

Global Economic Commentary

China Economy Hits Bottom via Structural And Supply Side Reform

Geopolitical Risks



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Geopolitical Risks

Geopolitical risks are complicated to evaluate. They are interconnected and often highly volatile, prompting shifts between global power centers and impacting businesses. This is why businesses and governments need to understand the deep connections between risks and find innovative ways to mitigate them. Markets are concerned about geopolitical risks more than ever, given the rapid growth in globalization and the interconnections between global markets. The latest geopolitical risks are Syria, North Korea and Turkey.

The US attack on Syria

On 7 April 2017, the United States attack on a Syrian air base undermined the objective of 4 April 2017 chemical weapons attack by Syrian government forces on the town of Khan Shaykhun – to break the spirit of the regime's opponents. President Trump's missile strike against Syria is the first time the U.S. took direct military action against the Assad regime since the civil war began there in 2011. Russia has steadfastly supported Syrian President Bashar Assad's government. Therefore, US-Russian relationship has been described as the most difficult since the end of the Cold War after the above action. The Russian currency dropped around 3% and stock markets dropped around 4% after US military action in Syria. The toughest U.S. action in Syria's six-year-old civil war raised geopolitical uncertainty in the Middle East and initially hit assets considered higher risk such as equities.

The North Korean nuclear nightmare

North Korea has been in the news for years for spooking the international community with its nuclear missile tests. Relations between the U.S. and North Korea have grown more strained in recent months, with Pyongyang continuing to conduct nuclear and ballistic missile testing in defiance of international bans. On 15 April, North Korea showed off its advancing nuclear weapons and missiles programmed in an elaborate military parade in Pyongyang honoring Kim Il-sung, the late founder of the communist North Korean state and grandfather of the current ruler. Trump has pressed Xi to exert greater pressure against North Korea given China's status as the country's sole economic lifeline and major ally. Monday's call is the second time that the two leaders have spoken by telephone since meeting in Florida earlier this month.

As the same time, Trump offers better trade deals for China's support if China solved the North Korean problem. Refer to the Syria's war, the Asian economy will fluctuate significantly if U.S started military action in North Korea. China does not wish, and would not agree to let the Korean War resume. By steadfastly asserting China's position, President Xi was reminding his U.S. counterpart that tension-mongering are not the solution to the nuclear threat. The North Korean nuclear problem has been a long-standing issue involving old grudges and complex power play between China, the US, Russia, North Korea, the Republic of Korea and Japan. Therefore, The North Korean nuclear problem will not be solved in the short term. Investors should pay close attention to the North Korean nuclear problem which will affect the global market.

Turkey referendum: new presidential system

The Turkish people voted in favor of changing their constitution, granting the president new far-reaching powers. With nearly all of the 47.5 million votes counted, the "Yes" camp claimed a narrow victory with 51.4% of the vote. A result punctuates the country's deep divisions and dictatorship. Turkey has long been celebrated as a Muslim-majority country with a moderate secular political system, bridging the west with the Islamic east. Therefore, Turkey's most strategic relationships are with Europe. This political system has allowed Turkey to launch a bid for European Union membership. But membership talks over decades have been painfully slow, largely because Turkey has failed to comply with a list of EU standards. Progress has been so slow as of late that it appears Turkey may have given up on joining the bloc. EU calls for investigation into Turkey referendum results. This action may affect the relationship between Europe and Turkey. If Turkey makes clear it no longer cares to join the EU, the migrant deal may come to an end. Turkey may decide to turn inward, or turn away from the West and look for new allies in the east. China may become a new ally of Turkey. Different forces around the world will be concerned Turkey's any decision.

Economic key points:

- US - Russian relationship will affect Emerging Markets
- Oil and gold prices will fluctuate.
- China and U.S. economic cooperation will become close.
- China has a new role of the world that may drive the growth of the economy.

Chart of the Month: MSCI World Index



10-day MA 1850.88

20-day MA 1849.85

100-day MA 1814.14

250-day MA 1742.76

Comment:
The MSCI World Index continues to trade higher following the improvement sentiment of U.S and Hong Equity China equity market.

Global Market Performance

Index (USD)	Closed at 26/04/2017	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	20,975.09	1.51	6.14	18.81	17.49	2.33
S&P 500	2,387.45	1.05	6.64	21.74	18.49	1.95
Nasdaq	6,025.23	1.92	11.93	33.46	22.95	1.10
FTSE 100	9,352.16	1.83	6.06	37.80	14.92	3.89
DAX	13,564.17	2.98	12.02	19.61	13.98	2.51
CAC	5,750.57	4.95	12.13	20.44	15.67	3.06
Nikkei 225	172.67	1.65	5.37	22.21	16.84	1.67
HSI	3,158.78	1.81	11.33	13.72	12.24	3.34
SHCOMP	455.40	(2.81)	1.83	17.86	13.60	1.74
ASX	4,430.02	(1.86)	7.33	21.29	16.64	3.97
TWI	327.04	1.18	14.49	15.54	13.83	3.72
KOSPI	1.94	0.49	15.66	20.76	9.80	1.62
SET	28.90	(0.43)	7.37	15.61	14.87	3.20
SENSEX	469.82	2.88	19.94	22.28	17.74	1.34
Russia RTS	1,119.11	0.48	(2.88)	8.25	6.25	4.35
Mexico IPC	2,576.29	(0.39)	16.52	22.50	18.46	2.02
Bovespa	20,252.26	(2.48)	9.29	20.07	12.19	3.05
Median		1.18	9.29	20.44	14.92	2.51

