International Economic Environment

HIGHLIGHTS

- **Continued expansion in global growth, as consumption and investment grew further.**
- **Asian economies recorded sustained double-digit export performance, following continued strength in global demand.**
- **Equity market performance improved amid lower financial market volatility.**

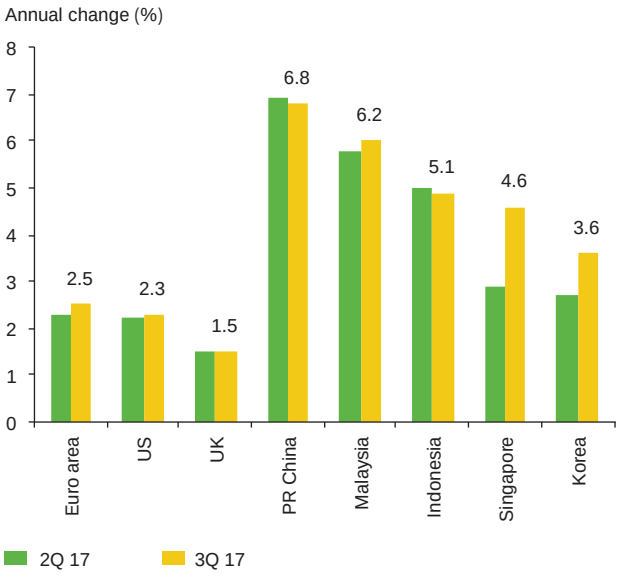
Global growth expanded further

Global economic activity continued to expand in the third quarter of 2017. High-frequency indicators such as the global purchasing manager indices (PMI) and industrial production in the advanced economies and most major countries in Asia registered further improvements. This reaffirms that economic growth is becoming increasingly more entrenched across countries.

Third quarter GDP releases showed sustained growth in the advanced economies, supported by private consumption and investment. This continued to provide support to global demand, as imports from the advanced economies expanded further. Domestic demand in PR China remained supportive of growth and global trade, albeit at a marginally more moderate pace. As a result, Asia continued to benefit from these favourable external developments, augmenting the strength in domestic demand.

Continued global economic expansion in 3Q 2017

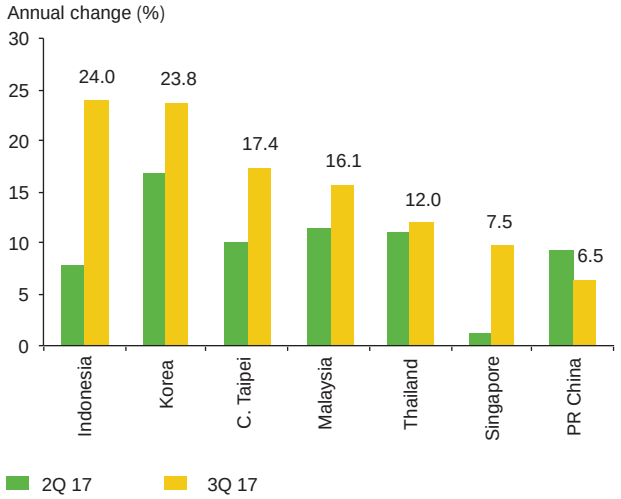
Chart 1: GDP Growth



Source: National authorities

Improvements in trade in 3Q 2017

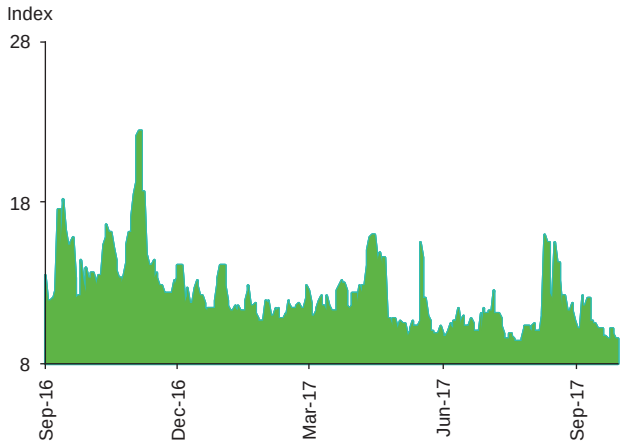
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: National authorities

Low volatility in financial markets

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



Source: Bloomberg

Broad pickup in trade in Asia

Global trade continued to show a firmer growth momentum, recording broad-based expansion across product categories and destinations. Continuous improvements in investment in the advanced economies and sustained infrastructure and property construction in PR China provided the impetus to global trade.

During the quarter, exports of Asian economies registered strong double-digit growth, especially in the electrical and electronics (E&E) sector. Korea and Chinese Taipei benefitted from higher shipments of semiconductors for use in electronics products. Of significance, Korea's exports recorded the fastest pace of expansion since 1Q 2011 (3Q 2017: 23.8%; 1Q 2011: 29.6%). Indonesia's exports turned around to register a robust growth of 24.0%, reflecting improvements in both oil and non-oil exports and the low base effect from the previous year (3Q 2016: -4.9%).

Lower volatility in the financial markets

During the quarter, global financial market volatility declined. Of significance, the release of better-than-expected economic data in the major economies lifted investors' sentiments, particularly in the first half of the quarter.

However, volatility returned in the second half of the quarter, following the intensification of geopolitical tension in North Korea and adverse weather conditions in the US, which weighed on global stock performance. Towards the end of the quarter, investors' concerns over the impact of the hurricane season dissipated as production resumed and jobless claims normalised. Investors' confidence also improved, in response to US officials' comments on a more diplomatic approach in resolving the tension between the US and North Korea.