

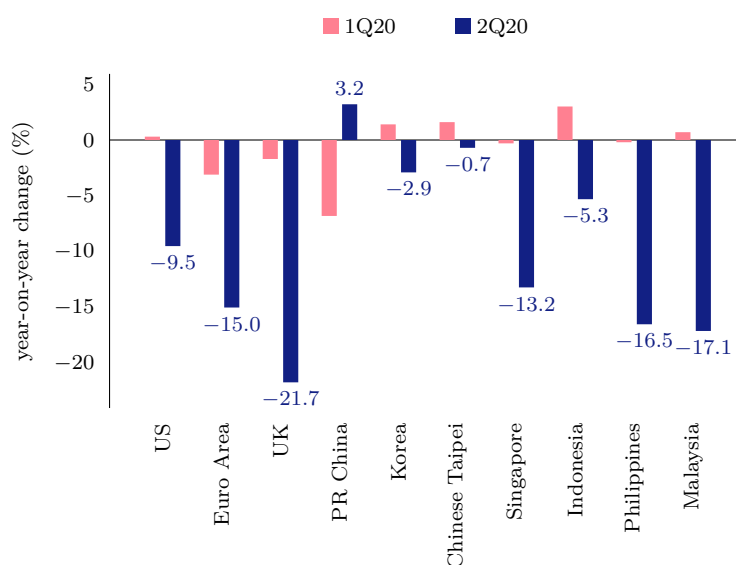
International Economic Environment

Highlights

- The global economy contracted in 2Q 2020 amid widespread COVID-19 pandemic containment measures.
- Regional exports contracted due to production restrictions and weaker external demand conditions.
- Financial market volatility was elevated.

The global economy contracted

Chart 1: GDP Growth of Selected Economies



Source: National authorities

The global economy contracted in 2Q 2020. As the number of COVID-19 cases continued to rise, nationwide lockdowns and travel restrictions were implemented across major advanced and emerging

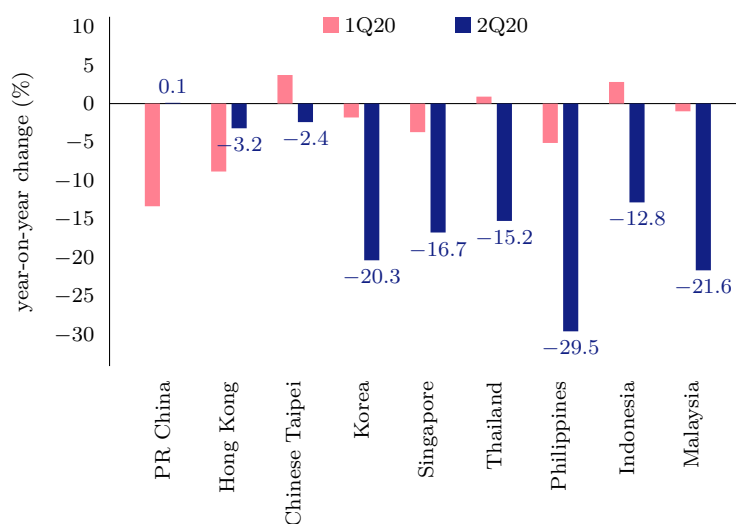
economies. This significantly disrupted production activity, which resulted in a marked deterioration in labour market conditions and private sector expenditure.

In the US, private consumption slowed sharply despite the large fiscal support from government transfers, while investment activity moderated amid heightened risk aversion and weaker demand conditions. In the euro area, output declined due to production disruptions and widespread lockdowns for most of the quarter. Similarly, economic activity in most EMEs moderated considerably from the adverse economic implications of lockdown measures.

In contrast, PR China recorded positive growth of 3.2% in 2Q 2020. As COVID-19 cases declined following an aggressive lockdown in the first quarter, it was able to ease containment measures. A rebound in industrial activity and large government support through public investments resulted in the economy recording positive growth after contracting in the first quarter. Nevertheless, many services sectors, such as retail and tourism, remained weak as private consumption remain depressed.

Weakness in regional exports

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



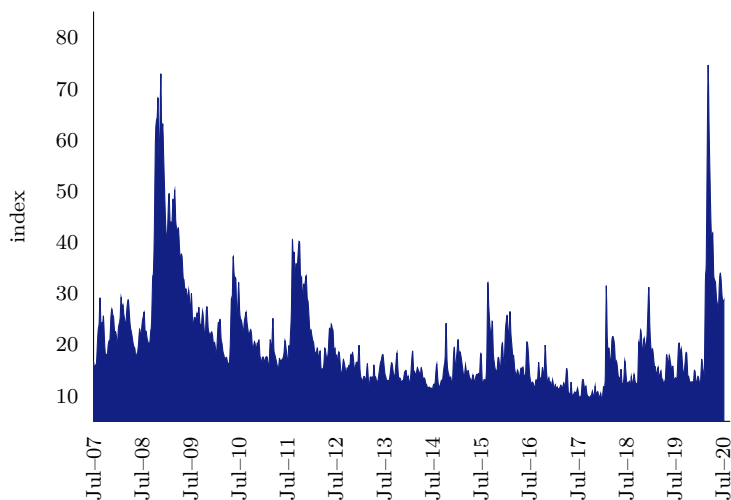
Source: National authorities

Production restrictions and muted demand conditions resulted in a marked slowdown in exports. The Philippines and Korea, whose exports declined by -29.5% and -20.3%, respectively, were significantly affected. Other regional economies such as Singapore, Thailand

and Indonesia also recorded weaker export growth. PR China was the only exception to this falling trend as its exports registered a marginal positive growth of 0.1%.

Elevated financial market volatility

Chart 3: CBOE Volatility Index (VIX)



Source: Bloomberg

Financial market volatility during the quarter increased to levels comparable to the Global Financial Crisis as the pandemic escalated. Nonetheless, towards the end of the quarter, volatility started to ease as lockdowns were gradually lifted in some economies, such as the euro area and the US. Equity markets, in particular, recovered some of the losses experienced in the preceding quarter. However, a resurgence of cases in the US and the ongoing risk of secondary outbreaks in countries that had managed to control the spread of the virus, kept financial market volatility elevated.

Brent crude oil price declined to an average of USD33 per barrel during 2Q 2020 (1Q 2020 average: USD51 per barrel), weighed by rising global oil oversupply as global oil demand declined sharply amid the COVID-19 pandemic. Nevertheless, the fall in oil price was partially mitigated by the resumption of the OPEC+ production cuts beginning 1 May 2020 and lower oil production in the US.