May 27, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Fears are growing that global economic revival and pandemic-induced fiscal stimulus measures will lead to surging inflation as the U.S. consumer prices in April rose at their highest level in more than a decade while China faced a sharper–than-expected jump in April's producer price inflation. Upward pricing pressures cast a cloud over the sustainability of global economic recovery.
- Inflation expectations have spiked dramatically in recent weeks with the fear that policymakers may tighten easy monetary stance to prevent economies from overheating.
- We are of the view that the U.S. Federal Reserves (Fed) will maintain flexible average inflation targeting to tolerate inflation staying above 2% in coming months. The current uptrend of inflation is transitory due to low-base effect and activities' normalization, reflecting that the U.S. economy is on track for a faster recovery but still a long way from the goal of achieving full employment.
- We believe the Federal Fund Rate (FFR) at the floor remains as the key tool of the Fed in 2021 and it is likely that initial pullback of bond purchases will begin in the fourth quarter of 2021.

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Recovery optimism growing despite fears of rising inflation

In view of the coronavirus pandemic across the world, global economic stagnation was compounding economic woes and triggering a severe blow to different sectors of the economies in 2020. Entering 2021, global economic growth demonstrates signs of rebounding from 2020's trough on the rollout of vaccines and accelerated activities' normalization. Two biggest economies of the world lift global growth expectations in 2021 as the U.S. economy rebounds under Biden's fiscal stimulus and accommodative monetary stance while China's economy enjoys the early exit from the pandemic, thus maintaining a medium-high growth rate with more emphasis on boosting domestic demand and cultivating technological innovation. However, fears are growing that global economic revival and pandemic-induced fiscal stimulus measures will lead to surging inflation as the U.S. consumer prices in April rose at their highest level in more than a decade while China faced a sharper–than-expected jump in April's producer price inflation. In sum, the global economic recovery is gaining more traction on alleviation of global health risks and reopening of economies activities but upward pricing pressures cast a cloud over the sustainability of global economic recovery. Inflation expectations have spiked dramatically in recent weeks with the fear that policymakers may tighten easy monetary stance to prevent economies from overheating. We are of the view that the U.S. Federal Reserves (Fed) will maintain flexible average inflation targeting to tolerate inflation staying above 2% in coming months. The current uptrend of inflation is transitory due to low-base effect and activities' normalization, reflecting that the U.S. economy is on track for a faster recovery but still a long way from the goal of achieving full employment. We believe the Federal Fund Rate (FFR) at the floor remains as the key tool of the Fed in 2021 and it is likely that initial pullback of bond purchases will begin in the fourth quarter of 2021.

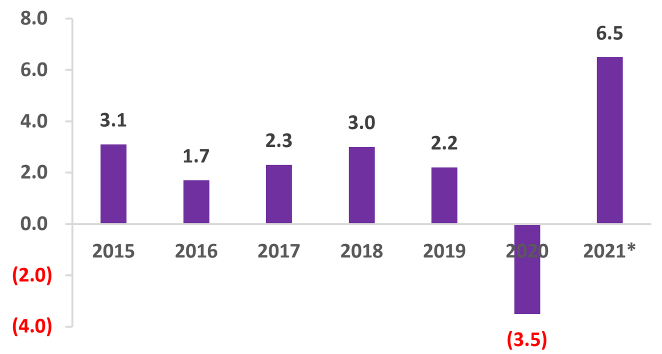
Huge infrastructure and stimulus packages in the U.S becoming the key factor to trigger demand-pull inflation. Reviving economic momentum of the U.S. economy from coronavirus shocks continues to be the top agenda of Biden's administration. With the acceleration of vaccination and launch of sizable fiscal stimulus, the U.S. economy demonstrates an optimistic outlook on sustainable recovery. The prompt implementation of an array of measures, including higher fiscal spending as well as ensuring ample liquidity, helps support economic growth and employment. The U.S. economic indicators demonstrated an uptrend in 1Q2021, with accelerated growth of consumption and investment in vary degrees, thus resulting in robust first-quarter seasonally-adjusted annual growth of 6.4%. Manufacturing activities continue to lead the recovery as May Markit manufacturing Purchasing Managers' Index (PMI) stayed above the expansion threshold of 50 at 61.5 while service sector was embedded into stronger rebound on activity normalization with May Markit services PMI rising to a pandemic high at 70.1. In sum, the U.S. economic vision to bolster the post-pandemic economy through more government spending on jobs, education and social care along with the accommodative liquidity conditions have led to a build-up of household spending, thus enhancing aggregate demand for goods and services as well as pushing up consumer prices. We are of the view that the current temporary government spending for pandemic relief will not cause inflationary spiral with which the rise in general price level is modest and transitory.

