

June 1, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Entering into 2018, Eurozone demonstrated signs of slowdown as GDP's growth slowed from 2.7% YoY and 2.8% YoY in 3Q2017 and 4Q2017 to 2.5% in 1Q2018. On quarter-to-quarter basis, GDP's growth grew 0.4%, down from 0.6% in 4Q2017.
- Soft growth of economic indicators in 1Q2018 indicated that strong momentum of 2017 growth, the strongest since the pre-recession year of 2007, may not extend into 2018 amid heightened political uncertainties in Italy and Spain as well as escalating global trade tensions triggered by the U.S.
- In sum, the structural vulnerabilities, financial market fragmentation, weak bank balance sheets, Brexit and weak government finances, remain as the main challenges of Eurozone.
- The uncertainty about the future of the Eurozone and political risks is weighting on recovery of Eurozone, which will decelerate economic momentum in coming quarters due to weakening growth in corporate investments and consumer spending. We forecast Eurozone will grow by 1.8% in 2018.

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Eurozone bracing growth headwinds

Entering into 2018, Eurozone demonstrated signs of slowdown as GDP's growth slowed from 2.7% YoY and 2.8% YoY in 3Q2017 and 4Q2017 to 2.5% in 1Q2018. On quarter-to-quarter basis, GDP's growth grew 0.4%, down from 0.6% in 4Q2017. Soft growth of economic indicators in 1Q2018 indicated that strong momentum of 2017 growth, the strongest since the pre-recession year of 2007, may not extend into 2018 amid heightened political uncertainties in Italy and Spain as well as escalating global trade tensions triggered by the U.S. In sum, the structural vulnerabilities, financial market fragmentation, weak bank balance sheets, Brexit and weak government finances, remain as the main challenges of Eurozone. The uncertainty about the future of the Eurozone and political risks is weighting on recovery of Eurozone, which will decelerate economic momentum in coming quarters due to weakening growth in corporate investments and consumer spending. We forecast Eurozone will grow by 1.8% in 2018.

Eurozone's growth to show slowing signs at the start of 2018.

Eurozone took a decade to claw its way out of the Great Recession with which unconventional monetary easing finally made the economy gain strong tractions again in 2017. However, the stimulus starts to lose momentum reflected by weak economic data at the start of 2018, suggesting that Eurozone's economic activities decelerated after enjoying a robust growth in 2017. Monthly economic indicators have been soft, with weakened economic sentiment reflected by sliding PMI. In general, with rising global protectionism, post-electoral uncertainty in Germany and Italy and the intension of ECB to end asset purchases before the end of 2018, the growth momentum of Eurozone will cool down in 2018 but the tailwinds of last year's solid growth remain intact bolstered by rising corporate investments and consumer spending. The slowdown of the area is likely to be moderate for the rest of 2018.

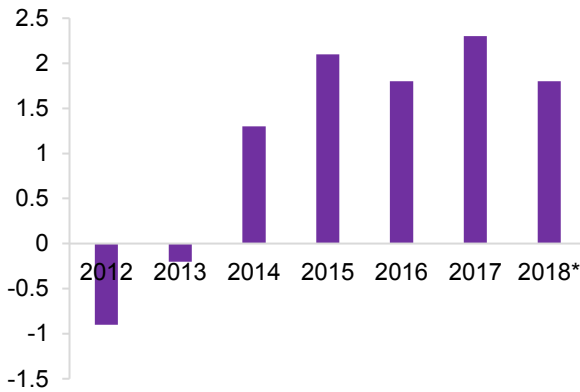
Italian political turmoil to cloud Eurozone outlook. Being the third largest economy in Eurozone, Italy points to weak growth momentum with its economic growth lagged that of Germany and France. Due to large debt and weak banking sector, Italian economy is one of the most at risk in the zone. The political situation is unsettled as Italy has struggled but failed on several occasions to

form a new government since the election in March. As the formation of a fiscally irresponsible government is still a possibility, downside risks to the stability of public finances remain intact. In general, Italian economy showed decelerating trend in 1Q2018 and it is likely to carry this economic weakness forward into 2Q2018. With growing economic challenges amid political uncertainty, Italy's status quo will not only endanger the recovery of Eurozone, but also push the European Union closer to the brink of collapse.

