June 6, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The first five months of 2018 emerged to be a period that volatilities of global equity markets were skewed to the high side and a clouding global growth outlook came with heightened economic and political risk.
- Rising U.S. protectionism posts near-term risks on global outlook with which the U.S. actions against China and other countries spark bouts of volatility and derail the momentum of global economic recovery.
- In sum, the continued mix of worldwide monetary policies, escalating trade tensions and political instability in the Korean Peninsula, Eurozone as well as the Middle East could make the global economic recovery more challenging, which may trigger more short-term turbulences in equity markets in coming quarters.
- Despite market turbulence, we believe the synchronized global expansion will make equity investment more attractive on rising corporate profitability and the outlook for equity markets stays positive in 2H2018.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

Equity markets to embrace surging volatilities and opportunities

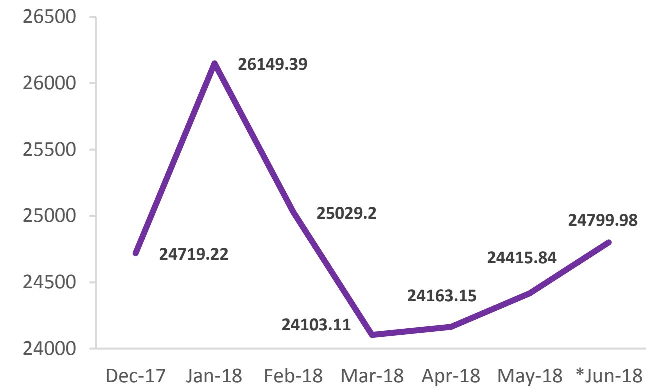
The first five months of 2018 emerged to be a period that volatilities of global equity markets were skewed to the high side and a clouding global growth outlook came with heightened economic and political risk. Rising U.S. protectionism posts near-term risks on global outlook with which the U.S. actions against China and other countries spark bouts of volatility and derail the momentum of global economic recovery. Navigating the maze of economic and political risks in global economy remains as the biggest challenge to world leaders. For global economic recovery, credit expansion continues to be the key to fuel economic growth but monetary stances of major central banks complicate the global liquidity flow. The U.S. inflation surges across target rate, supporting the Federal Reserve (Fed) for further rate hikes while inflation remains muted in Europe and Japan, supporting ongoing monetary accommodation. In sum, the continued mix of worldwide monetary policies, escalating trade tensions and political instability in the Korean Peninsula, Eurozone as well as the Middle East could make the global economic recovery more challenging, which may trigger more short-term turbulences in equity markets in coming quarters. Despite market turbulence, we believe the synchronized global expansion will make equity investment more attractive on rising corporate profitability and the outlook for equity markets stays positive in 2H2018.

Trade tensions arising from the U.S to remain as the major global economic risks. The U.S. trade disputes with China, EU and other trading partners stir fears that global economy will spiral into a full-blown trade war. Both developed and emerging markets are beneficiaries of the return of global expansion and physical trade disruptions will impact specific parts of the global economy, derailing global economic recovery. In sum, the escalating trade tensions is adding anxiety and confusion to a stock market with which demand for consumption and investment are negatively affected in varying degrees. There are no signs that on-going negotiations will end in short term, which would further weight on market sentiment and enhance the volatilities of global stock markets.

Orderly liquidity tightening to be in line with strengthening global economic recovery. Despite economic risks and political uncertainties, global economic recovery remains intact with the support of accelerating pace of corporate earnings. The Fed and European Central Bank (ECB) continue to normalize its monetary policy gradually with which their monetary normalization strategies augur well for an orderly and gradual tightening of global liquidity. In general, the stable tightening of global liquidity to suppress potential inflation hikes turns to be a norm, but a favorable interest rate environment is still expected to maintain for the global economy in 2018. Worldwide liquidity conditions still remain loose, suggesting a positive backdrop for equities.

