

Global Economic Commentary

China–United States trade war and Geopolitics will affect global economic growth



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2020 year is an era of economic turmoil

2019 Market Review

Global equity market rebounded significantly in the 1st half of 2019 after plunge in Q4 2018. Although the growth of corporate earnings and economic forecast are weak, global equities are outperforming because of global central banks' easing instead of organic economic growth. Many global central banks tightened interest rate in 2018 but there is a 360 degree reversal in 2019, 75% of G20 central banks cut interest rate. Why? In 2Q & 3Q 2019, the increasing tension between China/U.S. trade conflicts and slowing down global economic activity raised investors' concern and alerted global central bankers. They act pretty fast to cut interest rate in the same time, which lower the cost of capital, encouraged the hunt yield behavior in bond market and boosted global equities prices as well. Developed market equity indices recorded double digit return and the U.S. equity index made record high in Q4 2019. China stock market is one of the best performers with 23% return this year (2018 has 36% draw down).

2020 Market Outlook

US

Fed is likely to halt rate cut in 2020 as overall economic growth is improving. The overall U.S. economy activity is boosted by 3 interest rate cuts in 2019 and corporate earnings improve may support the high valuation on the U.S. equities. However, the political uncertainties would be higher than other region in 2020. As president Trump is seeking his second term in the White House, the market could be volatile as the previous election year 2016. For U.S./China 2nd phase trade deal negotiation, this could be a lengthy process and highly uncertain.

JAPAN

All developed markets countries are facing slowing down economic growth and Japan as well but the performance of Japan equities are pretty well in 2019 because of global easing. Olympic effect may boost Japan economy in temporarily, especially on tourism and retail related sectors. On the monetary policy, we believe that the BOJ is likely maintain status-quo rather than tighten it in 2020. Thus, the low volatility on U.S. dollar/Yen exchange rate might fuel carry trading on risky assets.

CHINA

The back drops of the economic fundamentals are as follow: First of all, the manufacturing production and private investment remain weak. Secondly, the retail sales growth expected to continue moderating. Thirdly, inflation remains limited and stable property prices. However, the economic growth is still within a reasonable range. As a result, the government is likely to counter the slowing economic growth by increasing infrastructure investments and maintaining a relatively easing monetary policy to lower the borrowing cost on enterprises. The improving trade outlook between the U.S. and China but the argument with U.S. is not likely to be ended within this year.

HONG KONG

As an international city in China, Hong Kong overall economic outlook is affected by the global trade activity, China's economic outlook and the city's business activity itself. The overall protest activities and tensions are cooling down since December 2018 and didn't impact the financial system. According to S&P Global Ratings, for HK's credit rating, "we haven't seen weakening enough to change our mind about the rating either now, or in the next one to two years", the "Banking sector deposits, business registrations and employment visas data shows little evidence that Hong Kong's role as a global commerce centre has diminished," Hong Kong's linked exchange rate system continues to function well amid social unrest in second half of 2019. In conclusion, we believe HK's status as international financial centre is safe and secure in 2020.

Chart of the Month: MSCI World Index



10-day MA	2351.44
20-day MA	2327.27
50-day MA	2289.21
250-day MA	2161.04

Comment:
The MSCI World Index is expected to be adjected horizontally amid the slowdown in U.S economic growth.

Global Market Performance

Index (USD)	Closed at 30/12/2019	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	28,462.14	1.46	22.01	19.65	17.19	2.23
S&P 500	3,221.29	2.56	28.50	21.65	18.56	1.82
Nasdaq	8,945.99	3.24	34.82	34.22	25.05	0.99
FTSE 100	9,953.45	4.77	16.07	18.32	13.44	4.75
DAX	14,853.47	1.87	22.95	24.54	14.13	2.99
CAC	6,706.67	3.10	23.79	21.53	14.83	3.04
Nikkei 225	217.25	2.03	19.85	18.28	17.51	1.94
HSI	3,637.13	8.07	10.22	10.95	10.60	3.55
SHCOMP	435.11	6.54	20.00	14.72	11.20	2.19
ASX	4,845.12	3.10	20.49	20.68	17.31	4.42
TWI	401.00	6.54	25.90	19.13	15.97	3.91
KOSPI	1.90	7.41	3.78	16.69	11.48	1.61
SET	35.67	0.69	11.08	18.88	16.35	2.91
SENSEX	583.00	2.57	12.65	26.12	23.06	1.19
Russia RTS	1,548.92	7.68	44.93	6.89	6.92	6.41
Mexico IPC	2,309.66	5.50	9.08	17.17	14.14	3.08
Bovespa	28,801.16	12.61	26.91	18.47	13.20	2.90
Median		3.24	20.49	18.88	14.83	2.91

Market Data

Commodities (USD)

