光銀國際
CEB International

June 21, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The U.S. Federal Reserve (the Fed) voted to keep the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero.
- The Fed pointed out that the U.S. economy has demonstrated growing strengths, thus reflecting solid economic recovery along with rising inflation pressures. The Fed's officials also signaled interest rate hikes by late 2023.
- The health crisis continues to pose risks to recovery momentum and employment conditions which drive the Fed to maintain super-easy monetary stance. The near-term outlook for inflation suggests a temporary spike, reflecting an adjustment higher in price level as the global economy recovers from the severe economic shocks of the pandemic.
- We are of the view that the U.S. economy is still a long way from the goal of achieving full employment and keeping FFR at the floor until 2022 remains as the key tool of the Fed. But in light of strong economic indicators and employment conditions, the Fed may begin to scale back the bond-buying program as early as 4Q2021 in an attempt to avoid permanent inflation uptick.

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The Fed projecting earlier rate hikes

At the conclusion of the fourth Federal Open Markets Committee (FOMC) policy meeting in 2021 on 16th June, the U.S. Federal Reserve (the Fed) voted to keep the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero while continuing its asset purchase program at least at the current pace of USD 120 billion per month. The Fed pointed out that the U.S. economy has demonstrated growing strengths, thus reflecting solid economic recovery along with rising inflation pressures. The Fed's officials also signaled interest rate hikes by late 2023, sooner than they anticipated in March, as the economy recovers rapidly and inflation heats up. In sum, even though inflation risks are tilted to the upside, the ongoing health crisis continues to pose risks to recovery momentum and employment conditions which drive the Fed to maintain super-easy monetary stance by ensuring proper revival of economic activities. The current uptrend of inflation is transitory on low-base effect and short-term soaring commodity prices. The near-term outlook for inflation continues to suggest a temporary spike, reflecting an adjustment higher in price level as the global economy recovers from the severe economic shocks of the pandemic. We are of the view that the U.S. economy is still a long way from the goal of achieving full employment and keeping FFR at the floor until 2022 remains as the key tool of the Fed. Accelerating vaccination rollout in the U.S. is expected to lower health risks and drive an economic rebound as pent-up spending is unleashed. In light of strengthening indicators of economic activity and employment, the Fed may begin to scale back the bond-buying program as early as 4Q2021 in an attempt to avoid permanent inflation uptick.

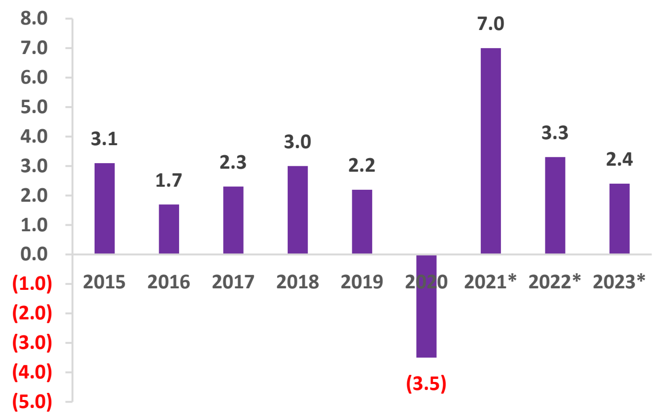
The U.S. economic recovery picking up on fiscal stimulus and accelerating vaccination. Reviving economic momentum of the U.S. economy from coronavirus shocks is the top agenda of Biden's administration. With the pickup in the speed of vaccination and launch of sizable fiscal stimulus, the U.S. economy demonstrates an optimistic outlook on acceleration of activity normalization and growth rebound. Recent strong economic data further support creation of new jobs, thus lowering the unemployment rate from 6.1% to 5.8% in

May. In addition, manufacturing activities continue to lead the recovery as May Markit and ISM manufacturing Purchasing Managers' Index (PMI) stayed above the expansion threshold of 50 at 62.1 and 61.2 respectively. In the wake of continued improvement in economic conditions, the Fed raised the projection of GDP growth to 7.0% for 2021 from March projection's 6.5%. The Fed also projected that personal consumption expenditure (PCE) index and core PCE index will be raised to 3.4% and 3.0% in 2021 from March projection of 2.4% and 2.2%. In sum, strengthening growth rebound expectations are driven by factors including the vaccination rollout, rising commodities prices and increasing government and personal consumption. We are of the view that the Fed will stay on course to maintain accommodative liquidity conditions in 2021 with the aim to strike a balance between solid economic recovery and surging price level.