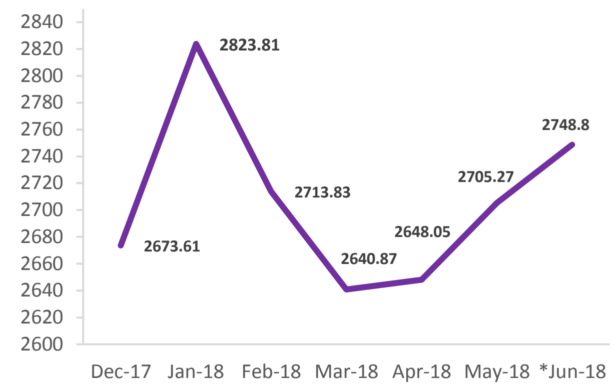
Hong Kong (HK) stock market to benefit from the positive economic outlook of China and development of multi-layered capital market. Although HK stock market faced both internal and external headwinds in the first five months of 2018, sound fundamentals of HK economy and strong corporate earnings remain intact. The economy retained a resilient path of economic momentum in 1Q2018, demonstrating an upswing of 4.7% YoY, surpassing 4Q2017's 3.4% and 2017's 3.8%. HK stock market has been increasingly affected by China's economic conditions as well as the path of interest rate hikes in the U.S. As the Fed maintains that there would be a gradual path of rate hikes along with shrinking of the balance sheet in 2018, uncertainties among investors have been reduced. With resilient economic momentum of China, more companies with dual-class shareholding structures and biotech firms listed in Hong Kong, rising corporate earnings on the back of robust economic outlook as well as abundant liquidity conditions, we believe the favorable macroeconomic environment will add fuel to the capital market, strengthening the outlook of HK stock market performance in 2H2018.

Fig. 1: Dow Jones Industrial Index



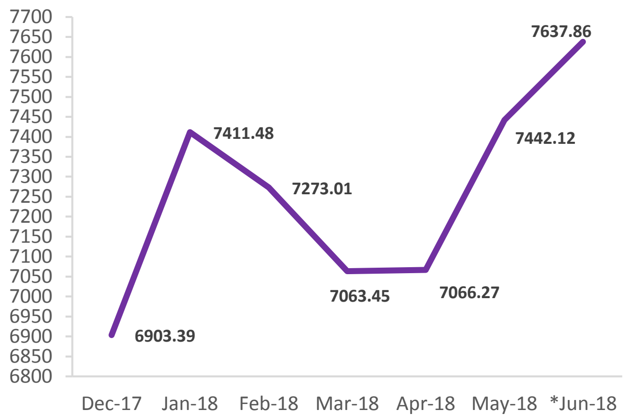
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 2: S&P 500 Index



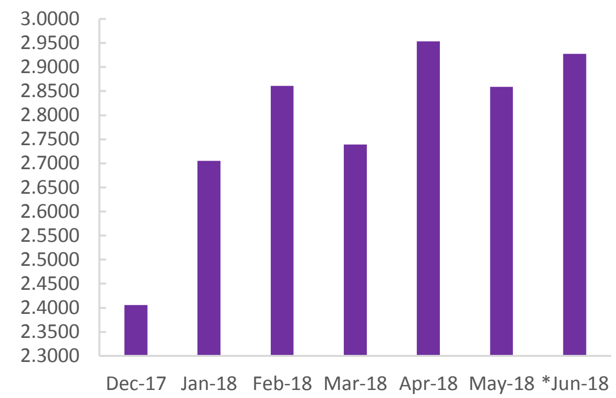
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 3: NASDAQ Index



