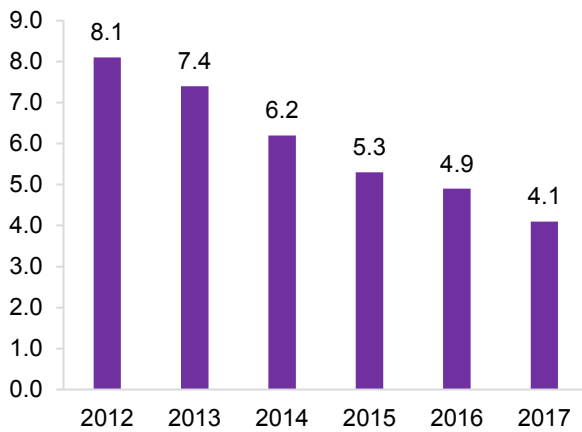
Source: Wind, Bloomberg and CEBI

**Fig.2: U.S GDP (YoY %)**



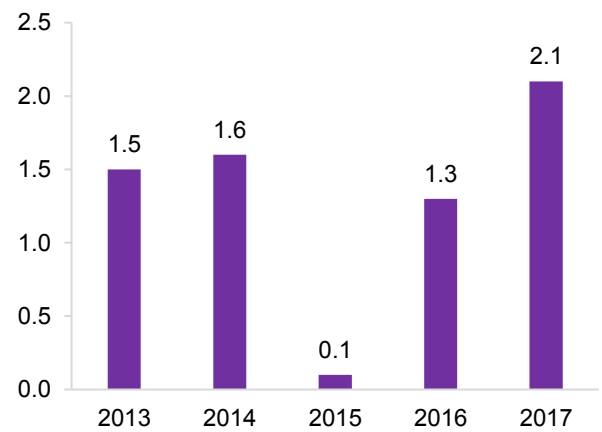
Source: Wind, Bloomberg and CEBI

**Fig.3: U.S unemployment rate (%)**



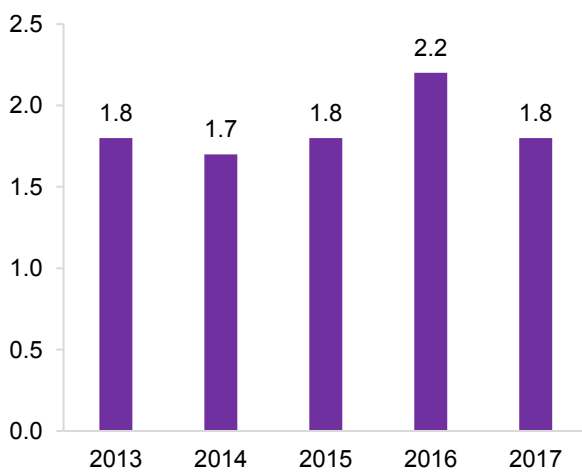
Source: Wind, Bloomberg and CEBI

**Fig.4: U.S Headline CPI inflation (YoY %)**



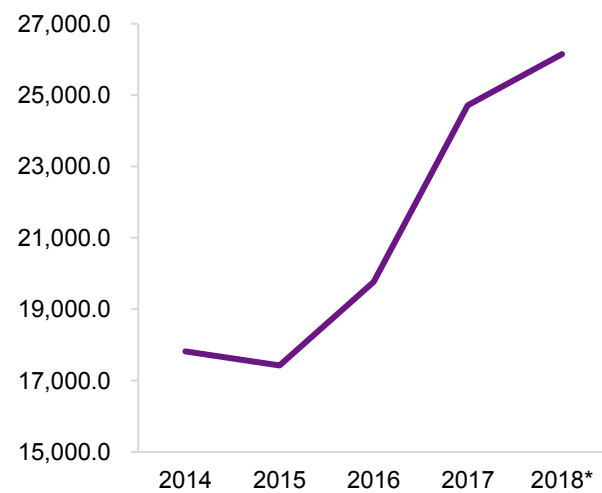
Source: Wind, Bloomberg and CEBI

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



Source: Wind, Bloomberg and CEBI

**Fig.6: U.S Equity Market Performance—Dow Jones Industrial Average Index**



Source: Wind, Bloomberg and CEBI

\* 31 January 2018

## 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(%)
<b>U.S.</b>			
DJIA	26,149.39	21.42	-0.39
S&P 500	2,823.81	23.28	-0.48
NASDAQ	7,411.48	38.65	-0.05
<b>EUR</b>			
FTSE 100	7,533.55	22.32	-1.44
DAX	13,189.48	19.20	-1.68
CAC40S	5,481.93	18.62	-0.24
STOXX EUR 600	395.46	21.26	-1.33
<b>Asia</b>			
HSI	32,642.09	15.27	-0.04
HSCEI	13,434.14	10.60	0.34
CSI300	4,245.90	17.53	-2.73
SSE Composite	3,446.98	17.71	-2.86
SZSE Composite	1,821.06	28.57	-6.77
NIKKEI 225	23,486.11	19.45	-0.77
KOSPI	2,568.54	13.36	0.25
TWSE	11,160.25	16.19	-0.05
S&P/ASX 200	6,090.07	17.93	0.59
<b>MSCI Index</b>			
MSCI WORLD	2,213.24	22.39	-0.85
MSCI DEVELOPED	541.67	21.59	-0.79
MSCI EMERGING	1,254.59	17.12	-0.33
MSCI US	2,687.94	23.70	-0.49
MSCI UK	2,182.70	22.85	-1.48
MSCI France	157.51	18.84	-0.15
MSCI Germany	163.30	19.13	-1.64
MSCI China	100.56	19.56	-0.21
MSCI Hong Kong	16,689.36	14.01	-0.15
MSCI Japan	1,089.24	16.26	-3.60

\* As of 1/2/2018 closing for Asian markets, previous closing for others.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	64.87	-0.98
ICE Brent Oil	USD/bbl	68.96	-2.07
NYMEX NatGas	USD/MMBtu	2.95	-14.56
