光銀國際
CEB INTERNATIONAL

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The Fed continued 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.
- Although the Fed did not lay out the schedule of tapering asset purchases during the FOMC meeting, the Fed Chairman Jerome Powell hinted that strong job market numbers in coming months will likely push forward the discussion of pulling back bond-buying program.
- The recent fast-spreading Delta variant (DV) of Coronavirus instill new uncertainties around the path to economic normalization as the rebound in infected cases raise the concerns about slowdown of economic recovery.
- It is still a long way for the U.S. economy to reach full employment level and keeping FFR at the floor until 2022 remains as the key tool of the Fed. It is expected that the Fed will disclose tapering timeline during the next FOMC meeting in September with which gradual reduction of asset purchases will kick-start in 4Q2021 to avoid continued inflation overshooting.

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The Fed moving closer to wind down asset purchases

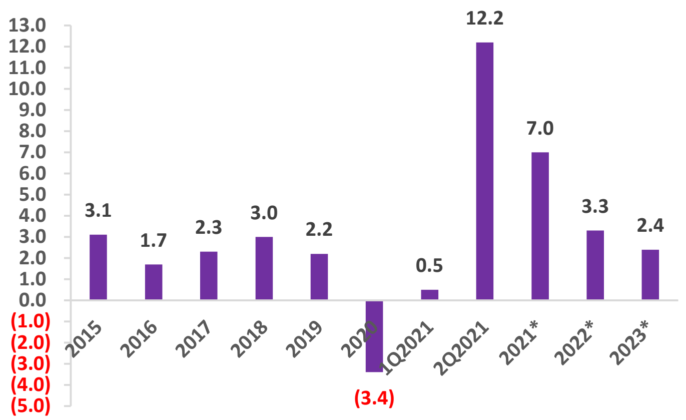
At the conclusion of the fifth Federal Open Markets Committee (FOMC) policy meeting in 2021 on 28th July, the U.S. Federal Reserve (Fed) continued to keep the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero while continuing its asset purchase program at least at the current pace of USD 120 billion per month. The Fed pointed out that the U.S. economy has demonstrated growing strengths driven by progress on vaccinations and strong policy support, thus making headway towards the achievement of full employment with stable prices. Although the Fed did not lay out the schedule of tapering asset purchases during the FOMC meeting, the Fed Chairman Jerome Powell hinted that strong job market numbers in coming months will likely push forward the discussion of pulling back bond-buying program. In sum, the recent fast-spreading Delta variant (DV) of Coronavirus instill new uncertainties around the path to economic normalization as the rebound in infected cases raise the concerns about slowdown of economic recovery. The ongoing health crisis poses risks to recovery momentum and employment conditions which drive the Fed to maintain loose monetary stance by ensuring proper revival of economic activities. The near-term outlook for rising inflation continues to suggest a temporary spike, reflecting an adjustment in higher 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 recovering at a faster pace and most sectors have shown improvement in business performance but have not fully recovered. It is still a long way for the U.S. economy to reach full employment level and keeping FFR at the floor until 2022 remains as the key tool of the Fed. It is expected that the Fed will disclose tapering timeline during the next FOMC meeting in September with which gradual reduction of asset purchases will kick-start in 4Q2021 to avoid continued inflation overshooting. Amid an economic rebound clouded by supply-chain bottlenecks and rising coronavirus cases, the Fed and Biden's administration point to maintain the accommodative stance of economic tools with which continuation of near-zero interest rate and expansionary fiscal conditions remain intact, thus supporting growth momentum of the U.S. economy in 2H2021.

