

Global Economic Commentary

China–United States trade war continued



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The second half of 2018 is an era of economic turmoil

The recent divergence in the performance of developed market equities and emerging market equities was enlarged in August, MSCI Emerging Market and MSCI World index were down 0.76% and up 0.39% respectively.

Federal Reserve rate hike probability

99) Export Data		World Interest Rate Probability											
United States		Instrument		Futures: Fed Funds - Effective								Fed Effective Rate	
1) Overview		2) Future Implied Probability											
Current Implied Probabilities													
Dates		Meeting		Calculation		3) Add/Remove Rates							
						Calculated 10/08/2018							
						Based on rate 2.00-2.25							
Meeting	Hike Prob	Cut Prob	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	3.25-3.5	3.5-3.75	Fwd Rate			
11/08/2018	4.8%	0.0%	95.2%	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	2.20			
12/19/2018	76.6%	0.0%	23.4%	73.0%	3.6%	0.0%	0.0%	0.0%	0.0%	2.38			
01/30/2019	77.8%	0.0%	22.2%	70.3%	7.3%	0.2%	0.0%	0.0%	0.0%	2.40			
03/20/2019	94.6%	0.0%	5.4%	34.0%	54.9%	5.6%	0.1%	0.0%	0.0%	2.59			
05/01/2019	95.2%	0.0%	4.8%	30.4%	52.3%	11.7%	0.8%	0.0%	0.0%	2.62			
06/19/2019	98.0%	0.0%	2.0%	15.5%	39.6%	35.4%	7.1%	0.5%	0.0%	2.76			
07/31/2019	98.2%	0.0%	1.8%	14.2%	37.3%	35.7%	9.8%	1.1%	0.1%	2.79			
09/18/2019	98.9%	0.0%	1.1%	9.5%	28.6%	36.3%	19.6%	4.4%	0.5%	2.88			
10/30/2019	99.0%	0.0%	1.0%	9.0%	27.4%	35.8%	20.6%	5.3%	0.7%	2.90			

Source: Bloomberg

In the U.S, the hike in interest rates by the Fed was widely expected by the market. According to above interest rate futures, there is one more hike this year to come in December, and two further increases in 1Q 2019. The rising interest rates in the U.S has led to a widening in comparative yields between the US and its key counterparts, such as ECB, JGB and BOE. The recent surge in treasury 10 years yield has shocked the bond market and pushing borrowing cost higher.

Oil price surged 4.94% in September and hit US\$76.9 per barrel, a highest level since December 2014. Some forecasts say oil price may test \$100 by the end of this year. If yes, this will increase the inflation pressure to the global economy, especially the emerging markets and export oriented countries. Moderate inflation pressure could be positive to the economic growth but a rapid surge in oil price has fueled economic recession in 1973, 1997 and 2008.

Another important news of the month would be the speech of Mike Pence, the vice-president of the U.S. He has delivered a harsh speech that against Chinese government as a portent of cold war. He emphasized that the Trump administration would take a proactive approach to countering Beijing's aggression, calling it a "reset" of "America's economic and strategic relationship with China. In conclusion, the trade tension between China and the U.S is escalating and expanding to diplomacy, political and military area.

Economic key points:

- The hike in interest rates by the Fed was widely expected by the market.
- Oil price surged 4.94% in September.
- The trade tension between China and the U.S is escalating and expanding to diplomacy, political and military area.

Chart of the Month: MSCI World Index



10-day MA	2185.54
20-day MA	2169.92
100-day MA	2139.92
250-day MA	2114.82

Comment:
The MSCI World Index is expected to trade sideways amid the U.S interest rate hike.

Global Market Performance

Index (USD)	Closed at 30/09/2018	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	26,458.31	4.44	7.04	18.76	16.69	2.10
S&P 500	2,913.98	3.58	8.99	20.83	17.68	1.83
Nasdaq	8,046.35	4.40	16.56	46.97	22.67	1.02
FTSE 100	9,794.80	(2.43)	(5.79)	16.16	12.98	4.38
DAX	14,223.35	(4.29)	(8.41)	14.09	12.96	3.21
CAC	6,380.14	(0.55)	(0.10)	16.93	14.16	3.25
Nikkei 225	212.51	4.34	5.09	16.98	16.53	1.73
HSI	3,551.02	(1.65)	(7.28)	10.10	10.97	3.78
SHCOMP	410.73	(0.67)	(19.19)	12.87	11.11	2.49
ASX	4,576.51	(2.73)	(5.01)	18.04	15.30	4.20
TWI	361.04	(0.38)	0.65	13.64	13.48	4.19
KOSPI	2.11	2.32	(8.35)	10.78	9.03	1.93
SET	35.86	3.96	2.91	15.67	15.44	2.79
SENSEX	499.34	(9.08)	(6.38)	22.48	18.31	1.34
Russia RTS	1,192.04	2.75	3.26	5.87	5.65	5.52
Mexico IPC	2,645.09	(0.48)	5.53	20.88	16.54	2.15
Bovespa	19,729.56	(6.74)	(14.62)	20.07	12.77	3.30
Median		(1.60)	(1.84)	16.35	14.00	3.00

