International Economic Environment

HIGHLIGHTS

- Global economy continued to expand, but indicators point to growth becoming less synchronised.
- Export growth in Asia remained robust, despite a slowdown in recent months.
- Elevated financial market volatility amid trade tensions.

Global growth expanded further

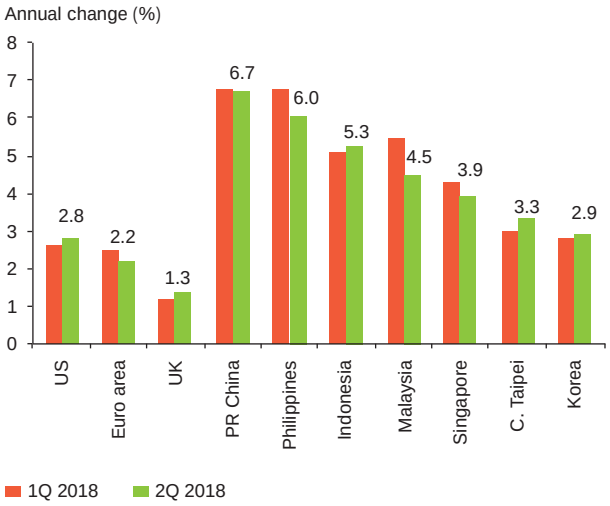
The global economy continued to expand in the second quarter of 2018. Following a year of strong growth among both advanced and Asian economies, GDP outturns in the second quarter showed that global growth is becoming less synchronised. While growth in the United States of America continued to accelerate, many major countries recorded either sustained or more moderate expansions.

In the advanced economies, labour conditions remained supportive of private consumption, as unemployment rates continued to decline amid a steady increase in wage growth. In particular, euro area unemployment in the second quarter of 2018 reached its lowest level since December 2008. Investment activity, however, moderated in most economies with the exception of the United States of America, where business spending was supported by the 2017 tax reforms.

Growth in the Asian region was more modest. During the quarter, high-frequency indicators such as the Purchasing Managers Index (PMI) for the manufacturing sector registered declines for the first time since 2015. PR China recorded slower growth as the effect of credit tightening policies weighed on domestic investment, particularly from local government spending on infrastructure. Domestic demand in the rest of the Asian region remained resilient, due to policy support and higher infrastructure spending.

Global economic activity continued to expand in 2Q 2018

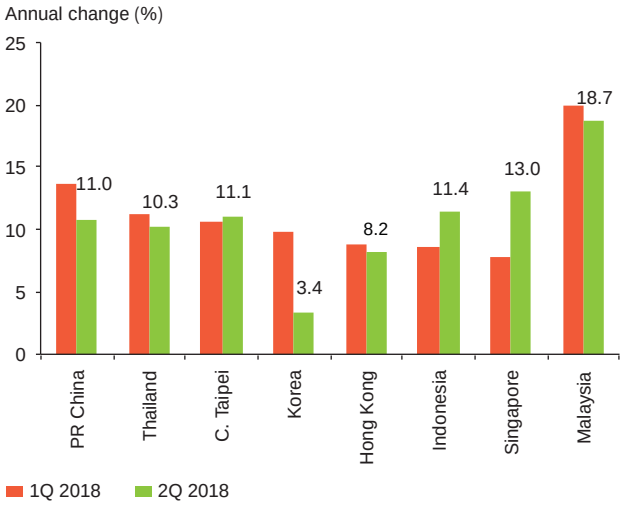
Chart 1: GDP Growth of Selected Economies



Source: National authorities

Robust export performance in 2Q 2018

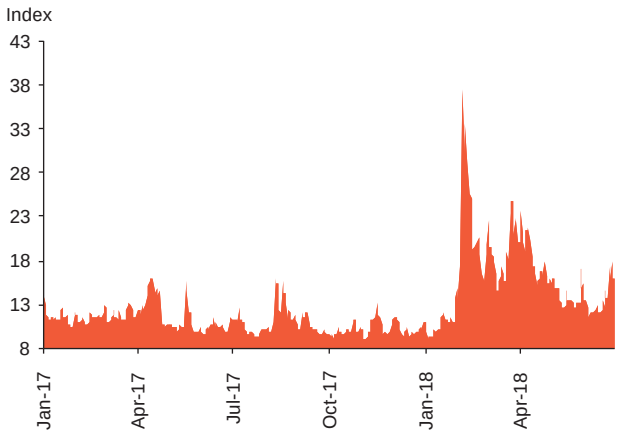
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: National authorities

Higher volatility in the financial markets

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



Source: Bloomberg

Export growth remained robust

Most regional economies continued to record relatively high export growth in the second quarter of 2018. Nevertheless, a month-by-month analysis depicts a significant slowdown in June. This reflects a normalisation of demand from major economies such as the euro area and PR China. Demand for E&E products, which had driven shipments from Korea and Chinese Taipei in previous periods, also slowed.

There were early signs that trade tensions have begun to weigh on the global outlook. PMIs in several economies reflected slowdowns in new orders and confidence sub-indices. Anecdotal evidence also suggest that some firms may be facing higher input costs and supply chain disruptions. As global demand moderates, the disruptions to trade may further exacerbate the downturn in global growth.

Higher volatility in the financial markets

Global financial market volatility remained elevated, as market gyrations due to trade-related tensions persisted throughout the quarter.

In May, the United States of America's Department of Commerce began investigations into imports of autos and auto-parts, opening up the possibility of future tariffs. June marked the lapse of tariff exemptions on steel and aluminum for the euro area, Canada and Mexico, leading to retaliation. In addition, tariffs on USD34 billion worth of Chinese imports took effect in July, prompting tit-for-tat measures by PR China. These developments triggered declines in financial markets most directly exposed to the trade actions, such as Chinese equities, and the steel and aluminium industry.

In addition to trade tensions, capital outflows for emerging markets were also affected by higher interest rates in the United States of America, and a stronger US Dollar.

In the commodities market, Brent crude oil prices recorded a higher average of USD75 per barrel in the second quarter of 2018 (1Q 2018: USD67). The increase in oil price was supported by expectations of a tighter global oil market following the re-imposition of US sanctions on Iran. Prices were also lifted by concerns over supply disruptions in the Middle East and Venezuela.