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Economic Insight

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Fed raised interest rate by 25bps at the March meeting

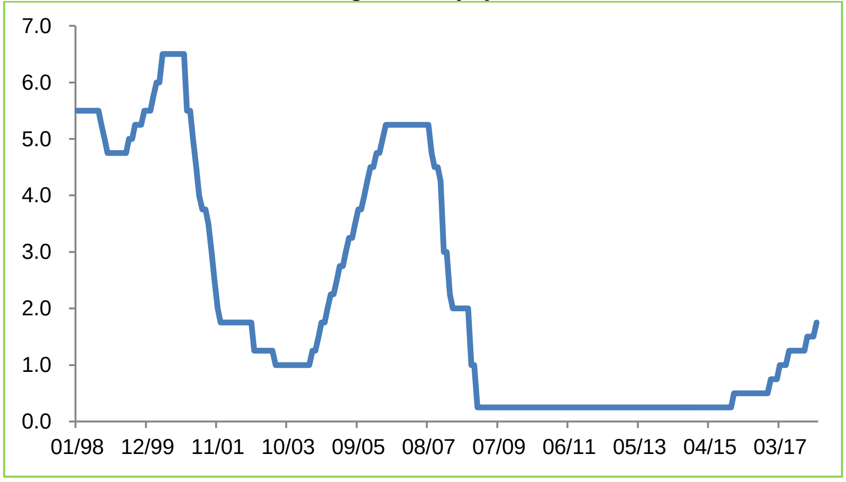
ABCI Research

March 22, 2018

- The Fed raised the federal funds rate by 25bps to the target range 1.50-1.75% at the March meeting; meanwhile, it expected two more rate hikes for 2018 on improving economic outlook and rising inflation condition driven by tax cut and increased government spending
- In the latest forecasts, the Fed officials expected the U.S. economy to grow by 2.7% in 4Q18, up from the 2.5% forecast last December. The U.S. unemployment rate in 4Q18 is projected to edge down to 3.8% from the previous estimate of 3.9%
- We maintain our forecast of two more rate hikes in the remainder of 2018, which aligns with the Fed's current forecast. The present economic condition in the U.S. do not support a rate hike too steep and swift as economic growth is unlikely to drive inflation substantially above the Fed's 2% target
- Following the Fed's action, PBOC announced to raise interest rate by 5bps to 2.55% from 2.50% for the 7-day reverse repos, well below the 25bps hike by the Fed. We think it is more of a token rate hike as RMB depreciation and capital outflow are not major concerns in China at this stage. We expect benchmark interest rates and benchmark RRR to stay unchanged in 2018 given the stable growth momentum and benign inflation pressure

The Fed, as expected, raised the federal funds rate by 25bps to the target range 1.50-1.75% at the March meeting (Exhibit 1). The decision was agreed unanimously by the eight committee members. According to the Fed's policy statement, the labor market has continued to gain strength and economic activity has been rising at a moderate rate. Inflation is expected to move up in coming months and stabilize at around the Committee's objective of 2% over the medium term.

Exhibit 1: Federal funds target rate (%)



Source(s): Federal Reserve, ABCI Securities

The Fed expected two more rate hikes for 2018 on improving economic outlook and rising inflation condition driven by tax cut and increased government spending. After the March meeting, the Fed funds futures indicate two more rate hikes will likely take place in the remainder of 2018, with the first occurring in June and the second in

September.

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We expect two more rate hikes in the remainder of 2018, which aligns with the Fed's latest forecast. Present economic condition in the U.S. does not support a rate hike too steep and swift as economic growth is unlikely to drive inflation substantially above the Fed's 2% target.

Following the Fed's action, PBOC announced to raise interest rate by 5bps to 2.55% from 2.50% for the 7-day reverse repos, well below the 25bps hike by the Fed. We think it's more a token hike as RMB depreciation and capital outflow are not major concerns at this stage. Meanwhile, Reuters stated that China's central bank raised interest rates on SLF loans by 5bps. In general, we expect benchmark interest rates and benchmark RRR to stay unchanged in 2018 given the stable growth momentum and benign inflation pressure.

