International Economic Environment

HIGHLIGHTS

- The global economy continued to expand at a strong pace.
- Robust export growth due to broad-based improvements in global demand.
- High financial market volatility.

Global growth expanded further

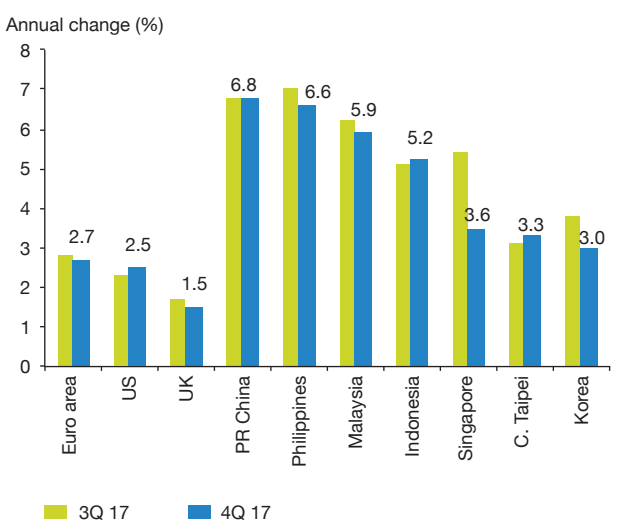
In the fourth quarter of 2017, the global economy continued to expand at a strong pace. Most major and emerging market economies registered growth rates which are close to the performance seen in the third quarter of 2017.

In the advanced economies, growth was mainly driven by continued expansion in private consumption and improvements in investment activity. Household spending was supported by modest improvements in wage growth as labour markets continued to tighten. Of significance, unemployment rates in the US and euro area reached post-crisis lows in the fourth quarter. Resilient demand, coupled with firms' desire to expand production capacities amid a more positive business outlook, underpinned the strength in investment. In particular, capital spending on machinery and equipment remained on an upward trajectory. These developments contributed to improvements in global demand and trade activity.

Growth in Asia continued to benefit from the expansion in global economic activity. PR China recorded sustained growth as the improvements in exports complemented the expansion in domestic demand, offsetting some of the impact from ongoing economic reforms. In other Asian economies, robust exports coincided with continued growth in domestic economic activity. Policy support and higher infrastructure spending accompanied resilient expansions in domestic demand.

Faster global economic expansion in 4Q 2017

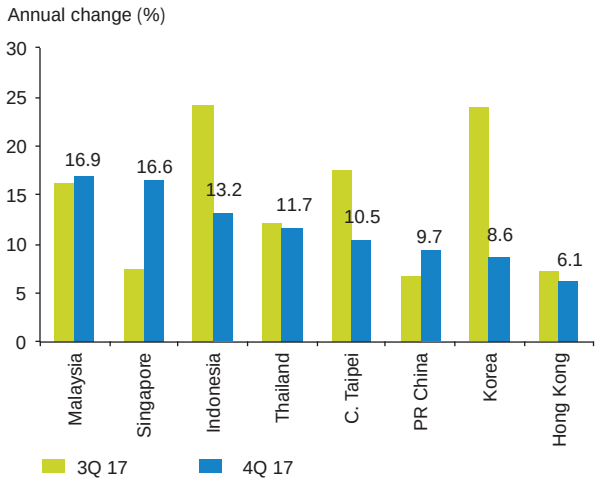
Chart 1: GDP Growth



Source: National authorities

Robust export performance in 4Q 2017

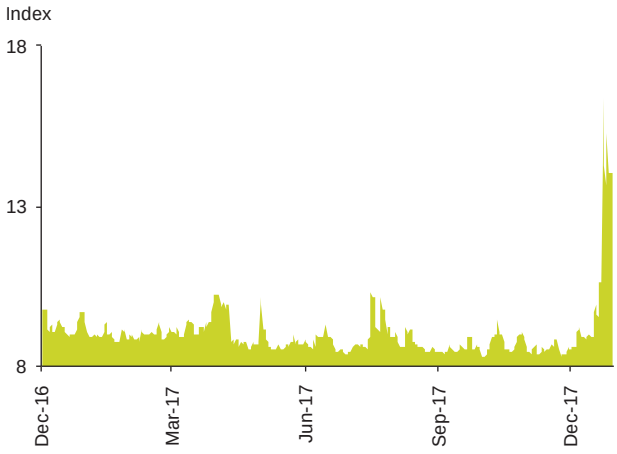
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: National authorities and Bloomberg

High volatility in the financial markets

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



Source: Bloomberg

Export growth remained robust

Global trade continued to grow at a robust pace, driven by broad-based improvements in global demand. This translated into higher shipments of manufactured, resource-based and commodity products from the region.

Shipments of technology-related products was supported by the demand for consumer electronic products such as flagship smartphone models released in the second half of 2017. Sales of consumer electronics and appliances also increased in the US and some European countries leading up to the festive season. The uptrend in commodity prices provided further support to commodity exporters.

As a result, many Asian economies recorded a double-digit growth in their exports during the quarter. These economies benefitted from both demand for technological products and commodities. Nonetheless, export growth moderated in some economies due to lower shipments of motor vehicles and automotive parts.

High volatility in the financial markets

In the fourth quarter, global financial market volatility remained low. Still, there were brief spikes in volatility recorded during the second half of the quarter. These short episodes of increase in volatility were triggered mainly by concerns surrounding the resolution and safe passage of the Tax Cuts and Jobs Act by the US Congress. Volatility in the financial markets subsided following the signing of the act into law.

However, this trend reversed in early February 2018 as volatility increased reflecting sharp corrections in the equity markets. Investor sentiments were affected by the expectation that the Federal Reserve could potentially hike interest rates by more than projected given rising wages in the US.

In the commodities market, Brent crude oil prices rose steadily throughout the quarter, crossing the USD60[1] per barrel mark in November 2017 and ending the quarter at USD67 per barrel. The upward trend reflected mainly investors' response to developments that highlighted a narrowing oversupply gap in the global crude oil market. In particular, declining crude oil inventories, pipeline shutdowns and the announcement of OPEC's output cut extension drove expectations for lower crude oil supply in the future and led to the increase in prices.

[1] Based on global Brent crude oil 1-month futures price