光銀國際
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Commentary by CEBI Research Team

In Brief

- Coronavirus-led disruptions to economic activities have had caused an unprecedented impact on worldwide oil demand in 2020. Plummeting oil demand due to lockdown of cities and stoppage of transports triggered severe plunging of oil prices in March and April but sharp reduction in oil production rebalanced oil market dislocation, thus reversing downward trend and lending great support to prices.

- Entering 2021, direction of oil prices hinges on the recovery momentum of global economic activities through the effective control of coronavirus pandemic by vaccination. In sum, the pandemic is still rampaging most of countries in the world and the prospect of sluggish demand recovery has prompted OPEC+ to slow the pace of scheduled oil-output boost, thus providing strong support for WTI oil futures to stay above USD $50 per barrel, first time since February 2020.

- We are of the view that crude oil prices start to enter into a period of stabilization between $50 and $60 per barrel. It is expected that oil prices will pursue upward trend by witnessing less volatilities and fluctuations on strengthening global recovery momentum in the second half of 2021.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

Demand recovery reshaping oil market in 2021

Coronavirus-led disruptions to economic activities have had caused an unprecedented impact on worldwide oil demand in 2020. Plummeting oil demand due to lockdown of cities and stoppage of transports triggered severe plunging of oil prices in March and April but sharp reduction in oil production by Organization of the Petroleum Exporting Countries and its allies (OPEC+) along with easing out of pandemic lockdown with gradual reopening of economic activities in global economy in the second half rebalanced oil market dislocation, thus reversing downward trend and lending great support to prices. Entering 2021, direction of oil prices hinges on the recovery momentum of global economic activities through the effective control of coronavirus pandemic by vaccination and its accessibility to the world population. In sum, the pandemic is still rampaging most of countries in the world and the prospect of sluggish demand recovery has prompted OPEC+ to slow the pace of scheduled oil-output boost, thus providing strong support for WTI oil futures to stay above USD $50 per barrel, first time since February 2020. We are of the view that crude oil prices start to enter into a period of stabilization between $50 and $60 per barrel. Demand-side recovery in oil market is on track but risks remain including the uncertainties around the vaccines' safety, efficacy, and durability as well as more lockdowns from a renewed surge in coronavirus cases. It is expected that oil prices will pursue upward trend by witnessing less volatilities and fluctuations on strengthening global recovery momentum in the second half of 2021.

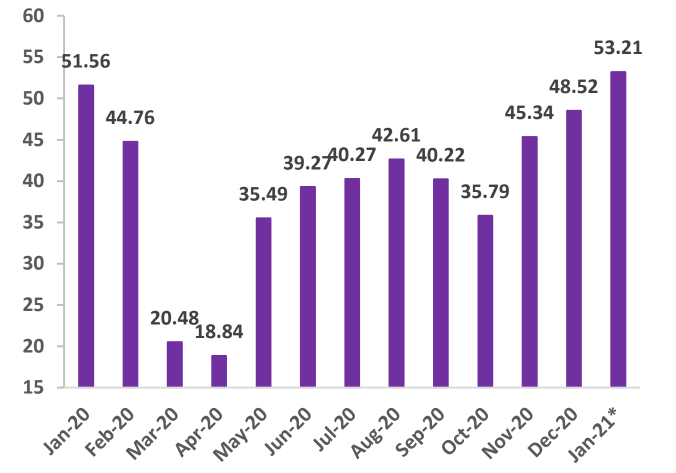
Vaccination becoming the main catalyst to boost oil demand. The upheaval in the crude oil markets reflects the significance of coronarvirus shocks in driving the rebalancing of global oil consumption. Oil demand peaked at around 100 million barrel per day in 2019 but the pandemic has triggered falling demand by 10% to around 90 million barrel per day in 2020. Vaccination emerges to be the medical solution of the pandemic, pointing to normalize economic activities and enhancing the global demand for oil. We are of the view that oil consumption remains below its pre-pandemic level in 2021 and afterwards. The pandemic has affected pattern of energy usages via a shift in people's behaviors. Air travel could see a permanent reduction as business travel is curtailed in favor of remote meetings, thus reducing demand for jet fuel. A shift to working from home may reduce demand for gasoline through decreased use of private vehicles and public transports. In sum, vaccine availability in early 2021 should lead to expected lifting of lockdown measures and rebound in mobility in most countries soon. However, the recent surging in coronavirus infections and limited access to vaccine injection may prompt major economies to delay resumption of activities, implying that global oil demand remains weak in the short run but expect to improve six months down the road.

