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Economic Acumen

Commentary by CEBI Research Team

In Brief

- Crude oil prices have recovered strongly, driven by firming demand and continued production restraint by OPEC+.
- Looking into the second half of 2021, direction of oil prices hinges on the recovery momentum of global economic activities through proper vaccination and OPEC+ oil output policy decision.
- We are of the view that the latest cancelation of scheduled meeting of OPEC+ dashed hopes for an agreement of oil-output boost to satisfy surging oil demand, thus lifting further gains in oil prices.
- Demand-side recovery in oil market remains intact for the rest of 2021 but the growth momentum will slow amid robust rise of oil prices in 1H2021, the spread of 'Delta' Coronavirus variant worldwide exacerbating concerns of a setback in oil demand, possible Iranian crude oil exports returning to the global oil market as well as possible inflation hikes affecting global economic growth. We forecast crude oil prices will soar gradually between USD \$75 and \$85 per barrel.

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Navigating uptrend of oil prices

Coronavirus pandemic send economic shocks through global oil markets, causing an unprecedented impact on worldwide oil demand and supply. Although the oil market is still struggling to return to pre-pandemic levels, easing out of pandemic lockdown and reopening of economic activities along with accelerating vaccination rollout have rebalanced oil market dislocation and enhanced demand for gasoline and jet fuel, thus lending great support to crude oil prices. In light of strengthening indicators of global economic activity and employment, oil prices have recovered strongly, driven by firming demand and continued production restraint by Organization of the Petroleum Exporting Countries and its allies (OPEC+). Looking into the second half of 2021, direction of oil prices hinges on the recovery momentum of global economic activities through proper vaccination and OPEC+ oil output policy decision. We are of the view that the latest cancelation of scheduled meeting of OPEC+ dashed hopes for an agreement of oil-output boost to satisfy surging oil demand, thus lifting further gains in oil prices. Demand-side recovery in oil market remains intact for the rest of 2021 but the growth momentum will slow amid robust rise of oil prices in 1H2021, the spread of 'Delta' Coronavirus variant worldwide exacerbating concerns of a setback in oil demand, possible Iranian crude oil exports returning to the global oil market as well as possible inflation hikes affecting global economic growth. Nevertheless, oil prices will continue to pursue upward trend by witnessing volatilities and fluctuations on uneven global recovery momentum. We forecast crude oil prices will soar gradually between USD \$75 and \$85 per barrel.

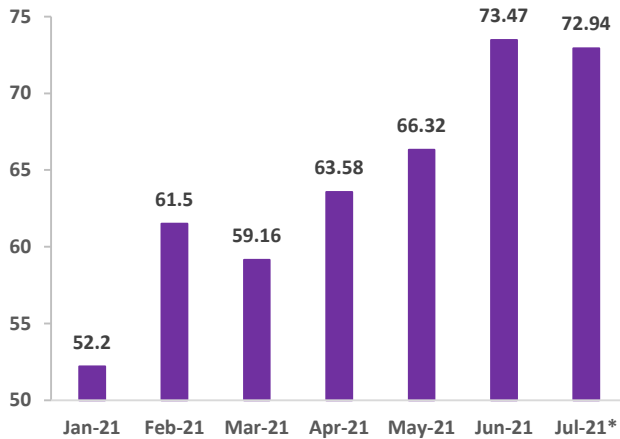
OPEC+'s delayed decision on oil supply boost keeping the rally of oil prices for the rest of 2021. With regard to oil production, OPEC+ maintains a policy to closely monitor oil prices to prevent a sharp drop if the pandemic spreads again. At the same time, OPEC+ aims to achieve stable oil prices hikes in line with recovery momentum of global economy. In sum, re-opening of most economies in the second half of 2021 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 spread of 'Delta' Coronavirus variant renews the concerns over faltering oil demand, forcing OPEC+ to delay sizable production increases. We are of the view that worldwide oil producers will maintain supply restraint in the second half of 2021 as uneven global economic recovery and ongoing pandemic continue to cloud the outlook of oil market. Market imbalances continue to support the upside momentum of oil prices.

