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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The highly contagious DV has been reported around the world, posing a serious threat to the global pandemic flight and economic recovery in 2H2021.
- The spread of more coronavirus in the U.S., Europe and Asia has led to some re-tightening of lockdown restrictions and major financial markets were shaken by the fears over fading recovery strengths in July while US treasury yields hit the lowest since February 2021. We are of the view that prolonged uncertainties regarding the control of the coronavirus epidemic weigh on growth recovery momentum.
- In the wake of complicated economic and health environment, global central banks and governments point to strengthen the accommodative stance of economic tools with which continuation of loose monetary and fiscal conditions remain intact, thus supporting revival of economic activities and ensuring soft-landing of global economy in 2H2021.

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The fast-spreading Delta variant clouding global recovery outlook

The highly contagious Delta variant (DV) has been reported around the world, posing a serious threat to the global pandemic flight and economic recovery in 2H2021. The fast-spreading DV instill new uncertainties around the path to economic normalization as the new strain recently triggers rebound in infected coronavirus cases, raising the concerns about slowdown of economic rebound. The spread of more coronavirus in the U.S., Europe and Asia has led to some re-tightening of lockdown restrictions and major financial markets were shaken by the fears over fading recovery strengths in July while US treasury yields hit the lowest since February 2021. In sum, DV's surge does inflict greater macroeconomic damage through delays in fully reopening of economies. We are of the view that prolonged uncertainties regarding the control of the coronavirus epidemic weigh on growth recovery momentum. Policy makers around the world remain cautious as DV brings new headwind to the economic outlook with which the ongoing pandemic may pose larger-than-expected health and economic risks in 2H2021. In the wake of complicated economic and health environment, global central banks and governments point to strengthen the accommodative stance of economic tools with which continuation of loose monetary and fiscal conditions remain intact, thus supporting revival of economic activities and ensuring soft-landing of global economy in 2H2021.

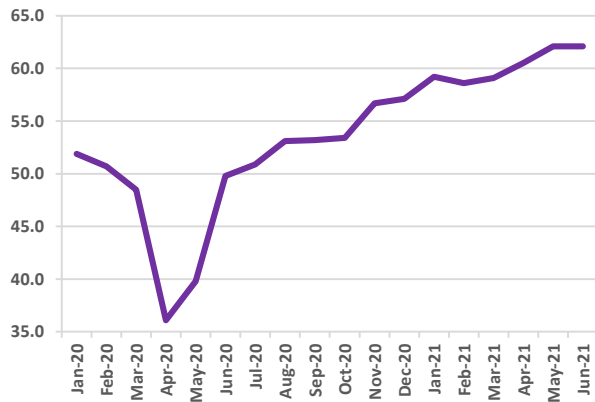
Ongoing pandemic deepening uneven recovery of developed economies in 2H2021. For the U.S., economic activities will rebound at a decelerating pace amid a new wave of infections due to delta variant. The new health risks endanger ongoing normalization of economic activities in different states of the U.S. with which resurgence in coronavirus cases is threatening swift economic recovery. Although the easy monetary policy of the Federal Reserve (Fed) along government's sizable fiscal support continue to be the major tools to handle economic shocks, it is unavoidable that the U.S. economy will face short-term slowdown in recovery momentum. Building immunity barrier through widespread vaccination remains as

the best protection against delta variant, which helps restore normal economic recovery momentum. For Europe, a bright economic outlook is projected as lockdowns and other restrictions were lifted and increased spending and confidence boosted business activity. However, rising coronavirus infection rates, driven by the fast-spreading DV, are forcing more European countries to re-impose restrictions that could cast doubts over the region's economic recovery prospects. Major disruptions to business are expected as the infection rate is among the highest for Europe since the pandemic took hold. The delay of reopening economies could stall economic recovery of Europe. For Japan, the spread of DV is affecting the Tokyo summer Olympics as fears emerge about safety of running the games. Rising virus activity has forced Japanese officials to order a state of emergency for the Tokyo area and a spectator ban for Olympic events. Economic conditions are likely to worsen on muted normalization of economic activities and continued travel restrictions.