Mounted government spending for pandemic relief in the U.S becoming the key factor to overshoot inflation. 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 1H2021, with accelerated growth of consumption and investment in vary degrees. 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.

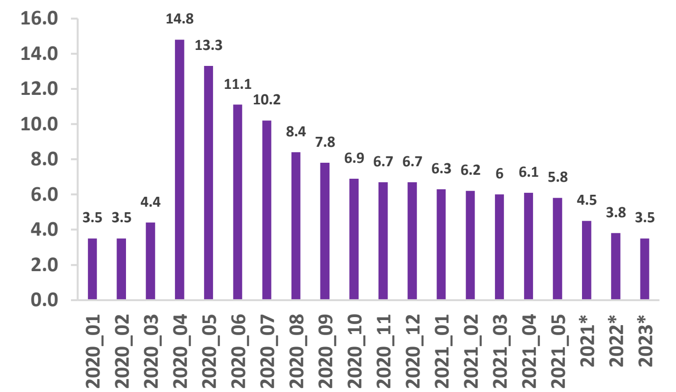
The Fed staying on course to maintain favorable liquidity conditions in 2021. A bigger-than-expected increase in U.S. consumer prices has put the markets on high alert for surging inflationary pressure that could tilt the Fed toward tightening the easy monetary stance. The Fed's mandate is to maintain 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 pandemic continues to pose economic risks to the U.S. economy 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 %)



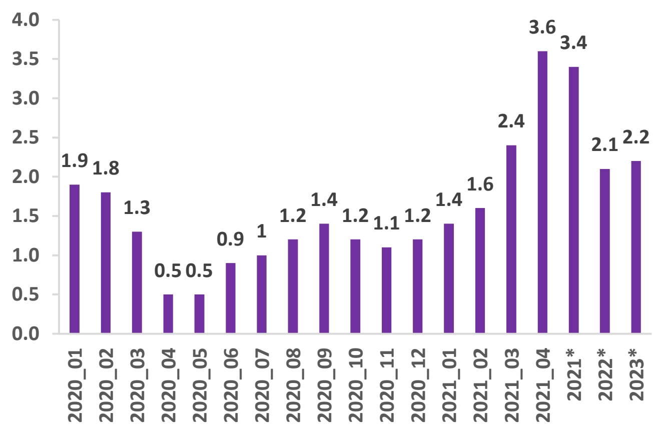
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



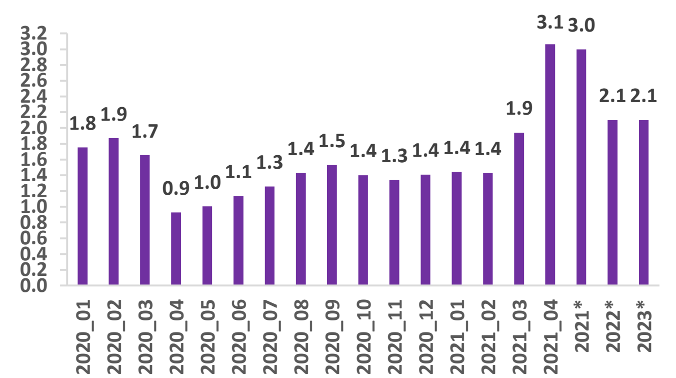
Source: Bloomberg *The Fed's forecast

Fig. 3: US PCE price index (YoY %)



