

Sept 1, 2021

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Global central banks pledge to support the economic recovery by setting a higher bar for rate hikes with which ultra-low interest rate environment remains intact for longer duration.
- The Chairman of the Fed, Jerome Powell, hinted in his recent Jackson Hole address that the Fed may lay out the schedule of tapering monthly asset purchases this year but it should not be interpreted as a sign that rate hikes would follow soon. That implies the target range of the Fed fund rates (FFR) stays unchanged at the record-low level near zero for longer time to strengthen global recovery momentum.
- The highly contagious DV has been reported around the world, posing a serious threat to the global pandemic flight and economic recovery in 2H2021. 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, central banks and governments continue to retain loose monetary and fiscal conditions to strengthen revival of global economic activities.

**Banny Lam**  
Head of Research  
[Banny.lam@cebi.com.hk](mailto:Banny.lam@cebi.com.hk)  
(852)2916-9630

## Global accommodative monetary conditions propelling economic recovery momentum

Global central banks pledge to support the economic recovery by setting a higher bar for rate hikes with which ultra-low interest rate environment remains intact for longer duration. The Chairman of the U.S. Federal Reserve (Fed), Jerome Powell, hinted in his recent Jackson Hole address that the Fed may lay out the schedule of tapering monthly asset purchases of USD \$120 billion this year but it should not be interpreted as a sign that rate hikes would follow soon. That implies the target range of the Fed fund rates (FFR) stays unchanged at the record-low level near zero for longer time to strengthen global recovery momentum. In sum, 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, 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. We are of the view that prolonged uncertainties regarding the control of the coronavirus epidemic weigh on growth recovery momentum. Global policy makers around the world remain cautious as DV brings new headwinds to the economic outlook with which the ongoing pandemic may pose larger-than-expected health and economic risks. In the wake of complicated economic and health environment, global central banks and governments continue to retain the accommodative stance of economic tools with which continuation of loose monetary and fiscal conditions point to strengthen revival of global economic activities.

**The U.S. economy 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 stronger

recovery. The U.S. economic indicators embraced an uptrend with accelerated growth of consumption and investment in vary degrees, thus supporting robust economic growth in 1H2021. Manufacturing activities continued to lead the recovery as August Markit manufacturing Purchasing Managers' Index (PMI) stayed above the expansion threshold of 50 at 61.2 while service sector was embedded into continuation of activity normalization as August Markit services PMI reached 55.2. 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. The U.S. employment is still six million jobs below pre-pandemic level which is still a long way for the economy to reach full employment level. Keeping FFR at the floor for longer duration remains as the key tool of the Fed. It is expected that the Fed will disclose tapering timeline during the coming 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.

**Europe and Japan facing uneven economic recovery on the threat of DV.** A bright economic outlook for Europe is projected as lockdowns and other restrictions were lifted and increased spending and confidence boosted business activities. 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 clouds recovery outlook. The economic sluggishness is expected to persist as the DV fuels new cases. With infections continuing to hit new highs, Japan is posed to put seven more prefectures under a coronavirus state of emergency until Sept. 12, thus worsening muted normalization of economic activities and continued travel restrictions. Amid global economy embedded into new economic and health headwinds, 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.

**The People's Bank of China (PBOC) demonstrating strong capabilities to handle economic fluctuations.** The spread of DV re-amplifies health risks, thus leading to rising number of coronavirus infections and affecting the pace of activities normalization. A new round of outbreak on the Coronarvirus variant could lead to a more severe worsening of economic conditions with which slower recovery

is compounding global economic woes and triggering a severe blow to different sectors of global economy. Although China experienced strong GDP growth of 12.7% in 1H2021, recent economic and health headwinds exert pressure on China's growth momentum in 2H2021. In sum, the PBOC is tactful in monetary policy to handle economic fluctuations with which a stable and neutral monetary policy to be fine-tuned in line with economic conditions, along with China's structural reforms, helps offset the impacts of growth uncertainties, thus smoothing the turbulences in financial markets and maintaining a steady economic recovery in 2021. The PBOC will still maintain neutral and prudent monetary policy to cultivate an appropriate monetary and financial environment for China's economic growth and supply-side structural reforms. We forecast one more RRR cut before the end of 3Q2021 is needed to enhance financial support for China's economy.

## 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

	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21
Real GDP (YoY%)	-	-	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-
PMI - Manufacturing %	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4
PMI - Non-manufacturing%	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3
Exports (RMB YoY %)	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1
Imports (RMB YoY %)	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2	16.1
Trade Balance (RMB/bn)	429.1	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7	362.7
Export (USD YoY %)	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2	19.3
Import (USD YoY %)	(1.6)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7	28.1
Trade Balance (USD/bn)	60.5	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5	56.6
CPI (YoY %)	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0
PPI (YoY %)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0
FAI (YTD/ YOY %)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3
Real Estate Investment (YTD/ YoY %)	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7
Industrial Production (YoY %)	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4
Retail Sales (YoY%)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5
New Lending (RMB/bn)	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0	1080.0
M2 (YoY %)	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3
Aggregate Financing (RMB bn)	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5193.6	1724.5	3372.1	1850.3	1926.3	3668.9	1060.0
Urban Unemployment Rate (%)	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1
Urban Unemployment Rate in 31 major cities (%)	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.2