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,219.00	-1.20
CMX Cop.Active	USD/lb.	319.30	-0.73
LME Steel Rebar	USD/MT	547.00	-1.97
LME Lead Cash	USD/MT	2,620.50	-0.68
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,339.86	-1.44
Gold Futures	USD/KRW	1,342.60	-1.85
CMX Silverbn	USD/KRW	17.26	-1.68
NYMEX Platinum	USD/T. oz	993.53	-2.70
<b>Agri, Products</b>			
CBOT Corn	USD/bu	360.75	1.55
CBOT Wheat	USD/bu	448.00	3.11
NYB-ICE Sugar	USD/lb.	13.23	0.53
CBOT Soybeans	USD/bu.	990.50	-0.18

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)	1.38	0.17
US Treasury (1 Yr)	1.88	0.12
US Treasury (5 Yr)	2.55	0.13
US Treasury (10 Yr)	2.74	0.12
US Treasury (30 Yr)	2.96	0.08
1-Month LIBOR	1.57	0.01
3 Month LIBOR	1.77	0.03
Japan 1-Yr Gov. Bond	-0.12	0.01
Japan 10-Yr Gov. Bond	0.10	0.02
German 1-Yr Gov. Bond	-0.57	-0.01
German 10-Yr Gov. Bond	0.72	0.11
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.51	-0.01
China 5-Yr Gov. Bond	3.83	-0.02
China 10-Yr Gov. Bond	3.92	-0.03
O/N SHIBOR	2.52	-0.05
1-mth SHIBOR	4.13	0.01
HK Base rate	0.47	0.31
O/N HIBOR	0.47	0.31
1-mth HIBOR	0.91	-0.01
O/N CNH HIBOR	2.33	-0.74
1-mth CNH HIBOR	4.34	0.16
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.63	0.06
Baa	4.32	0.05

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.07	-0.36
Euro/USD	1.2427	0.10
GBP/USD	1.4250	-0.09
AUD/USD	0.8021	-0.69
USD/CAD	1.2311	-0.06
USD/JPY	109.55	0.45
USD/CHF	0.9325	-1.02
USD/CNY Midpoint	6.3045	-1.07
USD/CNY	6.2945	-0.50
<b>USD/CNY NDF</b>		
12-mth Spot pr.	6.4262	-0.41
USD/CNH	6.2995	-0.38
USD/HKD	7.8203	0.04
CNY/HKD	1.2424	0.54
CNH/HKD	1.2414	0.42
USD/KRW	1,072.00	1.26
USD/TWD	29.201	0.47
USD/SGD	1.3129	0.49
USD/INR	63.669	-0.04

All data sources: Bloomberg, CEBI, NBS

## Disclosures

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