



Economic Insight

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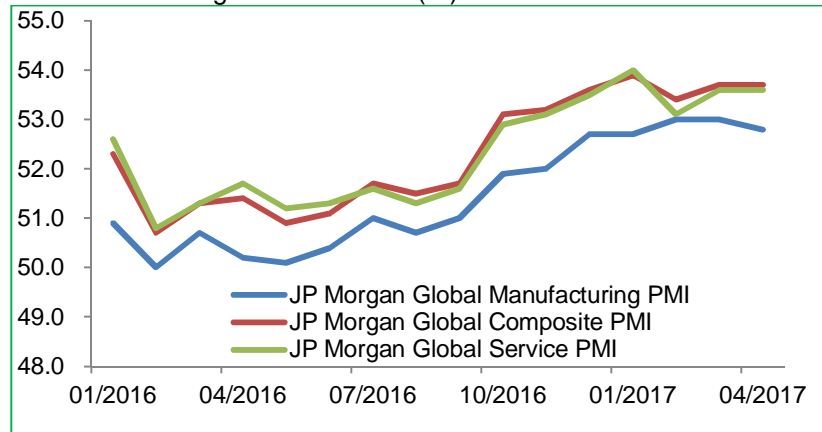
Global economic growth to quicken slightly in 2H17/2018

- Global economic recovery has accelerated since the start of 2017 on the back of rebounding manufacturing and services activities in addition to trade recovery. Year to date, the global major economies have demonstrated a steady growth.
- Global inflation has ticked up since the start of 2017 on rising commodity prices. The increase in global producer price inflation has been particularly significant.
- Looking ahead, global economic growth is expected to pick up slightly in 2H17 and 2018, supported by robust growth in manufacturing and trade, rising consumer confidence, accommodative monetary policy and stabilizing commodity prices.
- Rising trade protectionism and heightened uncertainty on economic and political policies would be the main challenges faced globally.
- We expect the U.S., Eurozone, Japan, and China economies to grow by 2.0%, 1.9%, 1.5% and 6.7% in 2017E and 2.2%, 2.0%, 1.2%, and 6.4% in 2018E, respectively, compared with 1.6%, 1.8%, 1.0% and 6.7% in 2016.

Global growth gains traction

The pace of global economic recovery has quickened since the start of 2017 on rebounding manufacturing and services activities as well as trade recovery. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI increased noticeably in the first few months of 2017, pointing to robust growth in economic activity.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Global trade activity also picked up in 1Q17 on the reviving economic momentum. According to the WTO trade statistics, global merchandise trade value growth reached 10.4%¹ in 1Q17, its strongest pace in almost 7 years. The World Trade Outlook Indicator released by WTO was 102.2 in March, the highest since May 2011, suggesting global trade would continue to expand moderately in 2Q17.

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



Year to date, the global major economies have been displaying a steady growth pace on the back of accommodative monetary policy and rebounding commodity prices. In 1Q17, the U.S. economy grew by 2.0% on a yearly basis, up from 1.6% in 1Q16 (Exhibit 2). Eurozone, the U.K., and Japan economies expanded by 1.7%, 2.1%, and 1.6%, respectively, in 1Q17, compared with 1.7%, 1.6% and 0.5% in 1Q16. Recent data also pointed to growth acceleration in China economy in 1Q17.

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

Real GDP Growth (YoY)	2016	1Q16	1Q17
U.S.	1.6	1.6	1.9
Eurozone	1.8	1.7	1.7
U.K.	1.8	1.6	2.1
Japan	1.0	0.5	1.6
China	6.7	6.7	6.9

Source(s): Bloomberg, ABCI Securities

Major central banks have adhered to an accommodative stance to counteract against economic and financial risks. E.g., the ECB reiterated interest rates would stay low for an extended period of time and confirmed the Bank's commitment to purchase EUR 60billion of assets a month until the end of 2017. The refinancing rate, the marginal lending rate, and the deposit facility rate remain at 0.00%, 0.25%, and -0.40%, respectively. Meanwhile, the BOJ maintains its easing monetary policy with the yield-curve control program to achieve its 2.0% inflation target.