Rising coronavirus infection cases posing risk on Southeast Asia's economic conditions. The DV causes a rapid rise in coronavirus cases in Southeast Asia, causing a severe strain on the health infrastructure in some regions. Most economies has faced lagging growth acceleration due to slower access to vaccines with which the region has suffered dramatic rises in death and cases recently and low vaccination rates further enhance the fears of widespread infection of DV. Indonesia, the world's fourth most populous country in the world, is in the grips of a rapidly growing surge of infections, putting pressure on the country's health system and deepening the economic stagnation. In addition, Thailand reports rising infected cases, which push the government to impose social restrictions to prevent continued spread of the new wave of coronavirus. In sum, the complication of health environment creates more short-term economic turbulences in Southeast Asian countries.

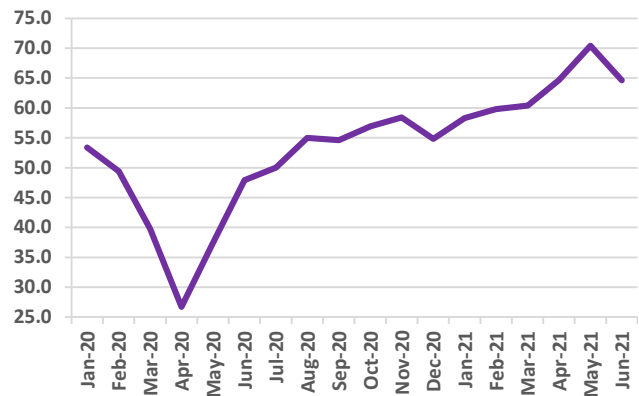
China embracing modest economic recovery despite worsening global pandemic conditions. China remains cautious on pandemic control as the rise of coronavirus cases around the world may endanger China's economic growth in 2H2021. In sum, China's economy has largely recovered from the pandemic-driven slowdown through the implementation of countercyclical monetary and fiscal policy to prop up economic growth. However, the recent spread of DV worldwide and surge in commodity prices have exacerbated economic uncertainties regarding the recovery momentum in 2H2021. The latest required reserve ratio (RRR) cut emerges a preemptive measure to help support the real economy and stabilize financial markets, thus strengthening efforts to maintain sustainable growth momentum. The People Bank of China (PBOC) will still maintain neutral and prudent monetary policy to cultivate an appropriate monetary and financial environment for China's economic growth and structural reforms. We forecast one more RRR cut before the end of 3Q2021 is needed to enhance financial support for China's economy.