The U.S recovery gaining traction on favorable economic policies and accelerating vaccination. With the acceleration of vaccination along sizable fiscal stimulus and loose monetary stance, 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 embraced an uptrend with accelerated growth of consumption and investment in vary degrees, thus supporting robust economic growth of 12.2% YoY% (6.5% QoQ%) in 2Q2021. Manufacturing activities continued to lead the recovery as July Markit manufacturing Purchasing Managers' Index (PMI) stayed above the expansion threshold of 50 at 63.1 while service sector was embedded into continuation of activity normalization as July Markit services PMI reached 59.8. Looking forward, accelerating vaccination rollout in the U.S. is expected to further lower health risks and push for a stronger economic rebound. Despite the potential rising health risks driven by DV, proactive monetary stance of the Fed and huge infrastructure stimulus package will help resist the headwinds and continue to enhance recovery momentum, thus brightening the economic outlook for 2021 and 2022.

The Fed staying on course to maintain favorable liquidity conditions in 2H2021. An 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. Even though inflation risks are on the rise, the ongoing pandemic, especially the threat from DV, 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 inflation uptrend is a temporary phenomenon. The U.S. economic activities have been reviving at a solid pace with the upbeat resilience, supported by continuation of loose monetary and fiscal conditions. We are of the view that the 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 2H2021 and 2012 but consider to taper asset purchases in the coming fourth quarter.

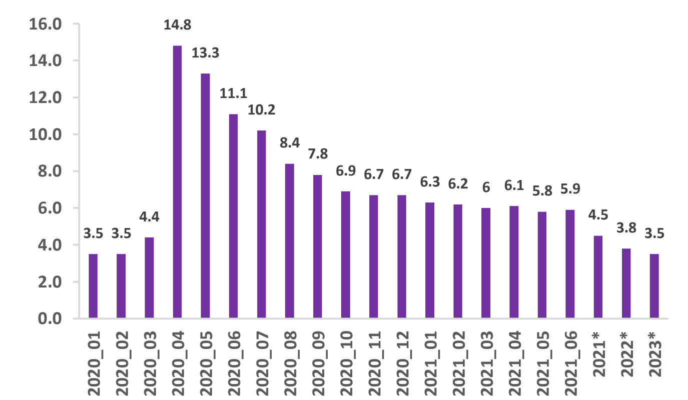
Emerging economies (EM) benefiting from ultra-low interest rate environment to fuel growth momentum. Global growth prospect stays uncertain due to varying health, economic and political environment in different continents. The DV causes a rapid rise in coronavirus cases in EM, causing a severe strain on the health infrastructure in some regions. Amid global economy embedded into new economic and health headwinds, major central banks including the Fed, European Central Bank (ECB) and Bank of Japan (BOJ) stay on track to maintain accommodative monetary policy, thus enhancing the global flow of liquidity and preventing near-term drag on economic activities. In sum, continued loosening of global liquidity strengthens a favorable credit environment to revive growth momentum of global demand for goods and services. A prolonged low interest rate environment will continue to direct global liquidity and capital flow into EM, thus boosting their aggregate demand and near-term growth momentum. The delay of normalizing monetary policy is of paramount importance in creating an accommodative credit environment for EM to boost recovery momentum in 2H2021.

Fig. 1: US GDP (YoY %)



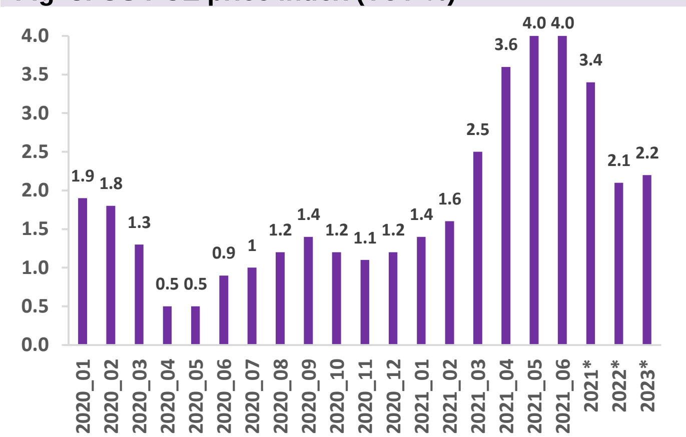
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



