

Global Economic Commentary

China–United States trade war and 2019-nCov will affect global economic growth



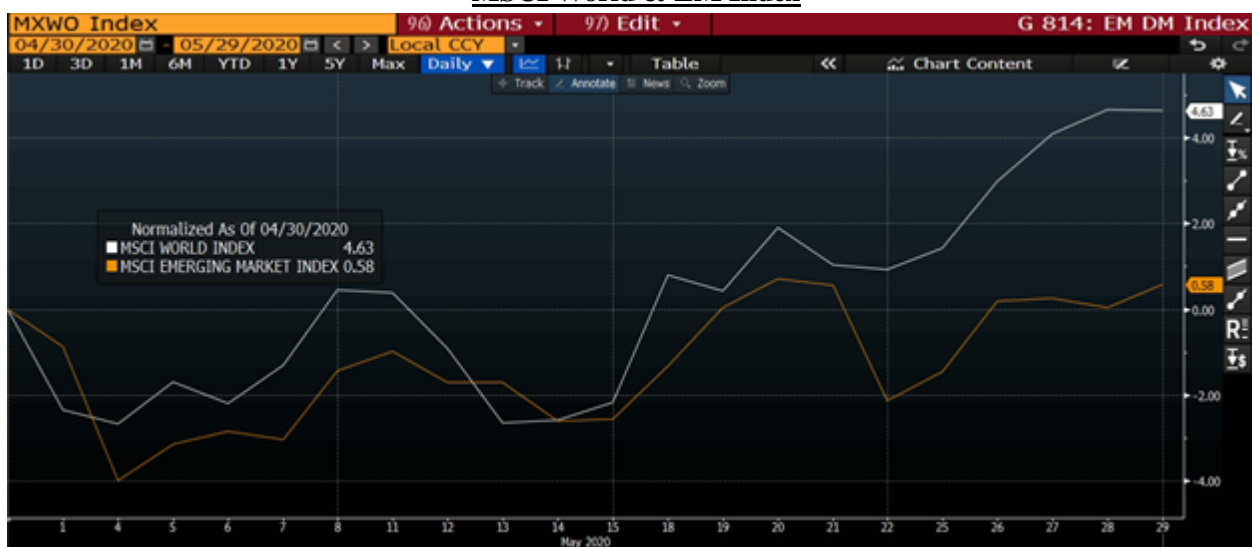
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2020 year is an era of economic turmoil

Thanks to the unlimited Quantitative Easing (QE) by the Federal Reserve (the Fed), global central banks' efforts to provide liquidity, global governments' economic stimulus packages, and the "improving situation" of COVID-19, reopening of economic activities, equities markets rebounded continues to climb in May.

Both MSCI World and EM index up 4.63% & 0.58% respectively, developed market equities outperformed emerging market equities in May.

MSCI World & EM Index



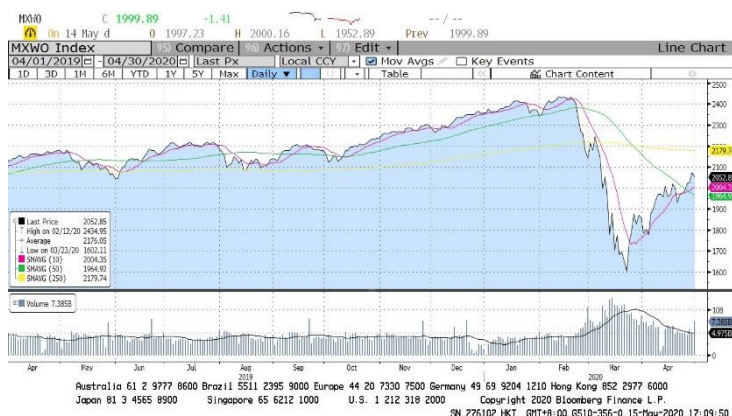
Political tensions between China and the U.S have risen at the end of May 2020. According to the announcement made by the U.S president Donald Trump, U.S will begin the process to revoke Hong Kong's special trade privileges. However, there are no details offered by Donald Trump in the announcement. The implications are broad, including but not limited to currency peg, finance, trading, custom and technology, etc. However, we will focus on the currency peg perspective. Hong Kong dollar was pegged at a fixed rate of HK\$7.80 to one US dollar at 15 October 1983 and the HKMA is Hong Kong's currency board and de facto central bank. It is a government authority founded on 1 April 1993.

