



# Economic Insight

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## Global economic outlook for 2019

ABCI Research

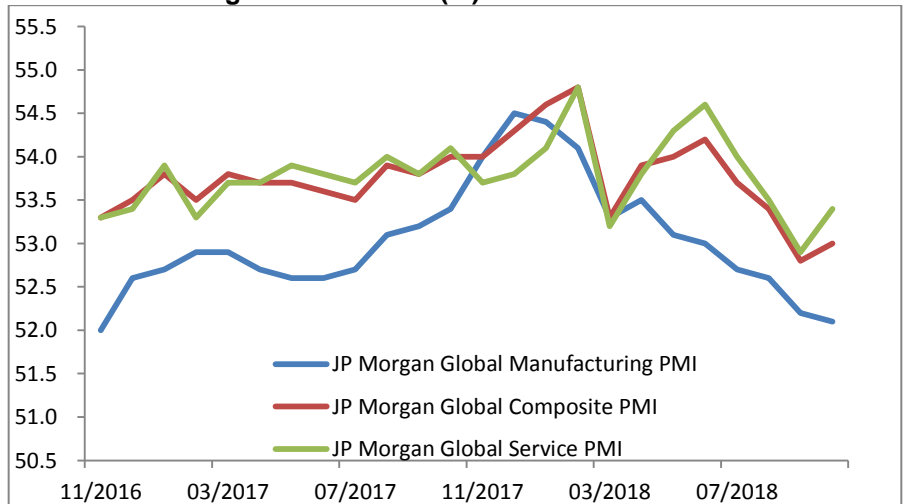
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- The pace of global economic recovery has slowed since the start of 2018, with major central banks tightening monetary policy and trade frictions heating up. Among the major economies, only the US has shown an upward momentum
- Global inflation has ticked up since the start of 2018 on rising energy prices. However, core inflation, excluding food and energy prices, has remained muted on weak wage growth
- Global economic growth is expected to slow in 2019, mainly driven by escalating trade disputes, a reversal of capital flows to emerging market economies, and heightened uncertainty on economic and political policies
- We expect economies in the US, China, Eurozone, Japan and UK to grow by 2.9%, 6.6%, 2.0%, 0.9% and 1.3% in 2018E and 2.4%, 6.3%, 1.7%, 0.8% and 1.3% in 2019E, respectively, compared with 2.2%, 6.9%, 2.4%, 1.7% and 1.7% in 2017

### Global growth momentum has already weakened

The pace of global economic recovery has slowed since the start of 2018 with the tightening of monetary policy by major central banks and trade frictions escalating. As shown in Exhibit 1, both the JP Morgan global manufacturing PMI and service PMI moderated in 10M18, pointing to a slowing economic expansion. In response to the abating impetus, investors in the capital markets have been reducing their risky capital holdings. Major stock markets, except that of the US, have declined since the start of 2018.

Exhibit 1: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

Global trade softened on weaker growth in global manufacturing activity, with the World Trade Outlook Indicator released by WTO falling to 100.3 in Aug and just above the baseline value of 100 for the index. The sub-indicator export order index tumbled to a contraction level of 97.2 in Aug, suggesting trade growth may ease in 2019.



Year to date, global major economies have displayed a trend of differentiation. The US economy has managed to accelerate. In 9M18, the US economy expanded by 2.8%<sup>1</sup> on fiscal stimulus package, which includes tax cuts, compared to 2.2% in 2017 (Exhibit 2). Real GDP in Eurozone, UK, and Japan expanded by 2.1%, 1.3%, and 0.9% in 9M18, respectively, down from 2.4%, 1.7% and 1.7% in 2017. Recent data pointed to a slower growth of 6.7% in China's economy in 9M18, compared with 6.9% in 2017.

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

Real GDP Growth (YoY)	2016	2017	9M18
U.S.	1.6	2.2	2.8
China	6.7	6.9	6.7
Eurozone	1.9	2.4	2.1
Japan.	1.0	1.7	0.9
U.K.	1.8	1.7	1.3

Source(s): Bloomberg, ABCI Securities

Global inflation has ticked up since the start of 2018 on rising energy prices. With OPEC's joint production cuts and rising geopolitical risks in the Middle East, international oil price has been climbing though significant moderation has been observed since early Oct. Inflation in major developed countries has generally gone up, especially in the US and Eurozone. CPI in the US increased from 2.1% in Jan to 2.5% in Oct, while CPI in Eurozone rose from 1.3% to 2.2% during the same period. CPI in China also advanced from 1.5% in Jan to 2.5% in Oct. However, core inflation, excluding food and energy prices, has remained muted on anemic wage growth. In most advanced economies except the US, core inflation has failed to meet central bank targets despite substantial reduction in unemployment rate.

