

Economic Insight

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Global economic outlook for 2018

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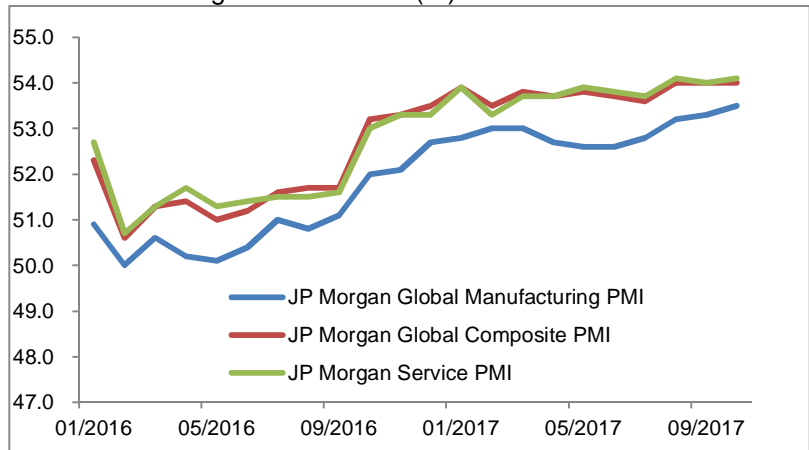
- Global economic growth has gained further traction since the start of 2017 on firmer domestic demand growth in advanced economies and improved performance in emerging economies. Acceleration in investment, trade, and industrial production, as well as strengthening business and consumer confidence, are supporting growth.
- Global consumer price inflation has ticked up since the start of 2017 on rising commodity prices. However, core inflation, excluding food and energy prices, has largely remained muted due to weak wage growth. Nonetheless, the increase in global producer price inflation has been particularly significant.
- Global economic growth is expected to rise slightly in 2018, supported by robust growth in manufacturing and trade, rising consumer and business confidence, and supportive financial conditions.
- Slow productivity growth and heightened uncertainty over economic and political policies would be the main challenges for the global economy.
- We expect economies in the U.S., China, Eurozone, Japan, and the U.K. to grow by 2.2%, 6.8%, 2.2%, 1.6%, and 1.6% in 2017E and 2.4%, 6.6%, 2.2%, 1.4%, and 1.6% in 2018E, respectively, compared with 1.5%, 6.7%, 1.8%, 1.1% and 1.8% in 2016.

Global growth has gained traction

Global economic growth has gained traction since the start of 2017 on firmer domestic demand growth in advanced economies and improved performance in emerging economies. Acceleration in investment, trade, and industrial production, as well as strengthening business and consumer confidence are supporting the growth.

Global PMIs were stable in 10M17, pointing to the persistence of favorable conditions. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI have remained firmly in expansionary territory since the start of 2017, indicating robust growth in global economic activity.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities



Global trade activity has also picked up since the beginning of 2017 on rapid growth in global manufacturing activity. According to the WTO trade statistics, global merchandise trade value growth reached 9.0%¹ in 8M17, well above -3.0% in 2016 and the strongest pace since 2012. The World Trade Outlook Indicator released by WTO was 102.6 in August, the highest since April 2011, suggesting global trade would continue to expand moderately in 2018.

In general, global major economies have stepped up growth this year on the back of rebounding international trade and improving labor market. In 9M17, the U.S. economy grew by 2.2%, up from 1.5% in 2016 (Exhibit 2). Economies in China, Eurozone, and the U.K. expanded by 6.9%, 2.3%, and 1.6% in 9M17, respectively, compared with 6.7%, 1.8%, and 1.8% in 2016.

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

Real GDP Growth (YoY)	2015	2016	9M17
U.S.	2.9	1.5	2.2
China	6.9	6.7	6.9
Eurozone	2.1	1.8	2.3
Japan	1.1	1.1	1.5*
U.K.	2.3	1.8	1.6

Source(s): Bloomberg, ABCI Securities

*Bloomberg estimates

Global consumer price inflation has ticked up since the start of 2017 on rising commodity prices. However, core inflation, excluding food and energy prices, has generally remained muted on weak wage growth. In most advanced economies except for the U.K., core inflation has failed to meet central bank targets even as unemployment rates improved substantially. Compared with the global consumer price inflation, the increase in global producer price inflation has been particularly significant. Notably, China's producer price inflation rose by 6.9% in 10M17.