Oil demand coming back in force due to accelerated global vaccination rate. The upheaval in the crude oil markets reflects the significance of coronavirus shocks in driving the rebalancing of global oil consumption. With the pickup in the speed of vaccination and launch of sizable fiscal relief stimulus, the global economy demonstrates an optimistic outlook on acceleration of activity normalization and growth rebound. In sum, vaccination remains as the major 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. Crude oil consumption continues to increase as gasoline and diesel have mostly returned to pre-pandemic levels, but jet fuel consumption remains considerably lower as air travel has been slower to recover. As global and regional oil inventories have been falling so far this year, surging demand for oil provide strong support on oil prices.

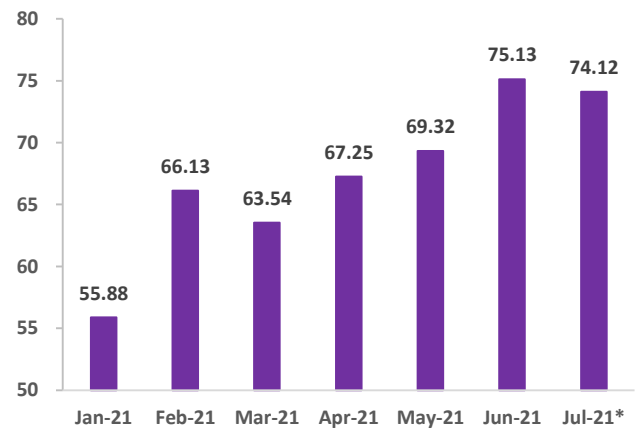
Commodity currencies outperforming in 2H2021. Amid the expected acceleration of global economic recovery on the relief of the pandemic, oil prices have rebounded strongly, posting more than 50% jump for WTI in the first seven months of 2021. The massive rise in oil prices has impacted commodities and currencies. Commodities generally track the price of oil and the currencies of the commodities producing nations benefit from growing strengths of crude oil price. The strengths of commodities recovers strongly due to the rebound of oil price, thus resulting in appreciation of commodity currency such as CAD YTD by 1.6%. 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 allows economic activities to return more rapidly to pre-pandemic levels, which will increase demand for commodities and provide strong support to commodity currencies in 2021.

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



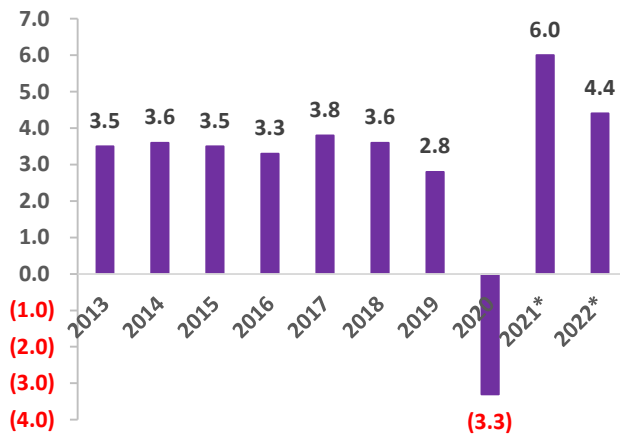
Source: Bloomberg *8th July 2021

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



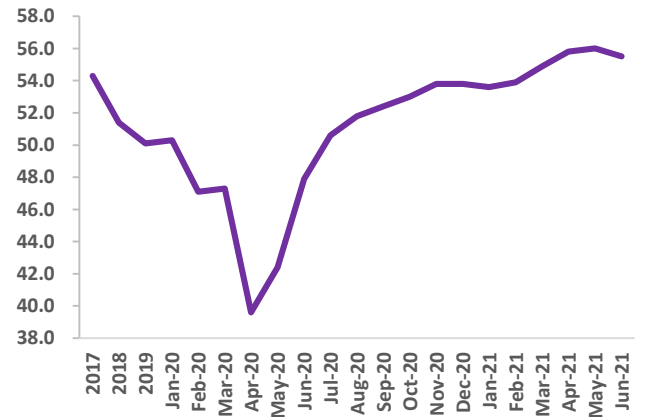
Source: Bloomberg *8th July 2021

Fig. 3: World Economic Growth (YoY%)