Worldwide supply chain disruption intensifying short-term cost-push inflation. The outbreak of coronavirus pandemic triggered a widespread global contraction of economic activities, negatively impacting aggregate demand and disrupting supply chains for commodities in all sectors. The severe economic recession in 2020, weighted heavily on commodity market imbalances. Entering into 2021, higher demand for commodities with supply bottlenecks strengthen price uptrend as Bloomberg commodity spot index surges 18.6% YoY, lifted by the global economic rebound and improved growth prospects. Factories around the world are facing headwinds from surging commodity prices, rising shipping costs, and semiconductor shortage, fueling worries that global inflationary pressures are looming as major economies recover from pandemic lockdowns. Surging physical demand for commodities exerts upward pressure on commodities prices, thus raising the cost of production and aggregate supply. In sum, the pandemic has rattled commodity markets significantly which causes global economy to recover at an uneven pace. We are of the view that overshooting commodity prices are temporary phenomenon driven by low-base effect of pandemic distortion and over-optimism on recovery momentum. During the boom-bust economic cycle, the manufacturers usually absorb some of commodity prices increase by smoothing out commodity price fluctuations and to enjoy margin improvements during downward moves, keeping the prices to their customers more stable. The recent jump in commodity prices has less impact on consumer prices with which the medium-and-long term inflation remains stable.

The Fed staying on course to maintain favorable liquidity conditions in 2021. A bigger-than-expected increase in U.S.

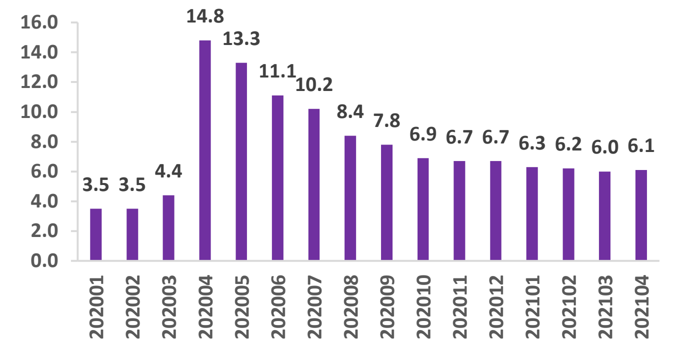
consumer prices has put the markets on high alert for surging inflationary pressure that could tilt the Fed toward tightening the easy monetary stance. The Fed's mandate is to maintain inflation at an average of 2% over time with which higher readings of monthly inflation are caused by transitory factor as prices are rising from a low base due to the pandemic. Even though inflation risks are on the rise, the ongoing health crisis continues to pose economic risks to the U.S. economic outlook and the Fed pledges to maintain the accommodative stance by navigating a world of ample liquidity with the aim to support a proper revival of economic growth. In sum, the prevailing sentiment is that rising inflation will be temporary. The U.S. economic activities have been reviving at a solid pace with the upbeat resilience, supported by continuation of loose monetary conditions. We are of the view that he Fed aims to move gradually to adjust easy monetary stance in an attempt to ensure the economic upturn and stable inflation. The Fed will prolong ultra-low interest rate environment in 2021 but consider to taper asset purchases in the fourth quarter.

