

International Economic Environment

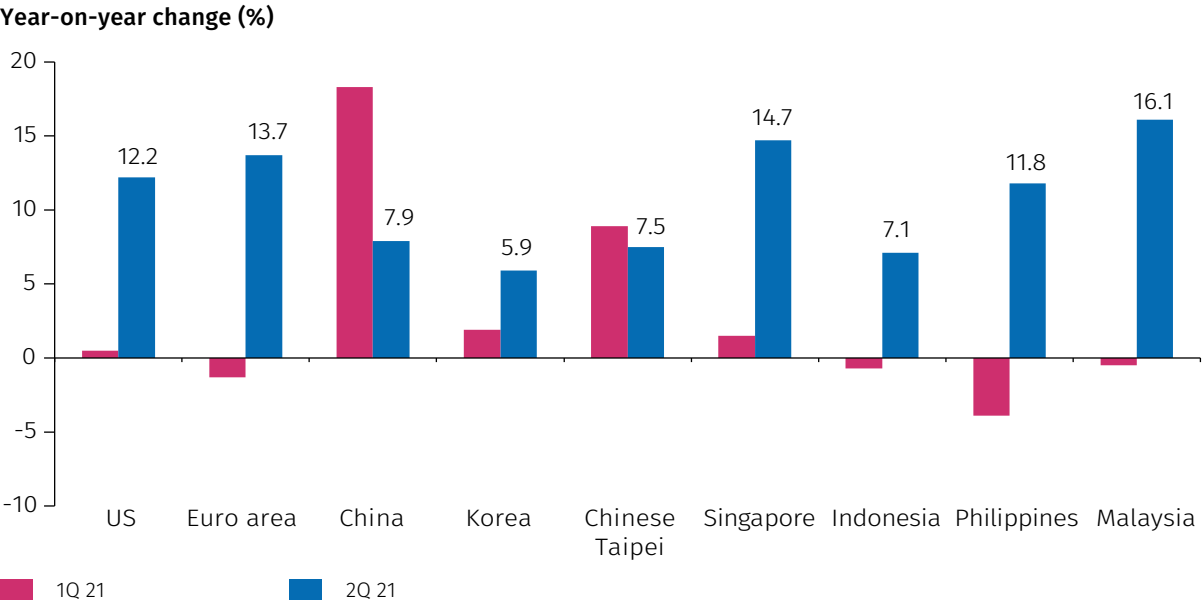
Highlights

- Global growth improved during the second quarter of 2021.
- Regional exports recovery gained momentum.
- Financial market volatility eased.

Global growth gains strength

The global economy continued to improve in the second quarter of 2021. However, growth was uneven across advanced economies (AEs) and emerging market economies (EMEs). In most AEs, faster growth was broad-based across both manufacturing and services sectors, as higher vaccination rates facilitated the easing of containment measures. In contrast, many EMEs continued to be disrupted by containment measures to curb ongoing COVID-19 risks, which dampened economic activity despite improving external demand conditions. With the exception of PR China, the improvement in year-on-year growth during the quarter was also partially attributable to low base effects from the lockdowns worldwide during the corresponding period last year.

C1 GDP Growth of Selected Economies



Source: National authorities

The US economy accelerated, expanding by 12.2% during the quarter (1Q 2021: 0.5%). Private consumption was the main driver, supported by fiscal support and the steady improvement in labour market conditions. The further relaxation of containment measures also contributed to the recovery.

Growth in the euro area also improved to 13.7% (1Q 2021: -1.3%), driven by improvements in both domestic and external activity. The pickup in the vaccine rollout within the euro area economies allowed for the relaxation of containment measures, which benefitted especially the domestic-oriented services. Growth was also supported by continued strength in manufacturing and trade activity.

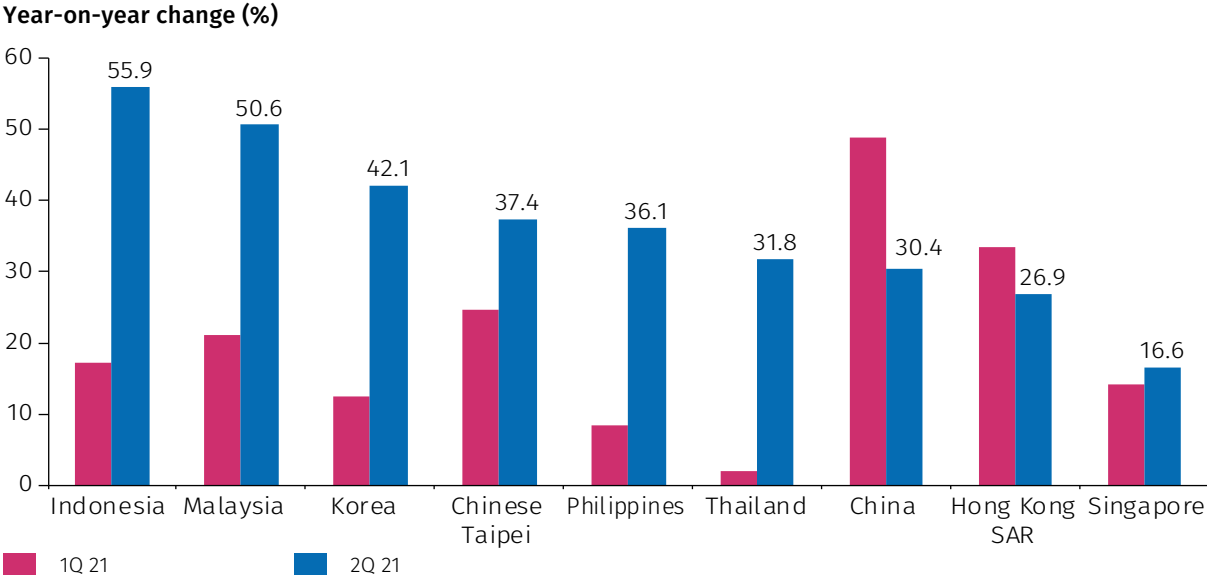
In China, growth normalised to 7.9% (1Q 2021: 18.3%). China experienced sustained strength

