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Economic Insight

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Global economic growth will gradually slow in 2H18/2019

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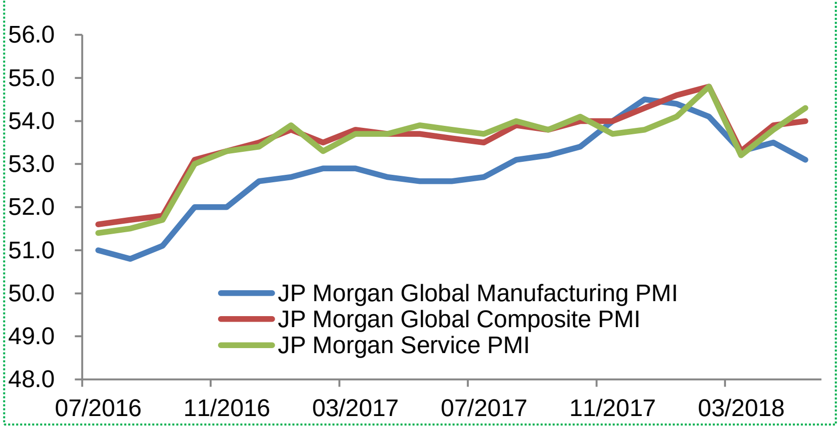
July 9, 2018

- Pace of global economic recovery has slowed since the start of 2018 as major central banks tighten monetary policy and expectations of trade friction rise. Among the major economies, only the US has demonstrated an accelerating momentum
- Global inflation has ticked up since the start of 2018 on rising commodity prices, including those of the oil. Inflation in major developed countries has been trending up, especially in the US and Eurozone
- Global economic growth is expected to slow gradually in 2H18 and 2019 on escalating trade protectionism as well as heightened uncertainty on economic and political policies. Central banks around the world are facing the challenges to readjust their paces of monetary policy normalization amid rising inflation
- We expect economies in the US, China, Eurozone, and Japan to grow by 2.7%, 6.6%, 2.1%, and 1.0% in 2018E and 2.5%, 6.4%, 1.7%, and 0.8% in 2019E, respectively, compared with 2.3%, 6.9%, 2.4%, and 1.7% in 2017

Global growth momentum has weakened

The pace of global economic recovery has stalled since the start of 2018 as major central banks tighten monetary policy and the expectations of trade friction rise. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI moderated in 5M18, pointing to a slowing economic growth. Global trade activity revealed a waning momentum, with the World Trade Outlook Indicator released by WTO falling to 102.2 in May and the sub-indicator export order index declining sharply to a contraction level of 98.1. In response to the abating growth impetus, investors in the capital markets have been reducing the proportion of risky capital holdings. Major stock markets around the world, except the US, have declined since the beginning of this year.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Year to date, global major economies have been displaying a trend of differentiation. The US, however, has managed to show an accelerating trend. In 1Q18, the US economy grew 2.8%[1] on the government's stimulus package, which includes tax cuts and investments in infrastructure programs, compared to 2.6% in 4Q17 (Exhibit 2). Eurozone, the UK, and Japan expanded by 2.5%, 1.2%, and 1.1%, respectively, in 1Q18, compared to 2.7%, 1.64% and 1.9% in 4Q17. Recent data pointed to a steady growth of 6.8% in China's economy in 1Q18.

Exhibit 2: GDP growth of global major economies (%)

Real GDP Growth (YoY)	2017	4Q17	1Q18
U.S.	2.3	2.6	2.8
China	6.9	6.8	6.8
Eurozone	2.4	2.7	2.5
Japan.	1.7	1.9	1.1
U.K.	1.7	1.4	1.2

Source(s): Bloomberg, ABCI Securities

Global inflation has ticked up since the start of 2018 on rising commodity prices. With OPEC's joint production cuts, global demand growth, and rising geopolitical risks in the Middle East, international oil prices have been climbing. Inflation in major developed countries has generally gone up, especially in the US and Eurozone. CPI in the US increased year-on-year from 2.1% in January to 2.8% in May, while CPI in Eurozone rose from 1.3% to 1.9% during the same period.