Fig. 1: US GDP (YoY %)



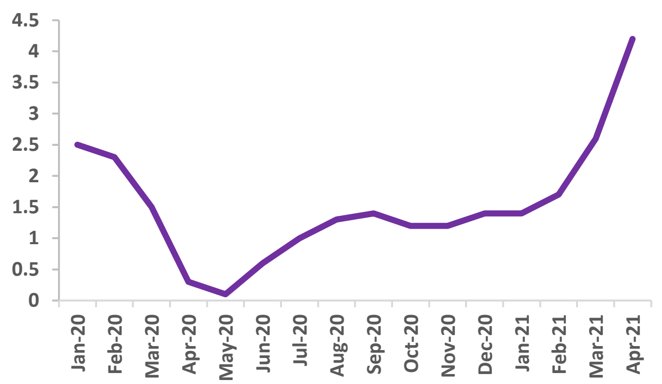
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment Rate (%)



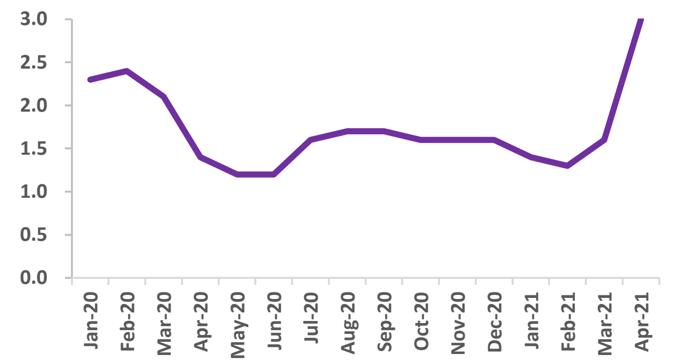
Source: Bloomberg

Fig. 3: US CPI (YoY %)



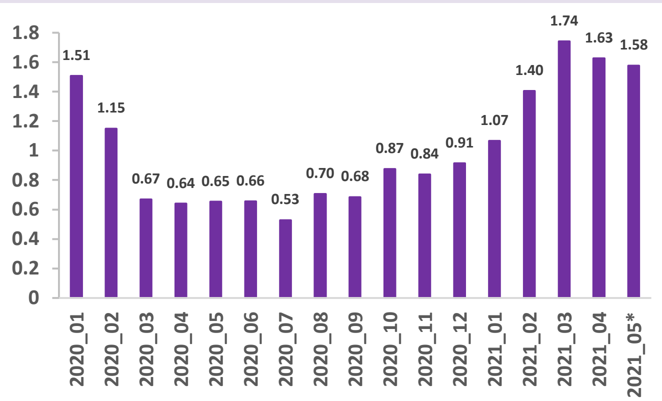
Source: Bloomberg

Fig. 4: US Core CPI (YoY %)



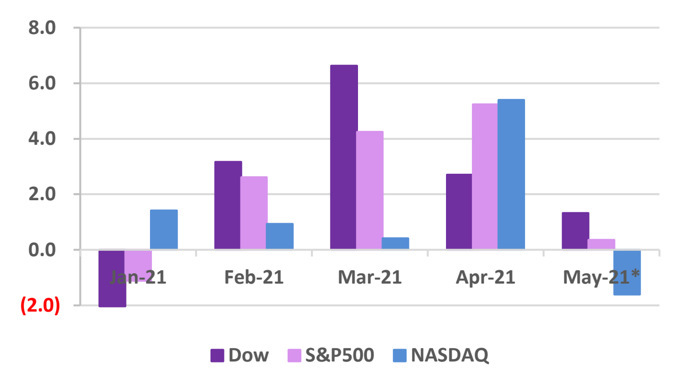
Source: Bloomberg

Fig. 5: US 10-year treasury bond yield (%)



Source: Bloomberg *26th May 2021

Fig. 6: US Stock Market Performance (MoM %)



