光銀國際
CEB International

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- As expected, the Federal Reserve (Fed) lifted the benchmark federal funds rate for the first time to 1.50%-1.75% in 2018, an increase of a quarter of a percentage point.
- Characterized by fiscal expansion through tax cuts along with surging individual and government spending, the U.S. economy looks on track to pursue faster expansion of economic activities. Recent Fed moves, namely four 25bps rate hikes since 2017 and the downsizing of its balance sheet, have shown the fact that the Fed aims to move gradually to tighten monetary policy in an attempt to ensure the economic upturn and head off inflation.
- We believe the U.S. economic activities have been reviving at a solid pace with unemployment rate reaching a 16-year low.
- In 2018, three more 25bps rate hikes are expected in line with the balance sheet shrinkage. We think the U.S. economy will continue to recovery modestly with its GDP growing by 2.8% YoY this year.

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The Fed's first rate hike in 2018

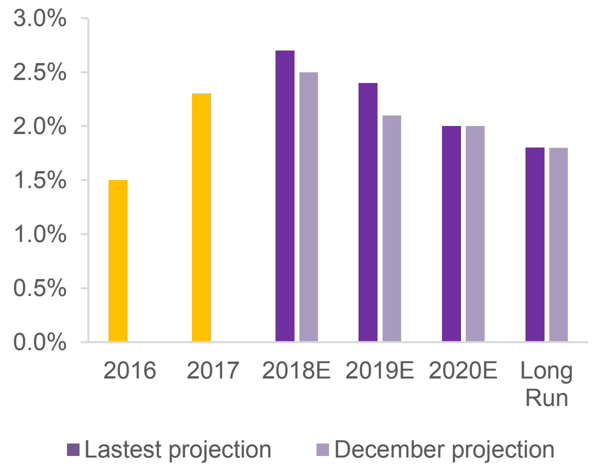
As expected, the U.S. Federal Reserve (Fed) lifted the benchmark federal funds rate for the first time to 1.50%-1.75% in 2018, an increase of a quarter of a percentage point. Characterized by fiscal expansion through tax cuts along with surging individual and government spending, the U.S. economy looks on track to pursue faster expansion of economic activities. Recent Fed moves, namely four 25bps rate hikes since 2017 and the downsizing of its balance sheet, have shown the fact that the Fed aims to move gradually to tighten monetary policy in an attempt to ensure the economic upturn and head off inflation. We believe the U.S. economic activities have been reviving at a solid pace with unemployment rate reaching a 16-year low. In 2018, we believe three more 25bps rate hikes are expected in line with the balance sheet shrinkage. We think the U.S. economy will continue to recovery modestly with its GDP growing by 2.8% YoY this year.

Gradual rate hikes to be backed by growing economic optimum. U.S. economy grew at 2.3% YoY for 2017, the fastest pace since the third quarter of 2014 and unemployment has maintained at a low level of 4.1% in February 2018. The Fed raises the projection of GDP growth to 2.7% and 2.4% for 2018 and 2019 while lowering the forecasted unemployment rate to 3.8% and 3.6%. As for the inflation, the Fed projects that PCE and core PCE will reach somewhat below target of 2% at 1.9% in 2018 and 2019. We believe the Fed has grabbed the chance to raise interest rates again to avoid economic fluctuations. Looking forward, the stable path of economic recovery will support the Fed to maintain a gradual and flexible path for the rate hike.

Emerging economies still to enjoy favorable external conditions in the wake of the Fed's rate hike. As advanced and emerging worlds have seen marked economic improvement, central banks around the globe are looking global liquidity and inflationary pressures attentively. Moves of major central banks become clear and more transparent: the Fed is still on its way to monetary normalization, European Central Bank (ECB) is unwinding its monetary stimulus as scheduled and Bank of Japan (BOJ) stays unchanged on its expansionary monetary policy. In general, the rebalancing of global liquidity to achieve price stability turns to be a norm, but a favorable interest rate environment is still expected to keep for global economic recovery in 2018. In our view, emerging economies in Asia will continue to benefit from rebounding external trade activities and rising investment of industrial countries.

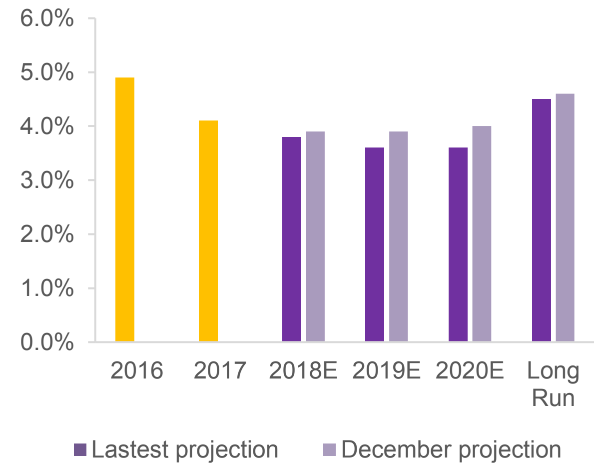
China to show strong capabilities to handle rate hikes. With strong GDP growth of 6.9% in 2017 and stable economic momentum in 2M2018, China's recent economic data show that the country's economic growth continues to retain the path of stable recovery, signaling fewer needs for aggressive monetary stimulus. Moreover, RMB remains stable since the beginning of 2018 amid China's improving growth prospect. Strong foreign reserves, external trade data and foreign direct investment (FDI) shows that the pressure on capital outflow has been largely relieved. To sum up, the U.S. monetary tightening is expected to exert pressure on China's exchange rate, trade and psychological expectations, especially risks of currency devaluation and capital outflow. However, China is becoming increasingly capable in economic management, with PBOC increasingly experienced and tactful in monetary policy, on top of the application of other instruments. A stable and neutral monetary policy, which is able to be fine-tuned in line with economic conditions, along with its economic structural reforms, turn out to be the important factors for China to handle rate hikes wisely and maintain steady economic recovery.