in exports and a steady recovery in domestic demand, which was supported by expansionary financing.

Sharp improvement in regional exports

Exports in most regional economies experienced an improvement during the quarter. While this was due to some extent to the lower base in the same quarter last year, exports were also supported by continued strong external demand, particularly for electrical and electronics (E&E) products, and the rise in commodity prices which benefitted commodity exporters. China and Hong Kong SAR continued to experience high growth in exports in the second quarter of 2021, albeit lower compared to the previous quarter, as growth normalised from the low base effect in the first quarter.

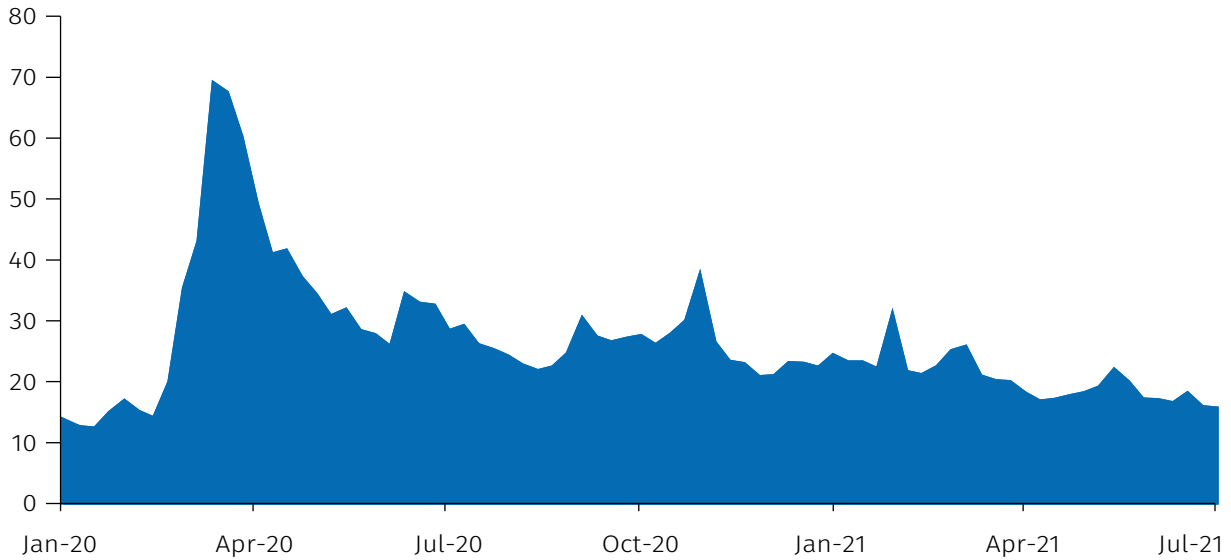
C2 Exports Growth of Selected Economies



Source: National authorities



Index



Source: Bloomberg

Financial market volatility eased

Financial market volatility declined during the quarter, with the CBOE VIX index averaging 18.1, but it remained above pre-pandemic levels (1Q 2021: 23.2; Jan-Feb 2020: 15.0). The improvement was supported by the better growth outlook in several major AEs. Nevertheless, some spikes in volatility were observed during the release of US inflation data in May, as well as after the Federal Open Market Committee meeting, as investors reassessed the potential timing of the normalisation of US monetary policy. In addition, investor sentiments were weighed by the spread of new COVID-19

variants that may affect the recovery of the global economy.

Brent crude oil prices rose to an average of USD69 per barrel during the quarter (1Q 2021 average: USD61 per barrel). Despite the resurgence in COVID-19 cases in some regions, the rally in oil prices was underpinned by improving global economic growth, rising vaccination rates and progressive easing of mobility restrictions measures, particularly in the advanced economies. Oil prices were also supported by tight global oil supply conditions amid the ongoing OPEC+ production cuts and a modest increase in shale oil production from the US.

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