Monetary policies of major central banks have diverged as their economic situations differ. The Fed raised interest rates thrice up till Oct in 2018; and expected another rate hike in Dec 2018, which will be followed by three more in 2019 amid improving economy and rising inflation. At its Aug meeting, BOE raised its policy rate from 0.50% to 0.75%. ECB and BOJ hold firm to their stances 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 Apr 2018, currencies in Argentina, Turkey, Brazil and Indonesia have depreciated at an alarming rate. These central banks were forced to raise their policy rates sharply to stabilize their currencies and prevent capital outflows.

**Global growth is likely to slow in 2019**

Global economic growth is expected to slow in 2019, mainly driven by escalating trade disputes, a reversal of capital flows to emerging market economies and heightened uncertainty on economic and political policies. Moreover, central banks in the US, some emerging markets and developing economies are tightening their monetary policies. Given the heightening trade tensions and tighter credit market conditions in important markets, WTO forecasts merchandise

<sup>1</sup> All growth rates are year-on-year except specified otherwise



trade volume to grow by 3.9% in 2018E, with trade expansion slowing further to 3.7% in 2019E, down from 4.7% in 2017. According to the latest World Economic Outlook released by IMF in Oct 2018, global economic growth is projected at 3.7% for 2018E and 2019E, 0.2ppt below the World Economic Outlook in Apr 2018 (Exhibit 3). Given that we expect the growth for major economies to slow in 2019, we believe that the 2019 forecast for global growth by IMF is likely to be revised down in the next World Economic Outlook. In OECD's latest Economic Outlook released in Nov 2018, the global economic growth forecast for 2019 is revised down to 3.5% from 3.7% in the May version.

We expect the US economy to expand by 2.4% in 2019E, down from our estimate of 2.9% in 2018E due to fading impact of fiscal stimulus, Sino-US trade disputes, and tighter financial conditions. With the Democrats taking control of House of Representatives in 2019, the Trump government's fiscal stimulus package, including further tax cuts and investments in infrastructure programs, is likely encounter challenges. On the monetary front, we forecast the US interest rate will be raised twice in 2019E, instead of thrice as estimated by the Fed. The reason is that the spread between long and short interest rates in the US government bonds have been narrowing consistently and inflation is likely to remain mild with the global oil price moderation, property price easing, and economic slowdown. If Fed raises the interest rate frequently, the yield curve is likely to become inverted and the US economy is likely to enter a recession. Meanwhile, we estimate the Fed to trim down its balance sheet by US\$ 420bn and US\$ 600bn in 2018E and 2019E.

In China, escalating tension with the US, housing market restriction, and weak growth in consumption would weigh on economic growth. We maintain our 6.6% and 6.3% GDP growth forecasts for 2018E and 2019E. China is expected to maintain a neutral monetary policy with a loosening bias and proactive fiscal policy to support growth. PBOC is likely to keep the benchmark interest rates steady. We expect targeted RRR to be slashed once in Dec 2018 and thrice in 2019 given the mild inflationary pressure and softening economy.

We project the Eurozone economy to expand by 1.7% in 2019E, down from estimated 2.0% in 2018E, due to trade friction with the US, falling external demand, and uncertainty surrounding domestic politics. Political risks remain elevated in the form of a potential no-deal Brexit, a populist government in Italy, and weakened German leadership. On the monetary front, according to ECB's monetary meeting in Oct, we expect QE to be halted by end-Dec 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. Meanwhile, we expect the UK economy to grow by 1.3% both in 2018E and 2019E, down from 1.7% in 2017.

We forecast Japan's economic growth to slow from 1.7% in 2017 to 0.9% in 2018E and 0.8% in 2019E due to frail external demand, rising trade protectionism, and weaker business fixed investment. The sales tax hike scheduled in Oct 2019 would weigh on 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 the rest of 2018 and 2019.



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

Real GDP Growth (YoY)	2017	2018E	2019E
U.S.	2.2	2.9	2.4
China	6.9	6.6	6.3
Euro zone	2.4	2.0	1.7
Japan	1.7	0.9	0.8
U.K.	1.7	1.3	1.3
World (IMF)	3.7*	3.7*	3.7*
World (OECD)	3.6 <sup>#</sup>	3.7 <sup>#</sup>	3.5 <sup>#</sup>

