

Global Economic Commentary

China Economy Hits Bottom via Structural And Supply Side Reform



The information shown in this article is neither a recommendation, an offer, nor a solicitation for any investment product or service. Investment involves risk. You should carefully consider whether any investment product or service mentioned herein is appropriate for you in view of your personal circumstances. Past performance is no guide to future performance. Investors should refer to the individual product explanatory memorandum or offering document for further details and risks involved. The price of investment products may move up or down. Losses may be incurred as well as profits made because of buying and selling investment products.

Economic Highlights

CNH Rebounded Against USD As Offshore Liquidity Tightened

Due to the liquidity tightening, CNH jumped against USD in January following the jump in overnight CNH Hibor as much as 100%. The rise in CNH Hibor led to the increase in short-selling funding cost and the unwinding of earnings for short position in CNH. December foreign exchange reserves maintained its downward trend to USD 3,010.5 billion, down USD 41.1 billion compared to November. China exports slumped 6.1% in December, far below expectation, and imports growth cooled down. However, China FX reserves are still sufficient, accounting for 1/3 of global FX reserves. Thus, following the rebound of CNH against USD, the HSI traded better in January.

China GDP Growth Beat Market Expectation

China economy maintained steady growth in 2016 and we reiterated our positive outlook on the Hong Kong and China equity market in 2017. Due to the fiscal stimulus and supply side reforms, China 4Q16 GDP growth was 6.8%yoy, above market expectation. Infrastructure investment and consumption will be another new growth drivers and they had great contributions to China GDP growth instead of exports growth. Market still concerns on trade data due to a possible trade war under the U.S president Donald Trump. China monetary data extended its upward trends, with new Yuan loan in December reaching RMB 1,040 billion, driven by mid long-term corporate loans. Thanks to the housing tightening during the Golden Week, mortgage loans in December have decreased. The dramatic volatility in the bond market led to the rise in treasury bond yield, encouraging corporate firms to borrow bank loans instead of bond financing. China banking thus generally traded better. Besides, China manufacturing accelerated at the fastest pace for 4 years. As the infrastructure investment and supply side reforms boost the demand for the commodities, Caixin manufacturing PMI jumped from 50.9 in November to 51.9 in December following the rebound of new order and production index. China inflation heat up and PPI in December and rose at the fastest pace since November 2011. PPI outpaced CPI in the second month, indicating that China inflation is likely to be higher in the next quarter. However, market expects central bank to continue moderate and neutral monetary policy. The probability of interest rate hike by central bank is low.

May outlined her plans for the upcoming Brexit negotiations

British Prime Minister Theresa May outlined her plans for the upcoming Brexit negotiations on 17th Jan. She mentioned that some voices are calling for a punitive deal, which punishes Britain and discourages other countries from taking the same path. She rejected such approach but insisted that Britain wants to remain a good friend and neighbor to Europe. Obviously May wanted to avoid a "disruptive cliff edge" for businesses when Britain leaves the European Union and she backed a phasing-in of changes in immigration, customs and regulation in areas such as financial services. Although May wanted to act friendly, she would not seek a deal that left the country "half in, half out" of the European Union. She said that "We do not seek to adopt a model already enjoyed by other countries. We do not seek to hold on to bits of membership as we leave. The United Kingdom is leaving the European Union and my job is to get the right deal for Britain."

Brazil sharply cut its interest rate in order to escape its worst recession in a century on 11th Jan 2017

Brazil sharply cut its interest rate in order to escape its worst recession in a century on 11th Jan 2017. The bank's monetary policy committee cut the rate by 0.75 percentage points following cuts of 0.25 percentage points each in October and November 2016. The rate is still one of the world's highest, however, after the three continuous interest rate cuts. Market expects that Brazilian central bank still have potential room for rate cut when the inflation pressure is mitigating. Brazilian central bank chief said that monetary easing is not the only tool to revive the faltering economy. He mentioned that monetary policy complements other government policies and structural reforms to bolster activity. Brazilian President Michel Temer is trying to push tough public spending reforms through congress to strengthen the public finances. However, his reforms face risks from an unstable political climate and ongoing corruption investigations targeting top politicians.

Economic key points:

- CNH rebounded as offshore liquidity tightened.
- China economy remained stable amid fiscal stimulus and supply side reforms.
- Although May wanted to act friendly, she would not seek a deal that left the country "half in, half out" of the European Union.
- Brazilian President Michel Temer is trying to push tough public spending reforms through congress to strengthen the public finances.

Chart of the Month: MSCI World Index



10-day MA	1782.19
20-day MA	1773.23
100-day MA	1727.44
250-day MA	1683.60

Comment:
Following the record high of U.S equity market, the MSCI World Index trade higher amid the expectation of Donald Trump's fiscal easing.