Rising trade tensions to be a downside risk for Eurozone economy. Trade tensions between Eurozone and the U.S. are escalating over tariffs being imposed on steel and aluminum. Given its strong dependency on exports with current account-to-GDP ratio reaching 3.5% in 2017, Eurozone's external trade growth has significant impact on region's economic activities and worries over a potential outright global trade war are especially harmful to the recovery of Eurozone. Eurozone economic growth will take a further hit from the ongoing trade disputes with the U.S.

ECB likely to postpone normalization of monetary policy. The monetary impetus through monthly net purchases of public and private sector securities by European central bank (ECB) has successfully reduced bank lending rates and bond yields throughout Eurozone, and also restored the provision of bank credit in the troubled economies. The cyclical recovery was gaining momentum, indicating the effectiveness of quantitative easing. The 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 began to normalize monetary stance by halving its monthly asset purchases to €30 billion starting in January 2018. The ECB has clearly been intending to end its program of asset purchases well before the end of 2018, but a combination of fading growth, political concerns and mild inflation could make it increasingly difficult to achieve this objective.

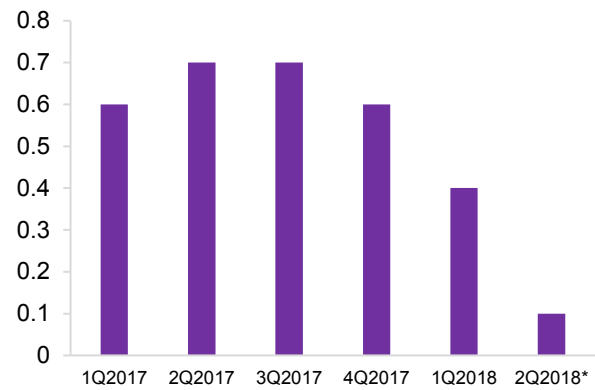
Fig. 1: Eurozone GDP (YoY%)



*Forecast

Source: Wind, Bloomberg and CEBI

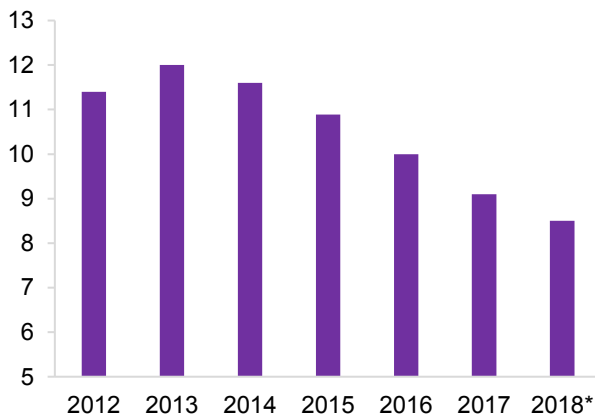
Fig. 2: Eurozone GDP (QoQ%)



*Forecast

Source: Wind, Bloomberg and CEBI

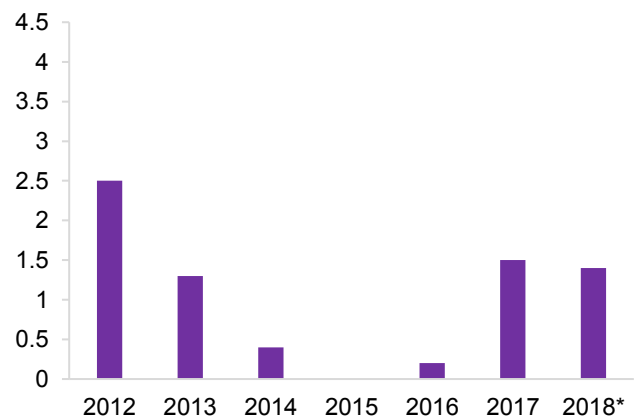
Fig. 3: Eurozone unemployment rate (%)



