September 24, 2021

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.
- The Fed acknowledged the elevation of inflation during the economic recovery in post-pandemic era and the Fed Chairman signaled that if the economic progress continues to strengthen broadly, the asset purchases program will begin to scale back in the next FOMC meeting and end around June 2022 while rate hike will begin afterwards.
- The recent fast-spreading DV triggers new uncertainties around the path to economic normalization and raises the concerns about slowdown of economic recovery. The ongoing health crisis poses risks to recovery momentum and employment conditions.
- Keeping FFR at the floor remains as the key tool of the Fed until 3Q2022. The Fed will definitely kick off tapering in November with which gradual reduction of asset purchases will help avoid continued inflation uptick.

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The Fed signaling moderation in the pace of asset purchases

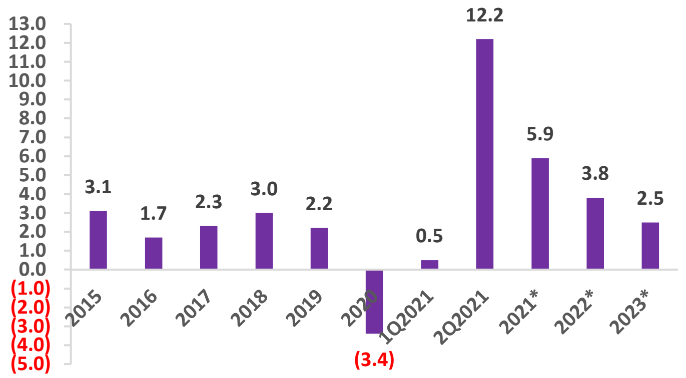
At the conclusion of the sixth Federal Open Markets Committee (FOMC) policy meeting in 2021 on 22nd September, the U.S. Federal Reserve (Fed) continued to keep the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero while continuing its asset purchase program at least at the current pace of USD 120 billion per month. The Fed pointed out that the U.S. economy has maintained growing strengths driven by progress on vaccinations and strong policy support, thus making significant improvement towards the maximum employment. The Fed also acknowledged the elevation of inflation during the economic recovery in post-pandemic era and the Fed Chairman, Jerome Powell, signaled that if the economic progress continues to strengthen broadly, the asset purchases program will begin to scale back in the next FOMC meeting and end around June 2022 while rate hike will begin afterwards. In sum, the recent fast-spreading Delta variant (DV) of Coronavirus triggers new uncertainties around the path to economic normalization and raises the concerns about slowdown of economic recovery. The ongoing health crisis poses risks to recovery momentum and employment conditions. We are of the view that the U.S. economy is recovering at a stable pace and most sectors have shown improvement in business performance but have not fully recovered. 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. It is still a long way for the U.S. economy to reach full employment level and keeping FFR at the floor remains as the key tool of the Fed until 3Q2022. The Fed will kick off tapering in November with which gradual reduction of asset purchases will help avoid continued inflation uptick.

The U.S. economy rebounding at a modest momentum 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. Higher fiscal spending along with ultra-low interest rate environment continue to support economic growth and employment. The recent U.S. economic indicators embrace an uptrend with accelerated growth of consumption and investment in vary degrees. Manufacturing activities continued to lead the recovery as August Markit manufacturing Purchasing Managers' Index (PMI) stayed above the expansion threshold of 50 at 61.1 while service sector was embedded into continuation of activity normalization as August Markit services PMI reached 61.7. In the wake of changing recovery momentum of the U.S. economy, the Fed lowered the projection of GDP growth to 5.9% for 2021 from June projection of 7.0% but raised the forecast of GDP growth to 3.8% for 2022 from June projection's 3.3%. The Fed also projected that personal consumption expenditure (PCE) index and core PCE index will rise to 4.2% and 3.7% in 2021 from June projection of 3.4% and 3.0%. Looking ahead, accelerating vaccination rollout in the U.S. will further lower health risks and push for a stronger economic rebound. Despite the potential rising health risks driven by the DV and Biden's plan to raise corporate tax, loose monetary stance of the Fed and huge infrastructure stimulus package will help resist the growth headwinds, thus striking a balance between solid economic recovery and surging price level.