World's major oil producers limiting output growth to support prices. With regard to oil production, OPEC+ maintains a policy to closely monitor oil prices to prevent a sharp drop if the pandemic spreads again. At the same time, OPEC+ aims to achieve stable oil prices hikes in line with recovery momentum of global economy. In sum, re-opening of most economies in the second half of 2020 have led the OPEC+ to prepare for additional output boost. The intention is to gradually reverse the previous supply cuts, thus restoring the broad balance between oil supply and demand as well as maintaining stable oil prices. However, the recent resurgence of the pandemic renews the concerns over faltering oil demand, forcing OPEC+ to limit production increases. We are of the view that worldwide oil producers will maintain supply restraint in the first half of 2021 as the prospect of weak oil demand recovery remains intact. We believe increasing access to vaccination in the second half will diminish global health risks, which lead to easing lockdown measures. Enormous pent-up demand for travel will be released to raise oil demand, thus prompting OPEC+ to increase daily production.

The energy policy under Biden's administration changing the global oil supply in the next ten years. The U.S. President Donald Trump withdrew the U.S. from the nuclear deal with Iran in May 2018, even though Russia, Britain, France, and Germany tried to uphold the pact. After Joe Biden assumes the presidency, the administration might return to the original nuclear deal and relax sanctions, including allowing Iran and even Venezuela to return to exporting crude oil, which will increase the global oil supply. However, President-Elect Biden's long-term energy policy is to reduce global warming through more uses of clean energy as well as production limitations of crude oil and natural gas. Along with the unattractive level of current oil prices to induce U.S. oil producers increasing drilling activities, the U.S. domestic production of crude oil remain weak in 2021. In sum, the U.S. energy policy under Biden administration will not have huge impact on 2021's oil supply but will have drastic impacts in the next ten years.

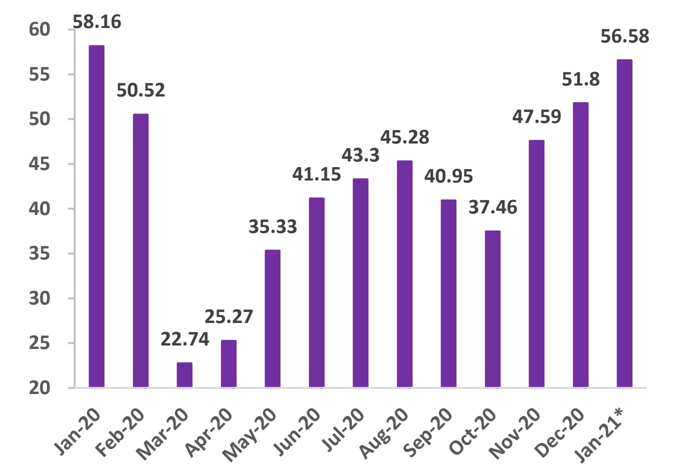
Upbeat strengths of commodities currencies remaining intact. Amid the expected acceleration of global economic recovery on the relief of the pandemic, oil prices have rebounded from 1H2020's trough, posting 24% jump for WTI during the second half of 2020. The massive rise in oil prices has impacted commodities and currencies. Commodities generally track the price of oil and the currencies of the commodities producing nations benefit from on growing strengths of crude oil price. During 1H2020, commodity currencies such as AUD and CAD have depreciated against USD by 2.3% and 5.0%, which were in line with drop of WTI oil price futures by 36%. Entering into 1H2020, the strengths of commodities recovers strongly due to the rebound of oil price by 24%, thus resulting in appreciation of AUD and CAD by 13% and 6.9%. In sum, the currencies of countries that rely heavily on raw material and commodity exports are subject to swings in oil prices. Looking forward, progress with vaccines and treatments, as well as changes in the workplace and by consumers to reduce the spread of coronavirus allow economic activities to return more rapidly to pre-pandemic levels, which will increase demand for commodities and provide strong support to commodities currencies in 2021.