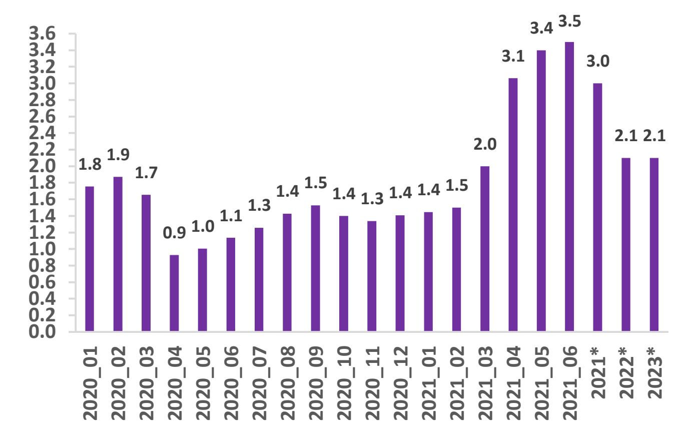
Source: Bloomberg *The Fed's forecast

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



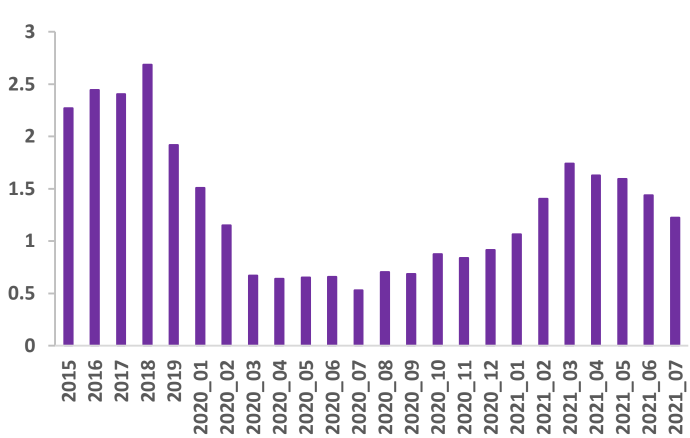
Source: Bloomberg *The Fed's forecast

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



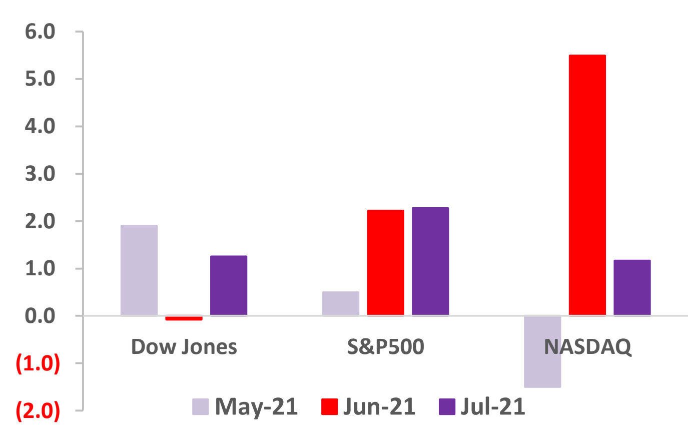
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg

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



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	34,935.47	21.37	(0.36)
S&P 500	4,395.26	27.47	(0.37)
NASDAQ	14,672.68	96.85	(1.11)
EUR			
FTSE 100	7,032.30	27.35	0.07
DAX	15,544.39	23.95	(0.80)
CAC40S	6,612.76	25.05	0.67
STOXX EUR 600	461.74	30.24	0.05
Asia			
HSI	25,961.03	11.26	(4.98)
HSCEI	9,233.22	11.56	(6.16)
CSI300	4,811.17	17.08	(5.46)
SSE Composite	3,397.36	15.49	(4.31)
SZSE Composite	2,385.62	35.65	(3.34)
NIKKEI 225	27,283.59	17.78	(0.96)
KOSPI	3,202.32	17.48	(1.60)
TWSE	17,247.41	17.15	(1.85)
S&P/ASX 200	7,392.62	49.58	(0.02)
MSCI Index			
MSCI WORLD	3,069.25	26.07	(0.10)
MSCI DEVELOPED	724.21	24.71	(0.40)
MSCI EMERGING	1,277.81	17.88	(2.55)
MSCI US	4,278.63	27.86	(0.46)
MSCI UK	1,979.56	26.68	0.15
MSCI France	189.82	26.22	0.56
MSCI Germany	170.00	24.91	(1.00)
MSCI China	94.43	18.86	(6.08)
MSCI Hong Kong	16,376.40	31.42	(2.38)
MSCI Japan	1,164.30	18.29	(0.24)

