

May 9, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Entering into 2018, economic recovery of the U.S. economy continued with the economic fundamentals improving in varying degrees. The U.S. economy grew at an annualized rate of 2.3% in first quarter of 2018, indicating that the recovery momentum is on track. Job creation in the U.S. economy surged as the unemployment rate continued to trend down to 3.9%, the lowest since 2000.
- Although the recent FOMC meeting voted to left target range of the Fed fund rates (FFR) unchanged at 1.5% to 1.75%, latest wages and prices grew at 2% YoY which has reached the Fed's 2% inflation target, indicating that inflation is trending upward and more rate hikes are likely in coming FOMC meetings.
- Looking forward, 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 enhancement of market volatility. The upbeat resilience of the U.S. economy, accompanied by a faster-than-expected pace of global economic recovery, will likely to warrant three more rate hikes in 2018.

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## The U.S. economy to gain more traction with upswing in inflation

Entering into 2018, economic recovery of the U.S. economy continued with the economic fundamentals improving in varying degrees. The U.S. economy grew at an annualized rate of 2.3% in first quarter of 2018, indicating that the recovery momentum is on track. Job creation in the U.S. economy surged as the unemployment rate continued to trend down to 3.9%, the lowest since 2000. Although the recent FOMC meeting voted to left target range of the Fed fund rates (FFR) unchanged at 1.5% to 1.75%, latest wages and prices grew at 2% YoY which has reached the Fed's 2% inflation target, indicating that inflation is trending upward and more rate hikes are likely in coming FOMC meetings. Looking forward, 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 enhancement 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, accompanied by a faster-than-expected pace of global economic recovery, will likely to warrant three more rate hikes in 2018.

### **Massive \$1.5 trillion tax cuts 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 18-year low unemployment rate of 3.9% 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.

**Gradual pace of monetary tightening to favor robust recovery of the U.S. economy.** The Fed's gradual path of rate hikes will hinge on a continued pickup in inflation. Recent growth of wages and

prices has reached the Fed's 2% inflation target over the medium term, indicating surging inflation trend and warranting more 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 acts 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 stronger U.S dollar.** The U.S. dollar Index has rebounded 3.7% against major currencies since April on an upbeat U.S economic performance. The strengthening of U.S dollar indicates that economic momentum of the U.S. economy surges along with rising inflation. 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.

## China Economic Indicators

	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017	1Q2018
Real GDP	6.7	6.9	6.9	6.8	6.8	6.9	6.8
PMI							
Manufacturing (%)	51.4	51.8	51.7	52.4	51.6	51.6	51.5
Non-Manufacturing (%)	54.5	55.1	54.9	55.4	55.5	55.5	54.6
Exports (RMB YoY %)	(2.1)	10.5	12.5	7.7	7.1	10.8	7.4
Imports (RMB YoY %)	0.4	30.3	20.8	16.4	9.7	18.7	11.7
Trade Balance (RMB/bn)	3347.3	419.13	809.6	771.0	861.3	2860.6	332.5
Exports (USD YoY %)	(7.7)	7.6	8.7	6.6	10.1	7.9	14.1
Imports (USD YoY %)	(5.5)	24.2	14.2	14.4	12.6	15.9	18.9
Trade Balance (USD/bn)	509.7	62.3	119.7	115.8	133.0	422.5	48.4
CPI (YoY %)	2.0	1.4	1.4	1.6	1.8	1.6	2.2
PPI (YoY %)	(1.4)	7.4	5.8	6.2	5.9	6.3	3.1
FAI (YTD/ YOY %)	8.1	9.2	8.6	7.5	7.2	7.2	7.5
Real Estate Investment (YTD YoY %)	6.9	9.1	8.5	8.1	7.0	7.0	10.4
Industrial Production (YoY %)	6.0	6.8	6.9	6.3	6.2	6.6	6.8
Retail Sales (YoY%)	10.4	10.0	10.8	10.3	9.9	10.2	9.8
New Lending (RMB/bn)	12645.9	4220.0	3750.0	3785.5	2367.6	13523.1	4859.3
M2 (YoY %)	11.3	10.6	9.4	9.2	8.2	8.2	8.2
Aggregate Financing (RMB bn)	17802.2	6906.4	4222.9	4518.6	3795.1	19443.0	5580.0

	Apr 17	May 17	Jun 17	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18
Real GDP	-	-	6.9	-	-	6.8	-	-	6.8	-	-	6.8	-
PMI – Manufacturing %	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4
PMI- Non-manufacturing%	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8
Exports (RMB YoY %)	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2	(9.8)	3.7
Imports (RMB YoY %)	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)	5.9	11.6
Trade Balance (RMB/bn)	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9	(29.8)	182.8
Export (USD YoY %)	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5	(2.7)	12.9
Import (USD YoY %)	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4	21.5
Trade Balance (USD/bn)	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7	(5.0)	28.8
CPI (YoY %)	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	-
PPI (YoY %)	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	-
FAI (YTD/ YOY %)	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	-
Real Estate Investment (YTD/ YoY %)	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	-
Industrial Production (YoY %)	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	-
Retail Sales (YoY%)	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	-
New Lending (RMB/bn)	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	-
M2 (YoY %)	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	-
Aggregate Financing (RMB bn)	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3059.7	1173.6	1330.0	-