Monetary policies of major central banks have diverged as their economic situations differ. The Fed raised interest rates twice in 1H18, and is considering to accelerate the pace of rate hike further in the future amid improving economy and rising inflation. ECB and BOJ hold on to their stance of a loose monetary policy, while PBOC has adjusted its neutral monetary policy with a tightening bias to a more loosened one. Moreover, tightening of global liquidity, the rising USD, and the return of capital flow to the US have sent some emerging markets into financial turmoil. Since April this year, currencies in Argentina, Turkey, Brazil and Indonesia have depreciated at an alarming rate.

Global growth to slow gradually in 2H18/2019

Looking ahead, global economic growth is expected to slow gradually in 2H18 and 2019, mainly driven by escalating trade protectionism and heightened uncertainty on economic and political policies. Moreover, central banks are facing the challenges of readjusting their pace of monetary policy normalization amid rising inflation. WTO forecasts the growth of global trade in goods in 2018 and 2019 will fall from 4.7% in 2017 to 4.4% and 4.0%. According to the latest Global Economic Prospects released by the World Bank in June 2018, global economic growth is projected to decelerate to 3.0% in 2019, down from 3.1% in 2017 and 2018 (Exhibit 3).

We expect the U.S. economy to expand by 2.7% in 2018E and 2.5% in 2019E, up from 2.3% in 2017. Domestic demand would remain the key growth driver, supported by the Trump government's stimulus

[1] All growth rates are year-on-year except specified otherwise

package that includes tax cuts and investments in infrastructure programs. On the monetary front, with a strengthening outlook for core inflation and economic growth, we expect the Fed to increase interest rate twice in the remainder of 2018E and thrice in 2019E, which is in line with the Fed's expectation. Meanwhile, the Fed would trim down its balance sheet by US$ 420bn and US$ 600bn in 2018E and 2019E.

With the escalating Sino-US tension, rising cost of real estate financing, and stumbling growth observed in infrastructure investment, we maintain our 6.6% and 6.4% growth forecasts for the Chinese economy in 2018E and 2019E. Meanwhile, we expect PBOC to keep the benchmark interest rates steady. Targeted RRR would be slashed twice in 2H18 and thrice in 2019 given the mild inflationary pressure and increasing economic slowdown.

We project the Eurozone economic growth to slow to 2.1% in 2018E and 1.7% in 2019E from 2.4% in 2017 due to trade friction with the US as well as falling external demand. According to ECB's monetary meeting in June, we expect QE to be halted at end-December 2018. With a weakening economy, we believe interest rates would remain unchanged for the rest of 2018 and 1H19 before a hike can be considered in 2H19.

We forecast Japan's economic growth to slow from 1.7% in 2017 to 1.0% in 2018E and 0.8% in 2019E due to frail external demand, rising trade protectionism, and the high oil prices weighing on consumption growth. With inflation outlook remaining low and far below the 2% target set by BOJ, we expect the country's ultra-loose monetary stance would be held firmly in place for 2018 and 2019.

Exhibit 3: GDP growth forecasts for global major economies (%)

Real GDP Growth (YoY)	2017	2018E	2019E
U.S.	2.3	2.7	2.5
China	6.9	6.6	6.4
Euro zone	2.4	2.1	1.7
Japan	1.7	1.0	0.8
World	3.1*	3.1*	3.0*

Source(s): World Bank, Bloomberg, ABCI Securities estimates
*denotes World Bank estimates and forecasts

China Economic Indicators

	2017								2018					
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Real GDP (YoY %)	---	6.9	---	---	6.8	---	---	6.8	---	---	6.8	---	---	---
Export Growth (USD,YoY %)	8.7	11.3	7.2	5.5	8.1	6.9	12.3	10.9	11.1	44.5	-2.7	12.9	12.6	---
Import Growth (USD, YoY %)	14.8	17.2	11.0-	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4	21.5	26.0	---
Trade Balance (USD bn)	40.8	42.8	46.7	42.0	28.5	38.2	40.2	54.7	20.3	33.7	-5.0	28.8	24.9	---
Retail Sales Growth (YoY %)	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	9.7	9.7	10.1	9.4	8.5	---
Industrial Production (YoY %)	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	7.2	7.2	6.0	7.0	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	51.5
PMI – Non-manufacturing (%)	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.0	55.3	54.4	54.6	54.8	54.9	55.0
FAI (YTD) (YoY %)	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	7.9	7.9	7.5	7.0	6.1	---
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	4.1	---
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	---
New Lending (RMB bn)	1110	1540	826	1090	1270	663	1120	584	2900	839	1120	1180	1150	---
Aggregate Financing (RMB bn)	1060	1780	1220	1480	1820	1040	1600	1140	3060	1170	1330	1560	761	---