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	(0.003)
US Treasury (1 Yr)	0.06	(0.003)
US Treasury (5 Yr)	0.69	(0.02)
US Treasury (10 Yr)	1.22	(0.05)
US Treasury (30 Yr)	1.89	(0.02)
1-Month LIBOR	0.0905	0.004
3 Month LIBOR	0.1178	(0.011)
Japan 1-Yr Gov. Bond	(0.13)	(0.006)
Japan 10-Yr Gov. Bond	0.02	0.004
German 1-Yr Gov. Bond	(0.65)	0.001
German 10-Yr Gov. Bond	(0.46)	(0.04)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.00	0.05
China 5-Yr Gov. Bond	2.68	(0.04)
China 10-Yr Gov. Bond	2.86	(0.057)
O/N SHIBOR	2.18	0.12
1-mth SHIBOR	2.33	0.01
HK Base rate	0.50	0.00
O/N HIBOR	0.05	0.0065
1-mth HIBOR	0.08	0.009
O/N CNH HIBOR	2.50	(0.09)
1-mth CNH HIBOR	3.04	0.05
Corporate Bonds (Moody's)		
Aaa	2.51	(0.03)
Baa	3.22	0.00

* As of 2021/07/30 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	73.95	2.61
ICE Brent Oil	USD/bbl	76.33	3.01
NYMEX Natural	USD/MMBtu	3.91	(3.60)
BasicMetals			
LME Aluminum	USD/MT	2,598.00	4.24
CMX Copper	USD/lb.	448.25	1.87
LME Steel Rebar	USD/MT	738.00	(0.07)
LME Lead Cash	USD/MT	2,414.75	0.05
Precious Metals			
CMX Gold	USD/T. oz	1,814.19	0.67
Gold Futures	USD/T. oz	1,817.20	0.63
CMX Silver	USD/T. oz	25.49	1.25
NYMEX Platinum	USD/T. oz	1,051.55	(1.13)
Agricultural			
CBOT Corn	USD/bu	545.25	0.41
CBOT Wheat	USD/bu	703.75	2.89
NYB-ICE Sugar	USD/lb.	17.91	(1.43)
CBOT Soybeans	USD/bu.	1,349.25	(0.18)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.17	(0.79)
Euro/USD	1.1870	0.84
GBP/USD	1.3904	1.13
AUD/USD	0.7344	(0.30)
USD/CAD	1.2475	(0.71)
USD/JPY	109.72	(0.75)
USD/CHF	0.9059	(1.47)
USD/CNY Midpoint	6.4602	(0.07)
USD/CNY	6.4614	(0.31)
USD/CNY NDF-12-mth	6.6467	(0.09)
USD/CNH	6.4633	(0.20)
USD/HKD	7.7718	0.02
CNY/HKD	1.2029	0.34
CNH/HKD	1.2025	0.24
USD/KRW	1,150.25	(0.05)
USD/TWD	27.96	(0.21)
USD/SGD	1.3544	(0.46)
USD/INR	74.42	0.01

All data sources: Bloomberg

Disclosures

Analyst Certification

I, LAM Chiu Kei, Banny (CE Number: AGH217) being the person primarily responsible for the content of this research report, in whole, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to any listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of any listed company(ies) covered in this report.

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