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	35,360.73	21.40	(0.02)
S&P 500	4,522.68	27.10	0.81
NASDAQ	15,259.24	132.71	1.59
<b>EUR</b>			
FTSE 100	7,119.70	18.97	0.15
DAX	15,835.09	18.13	(0.44)
CAC40S	6,680.18	23.27	0.24
STOXX EUR 600	470.88	24.92	(0.19)
<b>Asia</b>			
HSI	25,878.99	10.04	0.59
HSCEI	9,183.76	9.09	0.94
CSI300	4,805.61	16.48	(1.69)
SSE Composite	3,543.94	14.90	0.84
SZSE Composite	2,429.86	34.96	(1.38)
NIKKEI 225	28,089.54	16.21	1.29
KOSPI	3,199.27	16.70	1.94
TWSE	17,490.29	15.95	3.99
S&P/ASX 200	7,534.90	24.90	0.43
<b>MSCI Index</b>			
MSCI WORLD	3,141.35	24.25	0.62
MSCI DEVELOPED	741.27	22.96	0.90
MSCI EMERGING	1,308.67	16.48	3.04
MSCI US	4,399.11	27.45	0.80
MSCI UK	1,996.52	18.02	0.09
MSCI France	191.90	24.31	0.29
MSCI Germany	173.05	18.88	(0.61)
MSCI China	94.45	16.90	1.49
MSCI Hong Kong	16,222.28	25.31	(0.81)
MSCI Japan	1,200.82	16.19	1.26

\* As of 2021/08/31 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	68.50	1.42
ICE Brent Oil	USD/bbl	72.99	2.73
NYMEX Natural	USD/MMBtu	4.38	12.35
<b>Basic Metals</b>			
LME Aluminum	USD/MT	2,739.00	4.40
CMX Copper	USD/lb.	437.50	2.69
LME Steel Rebar	USD/MT	685.00	(0.22)
LME Lead Cash	USD/MT	2,386.00	(3.10)
<b>Precious Metals</b>			
CMX Gold	USD/T. oz	1,812.39	0.43
Gold Futures	USD/T. oz	1,818.10	0.53
CMX Silver	USD/T. oz	24.07	1.50
NYMEX Platinum	USD/T. oz	1,007.60	(1.44)
<b>Agricultural</b>			
CBOT Corn	USD/bu	534.25	(2.02)
CBOT Wheat	USD/bu	722.25	(1.37)
NYB-ICE Sugar	USD/lb.	19.84	1.33
CBOT Soybeans	USD/bu.	1,292.50	(2.95)

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)	0.03	0.01
US Treasury (1 Yr)	0.06	0.005
US Treasury (5 Yr)	0.78	(0.02)
US Treasury (10 Yr)	1.31	0.02
US Treasury (30 Yr)	1.93	0.02
1-Month LIBOR	0.086	0.0001
3 Month LIBOR	0.1199	(0.009)
Japan 1-Yr Gov. Bond	(0.10)	0.012
Japan 10-Yr Gov. Bond	0.03	0.01
German 1-Yr Gov. Bond	(0.66)	(0.01)
German 10-Yr Gov. Bond	(0.38)	0.10
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.24	0.34
China 5-Yr Gov. Bond	2.66	(0.02)
China 10-Yr Gov. Bond	2.85	(0.008)
O/N SHIBOR	2.20	(0.07)
1-mth SHIBOR	2.33	0.03
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.0006
1-mth HIBOR	0.06	(0.005)
O/N CNH HIBOR	5.94	3.12
1-mth CNH HIBOR	3.18	0.096
<b>Corporate Bonds (Moody's)</b>		
Aaa	2.51	0.02
Baa	3.21	(0.01)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.63	(0.29)
Euro/USD	1.1833	0.83
GBP/USD	1.3769	0.36
AUD/USD	0.7326	1.15
USD/CAD	1.2586	(0.21)
USD/JPY	109.94	0.20
USD/CHF	0.9138	0.04
USD/CNY Midpoint	6.4679	(0.19)
USD/CNY	6.4607	(0.17)
USD/CNY NDF-12-mth	6.6352	(0.33)
USD/CNH	6.4591	(0.30)
USD/HKD	7.7815	(0.09)
CNY/HKD	1.2039	0.03
CNH/HKD	1.2047	0.21
USD/KRW	1,159.45	(0.56)
USD/TWD	27.76	(0.60)
USD/SGD	1.3437	(0.91)
USD/INR	73.01	(1.60)

## 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.

### Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. CEB International Capital Corporation Limited is under no obligation to update or keep current the information contained herein. CEB International Capital Corporation Limited relies on information barriers to control the flow of information contained in one or more areas within CEB International Capital Corporation Limited, into other areas, units, groups or affiliates of CEB International Capital Corporation Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of CEB International Capital Corporation Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither CEB International Capital Corporation Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2021 CEB International Capital Corporation Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of CEB International Capital Corporation Limited.

**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.  
Tel: (852) 2916 9600**