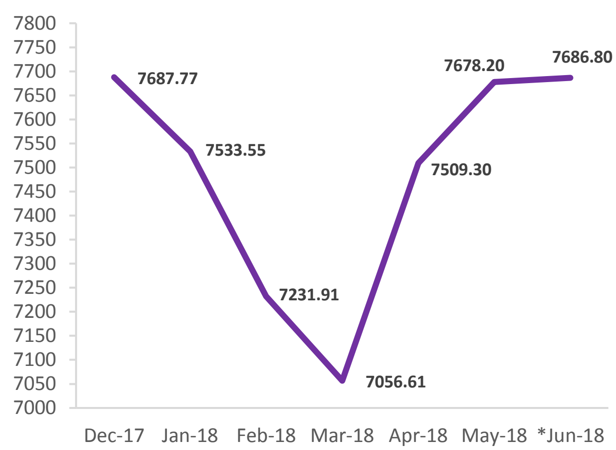
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 4: U.S. 10-year Bond Yield (%)



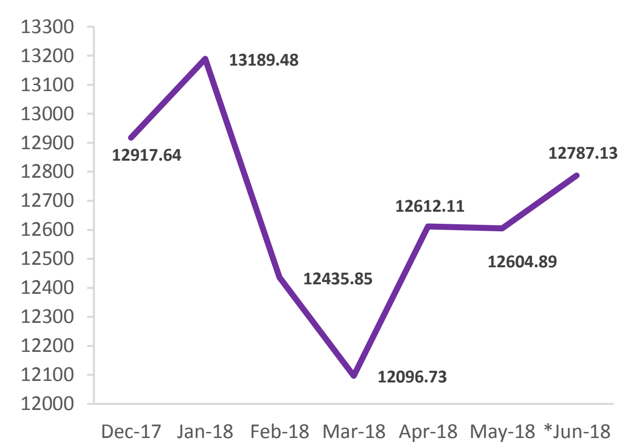
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 5: FTSE 100 Index



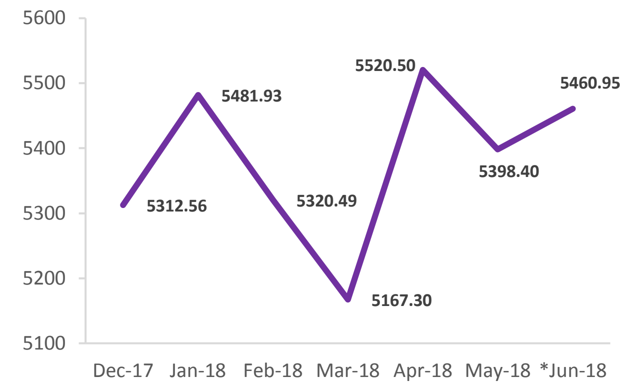
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 6: DAX Index



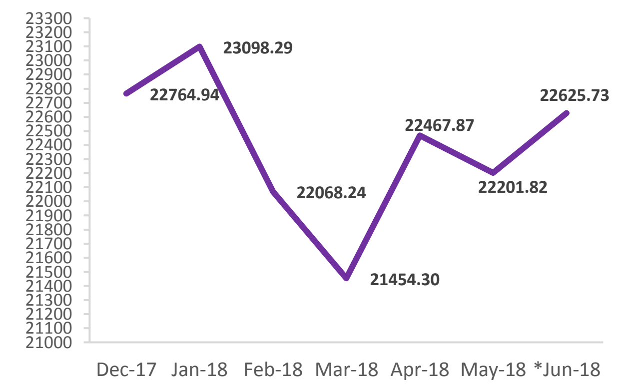
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 7: CAC40 Index



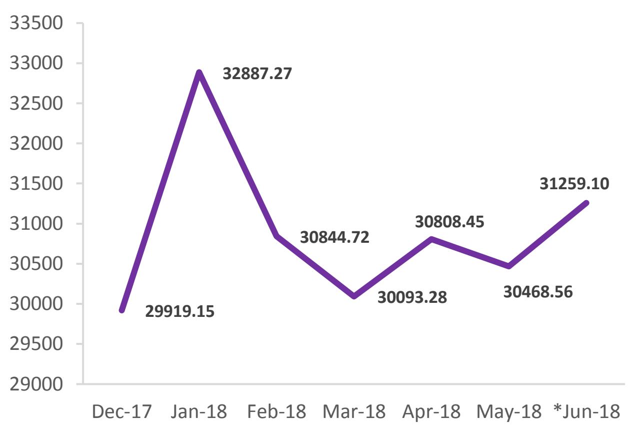
*5th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 8: NIKKEI 225 Index



