International Economic Environment

HIGHLIGHTS

- The global economy continued to expand in the first quarter of 2019.
- Lower external demand led to weaker export performance in regional economies.
- However, financial market volatility eased, supported by accommodative monetary conditions in the advanced economies.

Global growth expanded further

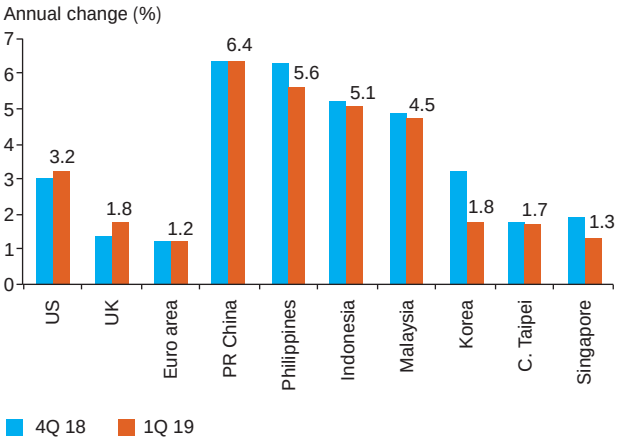
The global economic expansion continued in the first quarter of 2019. With the exception of the US and the UK, many advanced and regional economies recorded a sustained or slower pace of expansion during the quarter.

Growth in the US economy accelerated, exceeding market projections. However, the improvement was primarily driven by temporary support from a buildup of inventories. Private investment slowed, suggesting underlying softness in domestic activity. In the euro area, growth was broadly sustained amid some unfavourable developments in several of its larger economies. In Germany (29% of euro area GDP), the automobile industry was impacted by the new fuel emission standards for diesel-powered vehicles, affecting domestic and external sales. The extensive value-chain production networks across several countries in the euro area meant that the shock also affected these economies. Growth in the UK improved due to a buildup of inventories ahead of Brexit.

Growth in PR China remained stable. Infrastructure investment, tax reforms and targeted monetary stimulus contributed to stronger-than-expected domestic activity. Meanwhile, growth in the rest of the Asian region was more moderate, as stable domestic demand was offset by weaker exports.

Global economic activity continued to expand in 1Q 2019

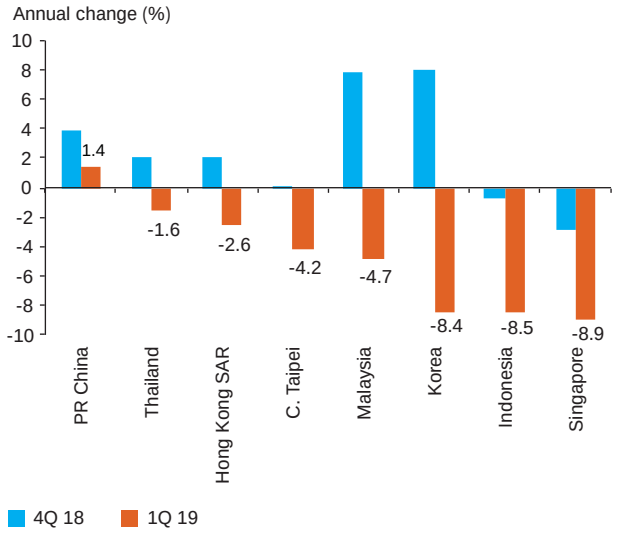
Chart 1: GDP Growth of Selected Economies



Source: National authorities

Regional export growth in contraction in 1Q 2019

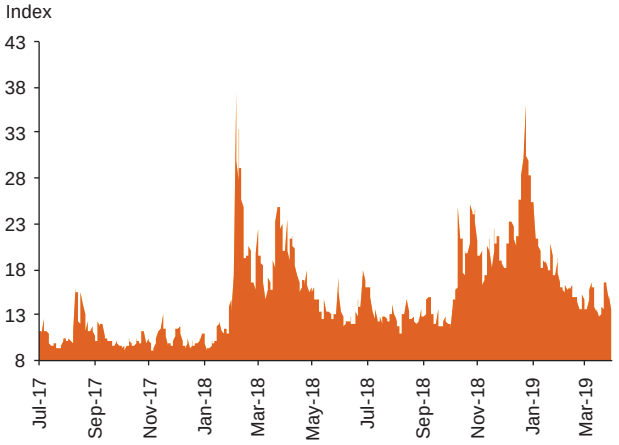
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: Bloomberg, Department of Statistics, Malaysia

Financial market volatility subsided

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



Source: Bloomberg

Lower export growth

Export growth across all Asian economies, with the exception of PR China, recorded a contraction in the first quarter, reflecting weaker overall external demand. The large decline was also partially due to the impact from front-loading activity in previous quarters.

EA-8[1] exports to PR China declined by 8%, attributed to a sharp deterioration in Chinese exports to the US. The weakness was driven by a slowdown in exports of electronic equipment and parts, consistent with the higher US tariffs imposed on PR China's technology products in 2H 2018. In contrast, EA-8 exports to the US expanded by 12%, potentially indicating shifts in the regional supply chain, as EA-8 exporters aim to avoid the drag of higher US tariffs on imports from PR China.

Lower volatility in the financial markets

Market volatility was lower during the quarter, supported by a dovish shift in monetary policy stance by major central banks. A pause in monetary policy normalisation by the US Federal Reserve, and the announcement of a new round of targeted bank financing by the European Central Bank (ECB) resulted in a loosening of global financial conditions and improved investor sentiment. Signs of positive developments in US-PR China trade negotiations have also lifted markets during the first quarter of 2019. Financial conditions in other emerging markets improved, with equity indices recovering from selloffs in the previous quarter.

The Brent crude oil price averaged lower at USD64 per barrel (4Q 2018: USD69) due to continued expectations for global oil oversupply. Nevertheless, prices were supported by OPEC+ output cuts and crude oil supply disruptions, particularly in Venezuela.

[1] EA-8 refers to Hong Kong SAR, Korea, Chinese Taipei, Singapore, Malaysia, Thailand, Indonesia and Philippines