International Economic Environment

HIGHLIGHTS

- **Continued recovery in global growth, supported by stronger investment in major economies.**
- **Sustained export growth in the Asian economies following continued strength in global demand.**
- **Improvement in equity market performance amid lower volatility.**

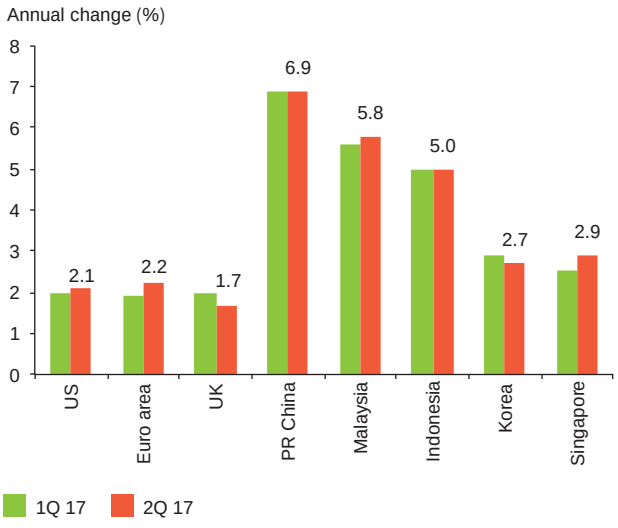
Global growth continued to expand

The global economy continued to expand in the second quarter of 2017. Growth was also becoming more synchronised across the advanced and emerging economies. Indicators such as the manufacturing purchasing managers' index (PMI) and industrial production expanded at a faster pace, particularly in the advanced economies. Similarly, manufacturing PMIs in Asia have remained above the usual trend observed since the global financial crisis. This indicates that global recovery has become more entrenched.

Second quarter GDP releases showed sustained performance in the advanced economies. In the US and euro area, growth drivers were more balanced as the uptrend in investments continued to complement private consumption. Capital imports rose in tandem with stronger investment to cater to increasing demand and higher capacity utilisation. Domestic demand in PR China lent further support to global demand, as ongoing policy tightening has yet to show signs of feeding into the real economy. These key developments continued to drive global trade. As a result, Asia benefitted from the recovery in global demand amid sustained strength in domestic demand.

Continued Global Economic Expansion in 2Q 2017

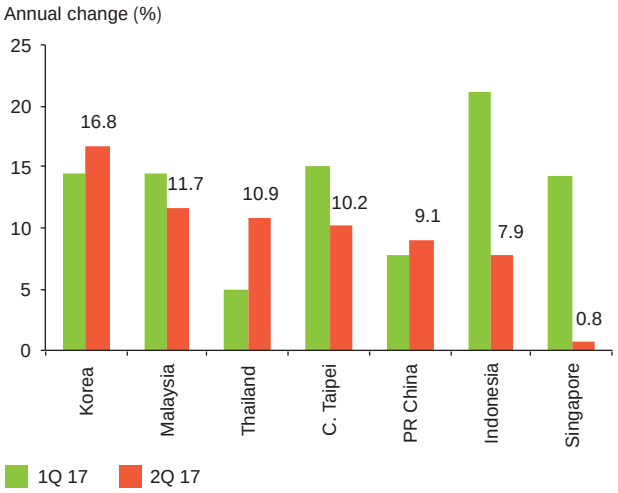
Chart 1: Real GDP Growth



Source: National authorities

Sustained Export Growth in 2Q 2017

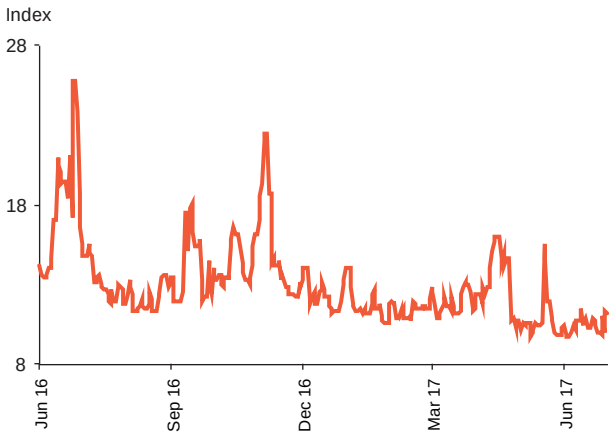
Chart 2: Export Growth of Selected Asian Economies (in USD terms)



Source: Bloomberg

Low Volatility in the Financial Markets

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



Source: Bloomberg

Sustained exports from Asian economies

During the quarter, global trade continued to show a firmer growth momentum. Trade expanded across product categories and destinations. This suggests that the strength in external demand was more broad-based. Continuous improvements in investment in the advanced economies and sustained demand from PR China arising from infrastructure and property construction provided the impetus to global trade.

Key trends in exports during the quarter included a rapid rise in trade for the electrical and electronics (E&E) and commodities sectors. These sectors contributed to higher exports from the Asian economies, many of which are major producers of electronics or commodity-based products. Exports from Korea, Chinese Taipei and Singapore benefitted from higher shipments of semiconductors for use in electronic products. In Korea, exports rose 16.8% in the second quarter of 2017, following six straight months of double-digit growth. This reflected final demand for capital and consumer goods in both the advanced economies and PR China, particularly in the lead-up to flagship smartphone model launches in the second half of 2017.

Similarly, exports from Indonesia grew at 7.9% on continued shipments of commodities such as oil and gas, coal, and iron and steel, particularly to PR China.

Improvement in market indices amid lower volatility

Most major equity indices improved in the second quarter of 2017, as businesses in the advanced economies continued to record improvements in corporate profits. This was noteworthy given the weakness in earnings seen since 2014. Broad-based growth improvements in many economies around the world also provided tailwinds to global stock markets.

Volatility in the global financial markets was lower as developments during the quarter were largely within market expectation. However, there were two episodes of temporary spikes in volatility due to political and geopolitical developments. In April, geopolitical tensions rose following a US military strike on Syria and increasing signs of a deeper conflict with North Korea. In the later part of the quarter, changes in key personnel by the US administration triggered concerns over the future course of US pro-growth regulatory and fiscal policies.