Fig. 1: Markit U.S. Manufacturing PMI



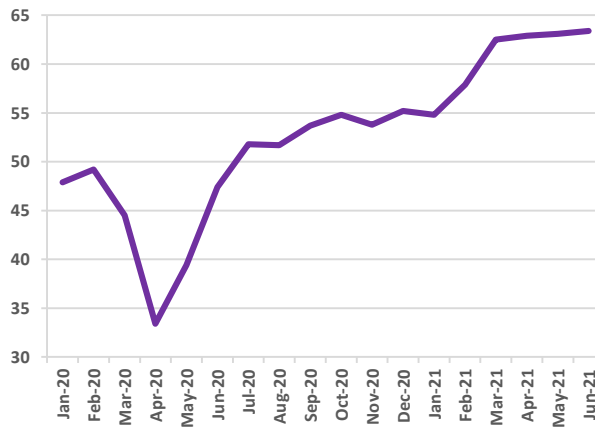
Source: Bloomberg

Fig. 2: Markit U.S. Services PMI



Source: Bloomberg

Fig. 3: Markit Eurozone Manufacturing PMI



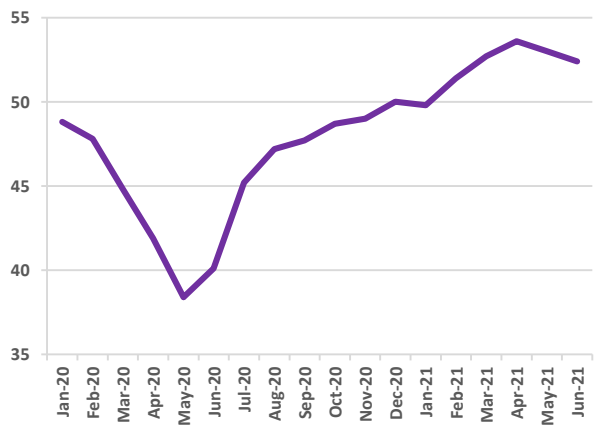
Source: Bloomberg

Fig. 4: Markit Eurozone Services PMI



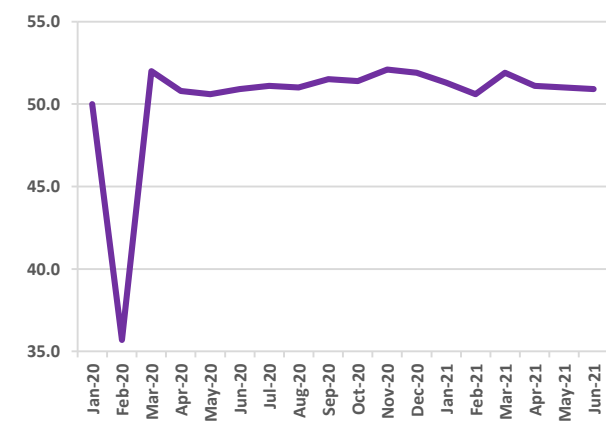
Source: Bloomberg

Fig. 5: Markit Japan Manufacturing PMI



Source: Bloomberg

Fig. 6: China Manufacturing PMI



Source: Bloomberg

China economic indicators

	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021
Real GDP (YoY%)	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9
PMI Manufacturing (%)	50.2	45.9	50.8	51.2	51.8	51.9	51.3	51.0
PMI Non-Manufacturing (%)	53.5	45.3	53.7	55.1	56.1	55.7	53.4	54.5
Exports (RMB YoY %)	5.0	(11.7)	4.2	9.8	10.9	4.0	38.6	20.1
Imports (RMB YoY %)	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	20.0	31.6
Trade Balance (RMB/bn)	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	733.4	900.3
Exports (USD YoY %)	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9	30.7
Imports (USD YoY %)	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.7	43.3
Trade Balance (USD/bn)	421.1	12.7	151.7	153.7	209.3	526.9	112.4	139.2
CPI (YoY %)	2.9	4.9	2.7	2.3	0.1	2.5	0.0	1.1
PPI (YoY %)	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2
FAI (YTD/ YOY %)	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6
Real Estate Investment (YTD YoY %)	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0
Industrial Production (YoY %)	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0
Retail Sales (YoY%)	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9
New Lending (RMB/bn)	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5090.0
M2 (YoY %)	8.7	10.1	11.1	10.9	10.1	10.1	9.4	8.6
Aggregate Financing (RMB bn)	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10266.2	7440.7

	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	-	-	7.9
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
PMI - 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	139.3	20.6	22.1	18.0	20.2
Imports (RMB YoY %)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2
Trade Balance (RMB/bn)	317.4	429.1	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7
Export (USD YoY %)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2
Import (USD YoY %)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7
Trade Balance (USD/bn)	44.8	60.5	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5
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	12.6
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	15.0
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	8.3
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	12.1
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	2120.0
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	8.6
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	3670.0
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	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	5.2