Global inflation has ticked up since the start of 2017 on rising commodity prices. Compared with the global consumer price inflation, the increase in global producer price inflation has been particularly significant. Notably, China's producer inflation rose markedly in the first few months of 2017 - a result of the rebounding commodity and material prices, capacity-reduction effort, and recovering property investment.

Global growth to quicken slightly in 2H17/2018

Looking ahead, global economic growth is expected to accelerate slightly in 2H17 and 2018, supported by robust growth in manufacturing and trade, rising consumer confidence, accommodative monetary policy, and stabilizing commodity prices. According to the latest Global Economic Prospects released by World Bank in June 2017, the global economic growth is projected to accelerate to 2.7% in 2017 and 2.9% in 2018, up from 2.4% in 2016 (Exhibit 3). However, rising trade protectionism and heightened uncertainty on economic and political policy would be the main challenges for the global economy.

We expect the U.S. economy to grow by 2.0% in 2017E and 2.2% in 2018E, up from 1.6% in 2016. Domestic demand would remain the key growth driver of the U.S. economy, which would be supported by the Trump government's stimulus package such as tax cuts and investments in infrastructure programs. On the monetary front, with a weakening outlook for core inflation, we expect the Fed to increase interest rate once in the remainder of 2017E and twice in 2018E - a



more gradual pace than the expectation by the Fed. Meanwhile, the Fed is likely to begin to reduce its balance sheet by the start of 2018.

We expect the Eurozone economy to grow by 1.9% in 2017E and 2.0% in 2018E, compared with 1.8% in 2016. Manufacturing activity and goods exports will be the main drivers of this growth. According to ECB's forward guidance, we expect interest rate and monthly asset purchasing size to remain unchanged for the rest of 2017. However, with Eurozone's economy strengthening, ECB is likely to taper off its monthly asset purchasing size to zero in 2018 although interest rate would remain unchanged next year.

We forecast Japan's economic growth to pick up from 1.0% in 2016 to 1.5% in 2017E and 1.2% in 2018E on the back of recovering external demand and business investment. The accommodative monetary and fiscal policies would also support growth. With inflation outlook remaining low and far below the 2% target set by the BOJ, we expect the country's monetary stance would stay unchanged in 2017 and 2018.

With the ongoing economic deleveraging, easing PPI inflation, and property tightening measures, we maintain our China's economic growth forecasts of 6.7% for 2017E and 6.4% for 2018E. We reassert that PBOC would keep the benchmark interest rates steady in 2017 and 2018 while RRR would be slashed twice by 50 basis points every year given the mild inflationary pressure and reduction in foreign exchange.

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

Real GDP Growth (YoY)	2016	2017E	2018E
U.S.	1.6	2.0	2.2
Euro zone	1.8	1.9	2.0
Japan	1.0	1.5	1.2
China	6.7	6.7	6.4
World	2.4*	2.7*	2.9*

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

Note: *denotes World Bank estimates and forecasts



China Economic Indicators

	2016										2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY %)	---	---	6.7	---	---	6.7	---	---	6.8	---	---	6.9	---	---
Export Growth (USD, YoY %)	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	16.4	8.0	---
Import Growth (USD, YoY %)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1	20.3	11.9	---
Trade Balance (USD bn)	45.6	50.0	48.1	52.3	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)	23.9	38.0	---
Retail Sales Growth (YoY %)	10.1	10.0	10.6	10.2	10.6	10.7	10.0	10.8	10.9	9.5	9.5	10.9	10.7	---
Industrial Production (YoY %)	6.0	6.0	6.2	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3	7.6	6.5	---
PMI - Manufacturing (%)	50.1	50.0	49.9	50.4	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8	51.2	51.2
PMI - Non-manufacturing (%)	53.1	53.7	53.9	53.5	53.7	53.7	51.2	50.9	51.9	54.6	54.2	55.1	54.0	54.5
FAI (YTD) (YoY %)	10.5	9.6	9.0	8.1	8.1	8.2	8.3	8.3	8.1	8.9	8.9	9.2	8.9	---
CPI (YoY %)	2.0	1.9	1.8	1.3	1.9	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2	---
PPI (YoY %)	(2.8)	(2.6)	(1.7)	(0.8)	0.1	0.1	1.2	3.3	5.5	6.9	7.8	7.6	6.4	---
M2 (YoY %)	11.8	11.8	10.2	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1	10.6	10.5	---
New Lending (RMB bn)	556	986	1380	464	949	1220	651	795	1040	2030	1170	1020	1100	---
Aggregate Financing (RMB bn)	751	660	1629	488	1470	1720	896	1740	1630	3740	1150	2120	1390	---

