光銀國際
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# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- As expected, the U.S. Federal Reserve (Fed) lifted the benchmark federal funds rate for the second time to 1.75%-2.00% 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 while job creation surged as the unemployment rate fell to 3.8%, the lowest since 2000. Latest May inflation and core inflation edged up to 2.8% YoY and 2.2% YoY respectively which has exceeded the Fed's 2% inflation target, indicating that general price level in the U.S is trending upward.
- Recent Fed moves, namely seven 25bps rate hikes since 2015 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 the upbeat resilience, which will likely to warrant two more rate hikes in 2H2018.

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## The Fed's second rate hike in 2018

As expected, the U.S. Federal Reserve (Fed) lifted the benchmark federal funds rate for the second time to 1.75%-2.00% 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 while job creation surged as the unemployment rate fell to 3.8%, the lowest since 2000. Latest May inflation and core inflation edged up to 2.8% YoY and 2.2% YoY respectively which has exceeded the Fed's 2% inflation target, indicating that general price level in the U.S. is trending upward. Recent Fed moves, namely seven 25bps rate hikes since 2015 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 the upbeat resilience, which will likely to warrant two more rate hikes in 2H2018.

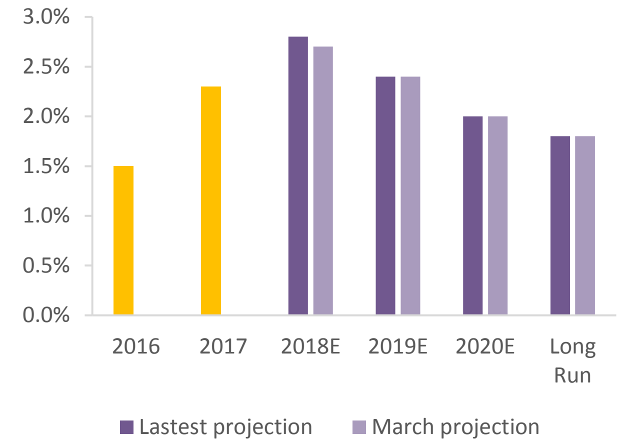
**Rate hikes to be backed by growing economic optimum.** The U.S. economy grew at an annualized rate of 2.3% in first quarter of 2018, indicating that the recovery momentum is on track and unemployment fell to a low level of 3.8% in May 2018. At the same time, pricing pressures surged as inflation and core inflation reached 2.8% YoY and 2.2% YoY respectively in May. The Fed raises the projection of GDP growth to 2.8% and 2.4% for 2018 and 2019 while lowering the forecasted unemployment rate to 3.6% and 3.5%. As for the inflation, the Fed projects that PCE and core PCE will reach somewhat above target of 2% at 2.1% in 2018 and 2019. We believe the Fed has taken the initiative 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 economic conditions amid the Fed's rate hike cycle.** 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 with which the Fed is stepping up efforts for monetary normalization and European Central Bank (ECB) is unwinding its monetary stimulus as scheduled while 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.

**Hong Kong (HK) money market rates on the rise due to the U.S. rate hike and mega IPO effects.** The Fed's moves have a major and direct influence on monetary conditions in HK due to the city's currency board regime which pegs the local dollar between 7.75 and 7.85 per U.S. dollar. HIBOR-LIBOR spreads, the differential between floating rates at which banks lend to each other in Hong Kong and the U.S. respectively, had been gradually narrowing since the start of 2018 as HIBOR continues to spiral to ten-year high, thanks to tighter liquidity due to cash crunch by giant IPO activities and U.S interest rate hike. We believe the liquidity conditions in HK remain ample and narrowing spread of HK and U.S. interest rate helps stabilize the outflow of liquidity and strengthen HK dollar. As money market rates of both economies get closer, it is likely that prime lending rate in HK will follow the uptrend in 3Q2018.