Market Data

Commodities (USD)

Price as at 30/9/2018

Crude Oil	73.25
Gold 100oz	1,191.50

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
10/1/2018	Japan	Nikkei Japan PMI Mfg	Sep F	--	52.9
10/1/2018	Europe	Unemployment Rate	Aug	8.10%	8.20%
10/2/2018	Australia	CBA Australia PMI Mfg	Sep	--	53.2
10/2/2018	Japan	Consumer Confidence Index	Sep	43.1	43.3
10/2/2018	Europe	PPI MoM	Aug	0.20%	0.40%
10/2/2018	Europe	PPI YoY	Aug	3.80%	4.00%
10/4/2018	US	Initial Jobless Claims	Sep-29	215k	214k
10/4/2018	US	Continuing Claims	Sep-22	1665k	1661k
10/5/2018	US	Trade Balance	Aug	-\$53.6b	-\$50.1b
10/5/2018	US	Unemployment Rate	Sep	3.80%	3.90%
10/8/2018	China	Caixin China PMI Composite	Sep	--	52
10/8/2018	China	Caixin China PMI Services	Sep	51.4	51.5
10/8/2018	Europe	Sentix Investor Confidence	Oct	11.6	12
10/10/2018	Japan	Machine Tool Orders YoY	Sep P	--	5.10%
10/10/2018	UK	Trade Balance	Aug	-\$1200	-\$1111
10/12/2018	US	Import Price Index MoM	Sep	0.20%	-0.60%
10/12/2018	US	Export Price Index MoM	Sep	0.20%	-0.10%
10/12/2018	China	Trade Balance	Sep	\$19.20b	\$27.89b
10/17/2018	UK	CPI MoM	Sep	--	0.70%
10/17/2018	UK	CPI YoY	Sep	--	2.70%
10/17/2018	US	Housing Starts	Sep	1220k	1282k
10/17/2018	US	Housing Starts MoM	Sep	-4.80%	9.20%
10/18/2018	Japan	Trade Balance	Sep	--	-¥444.6b
10/19/2018	China	GDP YTD YoY	3Q	--	6.80%
10/25/2018	US	Durable Goods Orders	Sep P	--	4.40%
10/30/2018	Japan	Jobless Rate	Sep	--	2.40%
10/30/2018	Europe	Economic Confidence	Oct	--	110.9
10/31/2018	China	Manufacturing PMI	Oct	--	50.8
10/31/2018	China	Composite PMI	Oct	--	54.1
10/31/2018	Europe	CPI Core YoY	Oct A	--	--
10/31/2018	Europe	CPI Estimate YoY	Oct	--	2.10%

News Stories Highlights

Headlines

[BIMF Warns of Possible Emerging-Markets Crisis](#)

Most countries expected to see growth, but 'severely adverse' scenario projects capital outflows not seen since the last decade

[Fed's Kaplan Voices Support for Three More Rate Increases](#)

Dallas Fed President Robert Kaplan said he still favors the central bank raising short-term interest rates three more times before deciding whether more increases will be necessary to keep the economy on an even keel.

[As Pakistan Starts Talks, Emerging Markets Look to Contain Damage](#)

Pakistan's decision to start bailout talks with the International Monetary Fund is the latest in a series of threats to hit emerging markets that have been challenged by weakening currencies and rising U.S. interest rates.

[Trump Criticizes Fed Rate Increases Again](#)

President Trump repeated his displeasure with higher short-term interest rates set by the Federal Reserve, but said he hadn't spoken with Fed Chairman Jerome Powell about his frustration because he didn't want to meddle with monetary policy.

US inflation is still in the doldrums, but 10-year bond yields rebounded.

FIGURE 1
US 10 years treasury yield



HSCEI was seeking a bottom

FIGURE 2
Hang Seng China Enterprises Index



SPX declined slightly on the top.

FIGURE 3
S&P 500 Index



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