International Economic Environment

HIGHLIGHTS

- The global economy continued to expand at a strong pace.
- Robust export growth supported by broad-based improvements in global demand.
- Higher financial market volatility amid concerns surrounding trade tensions between major economies.

Global growth expanded further

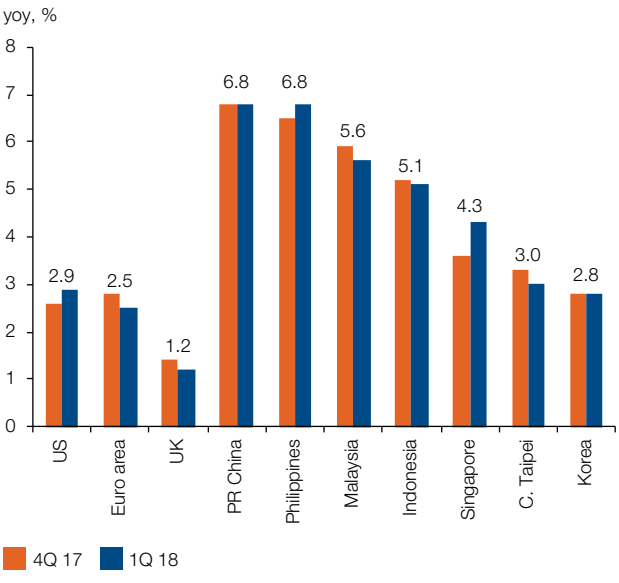
In the first quarter of 2018, the global economic expansion continued at a robust pace. Most major and regional economies recorded strong quarterly growth, suggesting the positive global growth momentum from the previous year was sustained.

In the advanced economies, growth was driven mainly by private consumption. Labour market conditions continued to improve, which supported household spending. Investment activity expanded amid solid demand, with the 1Q 2018 Purchasing Managers Index (PMI) for the manufacturing sector firmly in expansionary territory[1], at 59.7 and 58.3 in the US and euro area, respectively.

Growth in the Asian region was supported by robust global demand conditions, with several economies maintaining double-digit export growth during the quarter. Domestic demand remained resilient, due to policy support and higher infrastructure spending.

Global economic activity expanded at a strong pace in 1Q 2018

Chart 1: GDP Growth of Selected Economies

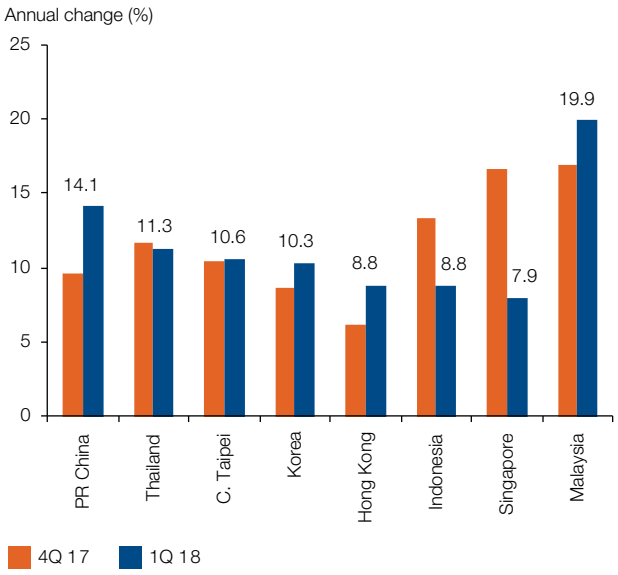


Source: National authorities

[1] Manufacturing PMI of more than 50 represents an expansion.

Robust export performance in 1Q 2018

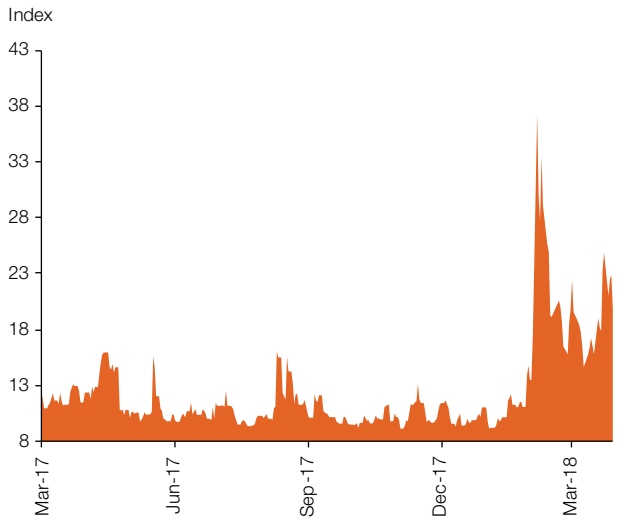
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: National authorities

Higher volatility in the financial markets

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



Source: Bloomberg

Export growth remained robust

Global trade continued to expand at a robust pace despite a high base effect. This was driven mainly by broad-based improvements in global demand.

Demand for E&E products, particularly from Korea and C. Taipei, continued to increase during the quarter. This reflects resilient demand for consumer electronics, particularly in automotives, smart devices and appliances such as refrigerators and vacuum cleaners with installed sensors.

As a result, the region as a whole recorded strong double-digit growth in exports during the quarter.

High volatility in the financial markets

Global financial market volatility spiked during the quarter, triggered by the announcement of intended US tariff actions on steel and aluminum. This development, and subsequent retaliatory actions by PR China, raised concerns of a potential trade war between the major economies.

The volatility subsided towards the end of the quarter, but remained elevated due to uncertainty with regard to the prospects of trade measures and counter-measures. Financial markets were largely unaffected in relation to monetary policy, as the timing and pace of policy adjustments were in line with expectations.

In the commodities market, Brent crude oil prices recorded a higher average of USD67[2] per barrel in 1Q 2018 (4Q 2017: USD62). The increase in oil price was supported mainly by investors' optimism in the futures market, following news of a potential extension to the OPEC's oil output cuts beyond 2018. Prices also rose on concerns over supply disruptions in the Middle East and Venezuela.

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