The fixed peg is one of the corner stones of the Hong Kong financial system which is backed by the USD reserve with US\$440 billion, which is more than two times of Hong Kong's monetary base. These keep Hong Kong different from China's financial system.

During Asian financial crisis, Asian countries abandoned their fixed exchange rate against US dollar and there were massive devaluation of their currencies. HK currency peg was also attacked by speculators and rumors said HK was likely to give up its promise of the peg. However, HK government chose to defend the peg through various measures and let the economy and assets to adjust the price of economic shocks, such as 70% down of property price, huge deflation and economic recessions. It was clearly there is a strong political will to defend the peg.

It is believed that the authorities will continue to maintain the peg with following reasons: 1. Over 60% of Foreign direct investment into and out of China is going through HK as of 2018. 2. Chinese corporations raised 25% of their \$131.8 billion in offshore of bond issuance via HK in 2018. 3. The majority of the Hong Kong's foreign investors and corporations, do not want to see the peg go. All businesses benefit from zero exchange rate risk under the HKD peg, which allows them to match HKD liabilities with USD revenues. As long as there is no another gate way to access offshore capital or invest into China efficiently, it is likely maintain the status-quo of the peg fit all stakeholders benefits.

Chart of the Month: MSCI World Index



10-day MA	2099.76
20-day MA	2060.53
50-day MA	1974.48
250-day MA	2176.13

Comment:
The MSCI World Index is expected to be adjected because of 2019-nCov effect.

Global Market Performance

Index (USD)	Closed at 29/05/2020	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	25,383.11	6.88	-11.06	20.10	24.83	2.41
S&P 500	3,044.31	7.09	-5.77	22.23	25.51	1.90
Nasdaq	9,489.87	8.94	5.76	39.75	36.08	0.97
FTSE 100	7,484.55	4.63	-25.18	22.82	19.79	4.37
DAX	12,859.09	12.71	-13.43	25.27	21.14	2.73
CAC	5,211.00	9.19	-22.37	20.65	21.34	2.27
Nikkei 225	202.93	10.45	-6.59	26.92	21.10	1.90
HSI	2,961.97	-2.73	-18.16	10.75	11.54	3.78
SHCOMP	399.68	-1.29	-8.75	14.94	12.03	2.27
ASX	3,899.73	12.83	-18.38	19.74	21.22	4.04
TWI	364.52	1.43	-9.12	19.68	17.91	3.95
KOSPI	1.64	6.07	-13.63	25.39	15.48	2.12
SET	28.16	4.69	-21.06	20.38	22.33	3.00
SENSEX	429.00	2.34	-25.93	22.15	19.15	1.44
Russia RTS	1,219.76	10.95	-21.25	6.94	9.91	7.14
Mexico IPC	1,627.75	8.98	-29.42	18.78	16.73	3.05
Bovespa	16,139.64	13.96	-43.96	35.45	24.21	3.45
Median		7.09	(18.16)	20.65	21.10	2.73

Market Data

Commodities (USD)

Price as at 29/05/2020

Crude Oil	35.49
Gold 100oz	1,736.90

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
6/1/2020	China	Caixin China PMI Mfg	May	49.6	49.4
6/3/2020	Australia	CBA Australia PMI Services	May F	--	25.5
6/3/2020	Australia	CBA Australia PMI Composite	May F	--	26.4
6/3/2020	China	Caixin China PMI Composite	May	--	47.6
6/3/2020	China	Caixin China PMI Services	May	47.3	44.4
6/3/2020	Europe	Unemployment Rate	Apr	8.20%	7.40%
6/5/2020	US	Unemployment Rate	May	19.00%	14.70%
6/7/2020	China	Exports YoY	May	-6.50%	3.50%
6/7/2020	China	Imports YoY	May	-7.90%	-14.20%
6/8/2020	Japan	GDP SA QoQ	1Q F	-0.50%	-0.90%
6/10/2020	China	PPI YoY	May	-3.30%	-3.10%
6/10/2020	China	CPI YoY	May	2.70%	3.30%
6/12/2020	Japan	Industrial Production MoM	Apr F	--	-9.10%
6/12/2020	Japan	Industrial Production YoY	Apr F	--	-14.40%
06/15/2020	China	Surveyed Jobless Rate	May	5.90%	6.00%
06/16/2020	UK	ILO Unemployment Rate 3Mths	Apr	--	3.90%
06/16/2020	UK	Employment Change 3M/3M	Apr	--	210k
06/17/2020	UK	CPI MoM	May	--	-0.20%
06/17/2020	UK	CPI YoY	May	--	0.80%
06/18/2020	US	Initial Jobless Claims	Jun-13	--	--
06/18/2020	US	Continuing Claims	Jun-06	--	--
06/23/2020	Europe	Markit Eurozone Manufacturing PMI	Jun P	--	39.4
06/23/2020	Europe	Markit Eurozone Services PMI	Jun P	--	30.5
06/23/2020	Europe	Markit Eurozone Composite PMI	Jun P	--	31.9
06/23/2020	US	Markit US Manufacturing PMI	Jun P	--	39.8
06/23/2020	US	Markit US Services PMI	Jun P	--	37.5
06/23/2020	US	Markit US Composite PMI	Jun P	--	37
06/25/2020	US	Durable Goods Orders	May P	--	-17.70%
06/25/2020	US	GDP Annualized QoQ	1Q T	--	-5.00%
06/30/2020	China	Manufacturing PMI	Jun	--	50.6
06/30/2020	China	Non-manufacturing PMI	Jun	--	53.6