*April

Source: Wind, Bloomberg and CEBI

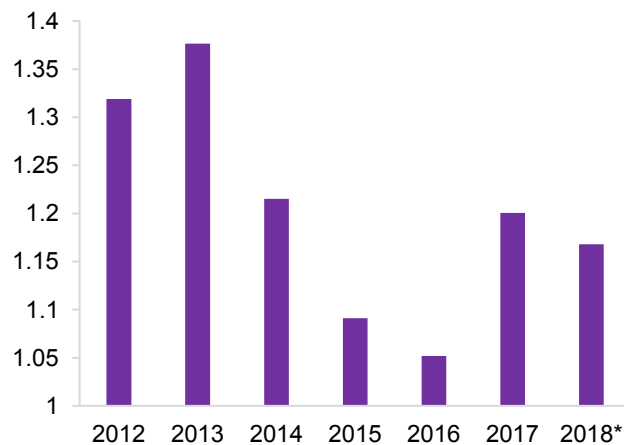
Fig. 4: Eurozone inflation (YoY%)



*Average January-to-May

Source: Wind, Bloomberg and CEBI

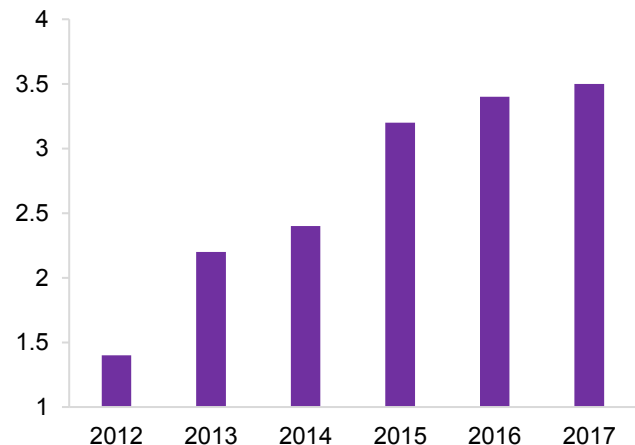
Fig. 5: Euro/USD



*31st May 2018

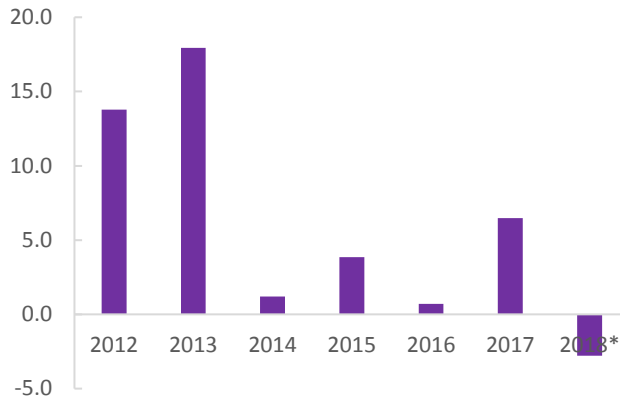
Source: Wind, Bloomberg and CEBI

Fig. 6: Eurozone current account balance (% of GDP)



Source: Wind, Bloomberg and CEBI

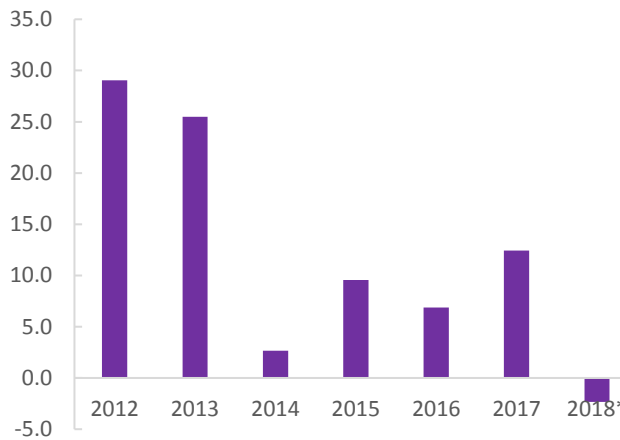
Fig. 7: EURO STOXX 50 Index (YoY%)



*31 May 2018

Source: Wind, Bloomberg and CEBI

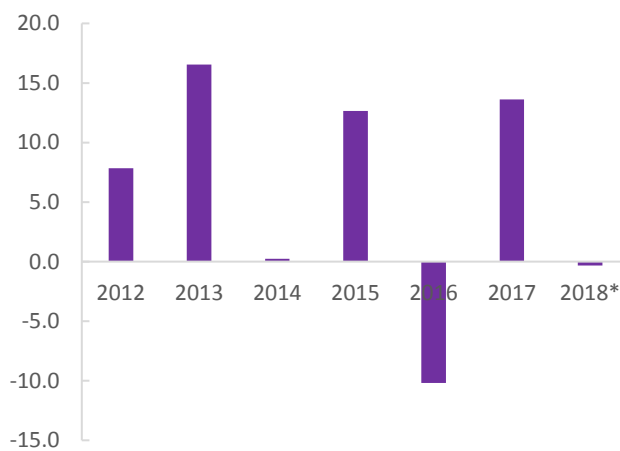
Fig. 9: DAX Index (YoY%)



