

January 6, 2021

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Despite the persistence of coronavirus pandemic in 2020, global stock markets have been driven higher by expectations of an accelerated recovery and continued monetary easing. The upbeat momentum of equities has been impressive as Dow, S&P 500, NASDAQ and Nikkei posted YoY growth of 7.2%, 16.3%, 43.6% and 16% while Shanghai composite index and Shenzhen component index outperformed by soaring 13.9% and 38.7%.
- Entering 2021, global economic growth is expected to rebound from 2020's trough at an uneven momentum across different countries. Strengthening hopes of vaccination for medical solutions to the pandemic and recovering economic momentum buoy market sentiments.
- Although the sustainability of recovery growth momentum remains uncertain due to the effectiveness of vaccines and risks of having a new wave of the pandemic, policy supports through massive stimulus packages boost global liquidity, thus triggering significant buying interests in risky assets. We are of the view that the global economic recovery is gaining more traction to enhance investors' optimism, thus extending equity market rally in 2021.

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## Cautious optimism surrounding global equity markets in 2021

Despite the persistence of coronavirus pandemic in 2020, global stock markets have been driven higher by expectations of an accelerated recovery and continued monetary easing. The upbeat momentum of equities has been impressive as Dow, S&P 500, NASDAQ and Nikkei posted YoY growth of 7.2%, 16.3%, 43.6% and 16% while Shanghai composite index and Shenzhen component index outperformed by soaring 13.9% and 38.7%. Entering 2021, global economic growth is expected to rebound from 2020's trough at an uneven momentum across different countries due to varying health, economic and political environment in different continents. Investors continue to encounter a market environment of low growth, low inflation and low yields. Strengthening hopes of vaccination for medical solutions to the pandemic and recovering economic momentum buoy market sentiments. Although the sustainability of recovery growth momentum remains uncertain due to the effectiveness of vaccines and risks of having a new wave of the pandemic, policy supports through massive stimulus packages boost global liquidity, thus triggering significant buying interests in risky assets. We are of the view that the global economic recovery is gaining more traction to enhance investors' optimism, thus extending equity market rally in 2021.

**Worldwide liquidity remaining abundant in 2021.** Coronavirus pandemic has caused a marked worsening of economic conditions in developed and emerging worlds with which global central banks maintains sizable monetary easing to revive growth momentum. Major central banks including the Federal Reserve (Fed), European Central Bank (ECB) and Bank of Japan (BOJ) support monetary accommodation, thus enhancing the global flow of liquidity and preventing near-term drag on growth momentum. In sum, the loosening of global liquidity turns out to be a norm and the convergent stance of global monetary policy further strengthens a favorable credit environment to resist the pandemic shocks. A prolonged low interest rate environment will continue to direct global liquidity and capital flow into financial markets, thus boosting their near-term performance.

Worldwide liquidity conditions still remain loose, suggesting a positive backdrop for equities.

**Bullish outlook of emerging markets in post-pandemic world.**

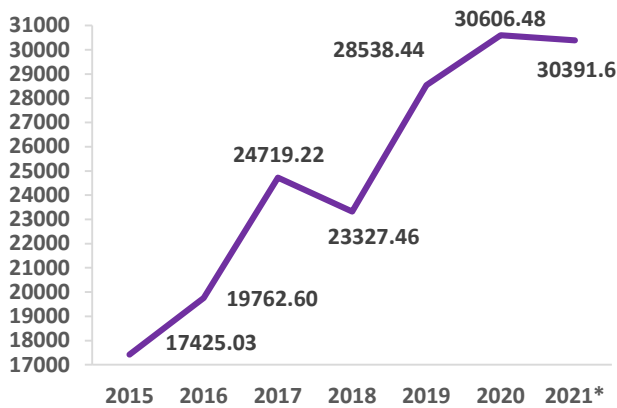
Coronavirus-led disruptions to global economic activities have been the biggest drag on global economic growth. The worldwide economic recession is on track to lead the global central banks pursuing unlimited monetary easing. Stock markets across the globe have been on volatile swing, which has been mainly driven by uncertain economic outlook and ample liquidity flow. Equity markets of the U.S., China and Japan took the lead in the global stock market rally. From a valuation perspective, the price-to-earnings (P/E) ratios of advanced economies' markets are somewhat beyond their historical averages. As developed markets shares become more expensive, emerging market stocks laggards are becoming more attractive to investors, which are expected to provide higher expected returns in 2021.