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,061.55	22.46	1.08
S&P 500	4,411.79	29.32	1.96
NASDAQ	14,836.99	114.37	2.84
EUR			
FTSE 100	7,027.58	50.23	0.28
DAX	15,669.29	29.36	0.83
CAC40S	6,568.82	44.93	1.68
STOXX EUR 600	461.51	43.80	1.49
Asia			
HSI	27,321.98	11.88	(2.44)
HSCEI	9,839.05	12.28	(3.09)
CSI300	5,089.23	18.14	(0.11)
SSE Composite	3,550.40	16.23	0.31
SZSE Composite	2,468.14	37.08	0.57
NIKKEI 225	27,548.00	19.28	(3.71)
KOSPI	3,254.42	19.65	(0.69)
TWSE	17,572.92	17.90	(1.80)
S&P/ASX 200	7,394.35	53.35	0.63
MSCI Index			
MSCI WORLD	3,072.38	29.16	1.58
MSCI DEVELOPED	727.13	26.58	1.11
MSCI EMERGING	1,311.30	16.25	(2.15)
MSCI US	4,298.44	29.70	2.20
MSCI UK	1,976.69	48.34	0.14
MSCI France	188.76	51.16	1.63
MSCI Germany	171.71	30.38	0.78
MSCI China	100.54	13.09	(3.71)
MSCI Hong Kong	16,775.23	34.66	(1.03)
MSCI Japan	1,167.10	19.61	(3.07)

* As of 2021/07/23 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	72.07	0.36
ICE Brent Oil	USD/bbl	74.10	0.69
NYMEX Natural	USD/MMBtu	4.06	10.51
Basic Metals			
LME Aluminum	USD/MT	2,492.22	1.00
CMX Copper	USD/lb.	440.00	1.78
LME Steel Rebar	USD/MT	726.50	0.35
LME Lead Cash	USD/MT	2,413.50	4.43
Precious Metals			
CMX Gold	USD/T. oz	1,802.15	(0.55)
Gold Futures	USD/T. oz	1,805.90	(0.73)
CMX Silver	USD/T. oz	25.18	(1.90)
NYMEX Platinum	USD/T. oz	1,063.54	(3.74)
Agricultural			
CBOT Corn	USD/bu	543.00	(1.63)
CBOT Wheat	USD/bu	684.00	(1.23)
NYB-ICE Sugar	USD/lb.	18.17	2.60
CBOT Soybeans	USD/bu.	1,351.75	(2.87)

All data sources: Bloomberg

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	0.00
US Treasury (1 Yr)	0.07	(0.005)
US Treasury (5 Yr)	0.71	(0.06)
US Treasury (10 Yr)	1.28	(0.01)
US Treasury (30 Yr)	1.92	(0.0004)
1-Month LIBOR	0.0861	0.003
3 Month LIBOR	0.1289	(0.005)
Japan 1-Yr Gov. Bond	(0.12)	(0.008)
Japan 10-Yr Gov. Bond	0.02	(0.01)
German 1-Yr Gov. Bond	(0.65)	0.01
German 10-Yr Gov. Bond	(0.42)	(0.07)
China LPR (1-year)	4.35	0.00
China 1-Yr Gov. Bond	1.95	(0.07)
China 5-Yr Gov. Bond	2.72	(0.06)
China 10-Yr Gov. Bond	2.91	(0.036)
O/N SHIBOR	2.06	(0.06)
1-mth SHIBOR	2.32	0.00
HK Base rate	0.04	0.00
O/N HIBOR	0.04	0.0023
1-mth HIBOR	0.07	(0.005)
O/N CNH HIBOR	2.59	(0.08)
1-mth CNH HIBOR	2.99	0.033
Corporate Bonds (Moody's)		
Aaa	2.54	(0.01)
Baa	3.22	(0.01)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.91	0.24
Euro/USD	1.1771	(0.30)
GBP/USD	1.3748	(0.14)
AUD/USD	0.7366	(0.47)
USD/CAD	1.2564	(0.39)
USD/JPY	110.55	0.44
USD/CHF	0.9194	0.00
USD/CNY Midpoint	6.4650	(0.09)
USD/CNY	6.4813	0.03
USD/CNY NDF-12-mth	6.6526	0.11
USD/CNH	6.4764	0.01
USD/HKD	7.7700	0.03
CNY/HKD	1.1988	(0.01)
CNH/HKD	1.1996	0.02
USD/KRW	1,150.80	0.94
USD/TWD	28.02	0.08
USD/SGD	1.3607	0.27
USD/INR	74.41	(0.18)

Disclosures

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