Fig. 1: Economic growth forecasts by the Fed



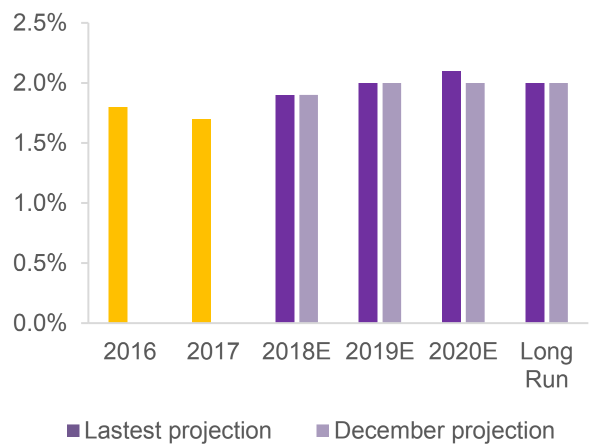
Source: Wind, Bloomberg and CEBI

Fig. 2: Unemployment rate forecasts by the Fed



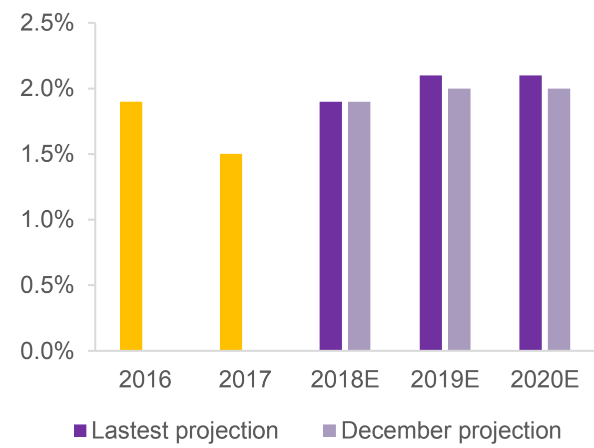
Source: Wind, Bloomberg and CEBI

Fig. 3: PCE inflation forecasts by the Fed



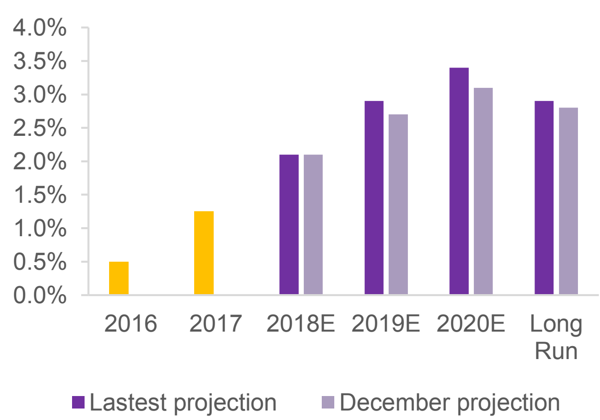
Source: Wind, Bloomberg and CEBI

Fig. 4: Core PCE inflation forecasts by the Fed



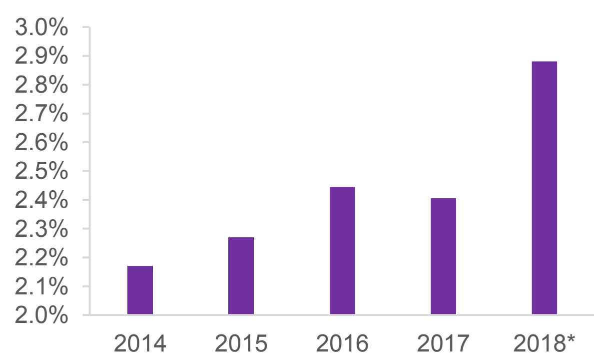
Source: Wind, Bloomberg and CEBI

Fig. 5: Federal funds rate forecasts by the Fed



Source: Wind, Bloomberg and CEBI

Fig. 6: U.S. 10-year bond yields



Source: Wind, Bloomberg and CEBI
* 22/03/2018

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
PMI 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