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

\*Denotes IMF estimates and forecasts

<sup>#</sup>Denotes OECD estimates and forecasts



China Economic Indicators

	2017						2018							
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Real GDP (YoY %)	---	---	6.8	---	---	6.8	---	---	6.7	---	---	6.5	---	---
Export Growth (USD, YoY %)	6.9	12.3	10.9	11.1	44.5	-2.7	12.9	12.6	11.3	12.2	9.8	14.5	15.6	---
Import Growth (USD, YoY %)	17.2	17.7	4.5	36.9	6.3	14.4	21.5	26.0	14.1	27.3	27.0	14.3	21.4	---
Trade Balance (USD bn)	38.2	40.2	54.7	20.3	33.7	-5.0	28.8	24.9	41.6	28.1	27.9	31.7	34.0	---
Retail Sales Growth (YoY %)	10.0	10.2	9.4	9.7	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	8.6	---
Industrial Production (YoY %)	6.2	6.1	6.2	7.2	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	5.9	---
PMI - Manufacturing (%)	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8	50.2	50.0
PMI - Non-manufacturing (%)	54.3	54.8	55.0	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9	53.9	53.4
FAI (YTD) (YoY %)	7.3	7.2	7.2	7.9	7.9	7.5	7.0	6.1	6.0	5.5	5.3	5.4	5.7	---
CPI (YoY %)	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	---
PPI (YoY %)	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3	---
M2 (YoY %)	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	8.0	---
New Lending (RMB bn)	663	1120	584	2900	839	1120	1180	1150	1840	1450	1280	1380	697	---
Aggregate Financing (RMB bn)	1040	1600	1140	3060	1170	1330	1560	761	1180	1040	1520	2210	729	---

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)	
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate	2.25	0.00	
DJIA	25,338.84	4.34	16.90	NYMEX WTI	USD/bbl.	52.03	2.16	813,991	US Prime Rate	5.25	0.00
S&P 500	2,737.76	4.00	18.75	ICE Brent Oil	USD/bbl	59.60	1.36	212,720	US Discount Window	2.75	0.00
NASDAQ	7,273.08	4.81	40.69	NYMEX Natural Gas	USD/MMBtu	4.62	7.27	90,516	US Treasury (1 Yr)	2.2875	7.43
MSCI US	2,602.49	3.98	18.91	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	2.8429	(2.33)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	3.0572	(1.47)	
FTSE 100	7,016.85	1.24	15.97	LME Aluminum Cash	USD/MT	1,936.75	(0.08)	16,951	Japan 10-Yr Gov. Bond	0.0840	(1.60)
DAX	11,309.11	0.94	12.40	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,940.00	(0.46)	30,220	China 10-Yr Gov. Bond	3.4110	(4.80)
CAC40	4,983.15	1.20	15.44	CMX Copper Active	USD/lb.	6,241.50	0.23	10,924	ECB Rate (Refinancing)	0.00	0.00
IBEX 35	9,098.90	2.04	13.10	LME Copper 3- mth Rolling Fwd.	USD/MT	6,212.00	0.08	33,722	1-Month LIBOR	2.3446	2.28
FTSE MIB	19,159.60	2.38	10.92	<b>Precious Metals</b>				3 Month LIBOR	2.7066	1.54	
Stoxx 600	358.10	1.16	16.02	CMX Gold	USD/T. oz	1,230.20	0.09	155,762	O/N SHIBOR	2.2620	(9.40)
MSCI UK	2,038.83	1.23	16.24	CMX Silver	USD/T. oz	14.39	0.16	51,457	1-mth SHIBOR	2.6969	0.59
MSCI France	145.27	1.27	15.64	NYMEX Platinum	USD/T. oz	819.60	(3.01)	16,619	3-mth HIBOR	2.0102	3.43
MSCI Germany	137.81	1.12	13.04	<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
MSCI Italy	52.73	2.13	11.04	CBOT Corn	USD/bu	373.00	0.67	253,372	Aaa	4.23	5.00
<b>Asia</b>				CBOT Wheat	USD/bu	507.50	0.05	64,818	Baa	5.28	5.00
NIKKEI 225	22,299.66	3.02	15.42	NYB-ICE Sugar	USD/lb.	12.87	3.21	55,377			
S&P/ASX 200	5,689.60	(0.47)	15.67	CBOT Soybeans	USD/bu.	887.50	0.74	92,316			
HSI	26,451.03	2.49	10.02								
HSCEI	10,584.93	2.43	7.93								
CSI300	3,137.65	0.13	11.58								
SSE Composite	2,567.44	(0.35)	11.93								
SZSE Composite	1,324.93	(0.77)	21.40								
MSCI China	74.99	2.73	11.89								
MSCI Hong Kong	14,330.01	1.58	9.86								
MSCI Japan	990.02	1.79	12.60								

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	1.1394	1.2781	0.7320	113.36	0.9961	6.9434	7.8215	7.0012
Chg. WTD (%)	0.50	(0.26)	1.20	(0.35)	0.13	0.07	0.06	0.10



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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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