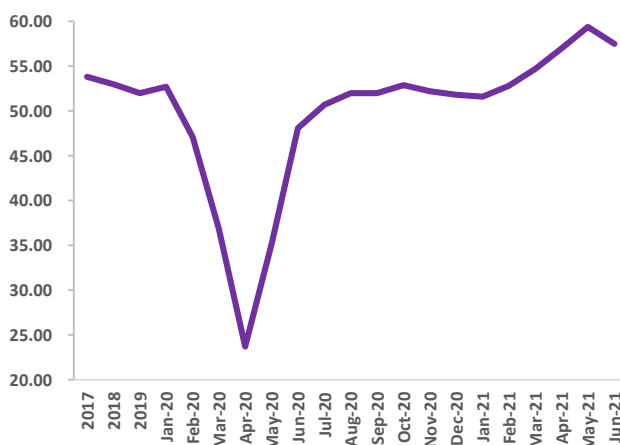
Source: International Monetary Fund (IMF) * Forecast

Fig. 4: JP Morgan Global Manufacturing PMI



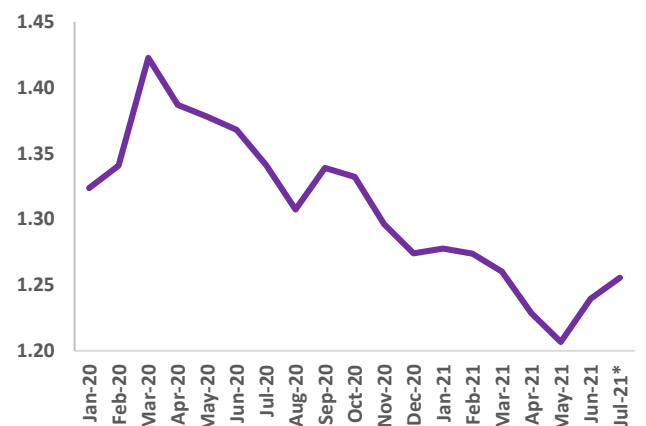
Source: Bloomberg

Fig. 5: JP Morgan Global Services PMI



Source: Bloomberg

Fig. 6: USD/CAD



Source: Bloomberg *8th July 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
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	750.8
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

	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21
Real GDP (YoY%)	3.2	-	-	4.9	-	-	6.5	-	-	18.3	-	-	-
PMI													
- Manufacturing %	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9
- Non-manufacturing%	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5
Exports (RMB YoY %)	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 %)	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)	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 %)	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 %)	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)	44.8	60.5	57.3	35.6	57.5	74.8	77.0	64.2	37.3	13.6	42.9	45.5	-
CPI (YoY %)	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1
PPI (YoY %)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8
FAI (YTD/ YOY %)	(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 %)	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 %)	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	-
Retail Sales (YoY%)	(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)	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	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)	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5175.8	1723.9	3366.5	1850.7	1920.5	-
Urban Unemployment Rate (%)	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 (%)	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,421.93	25.54	(0.23)
S&P 500	4,320.82	30.48	0.54
NASDAQ	14,559.79	114.56	0.38
EUR			
FTSE 100	7,030.66	50.23	(1.33)
DAX	15,420.64	32.79	(1.17)
CAC40S	6,396.73	44.31	(2.40)
STOXX EUR 600	451.61	45.82	(0.88)
Asia			
HSI	27,153.13	12.50	(5.81)
HSCEI	9,822.56	13.16	(7.89)
CSI300	5,088.26	18.16	(2.70)
SSE Composite	3,525.50	15.98	(1.76)
SZSE Composite	2,435.21	36.73	(0.29)
NIKKEI 225	28,118.03	19.64	(2.05)
KOSPI	3,252.68	20.86	(0.90)
TWSE	17,866.09	18.56	0.86
S&P/ASX 200	7,341.43	52.87	1.04
MSCI Index			
MSCI WORLD	3,022.24	29.99	(0.20)
MSCI DEVELOPED	717.06	27.20	(0.66)
MSCI EMERGING	1,316.25	16.42	(3.80)
MSCI US	4,203.94	30.67	0.48
MSCI UK	1,977.89	48.33	(1.19)
MSCI France	184.02	53.11	(2.14)
MSCI Germany	169.23	33.57	(0.88)
MSCI China	101.06	12.88	(7.68)
MSCI Hong Kong	16,609.33	34.31	(1.24)
MSCI Japan	1,179.60	19.88	(0.90)