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	21,136.23	(0.33)	18.59	NYMEX WTI	USD/bbl.	48.04	0.80	771,732	1.00	0.00	
S&P 500	2,429.33	(0.40)	21.58	ICE Brent Oil	USD/bbl	49.97	0.04	326,835	4.00	0.00	
NASDAQ	6,275.06	(0.49)	33.22	NYMEX Natural Gas	USD/MMBtu	3.07	2.33	174,682	US Discount Window	1.50	0.00
MSCI US	2,314.55	(0.43)	22.03	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.8269	3.06
Europe				Basic Metals				US Treasury (5Yr)			
FTSE 100	7,524.95	(0.30)	32.69	LME Aluminum Cash	USD/MT	1,898.25	(1.61)	15,147	US Treasury (10 Yr)	2.1503	(0.88)
DAX	12,690.12	(1.04)	19.88	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,901.00	(1.55)	35,442	Japan 10-Yr Gov. Bond	0.0430	(1.20)
CAC40	5,269.22	(1.39)	19.49	CMX Copper Active	USD/lb.	5,594.25	(0.95)	13,870	China 10-Yr Gov. Bond	3.6480	1.10
IBEX 35	10,879.70	(0.24)	19.25	LME Copper 3- mth Rolling Fwd.	USD/MT	5,616.00	(0.86)	37,970	ECB Rate (Refinancing)	0.00	0.00
FTSE MIB	20,760.01	(0.80)	N/A	Precious Metals				1-Month LIBOR			
Stoxx 600	389.40	(0.80)	25.27	CMX Gold	USD/T. oz	1,294.80	1.14	208,492	3 Month LIBOR	1.2196	(0.29)
MSCI UK	2,187.32	(0.31)	33.69	CMX Silver	USD/T. oz	17.67	0.80	77,889	O/N SHIBOR	2.8419	4.66
MSCI France	150.90	(1.36)	19.27	NYMEX Platinum	USD/T. oz	961.30	0.83	18,244	1-mth SHIBOR	4.3633	17.41
MSCI Germany	156.84	(1.03)	20.44	Agricultural Products				3-mth HIBOR			
MSCI Italy	57.74	(0.65)	N/A	CBOT Corn	USD/bu	379.50	1.81	201,296	Corporate Bonds (Moody's)		
Asia				CBOT Wheat	USD/bu	439.00	2.21	74,747	Aaa	3.72	2.00
NIKKEI 225	19,932.07	(1.22)	19.10	NYB-ICE Sugar	USD/lb.	13.98	1.75	74,483	Baa	4.42	3.00
S&P/ASX 200	5,652.20	(2.35)	19.25	CBOT Soybeans	USD/bu.	928.75	0.81	101,320			
HSI	26,025.21	0.39	14.39								
HSCEI	10,611.34	(0.52)	8.78								
CSI300	3,492.88	0.18	15.37								
SSE Composite	3,102.13	(0.11)	16.62								
SZSE Composite	1,810.80	1.24	26.47								
MSCI China	72.73	0.34	15.65								
MSCI Hong Kong	14,532.90	0.61	14.92								
MSCI Japan	951.30	(1.04)	16.65								

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	1.1269	1.2902	0.7502	109.56	0.9628	6.7952	7.7943	6.9530
Chg. WTD (%)	(0.09)	0.11	0.79	0.77	0.03	0.22	(0.07)	0.26



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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