Market Data

Commodities (USD)

Price as at 26/04/2017

Crude Oil	49.62
Gold 100oz	1,262.10

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
5/2/2017	Europe	Markit Eurozone Manufacturing PMI	Apr F	--	56.8
5/5/2017	US	Change in Nonfarm Payrolls	Apr	193k	98k
5/5/2017	US	Unemployment Rate	Apr	4.60%	4.50%
5/8/2017	China	Trade Balance CNY	Apr	--	164.34b
5/8/2017	China	Imports YoY	Apr	--	20.30%
5/8/2017	China	Exports YoY	Apr	--	16.40%
5/9/2017	Australia	Retail Sales MoM	Mar	--	-0.10%
5/10/2017	China	CPI YoY	Apr	--	0.90%
5/10/2017	China	PPI YoY	Apr	--	7.60%
5/11/2017	UK	Industrial Production MoM	Mar	--	-0.70%
5/11/2017	UK	Industrial Production YoY	Mar	--	2.80%
5/11/2017	UK	Manufacturing Production MoM	Mar	--	-0.10%
5/11/2017	UK	Manufacturing Production YoY	Mar	--	3.30%
5/12/2017	US	CPI YoY	Apr	--	2.40%
5/16/2017	US	Housing Starts MoM	Apr	--	-6.80%
5/16/2017	UK	CPI YoY	Apr	--	2.30%
5/17/2017	Europe	CPI MoM	Apr	--	0.80%
5/17/2017	Europe	CPI YoY	Apr F	--	1.50%
5/18/2017	US	Initial Jobless Claims	May - 13	--	--
5/18/2017	US	Continuing Claims	May - 06	--	--
5/22/2017	Japan	Exports YoY	Apr	--	12.00%
5/22/2017	Japan	Imports YoY	Apr	--	15.80%
5/23/2017	US	New Home Sales	Apr	--	621k
5/24/2017	Europe	Markit Eurozone Manufacturing PMI	May P	--	--
5/24/2017	Europe	Markit Eurozone Services PMI	May P	--	--
5/26/2017	Japan	Natl CPI Ex Fresh Food YoY	Apr	--	--
5/28/2017	UK	Nationwide House PX MoM	May	--	--
5/30/2017	Australia	Building Approvals MoM	Apr	--	--
5/30/2017	Japan	Jobless Rate	Apr	--	--
5/30/2017	Europe	Economic Confidence	May	--	--
5/30/2017	Europe	Business Climate Indicator	May	--	--
5/30/2017	China	Manufacturing PMI	May	--	--

News Stories Highlights

Headlines

[Trump steps back from brink of killing North American trade pact](#)

President Donald Trump said he pulled back from the brink of killing the 23-year-old trade pact with Canada and Mexico after requests from their leaders and expressed optimism about winning better U.S. terms in a renegotiated deal.

[China warned North Korea of sanctions after any nuclear test: Tillerson](#)

China has told the Trump administration it warned North Korea it would impose unilateral sanctions should Pyongyang carry out another nuclear test, U.S. Secretary of State Rex Tillerson

[Chinese navy conducts more drills in Western Pacific](#)

China's navy has again sailed through the Miyako Strait that lies between two Japanese islands and carried out drills in the Western Pacific, state news agency Xinhua said.

[Greece will need debt relief: Eurogroup head Dijsselbloem](#)

Greece will need debt relief for its public finances and economic future to become sustainable, the chairman of euro zone finance ministers Jeroen Dijsselbloem said on Thursday, promising a deal between Athens and its lenders in May.

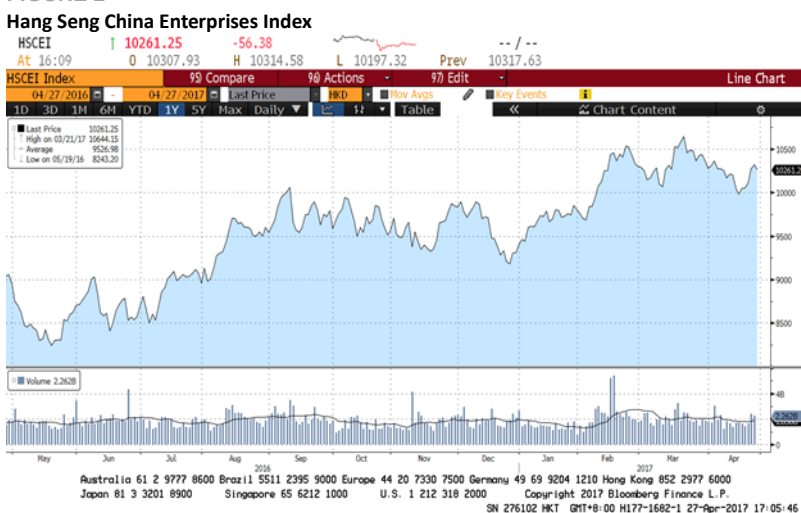
US 10 years treasury yield rose supported by the cycle of U.S interest rate hike.

FIGURE 1
US 10 years treasury yield



HSCEI traded higher amid China economic stabilization.

FIGURE 2



S&P 500 continued to trade higher on the economy recovery and expectation of the upcoming fiscal easing.

FIGURE 3



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