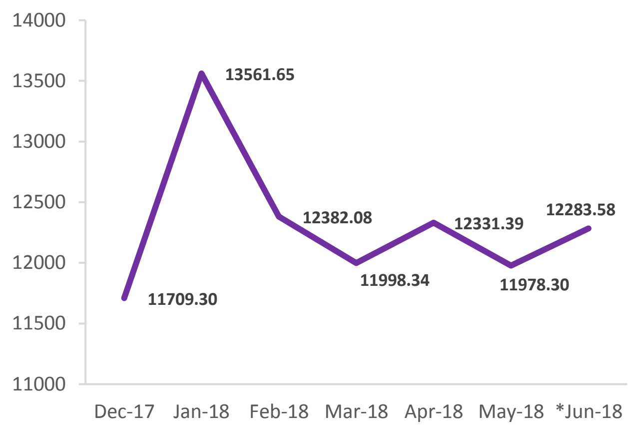
*6th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 9: Hang Seng Index



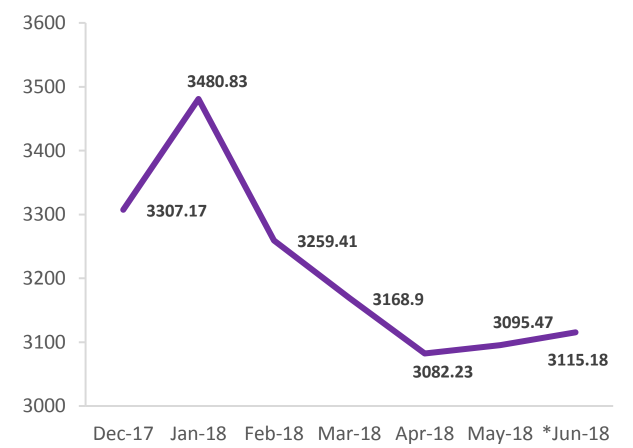
*6th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 10: Hang Seng China Enterprises Index



*6th June 2018
Source: Wind, Bloomberg and CEBI

Fig. 11: Shanghai Composite Index



*6th June 2018
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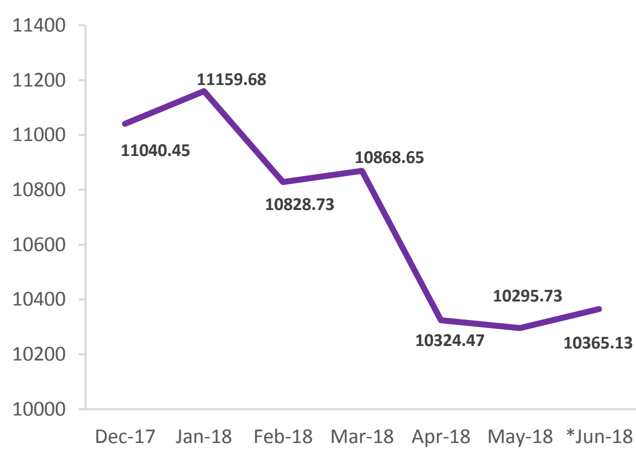
Fig. 12: Shenzhen Component Index