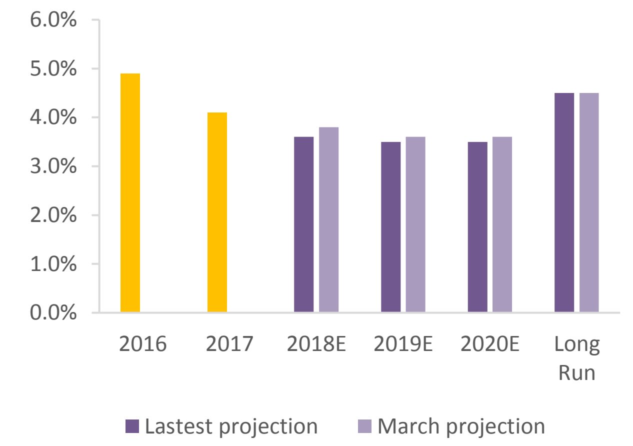
**China to demonstrate strong capabilities to handle the U.S. rate hikes and trade disputes.** With strong GDP growth of 6.8% in 1Q2018 and stable economic outlook, China economic growth continues to retain the path of stable recovery, signaling fewer needs for aggressive monetary stimulus. Renminbi remains stable since the beginning of 2018 amid China's improving growth prospect while strong foreign reserves, external trade data and foreign direct investment (FDI) show that the pressure on capital outflow has been relieved. To sum up, the U.S. monetary tightening and escalating trade tensions are 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 more capable in economic management, with the PBOC tactful in monetary policy to handle economic fluctuations. A stable and neutral monetary policy, which is able to be fine-tuned in line with economic conditions, along with China's structural reforms, helps offset the impacts of the U.S. rate hikes and trade disputes, thus maintaining a steady economic recovery in 2018.