**China's robust recovery extending the rally of equity market.**

China's economic vision for sustainable development based on economic and political stability as well as early exit from coronavirus pandemic boost the confidence of the investors over medium and long-term outlook. China's policy makers pledge increasingly efforts to implement prudent monetary policy and proactive fiscal policy to support the real economy. As such, optimism over a stronger rebound of growth in 2021 has been growing. China's stock market is turning bullish with attractive returns as the economy steps in the stage of high-quality development with deepening economic reforms. We are of the view that the acceleration of China's domestic demand-led recovery will strengthen the market sentiment and the performance of stock market.

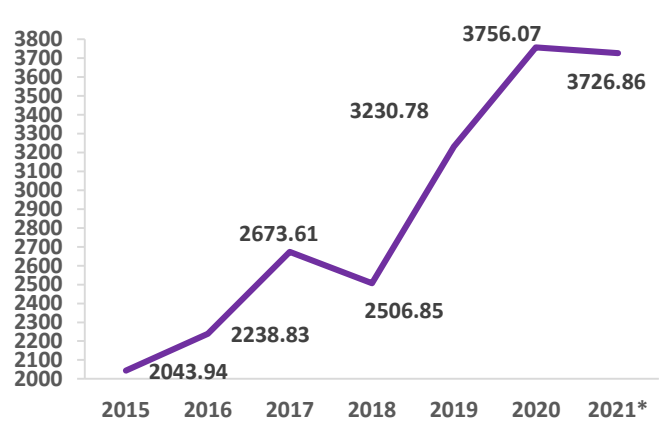
**Hong Kong (HK) equity market rebounding in 2021.** Despite a weak performance in 2020 due to the pandemic shocks and escalating US-China tensions, HK's stock market is still considered as a potential laggard, with the HSI currently trading on 2021 P/E multiples of around 12.47x, while Dow Jones industrial index and S&P 500 index are currently trading on 2021 P/E multiples of 20.75x and 22.81x. Given HK holding steady the low interest rate for a while and China's policy makers calling for stimulus measures and structural reforms to consolidate the nation's recovery, we are of the view that the favorable macroeconomic environment will add fuel to HK's stock market in 2021. HK market has now become one of the investment target again for potential rotation of investors' portfolio investment. Attractive equity returns in HK equity market should bring more liquidity and draw more buying interest. After discounting for the uncertainties, we forecast that the HSI and HSCEI will reach 28,800 and 12,200, with PER multiples of 12.0x and 10.0x respectively by end-2021.

**Fig. 1: DJIA Index**



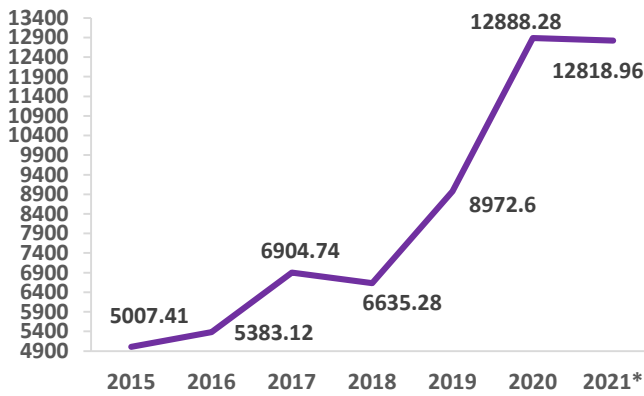
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 2: S&P 500 Index**



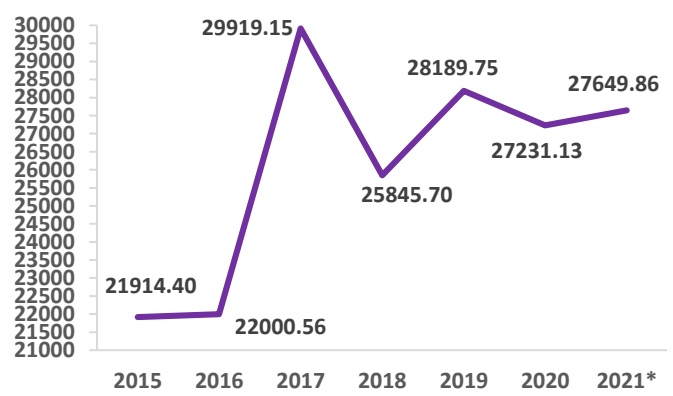
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 3: NASDAQ Composite Index**