Fig. 1: WTI Oil Futures (US$/barrel)



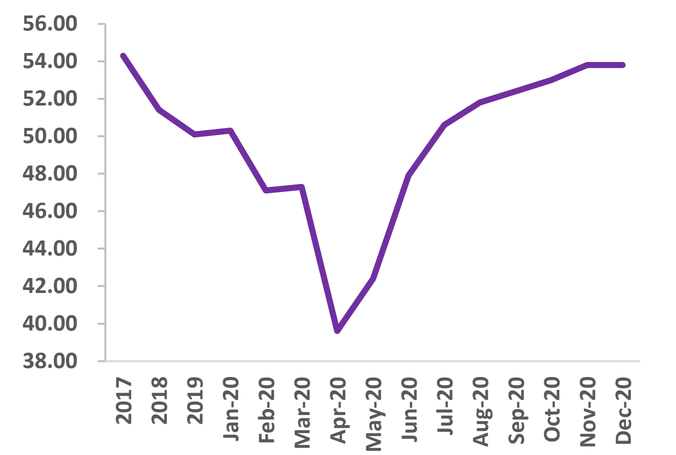
Source: Bloomberg
*12th January 2021

Fig. 2: Brent Oil Futures (US$/barrel)



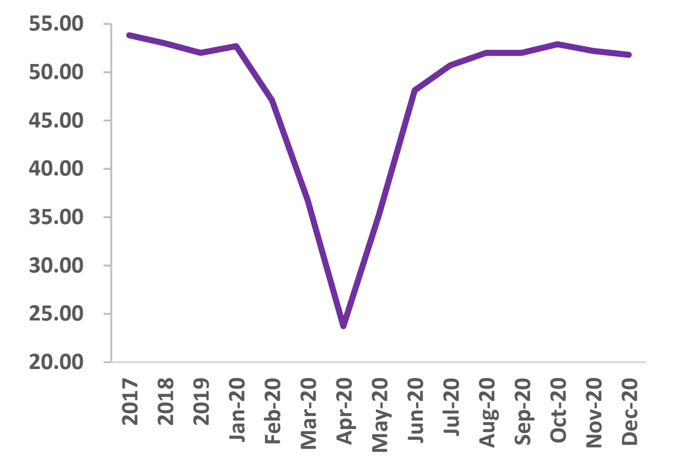
Source: Bloomberg
*12th January 2021

Fig. 3: JP Morgan Global Manufacturing PMI



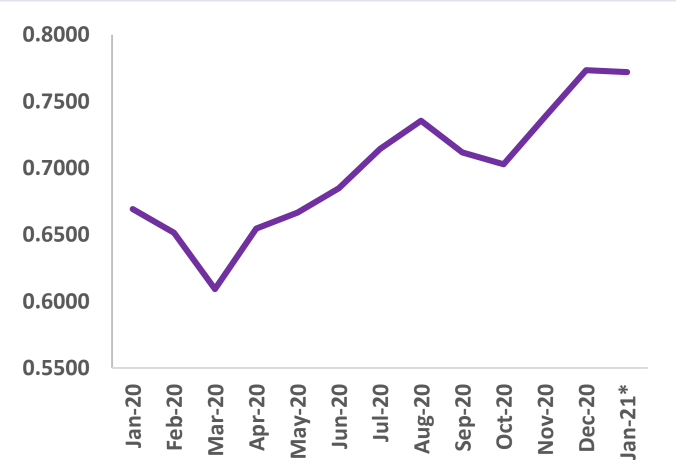
Source: Bloomberg

Fig. 4: JP Morgan Global Services PMI



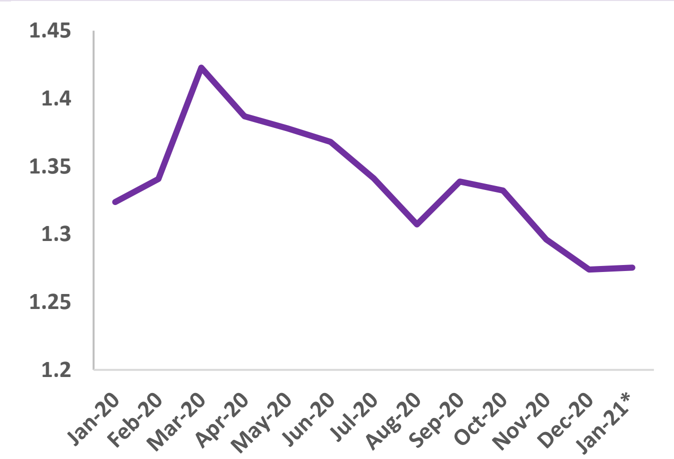
Source: Bloomberg

Fig. 5: AUD/USD



*Source: Bloomberg *12th January 2021*

Fig. 6: USD/CAD



*Source: Bloomberg *12th January 2020*

China economic indicators

	2017	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020
Real GDP (YoY%)	6.9	6.6	6.0	(6.8)	3.2	4.9	-	-
PMI Manufacturing (%)	51.6	49.4	50.2	45.9	50.8	51.2	51.8	51.9
PMI Non-Manufacturing (%)	55.5	53.2	53.5	45.3	53.7	55.1	56.1	55.7
Exports (RMB YoY %)	10.8	7.1	5.0	(11.4)	4.5	10.2	-	-