*31 May 2018

Source: Wind, Bloomberg and CEBI

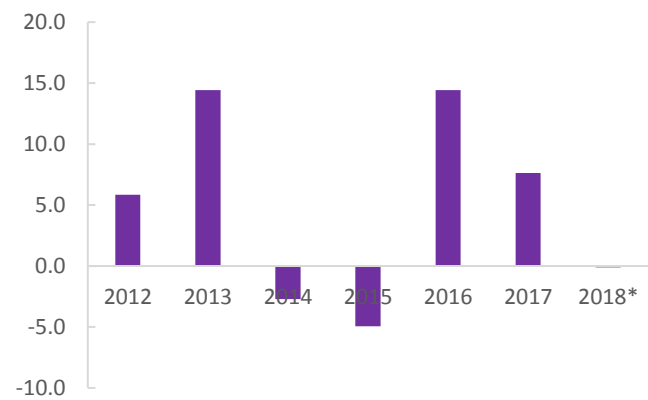
Fig. 11: FTSE MIB Index (YoY%)



*31 May 2018

Source: Wind, Bloomberg and CEBI

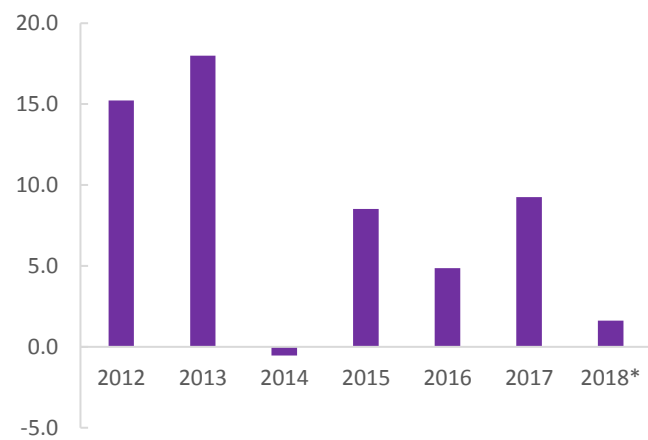
Fig. 8: FTSE 100 Index (YoY%)



*31 May 2018

Source: Wind, Bloomberg and CEBI

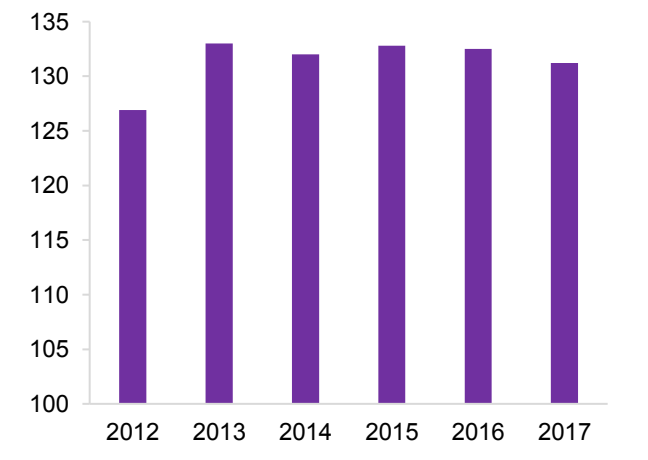
Fig. 10: CAC 40 Index (YoY%)



*31 May 2018

Source: Wind, Bloomberg and CEBI

Fig. 12: Italy - Debt-to-GDP ratio (%)