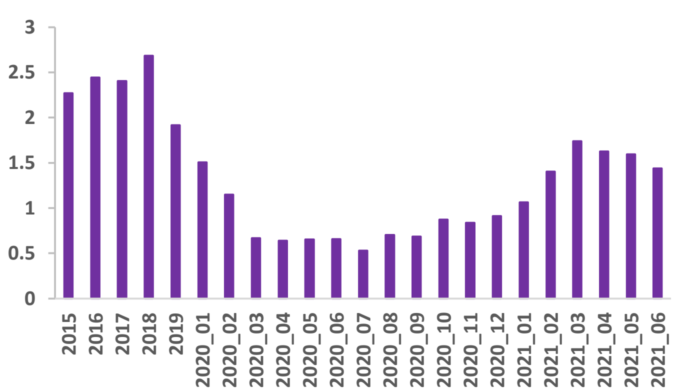
Source: Bloomberg *The Fed's forecast

Fig. 4: US Core PCE price index (YoY %)



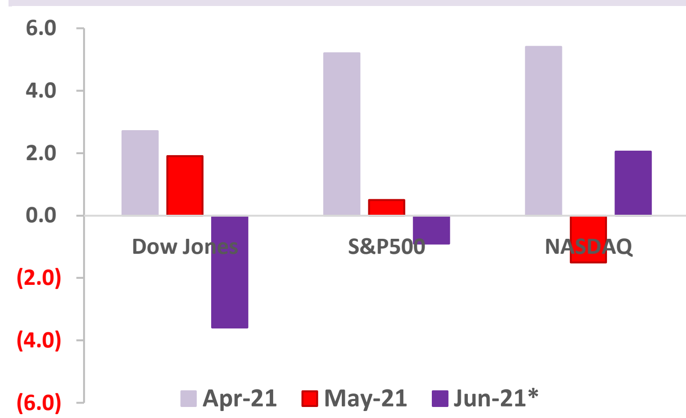
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg *18th June

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



Source: Bloomberg *18th June

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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)	(5.6)	4.7	0.04	(0.4)	19.3
Trade Balance (RMB/bn)	2324.7	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	750.9
Exports (USD YoY %)	9.9	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9
Imports (USD YoY %)	15.8	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.2
Trade Balance (USD/bn)	350.9	421.1	12.7	151.7	153.7	209.3	526.9	115.1
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	10266.2

	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21
Real GDP (YoY%)	-	3.2	-	-	4.9	-	-	6.5	-	-	18.3	-	-
PMI - Manufacturing %	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0
PMI - Non-manufacturing%	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2
Exports (RMB YoY %)	1.2	4.0	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.4	20.7	22.2	18.1
Imports (RMB YoY %)	(12.7)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	18.9	10.6	27.8	32.2	39.5
Trade Balance (RMB/bn)	435.7	317.4	429.1	405.0	248.0	395.7	502.8	509.2	420.7	243.7	86.4	276.5	296.0
Export (USD YoY %)	(3.5)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.8	30.6	32.3	27.9
Import (USD YoY %)	(16.7)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	27.3	17.6	38.2	43.1	51.1
Trade Balance (USD/bn)	61.9	44.8	60.5	57.3	35.6	57.5	74.8	77.0	64.2	37.3	13.5	42.9	45.5
CPI (YoY %)	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3
PPI (YoY %)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0
FAI (YTD/ YOY %)	(6.3)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4
Real Estate Investment (YTD/ YoY %)	(0.3)	1.9	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3
Industrial Production (YoY %)	4.4	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8
Retail Sales (YoY%)	(2.8)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4
New Lending (RMB/bn)	1482.1	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0
M2 (YoY %)	11.1	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3
Aggregate Financing (RMB bn)	3186.6	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5175.8	1723.9	3366.5	1850.7	1920.0
Urban Unemployment Rate (%)	5.9	5.7	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0
Urban Unemployment Rate in 31 major cities (%)	5.9	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2