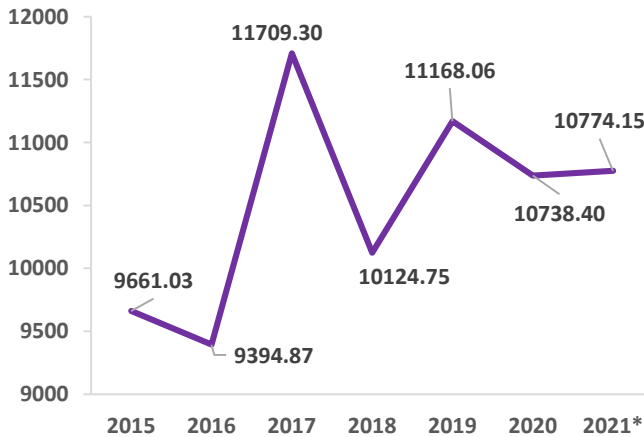
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 4: Hang Seng Index**



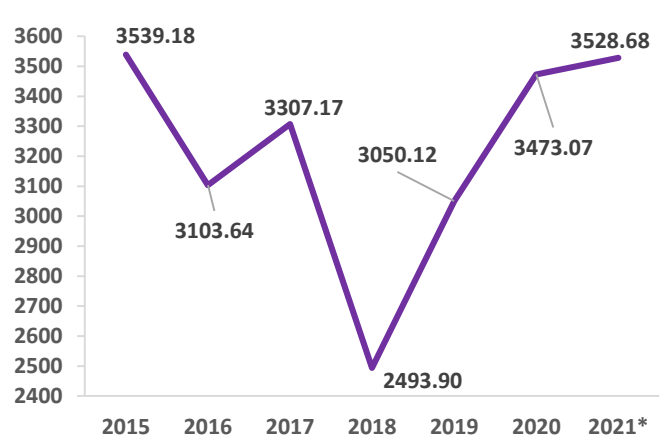
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 5: HSCEI Index**



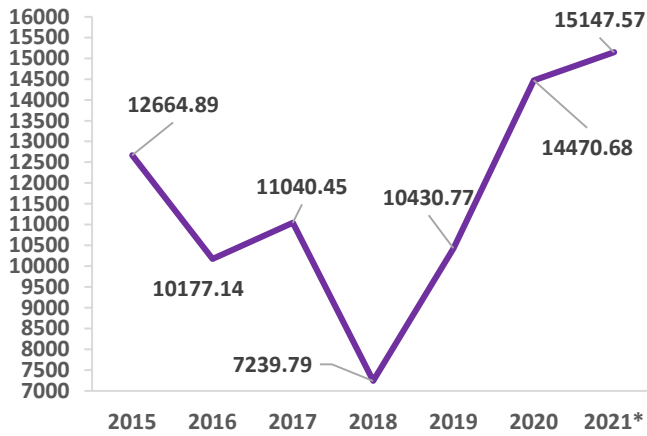
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 6: Shanghai Composite Index**



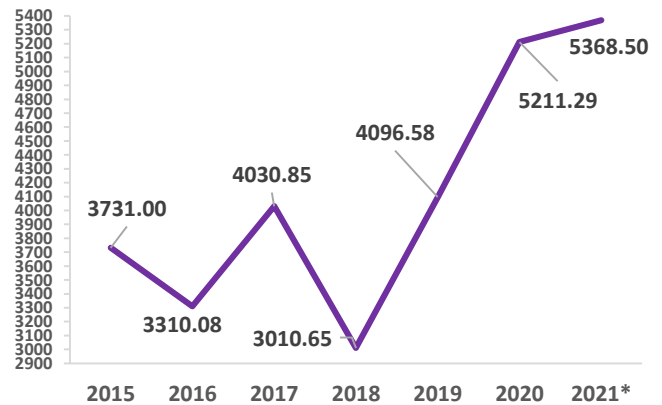
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 7: Shenzhen Component Index**



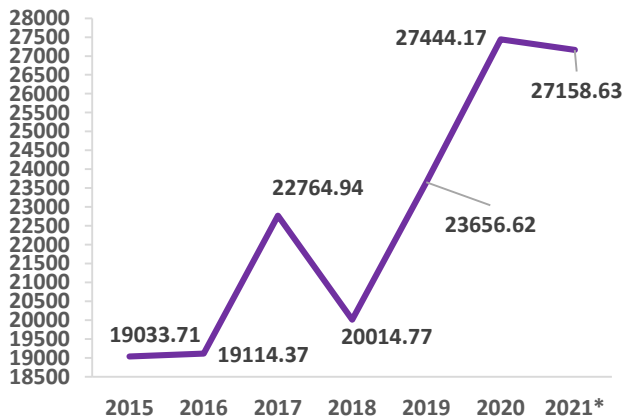
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 8: CSI300 Index**



