

August 21, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The second half of 2018 is clouding with a worsening global economic outlook amid heightened risks on trade disputes and dollar strength. Plunging Turkish Lira triggered by the U.S.'s doubling of tariffs on steel and aluminum imports from Turkey has set off a contagious wave of financial assets sell-off in emerging markets.
- The Lira crisis reflects the concerns about the healthiness of EM economies with high levels of USD debt and reliance on external trade as the U.S. is stepping up efforts to negotiate better trade deals and raise interest rate with capital flowing out of EM.

In sum, tightening of liquidity to suppress potential hiking inflation in the U.S, deteriorating financial market conditions and loss of investors' confidence are at the root of surging market volatility. More intense volatility on the prices of EM financial assets is in sight with which the dollar rally and escalating trade tensions will deepen financial market turbulence.

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Dollar strength and trade disputes weighted on emerging markets

The second half of 2018 is clouding with a worsening global economic outlook amid heightened risks on trade disputes and dollar strength. Plunging Turkish Lira triggered by the U.S.'s doubling of tariffs on steel and aluminum imports from Turkey has set off a contagious wave of financial assets sell-off in emerging markets (EM). The turmoil has jolted assets globally, pulling down equities across both developed and developing market indexes. The Lira crisis reflects the concerns about the healthiness of EM economies with high levels of USD debt and reliance on external trade as the U.S. is stepping up efforts to negotiate better trade deals and raise interest rate with capital flowing out of EM. As EM takes a battering from Turkey's turmoil, with stocks and currencies near their lowest in more than a year, investors are positioning themselves to exit the markets which further trigger weakening trend in EM financial markets. In sum, tightening of liquidity to suppress potential hiking inflation in the U.S, deteriorating financial market conditions and loss of investors' confidence are at the root of surging market volatility. More intense volatility on the prices of EM financial assets is in sight with which the dollar rally and escalating trade tensions will deepen financial market turbulence.

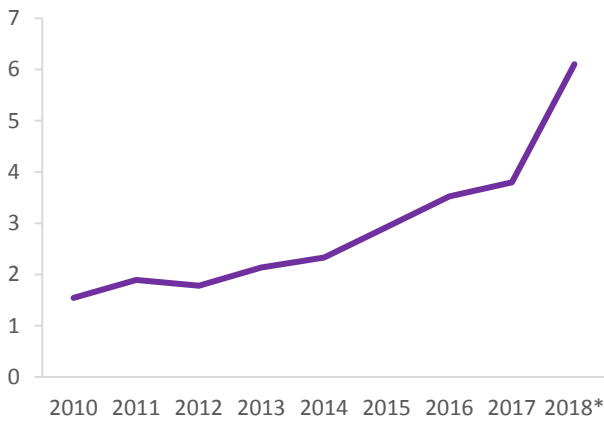
Turkish Lira depreciation to drag market sentiment. The Turkish turmoil reflects both economic and political forces penetrating into the meltdown of real economy. Investors are still concerned about the lowering of Turkey's sovereign debt rating and the exposure of European banks to the debt of Turkey. All EM financial markets are under serious sell-off pressures and the contagious effects are amplifying as the market worries about the repeat of 1997-98 Asian financial crisis when Thai Baht depreciated substantially and triggered huge sell-off of financial assets in all Asian economies. Turkey has already taken actions to avoid further worsening of economic conditions through injection of liquidity and Qatar's direct investment of USD 15 bn. Other EM economies also step up efforts to cut off contagious fears with which Argentina raised interest rate to 45% and RRR to resist depreciation and capital outflow while Indonesia's central bank raised interest rates for the fourth time in three months, boosting measures to defend its currency.

More dollar strength to enhance uptrend of market volatility in EM financial markets. The U.S economy continues to gain traction with the economic fundamentals improving in varying degrees. The U.S. GDP grew at an annualized rate of 2.2% and 4.1% in the first quarter and second quarter of 2018, indicating that the recovery momentum is on track. Job creation surged as the unemployment rate stayed at low level of 4.0% in June. Latest wages and prices grew more than 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 dollar strength will maintain at the upside against EM currencies, with which EM bond and equity markets will be more bumpy and volatile.