With global economic activity strengthening, major central banks have begun to normalize monetary policy. E.g., the Fed announced in September that it plans to reduce its massive US\$ 4.5tr balance sheet in October after raising federal funds target rate twice so far this year. The ECB announced during the meeting on Oct 26 that it would reduce the monthly pace of asset purchase from EUR 60bn currently to EUR 30bn, starting from January 2018. Meanwhile, the BOE raised the official bank rate from 0.25% to 0.50% at the November meeting, marking the first rate hike in over a decade.

Global growth is likely to quicken slightly in 2018

Looking ahead, global economic growth is expected to increase slightly in 2018, supported by robust growth in manufacturing and trade, rising consumer and business confidence, and supportive financial conditions. According to the latest World Economic Outlook released by IMF in October 2017, the global economic growth is projected to rise to 3.6% in 2017E and 3.7% in 2018E, up from 3.2% in 2016 (Exhibit 3). However, slow productivity growth and

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



heightened uncertainty in economic and political policies would be the main challenges globally.

We expect the U.S. economy to grow by 2.2% in 2017E and 2.4% in 2018E, up from 1.5% in 2016. Domestic demand would remain the key growth driver, supported by solid growth in job creation and strong business and consumer confidence. In particular, unemployment rate fell to 4.2% in September, the lowest since January 2001. However, interest rate rise in financial market and uncertainties surrounding the Trump government's stimulus package, such as tax cut, are likely to weigh on the economic growth. On the monetary front, despite a weakening outlook for core inflation, we expect the Fed to increase interest rate once in December 2017 and three times in 2018. Meanwhile, the Fed would trim down its balance sheet by US\$ 30bn and US\$ 420bn in 2017E and 2018E.

With the continuous recovery in global economy and policy support, we maintain our China's economic growth forecasts of 6.8% for 2017E and 6.6% for 2018E, compared with 6.7% in 2016. PBOC is expected to maintain a neutral monetary policy to lower leverage ratio and prevent financial risks. We expect benchmark interest rates and benchmark RRR to stay unchanged for the rest of 2017 and 2018 given the stable growth momentum and benign inflation pressure, while the targeted RRR cut will be effective in early 2018 to support the inclusive finance and real economy.

We expect the Eurozone economy to grow by 2.2% both in 2017E and 2018E, compared with 1.8% in 2016. Manufacturing activity and goods exports will be the main growth drivers. With Eurozone's economy strengthening, the ECB announced at the October meeting that it would reduce the monthly pace of asset purchase from the current EUR 60bn to EUR 30bn, starting from January 2018. However, the monetary policy will remain accommodative as the ECB will extend the asset-buying program until September 2018 or after if deemed necessary. Given the weak inflation outlook, we expect the ECB to hold the interest rate unchanged in the remainder of 2017 and in 2018. Meanwhile, we expect the U.K. economy to grow by 1.6% both in 2017E and 2018E, slightly down from 1.8% in 2016.

We forecast Japan's economic growth to pick up from 1.1% in 2016 to 1.6% in 2017E and 1.4% in 2018E on the back of strengthening global demand and recovering private consumption and investment. With Prime Minister Shinzo Abe winning the general election held on October 22, the supportive fiscal policies are likely to continue in coming years. Since inflation outlook remains low, we expect the BOJ to maintain its ultra-loose monetary policy with the yield-curve control program for the rest of 2017 and 2018 to achieve its 2.0% inflation target.



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

Real GDP Growth (YoY)	2016	2017E	2018E
World	3.2*	3.6*	3.7*
U.S.	1.5	2.2	2.4
China	6.7	6.8	6.6
Euro zone	1.8	2.2	2.2
Japan	1.1	1.6	1.4
U.K.	1.8	1.6	1.6

