



Economic Insight

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Global economic outlook for 2020

ABCI Research

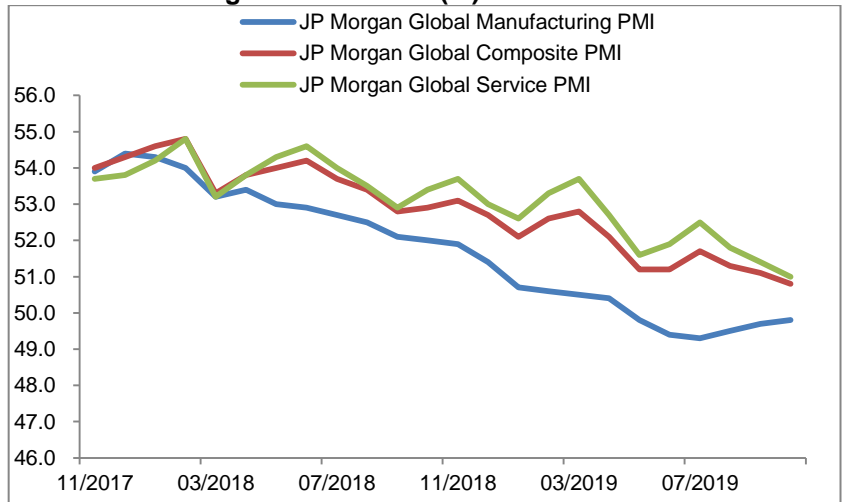
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- The global economic growth has continued to slow since the start of 2019 with rising global trade protectionism and elevated uncertainty surrounding geopolitics despite easing monetary policy
- Global inflation has been mild since the start of 2019 on sluggish growth and low energy prices. Core inflation, excluding food and energy prices, were muted on anemic wage growth
- Global economic growth is expected to remain sluggish in 2020 as global trade disputes and heightened uncertainty on the economic and political fronts could further disrupt supply chains, hampering confidence and investment
- We expect economies in the US, China, Eurozone, Japan and UK to grow by 2.3%, 6.1%, 1.2%, 0.9% and 1.4% in 2019E and 1.9%, 5.9%, 1.0%, 0.6% and 1.2% in 2020E, respectively, compared with 2.9%, 6.6%, 1.9%, 0.8% and 1.4% in 2018

Global growth momentum continued to weaken

The global economic growth has continued to slow since the start of 2019 with the rising global trade protectionism and elevated uncertainty surrounding geopolitics despite significant easing in monetary policy. Global trade, manufacturing activity and investment have been pacing down, with business and consumer confidence taking a dive. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI moderated in 10M19, pointing to a slowing economic expansion.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities



Global trade has continued to soften on weaker growth in global manufacturing activity. According to the latest WTO quarterly trade volume statistics, merchandise trade rose only 0.2%¹ in 2Q19, compared with 3.5% in 2Q18. The World Trade Outlook Indicator released by WTO remained at the below-average growth level at 96.6 in Nov, well below the baseline value of 100. The sub-indicator export order index was at the contraction level of 97.5 in Nov, suggesting further slowdown in trade for 2020.

Year to date, momentum in global major economies have been frail on the whole. In 9M19, the US economy grew 2.3%, down from 2.9% in 2018 as boost from the tax cuts faded (Exhibit 2). Economies in China, Eurozone, Japan and the U.K. expanded by 6.2%, 1.2%, 1.0% and 1.5% in 9M19, respectively, compared with 6.6%, 1.9%, 0.8% and 1.4% in 2018. Economic growth in many emerging markets was slower than expected, including India, Mexico, Russia, and many commodity-exporting economies.

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

Real GDP Growth (YoY)	2017	2018	9M19
U.S.	2.4	2.9	2.3
China	6.9	6.6	6.2
Eurozone	2.5	1.9	1.2
Japan.	2.0	0.8	1.0
U.K.	1.9	1.4	1.5

Source(s): Bloomberg, ABCI Securities

Global inflation has been mild since the start of 2019 on sluggish growth and low energy prices. Core inflation, excluding food and energy prices, stayed muted on anemic wage growth. In most advanced economies, core inflation failed to meet targets of central banks despite substantial improvement in unemployment rate. Among the emerging economies, core inflation remains at below 2% as economic activity moderates. For some, however, currency depreciation has boosted inflation, partially offsetting the downward pressure resulted from low energy prices. Although headline CPI in China advanced from 2.1% in 2018 to 2.6% in 10M19 due to the rather sharp rises in pork price, however, core inflation remained mild at 1.7% in 10M19, down from 1.9% in 2018.

Major central banks have adopted easing monetary policy amid subdued inflation and decelerating economic activities. The Fed cut its target range for the federal funds rate thrice to 1.50%–1.75% within the first 10 months of 2019; it also halted reduction in balance sheet to resume expansion. In Sep meeting, the ECB decided to slash the deposit rate by 10 bps, pushing it further down into negative territory while announcing a resumption of quantitative easing. BOJ and BOE kept the interest rates unchanged while adhering to a loose monetary policy. PBOC has relaxed monetary policy, partially by cutting the rates for OMO, MLF and LPR. Among the emerging markets and developing economies, central banks in several countries have been trimming policy rates since Apr.