	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18
Real GDP	-	6.9	-	-	6.9	-	-	6.8	-	-	6.8	-	-
PMI – Manufacturing %	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3
PMI- Non-manufacturing%	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4
Exports (RMB YoY %)	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2
Imports (RMB YoY %)	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)
Trade Balance (RMB/bn)	(60.4)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9
Export (USD YoY %)	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5
Import (USD YoY %)	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3
Trade Balance (USD/bn)	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7
CPI (YoY %)	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9
PPI (YoY %)	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7
FAI (YTD/ YOY %)	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9
Real Estate Investment (YTD/ YoY %)	8.9	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9
Industrial Production (YoY %)	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2
Retail Sales (YoY%)	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7
New Lending (RMB/bn)	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3
M2 (YoY %)	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8
Aggregate Financing (RMB bn)	1090.8	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3060.0	1170.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,682.31	19.97	-0.31
S&P 500	2,711.93	21.97	-1.37
NASDAQ	7,345.29	32.16	-2.02
EUR			
FTSE 100	7,038.97	13.03	-1.31
DAX	12,309.15	14.11	0.58
CAC40S	5,239.74	16.30	0.12
STOXX EUR 600	374.96	15.84	0.01
Asia			
HSI	31,414.52	13.30	-0.07
HSCEI	12,521.55	10.11	-1.28
CSI300	4,061.05	16.38	-0.30
SSE Composite	3,280.95	16.70	-0.32
SZSE Composite	1,858.61	30.75	-1.06
NIKKEI 225	21,380.97	15.69	-2.67
KOSPI	2,484.97	15.99	-0.04
TWSE	11,011.07	16.00	-0.25
S&P/ASX 200	5,950.27	17.45	0.25
MSCI Index			
MSCI WORLD	2,109.18	19.49	-1.19
MSCI DEVELOPED	516.95	19.01	-1.13
MSCI EMERGING	1,209.62	16.18	-0.75
MSCI US	2,586.42	22.45	-1.34
MSCI UK	2,037.77	13.12	-1.30
MSCI France	151.25	16.27	0.03
MSCI Germany	152.75	14.61	0.47
MSCI China	97.32	18.53	0.22
MSCI Hong Kong	16,183.23	11.85	-0.82
MSCI Japan	1,016.77	13.33	-1.97

* As of 20/3/2018 closing for Japanese market, 21/3/2018 closing for others.

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.75	0.25
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)	1.70	0.00
US Treasury (1 Yr)	2.04	0.00
US Treasury (5 Yr)	2.67	0.06
US Treasury (10 Yr)	2.88	0.07
US Treasury (30 Yr)	3.12	0.06
1-Month LIBOR	1.85	0.08
3 Month LIBOR	2.25	0.12
Japan 1-Yr Gov. Bond	-0.15	-0.01
Japan 10-Yr Gov. Bond	0.04	-0.01
German 1-Yr Gov. Bond	-0.63	0.03
German 10-Yr Gov. Bond	0.59	0.00
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.32	0.03
China 5-Yr Gov. Bond	3.69	-0.01
China 10-Yr Gov. Bond	3.82	-0.04
O/N SHIBOR	2.56	-0.07
1-mth SHIBOR	4.50	0.05
HK Base rate	1.75	0.00
O/N HIBOR	0.05	-0.01
1-mth HIBOR	0.81	0.07
O/N CNH HIBOR	2.87	-0.54
1-mth CNH HIBOR	4.43	-0.08
Corporate Bonds (Moody's)		
Aaa	3.87	0.01
Baa	4.68	0.04

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	65.17	6.91
ICE Brent Oil	USD/bbl	69.47	7.06
NYMEX NatGas	USD/MMBtu	2.64	-3.41
Basic Metals			
LME Alum.Cash	USD/MT	2,059.00	-0.47
CMX Cop.Active	USD/lb.	305.85	-3.17
LME Steel Rebar	USD/MT	593.00	0.17
LME Lead Cash	USD/MT	2,401.00	-0.24
Precious Metals			
CMX Gold	USD/KRW	1,315.75	-0.75
Gold Futures	USD/KRW	1,327.30	-0.31
CMX Silverbn	USD/KRW	16.27	-1.92
NYMEX Platinum	USD/T. oz	945.42	-2.54
Agri, Products			
CBOT Corn	USD/bu	375.00	-3.54
CBOT Wheat	USD/bu	453.50	-7.21
NYB-ICE Sugar	USD/lb.	12.67	-0.71
CBOT Soybeans	USD/bu.	1,029.75	-0.24

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.78	0.09
Euro/USD	1.2283	-0.74
GBP/USD	1.4056	0.66
AUD/USD	0.7684	-2.66
USD/CAD	1.3027	0.58
USD/JPY	106.33	-0.16
USD/CHF	0.9534	0.85
USD/CNY Midpoint	6.3396	0.30
USD/CNY	6.3232	0.08
USD/CNY NDF		
12-mth Spot pr.	6.4515	0.12
USD/CNH	6.3231	0.24
USD/HKD	7.8464	0.07
CNY/HKD	1.2407	-0.03
CNH/HKD	1.2409	-0.17
USD/KRW	1,072.30	0.73
USD/TWD	29.182	-0.24
USD/SGD	1.3187	0.68
USD/INR	65.208	0.58

All data sources: Bloomberg, CEBI, NBS

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Disclosures

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