Price as at 30/12/2019

Crude Oil	61.06
Gold 100oz	1,523.10

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
1/2/2020	China	Caixin China PMI Mfg	Dec	51.6	51.8
1/2/2020	US	Initial Jobless Claims	Dec-28	220k	222k
1/2/2020	US	Continuing Claims	Dec-21	1680k	1719k
1/6/2020	China	Caixin China PMI Composite	Dec	--	53.2
1/6/2020	China	Caixin China PMI Services	Dec	53.2	53.5
1/6/2020	Europe	PPI MoM	Nov	0.10%	0.10%
1/6/2020	Europe	PPI YoY	Nov	-1.50%	-1.90%
1/10/2020	Canada	Unemployment Rate	Dec	5.80%	5.90%
1/10/2020	US	Unemployment Rate	Dec	3.50%	3.50%
1/10/2020	China	Money Supply M1 YoY	Dec	3.70%	3.50%
1/10/2020	China	Money Supply M2 YoY	Dec	8.30%	8.20%
1/13/2020	UK	Manufacturing Production MoM	Nov	-0.20%	0.20%
01/13/2020	UK	Manufacturing Production YoY	Nov	-1.60%	-1.20%
01/14/2020	Japan	Eco Watchers Survey Current SA	Dec	--	39.4
01/14/2020	Japan	Eco Watchers Survey Outlook SA	Dec	--	45.7
01/17/2020	China	Surveyed Jobless Rate	Dec	--	5.10%
01/17/2020	China	GDP SA QoQ	4Q	--	1.50%
01/17/2020	Europe	CPI YoY	Dec	--	1.00%
01/17/2020	Europe	CPI MoM	Dec F	--	0.30%
01/17/2020	US	Housing Starts	Dec	1378k	1365k
01/21/2020	UK	Claimant Count Rate	Dec	--	3.50%
01/23/2020	Japan	Exports YoY	Dec	--	-7.90%
01/23/2020	Japan	Imports YoY	Dec	--	-15.70%
01/30/2020	Europe	Services Confidence	Jan	--	--
01/30/2020	Europe	Consumer Confidence	Jan F	--	--
01/30/2020	US	Initial Jobless Claims	Jan-25	--	--
01/30/2020	US	Continuing Claims	Jan-18	--	--
01/31/2020	China	Manufacturing PMI	Jan	--	50.2
01/31/2020	China	Non-manufacturing PMI	Jan	--	53.5
01/31/2020	Europe	GDP SA QoQ	4Q A	--	0.20%
01/31/2020	Europe	GDP SA YoY	4Q A	--	1.20%

News Stories Highlights

Headlines

[U.S.-China Trade War Took Toll, but Minor One](#)

WASHINGTON—Farmers took a big hit. Importers of auto parts, furniture and machinery choked down punishing tariffs. Investment between the world's two largest economies dropped.

[Economy Week Ahead: U.S. Retail Sales, Consumer Price Index, Federal Budget](#)

In the week ahead, the U.S. Treasury Department publishes fresh data on government budget deficits, the Labor Department releases figures on inflation and the Commerce Department publishes data on retail sales in December. China also releases data on economic output.

[New U.S. Rule Limits When Two Companies Share Liability for Labor-Law Violations](#)

A new Labor Department rule will make it more difficult for workers to claim to have two employers simultaneously in cases where they are challenging wages and overtime, easing regulatory burdens for large franchised brands and companies using staffing firms.

[Jobs Report Offers Little Reason for Fed to Change Its View](#)

The December employment report is likely to keep the Federal Reserve comfortable with its make-no-moves posture as officials look for evidence that last year's slowdown in manufacturing, investment and trade hasn't spilled into the broader consumer-driven economy.

US inflation is still in the doldrums, but 10-year bond yields declined on the top.

FIGURE 1



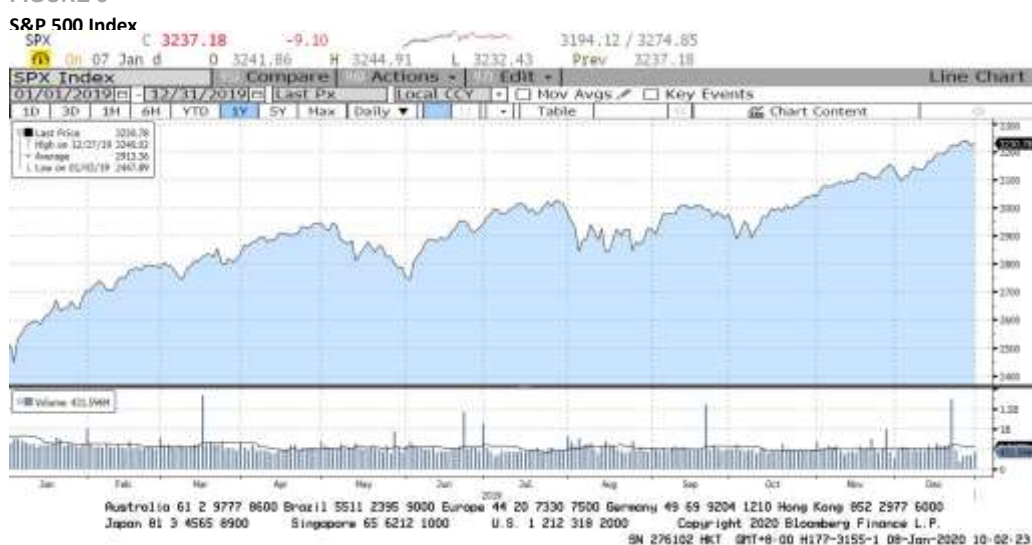
HSCEI rebounded from the bottom

FIGURE 2



SPX climbed up gradually.

FIGURE 3



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