*6th June 2018
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
PMI 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	24,799.98	18.71	1.80
S&P 500	2,748.80	20.92	2.19
NASDAQ	7,637.86	24.09	3.26
EUR			
FTSE 100	7,686.80	13.74	0.71
DAX	12,787.13	14.26	0.95
CAC40S	5,460.95	17.62	0.42
STOXX EUR 600	386.89	16.31	0.63
Asia			
HSI	31,259.10	12.85	4.00
HSCEI	12,283.58	9.41	4.37
CSI300	3,837.35	14.69	3.06
SSE Composite	3,115.18	15.08	2.42
SZSE Composite	1,779.15	28.78	2.47
NIKKEI 225	22,625.73	17.17	2.76
KOSPI	2,453.76	11.75	-1.10
TWSE	11,201.83	15.02	3.52
S&P/ASX 200	6,025.11	17.66	0.68
MSCI Index			
MSCI WORLD	2,119.36	18.81	1.73
MSCI DEVELOPED	515.72	18.14	1.72
MSCI EMERGING	1,144.44	14.40	1.61
MSCI US	2,622.35	21.40	2.23
MSCI UK	2,219.62	13.86	0.70
MSCI France	157.82	17.02	0.61
MSCI Germany	154.89	15.09	1.03
MSCI China	95.82	16.22	3.68
MSCI Hong Kong	16,218.57	10.98	0.25
MSCI Japan	1,049.08	14.20	0.78

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

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)	1.78	0.03
US Treasury (1 Yr)	2.26	0.06
US Treasury (5 Yr)	2.78	0.10
US Treasury (10 Yr)	2.94	0.09
US Treasury (30 Yr)	3.10	0.07
1-Month LIBOR	2.01	0.04
3 Month LIBOR	2.31	0.00
Japan 1-Yr Gov. Bond	-0.13	0.01
Japan 10-Yr Gov. Bond	0.06	0.02
German 1-Yr Gov. Bond	-0.65	-0.02
German 10-Yr Gov. Bond	0.42	0.05
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.19	0.05
China 5-Yr Gov. Bond	3.48	0.05
China 10-Yr Gov. Bond	3.68	0.05
O/N SHIBOR	2.56	-0.32
1-mth SHIBOR	4.04	0.17
HK Base rate	0.61	-0.31
O/N HIBOR	0.61	-0.31
1-mth HIBOR	1.11	0.10
O/N CNH HIBOR	2.51	-0.67
1-mth CNH HIBOR	4.07	-0.24
Corporate Bonds (Moody's)		
Aaa	3.96	0.03
Baa	4.82	0.04

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	65.62	-3.80
ICE Brent Oil	USD/bbl	75.84	-2.14
NYMEX NatGas	USD/MMBtu	2.91	0.76
Basic Metals			
LME Alum.Cash	USD/MT	2,309.25	1.90
CMX Cop.Active	USD/lb.	322.15	4.97
LME Steel Rebar	USD/MT	546.00	2.63
LME Lead Cash	USD/MT	2,508.50	3.02
Precious Metals			
CMX Gold	USD/KRW	1,297.03	-0.04
Gold Futures	USD/KRW	1,301.70	-0.37
CMX Silverbn	USD/KRW	16.55	1.06
NYMEX Platinum	USD/T. oz	903.60	-0.11
Agri. Products			
CBOT Corn	USD/bu	384.50	-2.29
CBOT Wheat	USD/bu	513.25	-1.68
NYB-ICE Sugar	USD/lb.	12.10	-3.97
CBOT Soybeans	USD/bu.	1,004.75	-1.78

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	93.70	-0.40
Euro/USD	1.1750	1.06
GBP/USD	1.3416	1.05
AUD/USD	0.7651	1.40
USD/CAD	1.2945	-0.32
USD/JPY	110.07	1.08
USD/CHF	0.9854	-0.52
USD/CNY Midpoint	6.4040	-0.26
USD/CNY	6.3959	-0.36
USD/CNY NDF		
12-mth Spot pr.	6.4990	-0.45
USD/CNH	6.3869	-0.38
USD/HKD	7.8473	0.02
CNY/HKD	1.2269	0.36
CNH/HKD	1.2287	0.40
USD/KRW	1,070.85	-1.10
USD/TWD	29.730	-1.06
USD/SGD	1.3326	-0.59
USD/INR	67.056	-0.56

All data sources: Bloomberg, CEBI, NBS

Disclosures

Analyst Certification

We, LAM Chiu Kei, Banny (CE Number: AGH217), being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company(ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company(ies) covered in this report.

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Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600