Source(s): World Bank, Bloomberg, ABCI Securities estimates

Note: *denotes IMF estimates and forecasts



China Economic Indicators

	2016				2017									
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Real GDP (YoY %)	6.7	---	---	6.8	---	---	6.9	---	---	6.9	---	---	6.8	---
Export Growth (USD, YoY %)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5	8.1	6.9
Import Growth (USD, YoY %)	(1.9)	(1.4)	6.7	3.1	16.7	38.1	20.3	11.9	14.8	17.2	11.0	13.3	18.7	17.2
Trade Balance (USD bn)	42.0	49.1	44.6	40.8	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0	28.5	38.2
Retail Sales Growth (YoY %)	10.7	10.0	10.8	10.9	9.5	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0
Industrial Production (YoY %)	6.1	6.1	6.2	6.0	6.3	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2
PMI - Manufacturing (%)	50.4	51.2	51.7	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.7
PMI - Non-manufacturing (%)	53.7	51.2	50.9	51.9	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.5
FAI (YTD) (YoY %)	8.2	8.3	8.3	8.1	8.9	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3
CPI (YoY %)	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9
PPI (YoY %)	0.1	1.2	3.3	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9
M2 (YoY %)	11.5	11.6	11.4	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8
New Lending (RMB bn)	1220	651	795	1040	2030	1170	1020	1100	1110	1540	826	1090	1270	663
Aggregate Financing (RMB bn)	1720	896	1740	1630	3740	1150	2120	1390	1060	1780	1220	1480	1820	1040

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)		Yield (%)	Chg. WTD (Bps)	
U.S.				Energy				US Fed Fund Rate			
DJIA	23,439.70	0.07	19.70	NYMEX WTI	USD/bbl.	56.62	(0.21)	701,840		1.25	0.00
S&P 500	2,584.84	0.10	21.81	ICE Brent Oil	USD/bbl	62.98	(0.85)	354,100	US Prime Rate		
NASDAQ	6,757.60	0.10	46.96	NYMEX Natural Gas	USD/MMBtu	3.11	(3.17)	218,779	US Discount Window		
MSCI US	2,461.16	0.10	22.21	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)		
Europe				Basic Metals				US Treasury (5Yr)			
FTSE 100	7,431.64	(0.02)	22.41	LME Aluminum Cash	USD/MT	2,089.10	0.22	9,150	US Treasury (10 Yr)		
DAX	13,125.88	(0.01)	19.17	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,108.00	0.33	39,331	Japan 10-Yr Gov. Bond		
CAC40	5,361.35	(0.36)	18.43	CMX Copper Active	USD/lb.	6,875.00	1.59	20,236	China 10-Yr Gov. Bond		
IBEX 35	10,063.00	(0.29)	15.21	LME Copper 3- mth Rolling Fwd.	USD/MT	6,895.00	1.61	33,595	ECB Rate (Refinancing)		
FTSE MIB	22,500.35	(0.27)	545.5	Precious Metals				1-Month LIBOR			
Stoxx 600	386.80	(0.49)	20.78	CMX Gold	USD/T. oz	1,272.40	(0.14)	333,013	3 Month LIBOR		
MSCI UK	2,148.20	(0.25)	22.90	CMX Silver	USD/T. oz	16.93	0.35	90,144	O/N SHIBOR		
MSCI France	153.06	(0.80)	18.46	NYMEX Platinum	USD/T. oz	931.50	(0.06)	14,162	1-mth SHIBOR		
Asia				Agricultural Products				3-mth HIBOR			
NIKKEI 225	22,380.01	(1.33)	19.11	CBOT Corn	USD/bu	341.50	(0.58)	326,159	Corporate Bonds (Moody's)		
S&P/ASX 200	5,968.75	(1.01)	17.82	CBOT Wheat	USD/bu	442.50	(1.45)	82,693	Aaa 3.60 7.00		
HSI	29,152.12	0.11	13.76	NYB-ICE Sugar	USD/lb.	15.13	1.14	54,164	Baa 4.26 1.00		
HSCEI	11,601.69	(1.23)	9.22	CBOT Soybeans	USD/bu.	974.75	(1.24)	127,101			
CSI300	4,099.35	(0.31)	16.92								
SSE Composite	3,429.55	(0.09)	17.28								
SZSE Composite	2,025.78	(0.66)	33.91								
MSCI China	89.18	(0.01)	17.37								
MSCI Hong Kong	15,548.29	0.75	13.15								
MSCI Japan	1,057.75	(1.07)	15.79								

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	1.1694	1.3115	0.7614	113.91	0.9958	6.6428	7.8031	6.7990
Chg. WTD (%)	0.25	(0.61)	(0.61)	(0.33)	0.03	(0.03)	(0.01)	0.25



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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