International Economic Environment

HIGHLIGHTS

- **Global economy moderated in the third quarter of 2018.**
- **Slower export growth in most regional economies.**
- **Financial market volatility remained elevated, while trade tensions escalated.**

Global economy grew at a more moderate pace

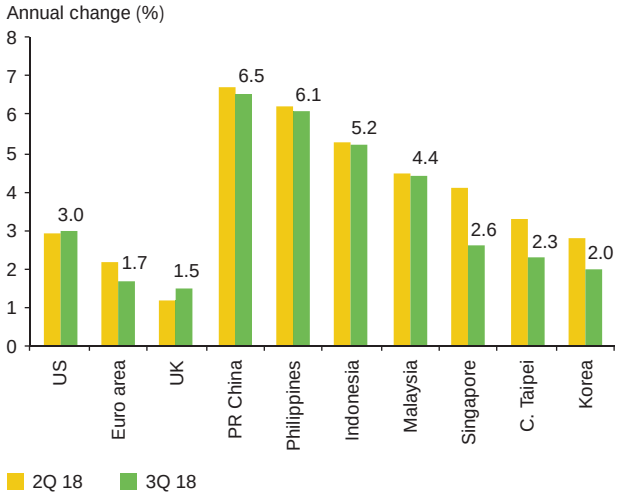
The global economy continued to expand, but at a more moderate pace in the third quarter of 2018. While the US and UK GDP accelerated, most emerging economies recorded more moderate growth.

In the advanced economies, labour markets remained supportive of private consumption, as unemployment rates continued to decline amid a steady increase in wage growth. These developments contributed to rising inflationary pressures as reflected by the gradual increase in Consumer Price Indices. Investment activity, however, moderated in the euro area, while in the US, business spending was lifted by the 2017 tax reforms.

Growth in the Asian region trended lower. PR China recorded slower growth, as continued policy driven credit tightening weighed on investment, particularly local government spending on infrastructure. Nevertheless, domestic demand in other Asian economies remained resilient, in part aided by ongoing policy support and higher infrastructure spending.

Global economic activity moderated in 3Q 2018

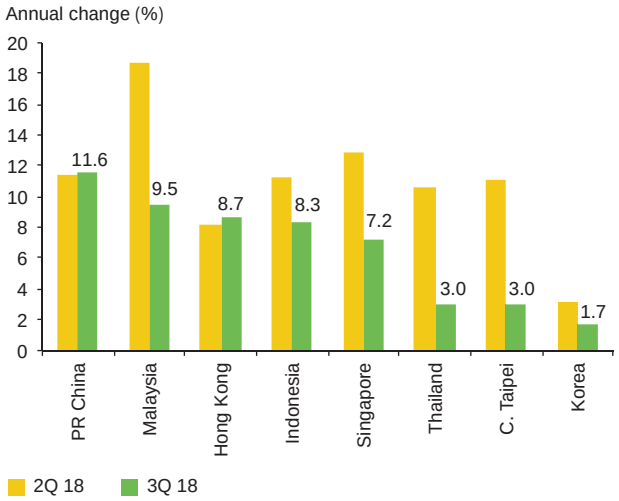
Chart 1: GDP Growth



Source: National authorities

Modest export performance in 3Q 2018

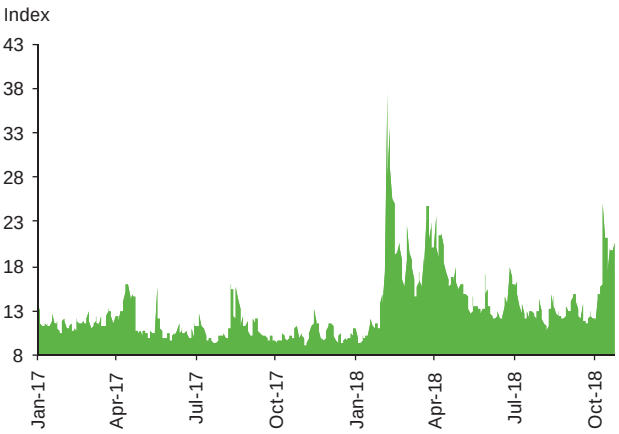
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: Bloomberg

Higher volatility in the financial markets

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



Source: Bloomberg

Export growth moderated

Most regional economies recorded slower export growth in the third quarter of 2018. This reflects lower demand from major economies, such as the euro area and PR China. Of significance, demand for E&E products, which had driven shipments from Korea and Chinese Taipei in previous periods, have moderated.

Indicators suggest that the impact of the recent trade actions have started to materialise. The Purchasing Managers Index in several economies recorded slowdowns in the new orders and confidence sub-indices. Increasingly, firms noted that prolonged trade tensions would adversely affect input costs and threaten to disrupt their supply chain operations. Trade disruptions are likely to exacerbate the moderating growth momentum currently experienced by most economies.

Higher volatility in the financial markets

Financial market volatility re-emerged in October, as 10-year US Treasury yields rose to its highest level since 2011. This was attributable partly to adjustments in market expectations for a stronger US economy. Most emerging market economies recorded large capital outflows resulting in downward pressure on emerging market currencies and equities. In particular, financial conditions in Turkey and Argentina deteriorated rapidly, exacerbated by vulnerabilities in their domestic economies.

Heightened trade tensions also contributed to the elevated volatility in the third quarter of 2018. In September, the US implemented an additional 10% tariff on USD200 billion worth of imports from PR China and announced that the additional tariff will be raised to 25% in January 2019. This sparked retaliation from PR China which raised its tariff on USD60bn of US imports by 5-10%.

In the commodities market, Brent crude oil price rose slightly to an average of USD76 per barrel in 3Q 2018 (2Q 2018: USD75). During the quarter, OPEC's pledge to ease oil output cuts caused prices to moderate. Towards the end of the quarter, however, Brent crude oil price increased sharply, as reports of declining oil exports from Iran ahead of the imposition of sanctions by the US triggered heightened concerns over tighter supply conditions in the global oil market.