Imports (RMB YoY %)	18.7	12.9	1.7	(0.7)	(5.7)	4.3	-	-
Trade Balance (RMB/bn)	2871.6	2330.3	2912.0	99.3	1089.6	1116.5	-	-
Exports (USD YoY %)	7.9	9.9	0.5	(13.4)	0.2	8.8	-	-
Imports (USD YoY %)	15.9	15.8	(2.7)	(3.0)	(9.7)	3.2	-	-
Trade Balance (USD/bn)	422.5	351.8	421.1	13.1	154.7	158.3	-	-
CPI (YoY %)	1.6	2.1	2.9	4.9	2.7	2.3	0.1	2.5
PPI (YoY %)	6.3	3.5	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)
FAI (YTD/ YOY %)	7.2	5.9	5.4	(16.1)	(3.1)	0.8	-	-
Real Estate Investment (YTD YoY %)	7.0	9.5	9.9	(7.7)	1.9	5.6	-	-
Industrial Production (YoY %)	6.6	6.2	5.7	(8.4)	4.4	5.8	-	-
Retail Sales (YoY%)	10.2	9.0	8.0	(19.0)	(3.9)	(0.4)	-	-
New Lending (RMB/bn)	13523.1	16166.3	16817.5	7096.6	4990.9	4165.9	3379.8	19633.2
M2 (YoY %)	8.2	8.1	8.7	10.1	11.1	10.9	10.1	10.1
Aggregate Financing (RMB bn)	19444.5	19258.4	25673.5	11111.0	9757.4	8751.6	5247.8	34863.6