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	24,360.21	18.43	1.08
S&P 500	2,671.92	20.54	0.64
NASDAQ	7,266.90	26.72	1.91
<b>EUR</b>			
FTSE 100	7,565.75	13.97	0.75
DAX	12,912.21	14.70	2.38
CAC40S	5,521.93	17.46	0.03
STOXX EUR 600	390.00	16.49	1.29
<b>Asia</b>			
HSI	30,536.14	12.48	-0.61
HSCEI	12,185.44	9.13	-0.07
CSI300	3,871.62	14.82	2.87
SSE Composite	3,159.15	15.38	2.53
SZSE Composite	1,834.56	29.81	3.36
NIKKEI 225	22,408.88	16.78	-0.26
KOSPI	2,443.98	11.05	-2.84
TWSE	10,703.35	14.74	0.80
S&P/ASX 200	6,108.02	17.71	0.96
<b>MSCI Index</b>			
MSCI WORLD	2,095.07	18.70	0.54
MSCI DEVELOPED	510.39	17.98	0.27
MSCI EMERGING	1,142.66	13.92	-1.70
MSCI US	2,548.71	20.98	0.72
MSCI UK	2,185.82	14.16	0.63
MSCI France	159.33	17.31	0.35
MSCI Germany	158.19	15.34	2.03
MSCI China	92.39	15.88	1.03
MSCI Hong Kong	16,037.25	11.60	-1.03
MSCI Japan	1,052.03	13.73	0.29

\* As of 8/05/2018 closing for US and Europe market, 9/05/2018 closing for others.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	70.98	4.49
ICE Brent Oil	USD/bbl	76.91	4.84
NYMEX NatGas	USD/MMBtu	2.74	-0.69
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,381.75	5.55
CMX Cop.Active	USD/lb.	305.20	-0.54
LME Steel Rebar	USD/MT	556.00	1.74
LME Lead Cash	USD/MT	2,282.75	-1.65
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,306.06	-0.30
Gold Futures	USD/KRW	1,306.30	0.05
CMX Silverbn	USD/KRW	16.40	0.29
NYMEX Platinum	USD/T. oz	910.55	1.44
<b>Agri, Products</b>			
CBOT Corn	USD/bu	403.50	-0.37
CBOT Wheat	USD/bu	511.00	-2.99
NYB-ICE Sugar	USD/lb.	11.48	-2.30
CBOT Soybeans	USD/bu.	1,021.50	-2.06

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.75	0.00
US Prime Rate	4.75	0.00
US Discount Window	2.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.65	-0.01
US Treasury (1 Yr)	2.24	0.00
US Treasury (5 Yr)	2.84	0.04
US Treasury (10 Yr)	3.01	0.04
US Treasury (30 Yr)	3.16	0.02
1-Month LIBOR	1.93	0.02
3 Month LIBOR	2.37	0.01
Japan 1-Yr Gov. Bond	-0.13	0.00
Japan 10-Yr Gov. Bond	0.05	0.01
German 1-Yr Gov. Bond	-0.62	0.00
German 10-Yr Gov. Bond	0.58	0.00
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.91	-0.08
China 5-Yr Gov. Bond	3.05	-0.10
China 10-Yr Gov. Bond	3.70	0.05
O/N SHIBOR	2.52	-0.20
1-mth SHIBOR	3.82	-0.08
HK Base rate	0.20	-0.30
O/N HIBOR	0.20	-0.30
1-mth HIBOR	1.13	-0.11
O/N CNH HIBOR	2.54	-1.06
1-mth CNH HIBOR	3.92	-0.38
<b>Corporate Bonds (Moody's)</b>		
Aaa	4.01	0.06
Baa	4.82	0.08

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	93.24	0.79
Euro/USD	1.1841	-1.34
GBP/USD	1.3535	-0.86
AUD/USD	0.7432	-0.99
USD/CAD	1.2952	0.97
USD/JPY	109.74	-0.09
USD/CHF	1.0039	0.81
USD/CNY Midpoint	6.3733	0.10
USD/CNY	6.3786	0.25
<b>USD/CNY NDF</b>		
12-mth Spot pr.	6.4840	0.29
USD/CNH	6.3773	0.34
USD/HKD	7.8499	0.00
CNY/HKD	1.2307	-0.24
CNH/HKD	1.2309	-0.33
USD/KRW	1,080.95	1.20
USD/TWD	29.926	0.57
USD/SGD	1.3435	0.59
USD/INR	67.395	1.10

All data sources: Bloomberg, CEBI, NBS

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