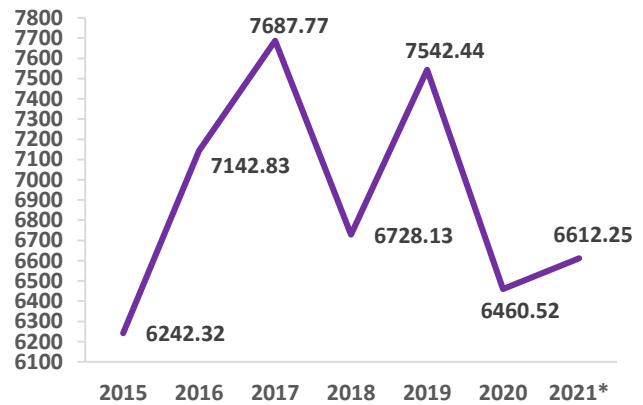
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 9: NIKKEI 225 Index**



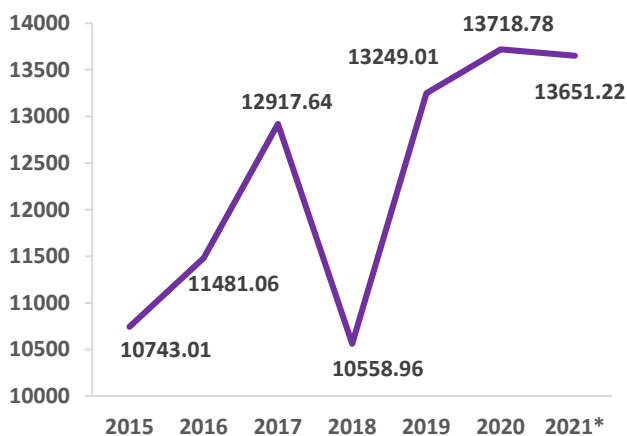
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 10: FTSE 100 Index**



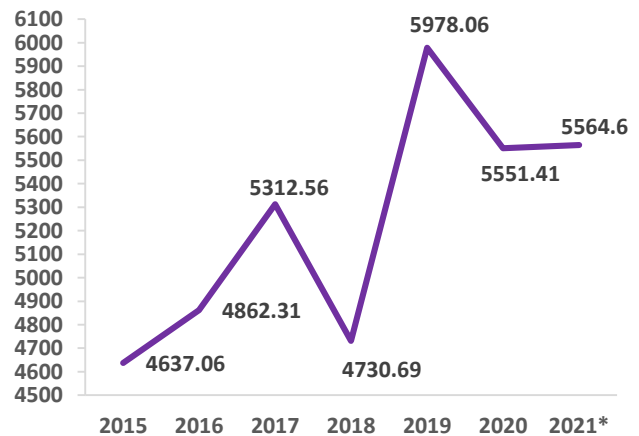
\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 11: DAX Index**