Source: Bloomberg *26th May 2021

China economic indicators

	2018	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021
Real GDP (YoY%)	6.6	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3
PMI Manufacturing (%)	49.4	50.2	45.9	50.8	51.2	51.8	51.9	51.3
PMI Non-Manufacturing (%)	53.2	53.5	45.3	53.7	55.1	56.1	55.7	53.4
Exports (RMB YoY %)	7.1	5.0	(11.7)	4.2	9.8	10.9	4.0	38.7
Imports (RMB YoY %)	12.9	1.7	(1.0)	(5.8)	4.1	(0.4)	(0.7)	19.3
Trade Balance (RMB/bn)	2324.7	2912.0	94.0	1083.7	1108.6	1423.5	3700.3	759.3
Exports (USD YoY %)	9.9	0.5	(13.4)	(1.8)	8.4	16.7	3.6	49.0
Imports (USD YoY %)	15.8	(2.7)	(3.0)	(9.7)	3.1	4.9	(1.0)	28.0
Trade Balance (USD/bn)	350.9	421.1	12.4	153.8	157.1	211.7	533.7	116.4
CPI (YoY %)	2.1	2.9	4.9	2.7	2.3	0.1	2.5	0.0
PPI (YoY %)	3.5	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1
FAI (YTD/ YOY %)	5.9	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6
Real Estate Investment (YTD YoY %)	9.5	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6
Industrial Production (YoY %)	6.2	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5
Retail Sales (YoY%)	9.0	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9
New Lending (RMB/bn)	16166.3	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9
M2 (YoY %)	8.1	8.7	10.1	11.1	10.9	10.1	10.1	9.4
Aggregate Financing (RMB bn)	19258.4	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10237.9

	Apr 20	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21
Real GDP (YoY%)	-	-	3.2	-	-	4.9	-	-	6.5	-	-	18.3	-
PMI - Manufacturing %	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1
PMI - Non-manufacturing%	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9
Exports (RMB YoY %)	7.7	1.2	4.0	10.0	11.2	8.2	7.2	14.5	10.9	16.6	139.5	20.7	22.2
Imports (RMB YoY %)	(10.4)	(12.7)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	18.3	10.3	27.7	32.2
Trade Balance (RMB/bn)	316.1	437.9	322.7	435.7	411.6	254.8	399.8	507.9	516.8	428.6	247.3	87.98	276.5
Export (USD YoY %)	3.1	(3.5)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	24.8	154.9	30.6	32.3
Import (USD YoY %)	(14.4)	(16.7)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	26.6	17.3	38.1	43.1
Trade Balance (USD/bn)	45.1	62.2	45.6	61.4	58.2	36.6	58.2	75.6	78.2	65.4	37.9	13.8	42.85
CPI (YoY %)	3.3	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9
PPI (YoY %)	(3.1)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8
FAI (YTD/ YOY %)	(10.3)	(6.3)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9
Real Estate Investment (YTD/ YoY %)	(3.3)	(0.3)	1.9	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6
Industrial Production (YoY %)	3.9	4.4	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8
Retail Sales (YoY%)	(7.5)	(2.8)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7
New Lending (RMB/bn)	1697.8	1482.1	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0
M2 (YoY %)	11.1	11.1	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1
Aggregate Financing (RMB bn)	3102.7	3186.6	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5172.4	1723.9	3341.6	1850.0
Urban Unemployment Rate (%)	6.0	5.9	5.7	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1
Urban Unemployment Rate in 31 major cities (%)	5.8	5.9	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2