Global Market Performance

Index (USD)	Closed at 23/01/2017	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	19,799.85	0.19	0.19	18.47	16.54	2.42
S&P 500	2,265.20	1.18	1.18	21.08	17.42	2.07
Nasdaq	5,552.94	3.15	3.15	34.35	20.96	1.21
FTSE 100	8,922.53	1.19	1.19	62.44	14.50	3.97
DAX	12,385.13	2.28	2.28	18.11	13.51	2.65
CAC	5,171.93	0.85	0.85	23.92	14.31	3.47
Nikkei 225	167.09	1.96	1.96	24.15	18.62	1.70
HSI	2,952.17	4.05	4.05	12.73	11.52	3.55
SHCOMP	458.10	2.43	2.43	18.04	13.33	1.76
ASX	4,286.15	3.84	3.84	29.58	16.20	4.00
TWI	300.10	5.05	5.05	16.18	13.57	3.88
KOSPI	1.77	5.44	5.44	18.98	9.85	1.54
SET	27.67	2.83	2.83	15.67	14.54	3.08
SENSEX	398.14	1.64	1.64	20.51	18.34	1.56
Russia RTS	1,137.67	(1.27)	(1.27)	10.54	6.64	4.17
Mexico IPC	2,191.06	(0.90)	(0.90)	22.69	17.02	1.86
Bovespa	20,719.32	11.81	11.81	220.86	13.28	2.64
Median		2.28	2.28	20.51	14.50	2.64

Market Data

Commodities (USD)

Price as at 23/01/2017

Crude Oil	52.75
Gold 100oz	1,215.60

Source: Bloomberg

Date Time	Country	Country	Event	Event Time	Survey	Prior
2/1/2017	CH	China	Non-manufacturing PMI	Jan	--	54.5
2/1/2017	CH	China	Manufacturing PMI	Jan	51.2	51.4
2/3/2017	CH	China	Caixin China PMI Mfg	Jan	51.8	51.9
2/3/2017	US	US	Factory Orders	Dec	--	-2.40%
2/3/2017	US	US	Durable Goods Orders	Dec F	--	--
2/6/2017	AU	Australia	Retail Sales MoM	Dec	--	0.20%
2/7/2017	US	US	Trade Balance	Dec	--	-\$45.2b
2/7/2017	CH	China	Foreign Reserves	Jan	--	\$3010.5b
2/8/2017	JN	Japan	BoP Current Account Balance	Dec	--	¥1415.5b
2/9/2017	US	US	Initial Jobless Claims	Feb-04	--	--
2/9/2017	US	US	Continuing Claims	Jan-28	--	--
2/9/2017	US	US	Wholesale Inventories MoM	Dec F	--	--
2/10/2017	JN	Japan	PPI YoY	Jan	--	-1.20%
2/10/2017	UK	UK	Trade Balance	Dec	--	-£4167
2/13/2017	JN	Japan	GDP Annualized SA QoQ	4Q P	--	1.30%
2/14/2017	CH	China	CPI YoY	Jan	--	2.10%
2/14/2017	CH	China	PPI YoY	Jan	--	5.50%
2/15/2017	US	US	MBA Mortgage Applications	Feb-10	--	--
2/15/2017	US	US	CPI YoY	Jan	2.10%	2.10%
2/15/2017	US	US	CPI Ex Food and Energy YoY	Jan	2.20%	2.20%
2/16/2017	US	US	Housing Starts MoM	Jan	--	11.30%
2/16/2017	US	US	Building Permits MoM	Jan	--	-0.20%
2/17/2017	EC	Europe	Construction Output YoY	Dec	--	0.00%
2/20/2017	JN	Japan	Trade Balance	Jan	--	--
2/20/2017	JN	Japan	Exports YoY	Jan	--	--
2/20/2017	JN	Japan	Imports YoY	Jan	--	--
2/21/2017	EC	Europe	Markit Eurozone Manufacturing PMI	Feb P	--	--
2/21/2017	EC	Europe	Markit Eurozone Services PMI	Feb P	--	--
2/22/2017	US	US	Existing Home Sales MoM	Jan	--	--
2/24/2017	US	US	U. of Mich. Sentiment	Feb F	--	--
2/27/2017	US	US	Durable Goods Orders	Jan P	--	--
2/28/2017	US	US	Personal Consumption	4Q S	--	--
2/28/2017	US	US	Retail Inventories MoM	Jan	--	--

News Stories Highlights

Headlines

[Trump signs order withdrawing U.S. from Trans-Pacific trade deal](#)

President Donald Trump signed an executive order formally withdrawing the United States from the 12-nation Trans-Pacific Partnership trade deal on Monday, following through on a promise from his campaign last year.

[U.S. governors want say on Trump's infrastructure plan](#)

Scott Pattison, executive director of the bipartisan National Governor's Association, said on Monday his group, at the request of the White House, has assembled a list of 300 projects costing billions of dollars from 43 states and territories, with more expected to come.