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World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	33,290.08	25.11	(3.45)
S&P 500	4,166.45	29.46	(1.91)
NASDAQ	14,030.38	92.83	(0.28)
EUR			
FTSE 100	7,017.47	50.39	(1.63)
DAX	15,448.04	33.11	(1.56)
CAC40S	6,569.16	47.01	(0.48)
STOXX EUR 600	452.05	38.11	(1.19)
Asia			
HSI	28,801.27	13.27	0.22
HSCEI	10,646.39	14.29	(0.65)
CSI300	5,102.47	18.18	(3.21)
SSE Composite	3,525.10	15.83	(2.38)
SZSE Composite	2,378.61	35.97	(1.82)
NIKKEI 225	28,964.08	20.33	0.05
KOSPI	3,267.93	20.87	0.57
TWSE	17,318.54	18.22	0.93
S&P/ASX 200	7,368.85	53.37	0.91
MSCI Index			
MSCI WORLD	2,954.19	29.40	(1.94)
MSCI DEVELOPED	705.97	26.84	(1.88)
MSCI EMERGING	1,361.25	16.99	(1.50)
MSCI US	4,053.83	29.71	(1.68)
MSCI UK	1,971.14	48.27	(1.56)
MSCI France	188.57	54.28	(0.49)
MSCI Germany	169.29	33.58	(1.32)
MSCI China	107.55	13.67	(1.03)
MSCI Hong Kong	16,908.22	34.93	(0.27)
MSCI Japan	1,194.82	20.21	(0.19)

* As of 2021/06/18 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)	0.03	0.03
US Treasury (1 Yr)	0.08	0.030
US Treasury (5 Yr)	0.87	0.14
US Treasury (10 Yr)	1.44	(0.01)
US Treasury (30 Yr)	2.01	(0.13)
1-Month LIBOR	0.0910	0.018
3 Month LIBOR	0.1349	0.016
Japan 1-Yr Gov. Bond	(0.11)	0.002
Japan 10-Yr Gov. Bond	0.06	0.02
German 1-Yr Gov. Bond	(0.64)	0.001
German 10-Yr Gov. Bond	(0.20)	0.07
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.47	0.05
China 5-Yr Gov. Bond	2.98	0.004
China 10-Yr Gov. Bond	3.15	0.022
O/N SHIBOR	2.01	0.12
1-mth SHIBOR	2.40	0.02
HK Base rate	0.50	0.00
O/N HIBOR	0.03	(0.0034)
1-mth HIBOR	0.09	0.001
O/N CNH HIBOR	2.66	1.05
1-mth CNH HIBOR	2.77	0.441
Corporate Bonds (Moody's)		
Aaa	2.71	(0.1)
Baa	3.36	(0.09)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	71.64	1.03
ICE Brent Oil	USD/bbl	73.51	1.13
NYMEX Natural	USD/MMBtu	3.22	(2.46)
BasicMetals			
LME Aluminum	USD/MT	2,375.00	(3.65)
CMX Copper	USD/lb.	416.35	(8.40)
LME Steel Rebar	USD/MT	725.00	1.40
LME Lead Cash	USD/MT	2,145.25	(2.53)
Precious Metals			
CMX Gold	USD/T. oz	1,764.16	(6.04)
Gold Futures	USD/T. oz	1,769.00	(5.88)
CMX Silver	USD/T. oz	25.79	(7.63)
NYMEX Platinum	USD/T. oz	1,043.48	(9.34)
Agricultural			
CBOT Corn	USD/bu	566.25	(7.13)
CBOT Wheat	USD/bu	665.75	(2.92)
NYB-ICE Sugar	USD/lb.	16.66	(5.72)
CBOT Soybeans	USD/bu.	1,313.00	(8.74)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.23	1.84
Euro/USD	1.1864	(2.02)
GBP/USD	1.3810	(2.11)
AUD/USD	0.7479	(2.97)
USD/CAD	1.2465	2.53
USD/JPY	110.21	0.50
USD/CHF	0.9216	2.59
USD/CNY Midpoint	6.4361	0.61
USD/CNY	6.4531	0.94
USD/CNY NDF-12-mth	6.6322	1.10
USD/CNH	6.4616	1.02
USD/HKD	7.7628	0.02
CNY/HKD	1.2030	(0.90)
CNH/HKD	1.2012	(1.00)
USD/KRW	1,132.1	1.88
USD/TWD	27.79	0.42
USD/SGD	1.3451	1.44
USD/INR	73.87	1.08

All data sources: Bloomberg

Disclosures

Analyst Certification

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