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



Global growth is likely to remain weak in 2020

Global economic growth is expected to remain weak in 2020 as global trade disputes and heightened uncertainty on economic and political fronts could further disrupt supply chains, hampering confidence and investment. Given the escalating trade tensions amid a slowing global economy, WTO forecasts merchandise trade volume to grow by 1.2% in 2019E and 2.7% in 2020E, down from 3.0% in 2018. According to the latest World Economic Outlook released by IMF in Oct 2019, global economic growth is projected at 3.0% for 2019E and 3.4% in 2020E, 0.3ppt and 0.2ppt below its forecasts in Apr 2019 (Exhibit 3). Given that we expect the growth for major economies to slow in 2020, we believe IMF may revise down the 2020 forecasts for global growth in the future. In OECD's latest Economic Outlook released in Nov 2019, the global economic growth forecasts for 2019E and 2020E are revised down to 2.9% and 3.0% from 3.2% and 3.4% in the May version.

We expect the US economy to expand by 1.9% in 2020E, down from our estimate of 2.3% in 2019E due to fading impact of fiscal stimulus, impasse in Sino-US trade talks, and headwinds from a weaker global outlook. Although household spending is likely to grow at a strong pace, business fixed investment and exports would remain weak, weighing on economic growth. On the monetary front, with a weakening outlook for economic growth under the Sino-US trade conflicts, we expect (1) the Fed to cut interest rate once in 2020E if the US decides to uphold the existing tariffs on Chinese goods; (2) the Fed to cut interest rate twice in 2020E if the country decides to raise the tariffs for Chinese goods; (3) the Fed to leave interest rate unchanged if the tariff size or rate on Chinese goods is reduced. Meanwhile, we estimate the Fed would expand its balance sheet till 2Q20E or later.

In China, the ongoing trade tension, stumbling growth in industrial production, and intensified tightening measures on property market would impede growth. We maintain our 6.1% and 5.9% GDP growth forecasts for 2019E and 2020E. On the monetary front, PBOC is expected to maintain a neutral monetary policy with a loosening bias. It is likely to keep liquidity abundant to support loan growth for private firms and SMEs. RRR would continue to trend down in 2020E, while OMO, MLF and LPR rates are expected to fall on the economic slowdown. The Chinese government is expected to adopt a more proactive fiscal policy to support economic growth through tax and fee reductions, measures to boost infrastructure investment, and specific-consumption measures.

We project the Eurozone economy to expand by 1.0% in 2020E, slightly lower than estimated 1.2% in 2019E, as weak external demand, global trade, and policy uncertainties will limit the rebound in exports and business investment. Political risks remain elevated in the form of a potential no-deal Brexit and the volatile political environment in Italy and Spain. On the monetary front, according to ECB's monetary meeting in Oct, QE would be restarted on Nov 1 at a pace of EUR 20bn per month and to last for as long as is deemed necessary. The ECB will provide banks with additional low-cost credit to support economic growth. With a weakening economy and persistently low inflation, we believe the refinancing rate would remain at a record-low of 0.00% in 2020E. Meanwhile, we expect the



UK economy to grow by 1.2% in 2020E, down from estimated 1.4% in 2019E due to a heightened possibility of a disorderly exit from the EU.

We forecast Japan's economic growth to fall from estimated 0.9% in 2019E to 0.6% in 2020E due to the negative effect of the consumption tax hike on private consumption, rising trade protectionism, and weaker business fixed investment. The consumption tax hike from 8.0% to 10.0% on Oct 1, 2019, is expected to hinder 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 2020E. The BOJ short-term policy rate is likely to remain at -0.10% through to the end of 2020E.

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

Real GDP Growth (YoY)	2018	2019E	2020E
U.S.	2.9	2.3	1.9
China	6.6	6.1	5.9
Eurozone	1.9	1.2	1.0
Japan	0.8	0.9	0.6
U.K.	1.4	1.4	1.2
World (IMF)	3.6*	3.0*	3.4*
World (OECD)	3.5 [#]	2.9 [#]	3.0 [#]