Renminbi weakness to show stabilizing trend amid re-opening of trade talks with the U.S. Turkey crisis and recent threats from the U.S. regarding the trade tariffs have elicited a strong negative reaction in China currency market. Renminbi shows weakening trend against the US dollar despite the PBOC lowering RRR and boosting liquidity. The downward trend is about to make a turn amid re-opening of trade talks between the U.S. and China regarding the tariffs. The upcoming trade negotiation will help ease short-term trade tensions, thus stabilizing the renminbi.

Emerging Asia's fundamentals held strong. Tighter global financial conditions driven by normalization of monetary policy in the U.S. and Eurozone could trigger capital flow volatility, which could interact with and exacerbate balance sheet weaknesses in a number of EM economies. However, ASEAN economies appear relatively better positioned to deal with external shocks amid strong economic fundamentals as most countries in Asia run current account surpluses and their foreign currency debts are lower in the rest of the region. By factoring in the positive signs of economic improvement in past several years, we believe ASEAN countries will be able to weather the financial storm triggered by Turkey, thus maintaining stable economic growth in 2018.

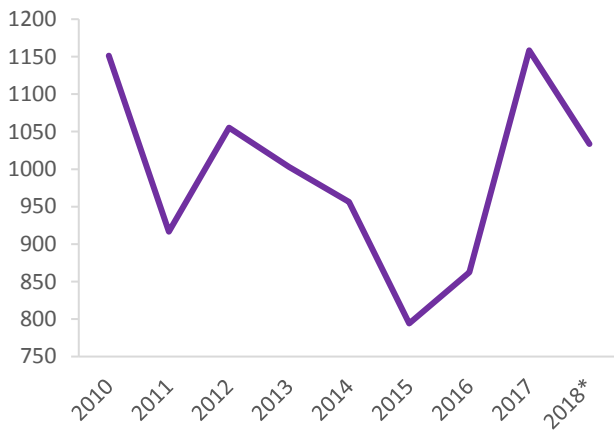
Fig. 1: USD / Turkish Lira



*20 Aug 2018

Source: Wind, Bloomberg and CEBI

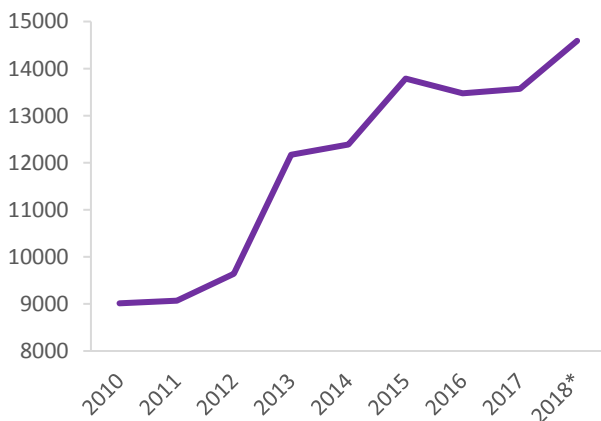
Fig. 3: MSCI Emerging Market Index



*20 Aug 2018

Source: Wind, Bloomberg and CEBI

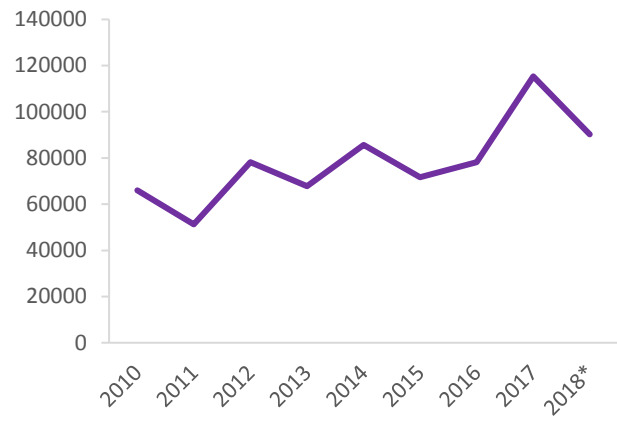
Fig. 5: USD / Indonesian Rupiah



*20 Aug 2018

Source: Wind, Bloomberg and CEBI

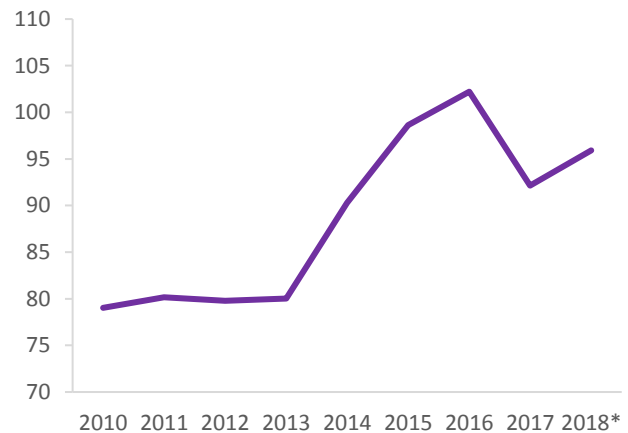
Fig. 2: Turkey - Borsa Istanbul 100 Index



*20 Aug 2018

Source: Wind, Bloomberg and CEBI

Fig. 4: US Dollar Index



*20 Aug 2018

Source: Wind, Bloomberg and CEBI

Fig. 6: USD / CNY



*20 Aug 2018

Source: Wind, Bloomberg and CEBI

China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	1H2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.8
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	51.5
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	55.0
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.1	2.9	4.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	12.0	11.1	11.5
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	306.4	584.7	891.1
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.8	12.7
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	19.9
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.4	92.7	138.1
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.0
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.1	4.1	3.9
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	6.0