* As of 2021/07/8 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	72.94	(0.72)
ICE Brent Oil	USD/bbl	74.12	(2.27)
NYMEX Natural	USD/MMBtu	3.69	1.04
Basic Metals			
LME Aluminum	USD/MT	2,424.00	(2.87)
CMX Copper	USD/lb.	426.45	(0.57)
LME Steel Rebar	USD/MT	740.00	0.34
LME Lead Cash	USD/MT	2,303.50	1.65
Precious Metals			
CMX Gold	USD/T. oz	1,817.48	2.27
Gold Futures	USD/T. oz	1,800.20	1.61
CMX Silver	USD/T. oz	26.15	(0.45)
NYMEX Platinum	USD/T. oz	1,077.71	(1.22)
Agricultural			
CBOT Corn	USD/bu	523.75	(11.00)
CBOT Wheat	USD/bu	618.00	(9.05)
NYB-ICE Sugar	USD/lb.	17.45	(2.46)
CBOT Soybeans	USD/bu.	1,319.50	(5.68)

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)	0.04	0.01
US Treasury (1 Yr)	0.06	(0.005)
US Treasury (5 Yr)	0.74	(0.15)
US Treasury (10 Yr)	1.29	(0.17)
US Treasury (30 Yr)	1.93	(0.13)
1-Month LIBOR	0.10	0.002
3 Month LIBOR	0.12	(0.02)
Japan 1-Yr Gov. Bond	(0.09)	0.003
Japan 10-Yr Gov. Bond	0.03	(0.02)
German 1-Yr Gov. Bond	(0.66)	(0.03)
German 10-Yr Gov. Bond	(0.31)	(0.11)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.18	(0.13)
China 5-Yr Gov. Bond	2.84	(0.10)
China 10-Yr Gov. Bond	2.99	(0.10)
O/N SHIBOR	1.79	0.06
1-mth SHIBOR	2.36	(0.05)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	(0.0080)
1-mth HIBOR	0.09	(0.009)
O/N CNH HIBOR	3.03	(0.19)
1-mth CNH HIBOR	2.92	(0.06)
Corporate Bonds (Moody's)		
Aaa	2.57	(0.06)
Baa	3.22	(0.10)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.42	(0.19)
Euro/USD	1.1841	(0.22)
GBP/USD	1.3775	(0.12)
AUD/USD	0.7434	(0.73)
USD/CAD	1.2557	1.29
USD/JPY	109.81	(1.47)
USD/CHF	0.9172	(0.84)
USD/CNY Midpoint	6.4705	(0.01)
USD/CNY	6.4905	0.33
USD/CNY NDF-12-mth	6.6649	0.38
USD/CNH	6.4967	0.39
USD/HKD	7.7693	0.06
CNY/HKD	1.1969	(0.29)
CNH/HKD	1.1959	(0.33)
USD/KRW	1,144.95	1.06
USD/TWD	28.01	0.42
USD/SGD	1.3523	0.44
USD/INR	74.71	0.21

All data sources: Bloomberg

Disclosures

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