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	24,456.48	0.00	18.24
S&P 500	2,759.82	0.00	21.04
NASDAQ	7,688.39	0.00	26.20
MSCI US	2,634.00	0.00	21.48
Europe			
FTSE 100	7,650.25	0.43	13.68
DAX	12,555.93	0.48	13.98
CAC40	5,417.71	0.78	17.07
IBEX 35	9,965.30	0.61	14.21
FTSE MIB	22,086.88	0.74	12.18
Stoxx 600	385.04	0.70	16.24
MSCI UK	2,200.77	0.00	13.69
MSCI France	155.60	0.00	17.16
MSCI Germany	151.27	0.00	14.74
MSCI Italy	59.96	0.00	11.61
Asia			
NIKKEI 225	22,052.18	1.21	16.88
S&P/ASX 200	6,286.04	0.22	18.60
HSI	28,698.18	1.35	11.48
HSCEI	10,786.78	1.55	8.27
CSI300	3,459.18	2.80	13.13
SSE Composite	2,815.11	2.47	13.67
SZSE Composite	1,574.54	2.51	25.67
MSCI China	85.50	0.00	14.44
MSCI Hong Kong	15,174.46	0.00	10.28
MSCI Japan	1,005.47	0.00	13.64

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)
Energy				
NYMEX WTI	USD/bbl.	73.70	(0.14)	674,970
ICE Brent Oil	USD/bbl	77.57	0.60	241,078
NYMEX Natural Gas	USD/MMBtu	2.85	(0.21)	127,698
China Qinhuangdao Port Thermal Coal [2]	USD/Metric Tonne	61.80	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	2,109.75	0.00	11,082
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,080.00	0.00	42,179
CMX Copper Active	USD/lb.	6,284.00	0.00	17,737
LME Copper 3- mth Rolling Fwd.	USD/MT	6,282.00	0.00	48,927
Precious Metals				
CMX Gold	USD/T. oz	1,261.70	0.47	275,910
CMX Silver	USD/T. oz	16.19	0.72	74,593
NYMEX Platinum	USD/T. oz	858.80	1.20	24,286
Agricultural Products				
CBOT Corn	USD/bu	369.00	(1.07)	150,231
CBOT Wheat	USD/bu	509.50	(1.12)	81,395
NYB-ICE Sugar	USD/lb.	11.49	(0.17)	69,463
CBOT Soybeans	USD/bu.	884.75	(1.09)	95,565

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	2.00	0.00
US Prime Rate	5.00	0.00
US Discount Window	2.50	0.00
US Treasury (1 Yr)	1.8042	(0.27)
US Treasury (5Yr)	2.7382	2.04
US Treasury (10 Yr)	2.8436	2.19
Japan 10-Yr Gov. Bond	0.0400	0.70
China 10-Yr Gov. Bond	3.5320	5.30
ECB Rate (Refinancing)	0.00	0.00
1-Month LIBOR	2.0863	(0.40)
3 Month LIBOR	2.3314	(0.43)
O/N SHIBOR	1.9910	2.40
1-mth SHIBOR	3.3400	(10.6)
3-mth HIBOR	1.9976	0.79
Corporate Bonds (Moody's)		
Aaa	3.89	(4.00)
Baa	4.79	(5.00)

Note:

1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. The price is Coal 5500 kcal/kg FOB Spot Price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1772	1.3346	0.7471	110.44	0.9866	6.6189	7.8487	6.6943
Chg. WTD (%)	0.22	0.47	0.55	0.03	0.27	0.36	(0.01)	0.55

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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