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.7
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.7
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.4
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	3510.0	8369.3
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.0
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	19443.0	5569.6	3527.6	9097.2

	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18
Real GDP (YoY%)	-	-	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-
PMI – Manufacturing %	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2
PMI- Non-manufacturing%	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0
Exports (RMB YoY %)	6.3	8.9	5.5	9.5	7.4	16.3	5.5	35.2	(10.1)	3.0	2.7	3.0	6.0
Imports (RMB YoY %)	14.5	19.6	15.8	15.4	0.9	22.9	30.8	(0.1)	6.1	11.9	15.6	6.0	20.9
Trade Balance (RMB/bn)	310.0	277.9	189.6	248.2	255.4	362.0	124.1	215.7	(33.5)	173.0	150.8	260.9	176.9
Export (USD YoY %)	6.4	4.9	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.1	12.1	11.2	12.2
Import (USD YoY %)	11.1	13.4	18.9	17.1	17.6	4.5	37.4	6.5	14.6	21.8	26.0	14.1	27.3
Trade Balance (USD/bn)	45.1	40.7	28.0	37.2	39.0	54.7	18.6	32.3	(5.6)	27.2	24.0	41.5	28.1
CPI (YoY %)	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1
PPI (YoY %)	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6
FAI (YTD/ YOY %)	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5
Real Estate Investment (YTD/ YoY %)	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2
Industrial Production (YoY %)	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0
Retail Sales (YoY%)	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8
New Lending (RMB/bn)	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0
M2 (YoY %)	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5
Aggregate Financing (RMB bn)	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3055.0	1165.1	1349.5	1582.4	763.6	1181.6	1040.0
Urban Unemployment Rate (%)	-	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,758.69	18.29	2.27
S&P 500	2,857.05	20.72	1.24
NASDAQ	7,821.01	57.21	0.02
EUR			
FTSE 100	7,591.26	16.89	-0.67
DAX	12,331.30	14.37	-0.22
CAC40S	5,379.65	16.59	-0.60
STOXX EUR 600	383.23	17.30	-0.44
Asia			
HSI	27,752.79	10.75	0.00
HSCEI	10,737.63	8.13	-0.06
CSI300	3,326.65	12.40	-1.37
SSE Composite	2,733.83	13.03	-1.70
SZSE Composite	1,471.28	23.46	-2.82
NIKKEI 225	22,219.73	16.01	-0.61
KOSPI	2,270.06	10.83	0.96
TWSE	10,792.20	13.90	-0.30
S&P/ASX 200	6,284.38	18.21	-0.24
MSCI Index			
MSCI WORLD	2,145.24	18.49	0.84
MSCI DEVELOPED	515.19	17.62	0.64
MSCI EMERGING	1,033.65	12.72	-0.92
MSCI US	2,722.98	21.08	1.18
MSCI UK	2,192.65	17.13	-0.70
MSCI France	156.31	17.03	-0.38
MSCI Germany	150.38	15.31	-0.13
MSCI China	80.28	13.45	-2.15
MSCI Hong Kong	15,111.33	10.21	-0.64
MSCI Japan	1,009.78	13.30	0.87