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

China Economic Indicators

	2017												2018	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY %)	---	---	6.9	---	---	6.9	---	---	6.8	---	---	6.8	---	---
Export Growth (USD,YoY %)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5	8.1	6.9	12.3	10.9	11.1	44.5
Import Growth (USD, YoY %)	16.7	38.1	20.3	11.9	14.8	17.2	11.0-	13.3	18.7	17.2	17.7	4.5	36.9	6.3
Trade Balance (USD bn)	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0	28.5	38.2	40.2	54.7	20.3	33.7
Retail Sales Growth (YoY %)	9.5	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	9.7	9.7
Industrial Production (YoY %)	6.3	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	7.2	7.2
PMI - Manufacturing (%)	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3
PMI – Non-manufacturing (%)	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.0	55.3	54.4
FAI (YTD) (YoY %)	8.9	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	7.9	7.9
CPI (YoY %)	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9
PPI (YoY %)	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7
M2 (YoY %)	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8
New Lending (RMB bn)	2030	1170	1020	1100	1110	1540	826	1090	1270	663	1120	584	2900	839
Aggregate Financing (RMB bn)	3740	1150	2120	1390	1060	1780	1220	1480	1820	1040	1600	1140	3060	1170

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	24,682.31	(1.06)	19.93
S&P 500	2,711.93	(1.46)	21.93
NASDAQ	7,345.29	(1.83)	32.19
MSCI US	2,586.42	(1.42)	22.41
Europe			
FTSE 100	7,038.97	(1.75)	13.03
DAX	12,309.15	(0.65)	14.11
CAC40	5,239.74	(0.81)	16.30
IBEX 35	9,630.90	(1.33)	14.10
FTSE MIB	22,820.12	(0.16)	12.75
Stoxx 600	374.96	(0.73)	15.84
MSCI UK	2,037.77	(1.69)	13.08
MSCI France	151.25	(0.81)	16.24
MSCI Germany	152.75	(0.48)	14.61
MSCI Italy	62.58	(0.33)	12.57
Asia			
NIKKEI 225	21,591.99	(0.39)	15.84
S&P/ASX 200	5,937.15	(0.21)	17.41
HSI	31,197.60	(0.97)	13.21
HSCEI	12,466.64	(1.63)	10.07
CSI300	4,020.35	(0.89)	16.22
SSE Composite	3,263.48	(0.20)	16.61
SZSE Composite	1,849.60	(0.72)	30.60
MSCI China	97.32	(0.74)	18.07
MSCI Hong Kong	16,183.23	(0.69)	11.78
MSCI Japan	1,016.77	(1.15)	13.33

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)
Energy				
NYMEX WTI	USD/bbl.	65.10	4.43	309,697
ICE Brent Oil	USD/bbl	69.28	4.64	294,547
NYMEX Natural Gas	USD/MMBtu	2.65	(1.53)	120,799
China Qinhuangdao Port Thermal Coal [2]	USD/Metric Tonne	61.80	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	2,059.00	(0.24)	35,344
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,081.00	(0.19)	41,993
CMX Copper Active	USD/lb.	6,772.50	(1.35)	19,036
LME Copper 3- mth Rolling Fwd.	USD/MT	6,793.00	(1.38)	40,167
Precious Metals				
CMX Gold	USD/T. oz	1,336.90	1.43	42,872
CMX Silver	USD/T. oz	16.55	1.68	78,323
NYMEX Platinum	USD/T. oz	959.20	0.95	19,572
Agricultural Products				
CBOT Corn	USD/bu	376.25	(1.70)	186,609
CBOT Wheat	USD/bu	452.50	(3.26)	88,192
NYB-ICE Sugar	USD/lb.	12.67	0.16	52,093
CBOT Soybeans	USD/bu.	1,031.25	(1.74)	102,672

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	1.75	25.00
US Prime Rate	4.50	0.00
US Discount Window	2.00	0.00
US Treasury (1 Yr)	1.6902	0.02
US Treasury (5Yr)	2.6571	1.53
US Treasury (10 Yr)	2.8574	1.29
Japan 10-Yr Gov. Bond	0.0380	0.00
China 10-Yr Gov. Bond	3.8170	(2.90)
ECB Rate (Refinancing)	0.00	0.00
1-Month LIBOR	1.8538	3.18
3 Month LIBOR	2.2481	4.64
O/N SHIBOR	2.5490	(3.70)
1-mth SHIBOR	4.4662	(4.39)
3-mth HIBOR	1.1064	4.57
Corporate Bonds (Moody's)		
Aaa	3.87	0.00
Baa	4.68	4.00

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	1.2377	1.4171	0.7752	105.82	0.9472	6.3181	7.8469	6.4340
Chg. WTD (%)	0.71	1.64	0.51	0.18	0.51	0.26	(0.06)	0.37

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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