**Fig. 1: Economic growth forecasts by the Fed**



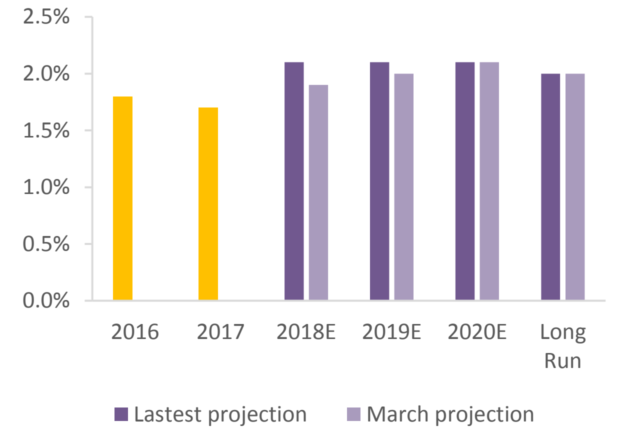

Source: Wind, Bloomberg and CEBI

**Fig. 2: Unemployment rate forecasts by the Fed**



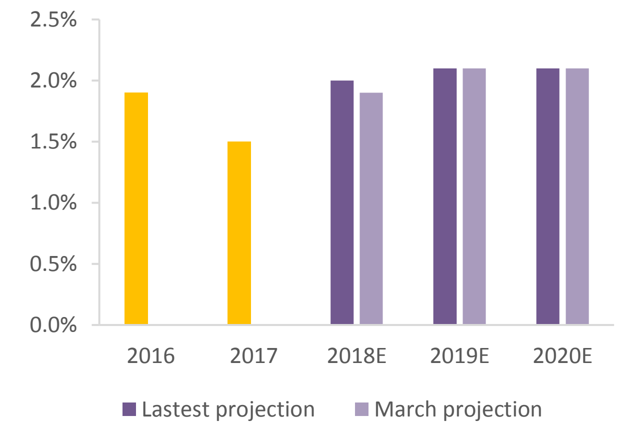

Source: Wind, Bloomberg and CEBI

**Fig. 3: PCE inflation forecasts by the Fed**



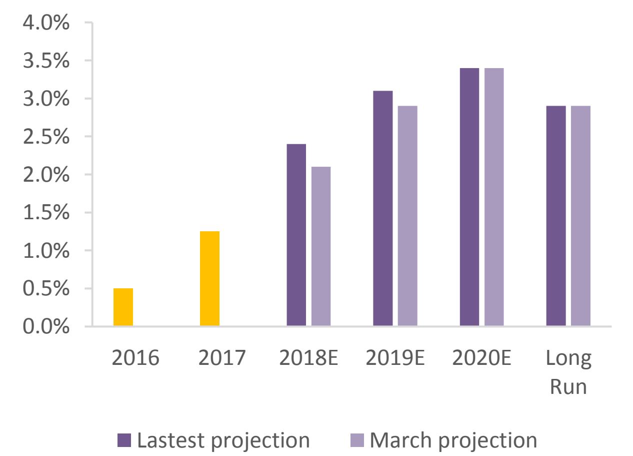

Source: Wind, Bloomberg and CEBI

**Fig. 4: Core PCE inflation forecasts by the Fed**



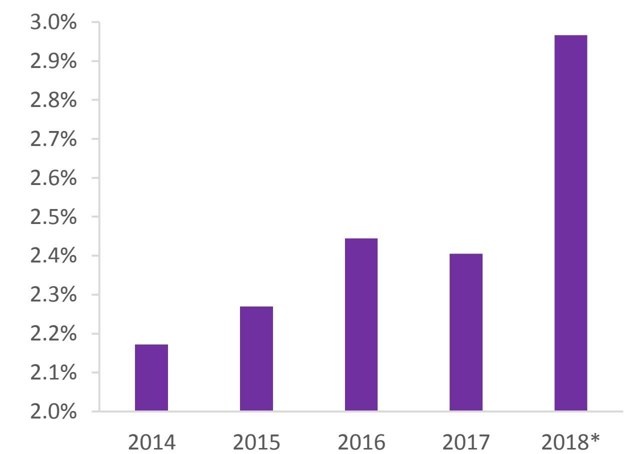

Source: Wind, Bloomberg and CEBI

**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
* 13/06/2018

## 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 |
| PMI Non-Manufacturing (%) | 54.5 | 55.1 | 54.9 | 55.4 | 55.5 | 55.5 | 54.6 |
| Exports (RMB YoY %) | (1.9) | 13.7 | 11.3 | 7.1 | 7.1 | 10.8 | 7.2 |
| Imports (RMB YoY %) | 0.6 | 31.3 | 20.3 | 16.5 | 9.7 | 18.7 | 11.9 |
| Trade Balance (RMB/bn) | 3352.3 | 418.96 | 809.46 | 777.51 | 865.64 | 2871.6 | 345.2 |
| Exports (USD YoY %) | (7.7) | 7.2 | 8.2 | 6.4 | 9.7 | 7.9 | 13.9 |
| Imports (USD YoY %) | (5.5) | 24.3 | 14.1 | 14.6 | 12.5 | 15.9 | 19.1 |
| Trade Balance (USD/bn) | 510.7 | 60.38 | 117.4 | 113.8 | 130.9 | 422.5 | 46.5 |
| 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 |