[Euro zone consumer confidence rises less than expected in January](#)

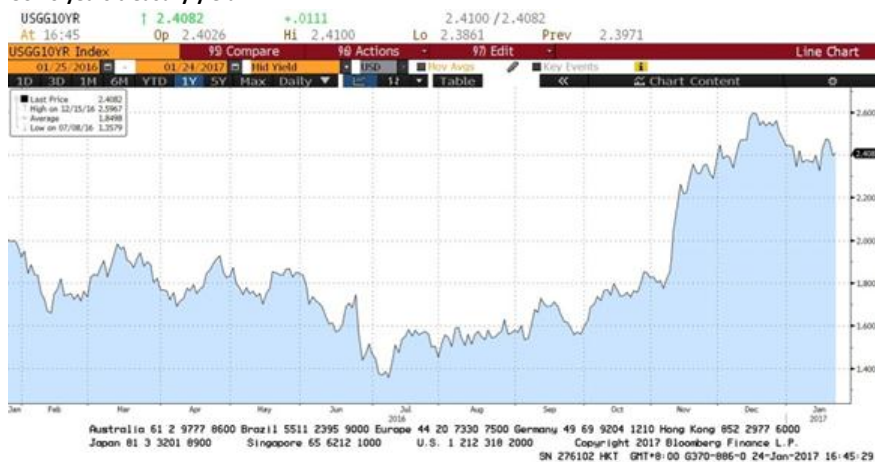
The Commission said consumer confidence in the 19 countries sharing the euro rose to -4.9 this month from -5.1 in December. In the wider European Union of 28 countries, consumer confidence rose 0.3 points to -4.3, the Commission said.

[Japan January flash manufacturing PMI shows fastest expansion in almost three years](#)

TOKYO Japanese manufacturing activity expanded in January at the fastest pace in almost three years as export orders surged, suggesting that overseas demand is not as weak as some economists and business leaders had feared.

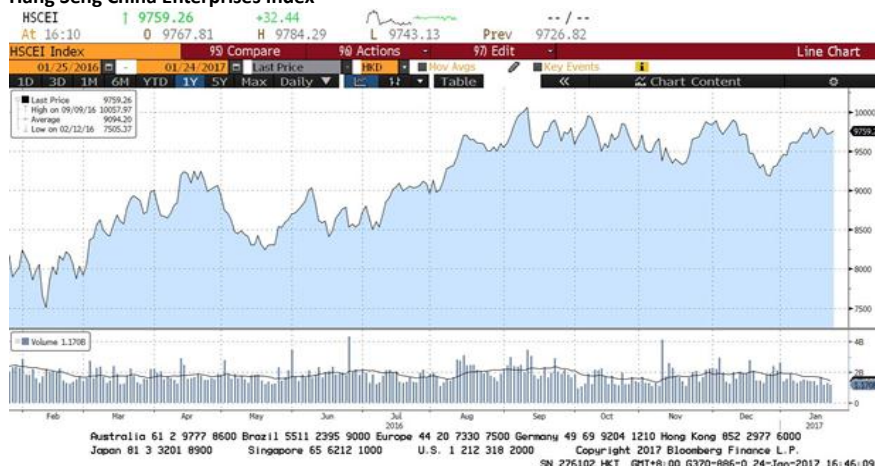
US 10 years treasury yield rose supported by the cycle of U.S interest rate hike.

FIGURE 1
 US 10 years treasury yield



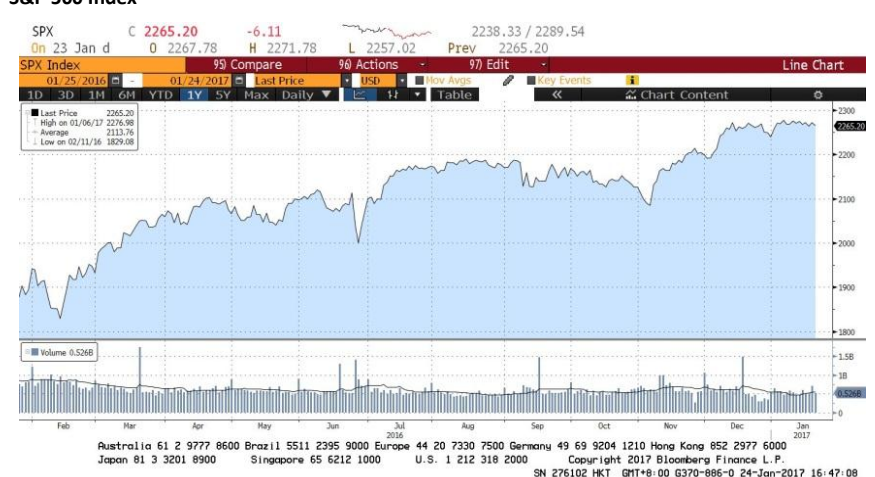
HSCEI traded higher amid RMB appreciation and China economic stabilization.

FIGURE 2
 Hang Seng China Enterprises Index



S&P 500 continued to break the record high on expectation of the upcoming fiscal easing and infrastructure spending.

FIGURE 3
 S&P 500 Index



Disclaimer

The information shown in this article is neither a recommendation, an offer, nor a solicitation for any investment product or service. Investment involves risk. You should carefully consider whether any investment product or service mentioned herein is appropriate for you in view of your personal circumstances. Past performance is no guide to future performance. Investors should refer to the individual product explanatory memorandum or offering document for further details and risks involved. The price of investment products may move ups or downs. Losses may be incurred as well as profits made because of buying and selling investment products.