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CEB International

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,323.05	26.01	1.26
S&P 500	4,195.99	29.85	1.95
NASDAQ	13,738.00	89.62	3.30
EUR			
FTSE 100	7,026.93	51.89	1.10
DAX	15,450.72	33.15	0.42
CAC40S	6,391.60	45.75	2.06
STOXX EUR 600	445.22	37.78	2.04
Asia			
HSI	29,166.01	13.64	2.00
HSCEI	10,855.58	14.23	1.89
CSI300	5,320.59	17.95	2.87
SSE Composite	3,593.36	16.19	2.35
SZSE Composite	2,380.56	36.16	2.28
NIKKEI 225	28,642.19	20.11	2.13
KOSPI	3,168.43	20.27	(0.15)
TWSE	16,643.69	17.52	3.17
S&P/ASX 200	7,092.53	53.32	2.32
MSCI Index			
MSCI WORLD	2,969.51	29.62	2.01
MSCI DEVELOPED	708.52	27.87	1.99
MSCI EMERGING	1,351.95	19.82	1.84
MSCI US	4,066.42	29.63	2.13
MSCI UK	1,973.81	48.52	0.85
MSCI France	183.77	54.58	1.96
MSCI Germany	168.28	33.00	0.47
MSCI China	108.99	20.24	2.19
MSCI Hong Kong	17,435.22	47.14	1.45
MSCI Japan	1,176.51	19.50	1.49

* As of 2021/05/26 closing for all markets.

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)	(0.01)	0.00
US Treasury (1 Yr)	0.04	(0.008)
US Treasury (5 Yr)	0.78	(0.07)
US Treasury (10 Yr)	1.58	(0.10)
US Treasury (30 Yr)	2.26	(0.11)
1-Month LIBOR	0.0900	(0.009)
3 Month LIBOR	0.1385	(0.017)
Japan 1-Yr Gov. Bond	(0.12)	(0.004)
Japan 10-Yr Gov. Bond	0.07	(0.01)
German 1-Yr Gov. Bond	(0.63)	(0.00)
German 10-Yr Gov. Bond	(0.21)	(0.10)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.32	(0.14)
China 5-Yr Gov. Bond	2.88	(0.03)
China 10-Yr Gov. Bond	3.07	(0.052)
O/N SHIBOR	1.99	(0.04)
1-mth SHIBOR	2.41	(0.01)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.0007
1-mth HIBOR	0.08	0.000
O/N CNH HIBOR	2.36	(0.04)
1-mth CNH HIBOR	2.57	(0.151)
Corporate Bonds (Moody's)		
Aaa	2.89	(0.12)
Baa	3.57	(0.10)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.21	4.50
ICE Brent Oil	USD/bbl	68.87	3.32
NYMEX Natural	USD/MMBtu	2.98	0.67
BasicMetals			
LME Aluminum	USD/MT	2,368.00	(0.66)
CMX Copper	USD/lb.	452.95	(1.03)
LME Steel Rebar	USD/MT	746.00	(1.32)
LME Lead Cash	USD/MT	2,173.25	(0.01)
Precious Metals			
CMX Gold	USD/T. oz	1,908.20	2.72
Gold Futures	USD/T. oz	1,903.80	1.08
CMX Silver	USD/T. oz	28.12	1.54
NYMEX Platinum	USD/T. oz	1,204.81	(0.38)
Agricultural			
CBOT Corn	USD/bu	624.50	(5.13)
CBOT Wheat	USD/bu	648.50	(4.53)
NYB-ICE Sugar	USD/lb.	16.78	(1.00)
CBOT Soybeans	USD/bu.	1,503.50	(2.26)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	90.04	(0.17)
Euro/USD	1.2238	0.25
GBP/USD	1.4172	0.08
AUD/USD	0.7781	0.40
USD/CAD	1.2074	0.02
USD/JPY	108.86	(0.36)
USD/CHF	0.8946	(0.77)
USD/CNY Midpoint	6.4099	(0.24)
USD/CNY	6.3908	(0.69)
USD/CNY NDF-12-mth	6.5423	(0.94)
USD/CNH	6.3788	(0.88)
USD/HKD	7.7622	(0.03)
CNY/HKD	1.2146	0.66
CNH/HKD	1.2168	0.85
USD/KRW	1,116.90	(1.18)
USD/TWD	27.81	(0.59)
USD/SGD	1.32	(0.71)
USD/INR	72.78	(0.36)

All data sources: Bloomberg

Disclosures

Analyst Certification

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