	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
PMI - 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)	0.2
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)	(0.4)
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	1430.0	1260.0
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	10.1
Aggregate Financing (RMB bn)	2201.3	5053.5	873.7	5183.8	3102.7	3186.6	3468.1	1692.8	3585.3	3469.3	1393.5	2134.3	1720.0
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(%)
U.S.			
DJIA	31,068.69	25.99	2.23
S&P 500	3,801.19	30.28	1.99
NASDAQ	13,072.43	68.02	1.98
EUR			
FTSE 100	6,754.11	182.59	2.15
DAX	13,925.06	67.06	2.01
CAC40S	5,650.97	60.41	1.55
STOXX EUR 600	408.61	53.08	1.91
Asia			
HSI	28,276.75	16.07	2.27
HSCEI	11,217.69	11.23	4.12
CSI300	5,596.35	21.49	4.24
SSE Composite	3,608.34	18.93	2.26
SZSE Composite	2,419.96	52.30	(0.10)
NIKKEI 225	28,164.34	39.46	3.32
KOSPI	3,125.95	35.93	4.53
TWSE	15,500.70	23.63	3.34
S&P/ASX 200	6,679.08	44.17	(0.04)
MSCI Index			
MSCI WORLD	2,734.40	33.82	1.87
MSCI DEVELOPED	659.65	32.73	1.96
MSCI EMERGING	1,353.57	27.12	2.55
MSCI US	3,718.40	30.80	2.14
MSCI UK	1,892.38	158.26	2.10
MSCI France	163.99	61.57	1.45
MSCI Germany	155.63	72.76	1.58
MSCI China	112.84	23.63	1.36
MSCI Hong Kong	16,209.87	29.89	0.65
MSCI Japan	1,139.92	31.61	3.60

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	0.00
US Treasury (1 Yr)	0.09	0.00
US Treasury (5 Yr)	0.50	0.12
US Treasury (10 Yr)	1.13	0.17
US Treasury (30 Yr)	1.87	0.16
1-Month LIBOR	0.13	(0.01)
3 Month LIBOR	0.22	(0.01)
Japan 1-Yr Gov. Bond	(0.12)	(0.01)
Japan 10-Yr Gov. Bond	0.04	0.03
German 1-Yr Gov. Bond	(0.62)	0.04
German 10-Yr Gov. Bond	(0.47)	0.11
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.19	(0.25)
China 5-Yr Gov. Bond	2.94	(0.01)
China 10-Yr Gov. Bond	3.15	0.01
O/N SHIBOR	1.33	0.60
1-mth SHIBOR	2.43	(0.15)
HK Base rate	0.50	0.00
O/N HIBOR	0.07	0.03
1-mth HIBOR	0.13	(0.01)
O/N CNH HIBOR	1.83	0.58
1-mth CNH HIBOR	2.13	(0.27)
Corporate Bonds (Moody's)		
Aaa	2.48	0.20
Baa	3.30	0.18

* As of 12/01/2021 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	53.21	6.57
ICE Brent Oil	USD/bbl	56.58	5.56
NYMEX Natural	USD/MMBtu	2.75	1.89
BasicMetals			
LME Aluminum	USD/MT	2,018.35	(0.89)
CMX Copper	USD/lb.	360.55	(0.93)
LME Steel Rebar	USD/MT	633.50	(4.31)
LME Lead Cash	USD/MT	2,001.25	(3.18)
Precious Metals			
CMX Gold	USD/T. oz	1,859.94	(4.47)
Gold Futures	USD/T. oz	1,844.20	(5.64)
CMX Silver	USD/T. oz	25.43	(7.37)
NYMEX Platinum	USD/T. oz	1,067.71	(0.91)
Agricultural			
CBOT Corn	USD/bu	517.25	5.19
CBOT Wheat	USD/bu	665.00	1.68
NYB-ICE Sugar	USD/lb.	15.46	(4.09)
CBOT Soybeans	USD/bu.	1,418.25	5.29

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	90.09	0.73
Euro/USD	1.21	(1.08)
GBP/USD	1.36	(0.07)
AUD/USD	0.77	0.05
USD/CAD	1.28	0.11
USD/JPY	104.26	1.35
USD/CHF	0.89	1.09
USD/CNY Midpoint	6.48	0.10
USD/CNY	6.46	0.12
12-mth Spot pr.	6.59	0.06
USD/CNH	6.46	0.22
USD/HKD	7.76	0.03
CNY/HKD	1.20	(0.09)
CNH/HKD	1.20	(0.18)
USD/KRW	1,099.95	1.14
USD/TWD	28.24	0.17
USD/SGD	1.33	0.77
USD/INR	73.25	0.10

All data sources: Bloomberg

Disclosures

Analyst Certification

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Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600