| | May 17 | Jun 17 | July 17 | Aug 17 | Sep 17 | Oct 17 | Nov 17 | Dec 17 | Jan 18 | Feb 18 | Mar 18 | Apr 18 | May 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | - | 6.9 | - | - | 6.8 | - | - | 6.8 | - | - | 6.8 | - | - |
| PMI – Manufacturing % | 51.2 | 51.7 | 51.4 | 51.7 | 52.4 | 51.6 | 51.8 | 51.6 | 51.3 | 50.3 | 51.5 | 51.4 | 51.9 |
| PMI- Non-manufacturing% | 54.5 | 54.9 | 54.5 | 53.4 | 55.4 | 54.3 | 54.8 | 55.5 | 55.3 | 54.4 | 54.6 | 54.8 | 54.9 |
| Exports (RMB YoY %) | 16.3 | 10.3 | 6.3 | 8.9 | 5.5 | 9.5 | 7.4 | 16.3 | 5.7 | 35.4 | (9.9) | 3.5 | 3.2 |
| Imports (RMB YoY %) | 22.9 | 14.8 | 14.5 | 19.6 | 15.8 | 15.4 | 0.9 | 22.9 | 30.6 | (0.2) | 5.9 | 11.6 | 15.6 |
| Trade Balance (RMB/bn) | 274.6 | 284.6 | 310.0 | 277.9 | 189.6 | 248.2 | 255.4 | 362.0 | 127.2 | 218.0 | (31.6) | 179.71 | 156.51 |
| Export (USD YoY %) | 7.6 | 10.3 | 6.4 | 4.9 | 7.9 | 6.3 | 11.5 | 10.9 | 10.8 | 43.7 | (2.9) | 12.6 | 12.6 |
| Import (USD YoY %) | 14 | 16.9 | 11.1 | 13.4 | 18.9 | 17.1 | 17.6 | 4.5 | 37.3 | 6.3 | 14.4 | 21.5 | 26.0 |
| Trade Balance (USD/bn) | 39.8 | 41.4 | 45.1 | 40.7 | 28.0 | 37.2 | 39.0 | 54.7 | 19.1 | 32.7 | (5.3) | 28.3 | 24.9 |
| CPI (YoY %) | 1.5 | 1.5 | 1.4 | 1.8 | 1.6 | 1.9 | 1.7 | 1.8 | 1.5 | 2.9 | 2.1 | 1.8 | 1.8 |
| PPI (YoY %) | 5.5 | 5.5 | 5.5 | 6.3 | 6.9 | 6.9 | 5.8 | 4.9 | 4.3 | 3.7 | 3.1 | 3.4 | 4.2 |
| FAI (YTD/ YOY %) | 8.6 | 8.6 | 8.3 | 7.8 | 7.5 | 7.3 | 7.2 | 7.2 | - | 7.9 | 7.5 | 7.0 | 6.1 |
| Real Estate Investment (YTD/ YoY %) | 8.8 | 8.5 | 7.9 | 7.9 | 8.1 | 7.8 | 7.5 | 7.0 | - | 9.9 | 10.4 | 10.3 | 10.2 |
| Industrial Production (YoY %) | 6.5 | 7.6 | 6.4 | 6.0 | 6.6 | 6.2 | 6.1 | 6.2 | - | 7.2 | 6.0 | 7.0 | 6.8 |
| Retail Sales (YoY%) | 10.7 | 11.0 | 10.4 | 10.1 | 10.3 | 10.0 | 10.2 | 9.4 | - | 9.7 | 10.1 | 9.4 | 8.5 |
| New Lending (RMB/bn) | 1110.0 | 1540.0 | 825.5 | 1090.0 | 1270.0 | 663.2 | 1120.0 | 584.4 | 2900.0 | 839.3 | 1120.0 | 1180.0 | 1150.0 |
| M2 (YoY %) | 9.6 | 9.4 | 9.2 | 8.9 | 9.2 | 8.8 | 9.1 | 8.2 | 8.6 | 8.8 | 8.2 | 8.3 | 8.3 |
| Aggregate Financing (RMB bn) | 1063.1 | 1771.8 | 1195.6 | 1489.5 | 1833.5 | 1035.7 | 1619.6 | 1139.8 | 3061.0 | 1167.2 | 1354.6 | 1560.5 | 760.8 |
| Unemployment Rate (%) | - | - | - | - | - | - | - | - | 5.0 | 5.0 | 5.1 | 4.7 | 4.8 |
| Unemployment Rate in 31 major cities (%) | - | - | - | - | - | - | - | - | 4.8 | 4.9 | 4.9 | 4.7 | 4.7 |

# World Economic/Financial Indicators

| Global Indices | | | |
|---|---|---|---|
| Index | Closing Price | P/E | One Week chg(%) |
| U.S. | | | |
| DJIA | 25,201.20 | 19.01 | 0.22 |
| S&P 500 | 2,775.63 | 21.10 | 0.12 |
| NASDAQ | 7,695.70 | 23.55 | 0.08 |
| EUR | | | |
| FTSE 100 | 7,703.71 | 13.77 | -0.11 |
| DAX | 12,890.58 | 14.34 | 0.47 |
| CAC40S | 5,452.73 | 17.59 | -0.09 |
| STOXX EUR 600 | 388.25 | 16.35 | 0.35 |
| Asia | | | |
| HSI | 30,440.17 | 12.30 | -3.40 |
| HSCEI | 11,950.70 | 9.24 | -3.68 |
| CSI300 | 3,773.37 | 14.38 | -1.50 |
| SSE Composite | 3,044.16 | 14.76 | -2.10 |
| SZSE Composite | 1,721.89 | 28.05 | -2.61 |
| NIKKEI 225 | 22,738.61 | 17.50 | -0.37 |
| KOSPI | 2,423.48 | 11.56 | -1.23 |
| TWSE | 11,013.98 | 15.13 | -2.11 |
| S&P/ASX 200 | 6,016.64 | 17.74 | -0.14 |
| MSCI Index | | | |
| MSCI WORLD | 2,140.20 | 18.97 | 0.16 |
| MSCI DEVELOPED | 519.70 | 18.25 | -0.01 |
| MSCI EMERGING | 1,135.68 | 14.27 | -1.26 |
| MSCI US | 2,648.60 | 21.57 | 0.13 |
| MSCI UK | 2,223.48 | 13.88 | -0.14 |
| MSCI France | 157.55 | 17.38 | -0.06 |
| MSCI Germany | 156.18 | 15.23 | 0.51 |
| MSCI China | 95.15 | 16.12 | -1.29 |
| MSCI Hong Kong | 16,045.06 | 10.87 | -1.65 |
| MSCI Japan | 1,064.48 | 14.41 | 1.25 |