Source(s): IMF, OECD, Bloomberg, ABCI Securities estimates

* IMF estimates and forecasts

[#] OECD estimates and forecasts



China Economic Indicators

	2018				2019									
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Real GDP (YoY %)	6.5	---	---	6.4	---	---	6.4	---	---	6.2	---	---	6.0	---
Export Growth (USD, YoY %)	14.5	15.6	5.4	-4.4	9.1	-20.7	14.2	-2.7	1.1	-1.3	3.3	-1.0	-3.2	-0.9
Import Growth (USD, YoY %)	14.3	21.4	3.0	-7.6	-1.5	-5.2	-7.6	4.0	-8.5	-7.3	-5.3	-5.6	-8.5	-6.4
Trade Balance (USD bn)	31.7	34.0	44.8	57.1	39.2	4.1	32.7	13.8	41.7	51.0	45.1	34.8	39.7	42.8
Retail Sales Growth (YoY %)	9.2	8.6	8.1	8.2	8.2	8.2	8.7	7.2	8.6	9.8	7.6	7.5	7.8	7.2
Industrial Production (YoY %)	5.8	5.9	5.4	5.7	5.3	5.3	8.5	5.4	5.0	6.3	4.8	4.4	5.8	4.7
PMI - Manufacturing (%)	50.8	50.2	50.0	49.4	49.5	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3
PMI - Non-manufacturing (%)	54.9	53.9	53.4	53.8	54.7	54.3	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8
FAI (YTD) (YoY %)	5.4	5.7	5.9	5.9	6.1	6.1	6.3	6.1	5.6	5.8	5.7	5.5	5.4	5.2
CPI (YoY %)	2.5	2.5	2.2	1.9	1.7	1.5	2.3	2.5	2.7	2.7	2.8	2.8	3.0	3.8
PPI (YoY %)	3.6	3.3	2.7	0.9	0.1	0.1	0.4	0.9	0.6	0.0	-0.3	-0.8	-1.2	-1.6
M2 (YoY %)	8.3	8.0	8.0	8.1	8.4	8.0	8.6	8.5	8.5	8.5	8.1	8.2	8.4	8.4
New Lending (RMB bn)	1380	697	1250	1080	3230	886	1690	1020	1180	1660	1060	1210	1690	661
Aggregate Financing (RMB bn)	2170	743	1519	1590	4640	703	2860	1360	1400	2267	1010	1980	2270	619

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	27,766.29	-0.85	19.11		58.19	0.81	256,397		1.75	0.00				
S&P 500	3,103.54	-0.54	20.62		4.75	0.00	63.58		5.25	0.00				
NASDAQ	8,506.21	-0.41	31.36		2.25	0.00	2.58	-3.91	168,767	US Discount Window	2.75	0.00		
MSCI US	2,957.53	-0.46	21.16	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A		US Treasury (1 Yr)	1.5296	-2.53		
Europe				Basic Metals				US Treasury (5Yr)						
FTSE 100	7,238.55	-0.88	17.47	LME Aluminum Cash	USD/MT	1,747.50	-0.65	46,475		US Treasury (10 Yr)	1.6124	-3.44		
DAX	13,137.70	-0.79	24.33	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,734.00	-1.20	43,830		Japan 10-Yr Gov. Bond	1.7671	-6.37		
CAC40	5,881.21	-0.98	21.07	CMX Copper Active	USD/lb.	5,823.25	-0.23	13,517		China 10-Yr Gov. Bond	3.1730	-6.90		
IBEX 35	9,214.00	-0.51	15.01	LME Copper 3- mth Rolling Fwd.	USD/MT	5,829.00	-0.34	28,052		ECB Rate (Refinancing)	0.00	0.00		
FTSE MIB	23,279.78	-1.31	14.03	Precious Metals				1-Month LIBOR						
Stoxx 600	402.22	-0.94	19.94	CMX Gold	USD/T. oz	1,473.70	-0.12	46,782		3 Month LIBOR	1.7156	-1.76		
MSCI UK	2,073.07	-0.86	17.59	CMX Silver	USD/T. oz	17.23	0.78	20,174		O/N SHIBOR	1.8988	-0.39		
MSCI France	168.91	-0.93	21.09	NYMEX Platinum	USD/T. oz	910.70	1.81	17,380		1-mth SHIBOR	1.9480	-74.5		
MSCI Germany	151.84	-0.70	21.38	Agricultural Products				1-mth HIBOR						
MSCI Italy	63.02	-1.44	14.11	CBOT Corn	USD/bu	378.50	-0.59	160,897		3-mth HIBOR	2.7925	0.45		
Asia				CBOT Wheat	USD/bu	512.50	1.28	56,768		Corporate Bonds (Moody's)	2.3573	-12.7		
NIKKEI 225	23,112.88	-0.82	18.41	NYB-ICE Sugar	USD/lb.	12.61	-0.94	48,336		Aaa	3.04	-6.00		
S&P/ASX 200	6,709.78	-1.24	19.78	CBOT Soybeans	USD/bu.	899.75	-2.01	94,080		Baa	5.28	5.00		
HSI	26,466.88	0.78	10.34											
HSCEI	10,450.22	0.50	8.24											
CSI300	3,889.60	-0.72	13.63											
SSE Composite	2,903.64	-0.24	13.99											
SZSE Composite	1,608.43	0.17	33.43											
MSCI China	78.66	0.09	13.49											
MSCI Hong Kong	14,642.13	0.32	13.30											
MSCI Japan	1,018.78	-0.44	15.45											

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	1.1072	1.2923	0.6787	108.60	0.9933	7.0364	7.8241	7.1080
Chg. WTD (%)	0.19	0.20	-0.44	0.18	-0.33	-0.38	0.03	-0.41



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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq 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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