\* 5<sup>th</sup> January 2021  
Source: Bloomberg

**Fig. 12: CAC40 Index**



\* 5<sup>th</sup> January 2021  
Source: Bloomberg

## China economic indicators

	1Q2019	2Q2019	3Q2019	4Q2019	2019	1Q2020	2Q2020	3Q2020
Real GDP (YoY%)	6.4	6.2	6.0	6.0	6.1	(6.8)	3.2	4.9
PMI								
Manufacturing (%)	49.7	49.6	49.7	49.9	50.2	45.9	50.8	51.2
Non-Manufacturing (%)	54.6	54.3	53.7	53.6	53.5	45.3	53.7	55.1
Exports (RMB YoY %)	6.7	5.6	3.9	4.0	5.0	(11.4)	4.5	10.2
Imports (RMB YoY %)	0.3	2.8	(2.5)	5.4	1.7	(0.7)	(5.7)	4.3
Trade Balance (RMB/bn)	506.8	700.7	812.4	895.1	2912.0	99.3	1089.6	1116.5
Exports (USD YoY %)	1.4	(1.0)	(0.3)	1.8	0.5	(13.4)	0.2	8.8
Imports (USD YoY %)	(4.1)	(3.7)	(6.2)	3.2	(2.7)	(3.0)	(9.7)	3.2
Trade Balance (USD/bn)	72.9	103.9	117.7	127.4	421.1	13.1	154.7	158.3
CPI (YoY %)	1.8	2.6	2.9	4.3	2.9	4.9	2.7	2.3
PPI (YoY %)	0.2	0.5	(0.8)	(1.2)	(0.3)	(0.6)	(3.3)	(2.2)
FAI (YTD/ YOY %)	6.3	5.8	5.4	5.4	5.4	(16.1)	(3.1)	0.8
Real Estate Investment (YTD YoY %)	11.8	10.9	10.5	9.9	9.9	(7.7)	1.9	5.6
Industrial Production (YoY %)	6.5	5.6	5.0	5.9	5.7	(8.4)	4.4	5.8
Retail Sales (YoY%)	8.3	8.6	7.6	7.8	8.0	(19.0)	(3.9)	(0.4)
New Lending (RMB/bn)	5809.1	3863.4	3955.6	3187.6	16817.5	7096.6	4990.9	4170.2
M2 (YoY %)	8.6	8.5	8.4	8.7	8.7	10.1	11.1	10.9
Aggregate Financing (RMB bn)	8605.9	6007.7	5997.0	4964.7	25575.2	11109.4	9758.7	8751.9

	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20
Real GDP (YoY%)	6.0	-	-	(6.8)	-	-	3.2	-	-	4.9	-	-	-
PMI													
- Manufacturing %	50.2	50.0	35.7	52.0	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9
- Non-manufacturing%	53.5	54.1	29.6	52.3	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7
Exports (RMB YoY %)	9.0	-	(15.8)	(3.5)	8.0	1.5	4.3	10.4	11.6	8.7	7.6	14.9	-
Imports (RMB YoY %)	17.7	-	(2.4)	2.3	(10.2)	(12.5)	6.2	1.6	(0.5)	11.6	0.9	(0.8)	-
Trade Balance (RMB/bn)	332.1	-	(41.2)	140.5	317.2	443.5	328.9	442.2	416.6	257.7	401.8	373.2	-
Export (USD YoY %)	7.9	-	(17.1)	(6.6)	3.4	(3.2)	0.5	7.2	9.5	9.9	11.4	21.1	-
Import (USD YoY %)	16.5	-	(4.0)	(1.1)	(14.2)	(16.6)	2.7	(1.4)	(2.1)	13.2	4.7	4.5	-
Trade Balance (USD/bn)	47.2	-	(6.9)	20.1	45.2	63.0	46.4	62.3	58.9	37.0	58.4	75.4	-
CPI (YoY %)	4.5	5.4	5.2	4.3	3.3	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	-
PPI (YoY %)	(0.5)	0.1	(0.4)	(1.5)	(3.1)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	-
FAI (YTD/ YOY %)	5.4	-	(24.5)	(16.1)	(10.3)	(6.3)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	-
Real Estate Investment (YTD/ YoY %)	9.9	-	(16.3)	(7.7)	(3.3)	(0.3)	1.9	3.4	4.6	5.6	6.3	6.8	-
Industrial Production (YoY %)	6.9	-	(13.5)	(1.1)	3.9	4.4	4.8	4.8	5.6	6.9	6.9	7.0	-
Retail Sales (YoY%)	8.0	-	(20.5)	(15.8)	(7.5)	(2.8)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	-
New Lending (RMB/bn)	1138.2	3337.5	905.7	2853.4	1697.8	1482.1	1811.0	992.7	1277.5	1895.7	689.8	1430	-
M2 (YoY %)	8.7	8.4	8.8	10.1	11.1	11.1	11.1	10.7	10.4	10.9	10.5	10.7	-
Aggregate Financing (RMB bn)	2103.0	5051.3	873.7	5184.5	3104.2	3186.6	3467.9	1694.0	3582.3	3477.2	1417.3	2130.0	-
Urban Unemployment Rate (%)	5.2	-	6.2	5.9	6.0	5.9	5.7	5.7	5.6	5.4	5.3	5.2	-
Urban Unemployment Rate in 31 major cities (%)	5.2	-	5.7	5.7	5.8	5.9	5.8	5.8	5.7	5.5	5.3	5.2	-