* As of 14/6/2018 closing for Asian markets, previous closing for others

| Money market | | |
|---|---|---|
| | Yield (%) | One Week chg(%) |
| US Fed Fund Rate | 2.00 | 0.25 |
| 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) | 1.80 | 0.03 |
| US Treasury (1 Yr) | 2.31 | 0.02 |
| US Treasury (5 Yr) | 2.82 | 0.06 |
| US Treasury (10 Yr) | 2.96 | 0.04 |
| US Treasury (30 Yr) | 3.08 | 0.01 |
| 1-Month LIBOR | 2.06 | 0.03 |
| 3 Month LIBOR | 2.34 | 0.02 |
| Japan 1-Yr Gov. Bond | -0.13 | 0.00 |
| Japan 10-Yr Gov. Bond | 0.04 | -0.01 |
| German 1-Yr Gov. Bond | -0.64 | 0.00 |
| German 10-Yr Gov. Bond | 0.50 | 0.02 |
| China Benchmark Interest | 4.35 | 0.00 |
| China 1-Yr Gov. Bond | 3.24 | 0.04 |
| China 5-Yr Gov. Bond | 3.52 | 0.01 |
| China 10-Yr Gov. Bond | 3.68 | 0.00 |
| O/N SHIBOR | 2.59 | 0.04 |
| 1-mth SHIBOR | 4.11 | 0.06 |
| HK Base rate | 0.30 | -0.44 |
| O/N HIBOR | 0.30 | -0.44 |
| 1-mth HIBOR | 1.60 | 0.30 |
| O/N CNH HIBOR | 3.81 | 1.03 |
| 1-mth CNH HIBOR | 4.27 | 0.20 |
| Corporate Bonds (Moody's) | | |
| Aaa | 3.97 | 0.02 |
| Baa | 4.84 | 0.02 |

| Global Commodities | | | |
|---|---|---|---|
| | Unit | Price | One Week chg(%) |
| Energy | | | |
| NYMEX WTI | USD/bbl | 66.63 | 1.03 |
| ICE Brent Oil | USD/bbl | 76.59 | -0.94 |
| NYMEX NatGas | USD/MMBtu | 2.95 | 0.72 |
| Basic Metals | | | |
| LME Alum.Cash | USD/MT | 2,281.25 | -2.59 |
| CMX Cop.Active | USD/lb. | 324.15 | -1.02 |
| LME Steel Rebar | USD/MT | 550.00 | 0.73 |
| LME Lead Cash | USD/MT | 2,472.25 | -1.85 |
| Precious Metals | | | |
| CMX Gold | USD/KRW | 1,302.17 | 0.30 |
| Gold Futures | USD/KRW | 1,306.00 | 0.23 |
| CMX Silverbn | USD/KRW | 17.10 | 2.17 |
| NYMEX Platinum | USD/T. oz | 904.92 | -0.13 |
| Agri, Products | | | |
| CBOT Corn | USD/bu | 393.75 | -0.76 |
| CBOT Wheat | USD/bu | 525.50 | -3.45 |
| NYB-ICE Sugar | USD/lb. | 12.78 | 6.32 |
| CBOT Soybeans | USD/bu. | 958.25 | -3.67 |

| Currency market | | |
|---|---|---|
| | Spot Rate | One Week chg(%) |
| US Dollar Index | 93.36 | -0.08 |
| Euro/USD | 1.18 | -0.02 |
| GBP/USD | 1.34 | -0.10 |
| AUD/USD | 0.76 | -1.18 |
| USD/CAD | 1.30 | 0.03 |
| USD/JPY | 110.01 | 0.03 |
| USD/CHF | 0.98 | 0.15 |
| USD/CNY Midpoint | 6.40 | 0.07 |
| USD/CNY | 6.39 | 0.01 |
| USD/CNY NDF | | |
| 12-mth Spot pr. | 6.49 | -0.03 |
| USD/CNH | 6.39 | 0.05 |
| USD/HKD | 7.85 | 0.03 |
| CNY/HKD | 1.23 | 0.02 |
| CNH/HKD | 1.23 | -0.02 |
| USD/KRW | 1,083.05 | 1.14 |
| USD/TWD | 29.94 | 0.67 |
| USD/SGD | 1.33 | 0.18 |
| USD/INR | 67.62 | 0.72 |

All data sources: Bloomberg, CEBI, NBS

# Disclosures

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