

International Economic Environment

HIGHLIGHTS

- The global economy grew at a more moderate pace in the second quarter of 2019.
- Lower external demand led to weaker export performance in regional economies.
- Financial market volatility increased as trade tensions escalated in May.

Global growth moderated

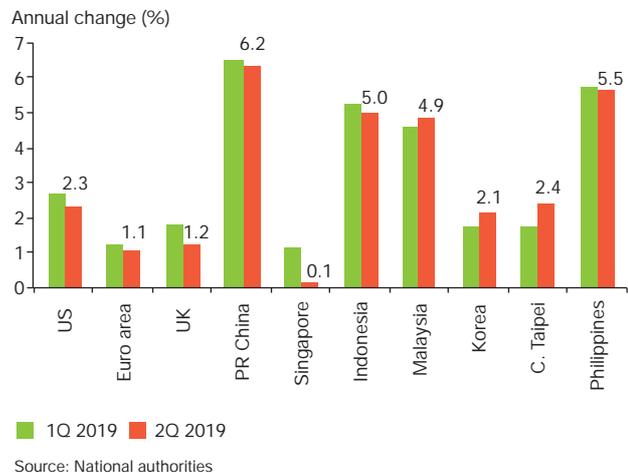
The global economy grew at a more moderate pace in the second quarter of 2019.

In the US, GDP growth moderated in the second quarter of 2019. The latest data release was accompanied by a revision to the back series to indicate stronger growth from 2017 to the third quarter of 2018, but slower growth in the fourth quarter of 2018 and first quarter of 2019. This suggests that growth peaked in the first half of 2018, and has slowed more than previously anticipated, due mainly to weaker investment activity. Meanwhile, growth in the euro area moderated to its weakest level since the fourth quarter of 2013. Besides softer consumption demand, industrial production remained in contraction, weighed by sluggish global trade activity and supply constraints in the automotive sector. Growth in the UK moderated due mainly to a drawdown of inventories amid sustained private consumption.

In Asia, growth in PR China continued to moderate, as weaker private consumption was only partially offset by an improvement in policy driven investments. Growth in the rest of the Asian region also slowed, mainly affected by weaker external demand amid the ongoing trade dispute between the US and PR China.

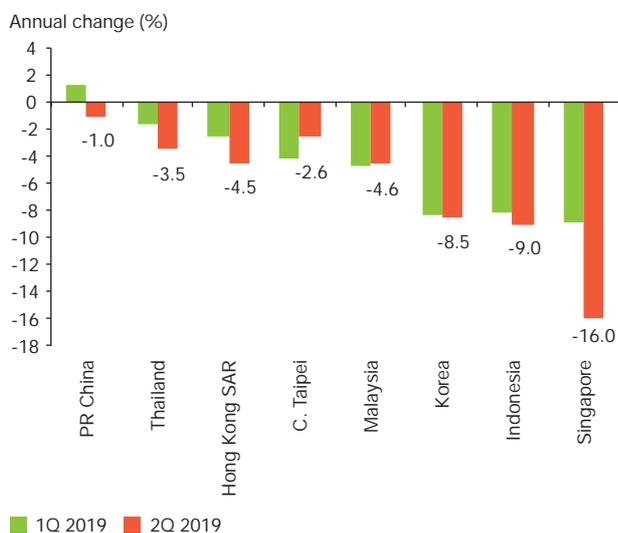
Most economies moderated in 2Q 2019

Chart 1: GDP Growth of Selected Economies



Lower export growth in 2Q 2019

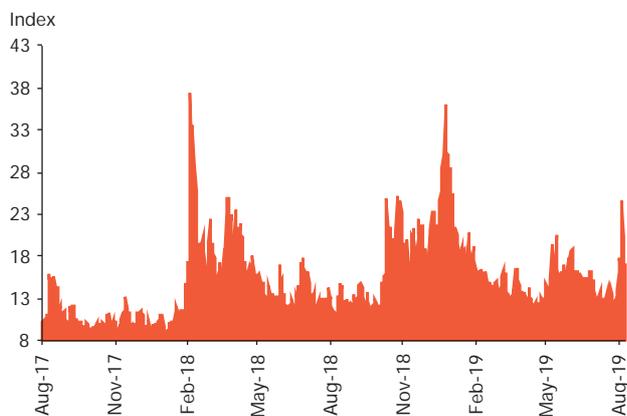
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: National authorities

Financial market volatility increased

Chart 3: Chicago Board Options Exchange (CBOE) Volatility Index (VIX)



Source: Bloomberg

Contraction in exports

Exports in all Asian economies contracted in the second quarter, indicating weaknesses in external demand and effects from the ongoing trade tensions between the US and PR China.

PR China's exports declined by 1.0% in the second quarter as shipments to the US, particularly for electrical parts and equipment, continued to contract. Similarly, across Asian economies, the contraction in exports was contributed mainly by a slowdown in exports of electronic equipment and parts.

Higher financial market volatility

Market volatility rose during the quarter. This was triggered by an escalation in trade tensions when the US raised tariffs on USD200 billion of imports from PR China from 10% to 25% in May 2019, and placed sanctions on Huawei, a Chinese telecommunications company.

Nevertheless, market volatility gradually receded as the increased downside risks from trade tensions and a subdued inflation outlook prompted the US Federal Reserve to signal a higher probability of a cut in interest rates. This shift to a dovish policy stance helped ease overall market anxiety¹. Market volatility also continued to trend lower towards the end of the quarter after the US and PR China agreed to restart trade negotiations at the G20 Summit in end-June.

Brent crude oil price averaged higher at USD68 per barrel in the second quarter of 2019 (1Q 2019: USD64), driven mainly by worsening supply disruptions in Venezuela and Iran as well as ongoing voluntary output cuts by OPEC+.

¹ The Federal Open Market Committee of the Federal Reserve subsequently reduced the federal funds rate by 25 bps on 31 July 2019.