* As of 21/8/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.71	-0.49
ICE Brent Oil	USD/bbl	72.46	-0.01
NYMEX NatGas	USD/MMBtu	2.98	0.54
Basic Metals			
LME Alum.Cash	USD/MT	2,031.00	-1.57
CMX Cop.Active	USD/lb.	270.55	0.06
LME Steel Rebar	USD/MT	517.00	-0.58
LME Lead Cash	USD/MT	1,948.00	-7.70
Precious Metals			
CMX Gold	USD/KRW	1,194.12	-0.07
Gold Futures	USD/KRW	1,200.70	0.00
CMX Silverbn	USD/KRW	14.80	-1.57
NYMEX Platinum	USD/T. oz	800.98	-0.50
Agri, Products			
CBOT Corn	USD/bu	375.00	-0.40
CBOT Wheat	USD/bu	555.75	-0.98
NYB-ICE Sugar	USD/lb.	10.06	-2.71
CBOT Soybeans	USD/bu.	890.50	1.22

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.00	0.00
US Prime Rate	5.00	0.00
US Discount Window	2.50	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.92	-0.01
US Treasury (1 Yr)	2.41	0.01
US Treasury (5 Yr)	2.71	-0.06
US Treasury (10 Yr)	2.83	-0.07
US Treasury (30 Yr)	2.99	-0.07
1-Month LIBOR	2.07	0.00
3 Month LIBOR	2.31	-0.01
Japan 1-Yr Gov. Bond	-0.13	-0.01
Japan 10-Yr Gov. Bond	0.09	-0.03
German 1-Yr Gov. Bond	-0.64	0.00
German 10-Yr Gov. Bond	0.32	-0.01
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.89	0.10
China 5-Yr Gov. Bond	3.44	0.09
China 10-Yr Gov. Bond	3.65	0.05
O/N SHIBOR	2.64	0.31
1-mth SHIBOR	2.69	0.08
HK Base rate	0.85	0.20
O/N HIBOR	0.85	0.20
1-mth HIBOR	1.46	0.19
O/N CNH HIBOR	1.57	0.03
1-mth CNH HIBOR	3.11	0.65
Corporate Bonds (Moody's)		
Aaa	3.87	0.01
Baa	4.76	0.02

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	95.57	-1.20
Euro/USD	1.15	1.02
GBP/USD	1.28	0.41
AUD/USD	0.74	1.35
USD/CAD	1.30	-0.52
USD/JPY	110.16	-0.72
USD/CHF	0.99	-0.33
USD/CNY Midpoint	6.84	-0.49
USD/CNY	6.84	-0.63
USD/CNY NDF		
12-mth Spot pr.	6.90	-0.32
USD/CNH	6.83	-0.74
USD/HKD	7.85	0.00
CNY/HKD	1.15	0.62
CNH/HKD	1.15	0.75
USD/KRW	1,118.60	-1.36
USD/TWD	30.73	-0.27
USD/SGD	1.37	-0.52
USD/INR	69.71	1.27

All data sources: Bloomberg, CEBI, NBS

Disclosures

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