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	30,391.60	25.26	(0.04)
S&P 500	3,726.86	29.68	(0.23)
NASDAQ	12,818.96	66.17	(0.62)
<b>EUR</b>			
FTSE 100	6,612.25	178.75	1.69
DAX	13,651.22	65.72	0.47
CAC40S	5,564.60	57.45	(0.43)
STOXX EUR 600	400.94	51.72	0.59
<b>Asia</b>			
HSI	27,649.86	15.71	5.07
HSCEI	10,774.15	10.78	4.49
CSI300	5,368.51	20.61	6.00
SSE Composite	3,528.68	18.50	3.87
SZSE Composite	2,422.34	58.93	6.57
NIKKEI 225	27,158.63	38.07	1.88
KOSPI	2,990.57	34.47	6.55
TWSE	15,000.03	22.84	3.57
S&P/ASX 200	6,681.86	44.20	0.26
<b>MSCI Index</b>			
MSCI WORLD	2,684.18	33.14	0.07
MSCI DEVELOPED	646.96	31.96	0.62
MSCI EMERGING	1,319.97	26.04	4.20
MSCI US	3,640.58	30.16	(0.29)
MSCI UK	1,853.39	155.00	1.67
MSCI France	161.65	58.81	(0.40)
MSCI Germany	153.21	71.61	0.74
MSCI China	111.33	22.55	5.98
MSCI Hong Kong	16,105.52	29.70	4.82
MSCI Japan	1,098.30	30.47	1.12

\*As of 5/01/2021 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	49.93	4.85
ICE Brent Oil	USD/bbl	53.60	5.39
NYMEX Natural	USD/MMBtu	2.70	17.22
<b>Basic Metals</b>			
LME Aluminum	USD/MT	2,036.50	0.53
CMX Copper	USD/lb.	363.95	1.92
LME Steel Rebar	USD/MT	662.00	4.09
LME Lead Cash	USD/MT	2,067.00	6.07
<b>Precious Metals</b>			
CMX Gold	USD/T. oz	1,947.00	3.69
Gold Futures	USD/T. oz	1,954.40	3.94
CMX Silver	USD/T. oz	27.46	4.53
NYMEX Platinum	USD/T. oz	1,077.50	3.32
<b>Agricultural</b>			
CBOT Corn	USD/bu	491.75	7.72
CBOT Wheat	USD/bu	654.00	6.47
NYB-ICE Sugar	USD/lb.	16.12	7.61
CBOT Soybeans	USD/bu.	1,347.00	7.14

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.07	(0.01)
US Treasury (1 Yr)	0.09	0.00
US Treasury (5 Yr)	0.38	(0.002)
US Treasury (10 Yr)	0.95	0.02
US Treasury (30 Yr)	1.71	0.03
1-Month LIBOR	0.14	(0.01)
3 Month LIBOR	0.24	(0.003)
Japan 1-Yr Gov. Bond	(0.11)	(0.01)
Japan 10-Yr Gov. Bond	0.01	(0.01)
German 1-Yr Gov. Bond	(0.66)	0.05
German 10-Yr Gov. Bond	(0.58)	(0.01)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.44	(0.15)
China 5-Yr Gov. Bond	2.95	(0.03)
China 10-Yr Gov. Bond	3.14	(0.03)
O/N SHIBOR	0.73	0.06
1-mth SHIBOR	2.58	(0.13)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	(0.001)
1-mth HIBOR	0.13	(0.09)
O/N CNH HIBOR	1.25	(0.61)
1-mth CNH HIBOR	2.40	(0.37)
<b>Corporate Bonds (Moody's)</b>		
Aaa	2.28	0.02
Baa	3.12	(0.05)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.44	(1.00)
Euro/USD	1.23	0.23
GBP/USD	1.36	0.73
AUD/USD	0.77	1.58
USD/CAD	1.27	(0.56)
USD/JPY	102.87	(0.76)
USD/CHF	0.88	(0.61)
USD/CNY Midpoint	6.48	(0.73)
USD/CNY	6.46	(1.24)
12-mth Spot pr.	6.59	(1.37)
USD/CNH	6.44	(1.16)
USD/HKD	7.75	0.00
CNY/HKD	1.20	1.26
CNH/HKD	1.20	1.17
USD/KRW	1,087.60	(1.39)
USD/TWD	28.19	(0.45)
USD/SGD	1.32	(0.72)
USD/INR	73.18	(0.35)

All data sources: Bloomberg



## Disclosures

### Analyst Certification

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