Source: Wind, Bloomberg and CEBI

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	1.8
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	3.4
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	7.0
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	10.3
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	7.0
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	9.4
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	1180.0
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	8.3
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	1560.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,415.84	18.42	-1.89
S&P 500	2,705.27	20.67	-1.03
NASDAQ	7,442.12	23.45	0.22
EUR			
FTSE 100	7,678.20	13.73	-1.42
DAX	12,604.89	14.06	-1.95
CAC40S	5,398.40	17.08	-2.70
STOXX EUR 600	383.06	16.12	-1.92
Asia			
HSI	30,492.91	12.46	-0.31
HSCEI	12,020.09	9.00	-0.23
CSI300	3,770.59	14.53	-1.20
SSE Composite	3,075.14	14.97	-2.11
SZSE Composite	1,746.33	28.64	-3.52
NIKKEI 225	22,171.35	16.97	-1.24
KOSPI	2,438.96	11.60	-0.89
TWSE	10,949.08	14.72	0.06
S&P/ASX 200	5,990.39	17.53	-0.70
MSCI Index			
MSCI WORLD	2,092.92	18.55	-1.17
MSCI DEVELOPED	508.77	17.89	-1.18
MSCI EMERGING	1,120.71	14.05	-1.26
MSCI US	2,579.76	21.08	-0.99
MSCI UK	2,217.31	13.83	-1.48
MSCI France	156.09	16.81	-2.43
MSCI Germany	152.74	14.74	-1.89
MSCI China	92.56	15.74	-0.69
MSCI Hong Kong	16,164.99	11.68	-0.15
MSCI Japan	1,032.76	13.88	-1.47

* As of 1/6/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	67.21	-4.95
ICE Brent Oil	USD/bbl	77.70	1.62
NYMEX NatGas	USD/MMBtu	2.95	0.20
Basic Metals			
LME Alum.Cash	USD/MT	2,289.25	1.20
CMX Cop.Active	USD/lb.	306.65	-0.95
LME Steel Rebar	USD/MT	530.00	-1.49
LME Lead Cash	USD/MT	2,446.00	-0.93
Precious Metals			
CMX Gold	USD/KRW	1,299.71	-0.31
Gold Futures	USD/KRW	1,303.80	-0.46
CMX Silverbn	USD/KRW	16.46	-0.33
NYMEX Platinum	USD/T. oz	911.95	1.20
Agri, Products			
CBOT Corn	USD/bu	395.00	-2.29
CBOT Wheat	USD/bu	520.00	-1.93
NYB-ICE Sugar	USD/lb.	12.85	3.80
CBOT Soybeans	USD/bu.	1,023.75	-1.16

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)	1.73	0.06
US Treasury (1 Yr)	2.22	-0.03
US Treasury (5 Yr)	2.70	-0.06
US Treasury (10 Yr)	2.87	-0.06
US Treasury (30 Yr)	3.03	-0.06
1-Month LIBOR	1.98	0.02
3 Month LIBOR	2.30	-0.03
Japan 1-Yr Gov. Bond	-0.14	0.00
Japan 10-Yr Gov. Bond	0.05	0.01
German 1-Yr Gov. Bond	-0.64	0.01
German 10-Yr Gov. Bond	0.37	-0.03
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.17	0.04
China 5-Yr Gov. Bond	3.44	0.02
China 10-Yr Gov. Bond	3.64	-0.03
O/N SHIBOR	2.80	0.27
1-mth SHIBOR	3.97	0.12
HK Base rate	0.51	0.31
O/N HIBOR	0.51	0.31
1-mth HIBOR	1.03	0.04
O/N CNH HIBOR	2.59	-0.63
1-mth CNH HIBOR	4.13	-0.01
Corporate Bonds (Moody's)		
Aaa	3.89	-0.16
Baa	4.75	-0.14

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.04	-0.23
Euro/USD	1.1683	0.27
GBP/USD	1.3286	-0.17
AUD/USD	0.7547	-0.01
USD/CAD	1.2954	-0.14
USD/JPY	109.13	-0.26
USD/CHF	0.9867	-0.43
USD/CNY Midpoint	6.4078	0.33
USD/CNY	6.4169	0.39
USD/CNY NDF		
12-mth Spot pr.	6.5230	0.42
USD/CNH	6.4121	0.37
USD/HKD	7.8457	-0.01
CNY/HKD	1.2227	-0.44
CNH/HKD	1.2236	-0.37
USD/KRW	1,075.00	-0.27
USD/TWD	29.860	-0.29
USD/SGD	1.3379	-0.31
USD/INR	67.120	-0.96

All data sources: Bloomberg, CEBI, NBS

Disclosures

Analyst Certification

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