News Stories Highlights

Headlines

[Recession in U.S. Began in February, Official Arbiter Says](#)

WASHINGTON—The U.S. officially entered a recession in February, marking the end of the 128-month expansion that was the longest in records reaching back to 1854.

[Federal Budget Deficit Nears \\$2 Trillion For Fiscal Year](#)

WASHINGTON—The U.S. budget gap more than doubled in May, pushing the deficit for the fiscal year to near \$2 trillion, as federal revenues plunged and government spending soared to help combat the coronavirus pandemic.

[Some Economists Question Strength of China's Labor Market](#)

The U.S., reeling from the coronavirus, has suffered its worst surge in unemployment since the Great Depression. By contrast, the pandemic has barely touched China's official jobless rate, which inched up from 5.3% in January to just 6% most recently.

[Economy Week Ahead: Inflation, Federal Reserve and Jobless Claims](#)

Inflation data and new forecasts from the Federal Reserve highlight this week's economic news.

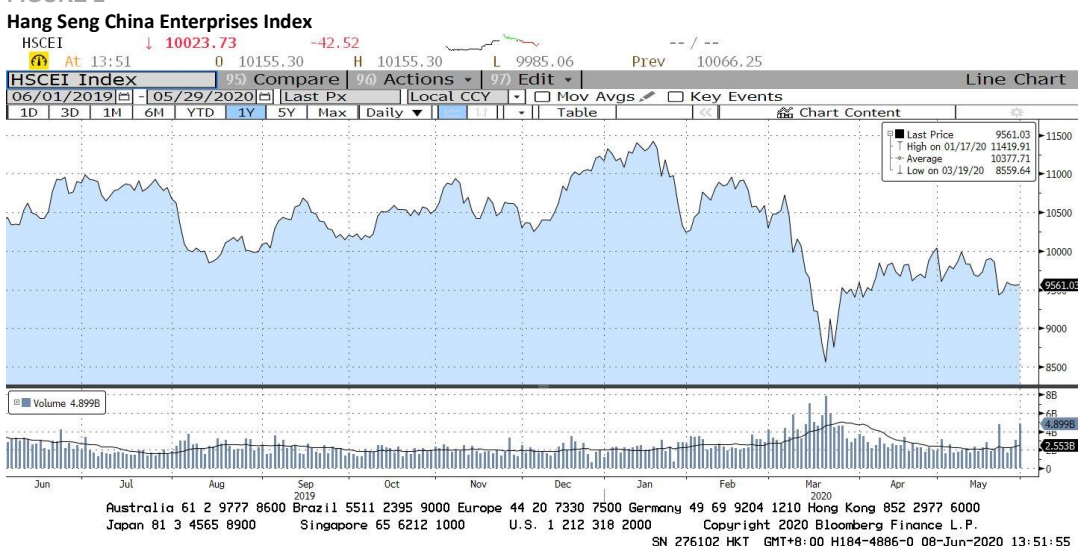
US inflation is still in the doldrums, but 10-year bond yields declined on the top.

FIGURE 1



HSCEI rebounded from the bottom

FIGURE 2



SPX rebounded from the bottom

FIGURE 3



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