The Fed staying on course to retain favorable liquidity conditions. An increase in U.S. consumer prices has put the markets on worries for surging inflationary pressure that could reverse the Fed's easy monetary stance. Even though inflation risks are on the rise, the ongoing pandemic, especially the threat from the DV, continues to pose economic risks to the U.S. economy. The sustainability of recovery growth momentum remains uncertain due to the effectiveness of vaccines and risks of having a new wave of the pandemic under which 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. We are of the view that the Fed aims to move gradually to normalize monetary policy in an attempt to ensure the economic upturn and stable inflation. The Fed will maintain the FFR at the floor for the rest of 2021 and the first half of 2022 while longer duration of scaling back asset purchases will not trigger substantial yield hikes, thus supporting broader economic recovery.

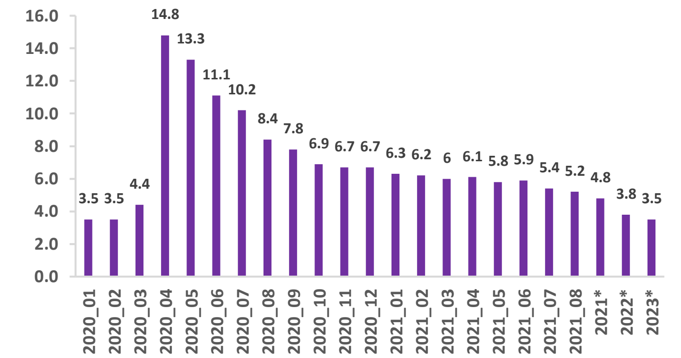
The U.S. dollar aligning for bullish trend amid the Fed's hawkish stance。The dollar has been on growing strengths since the Fed took a hawkish approach to its monetary policy even through the U.S. is facing the threat of the DV as well as rising deficits and debt-to-GDP ratio. With proper vaccination progress 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 6.7% in December 2020 to 5.2% in May 2021. Inflation remained high but showed signs of stability as consumer price index (CPI) slowed to 5.3% in August from July's 5.4%, reflecting that rising inflation is temporary. In sum, 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 resilience of the U.S. economic recovery and the Fed's tapering become the major forces to support the USD.

Fig. 1: US GDP (YoY %)



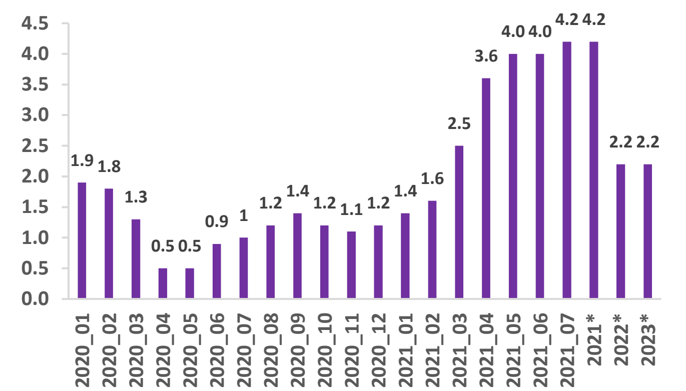
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



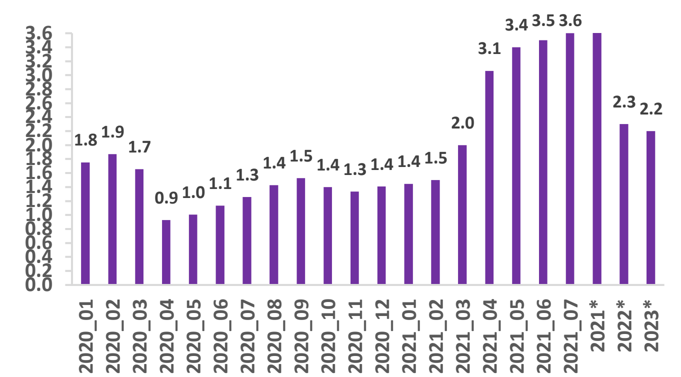
Source: Bloomberg *The Fed's forecast

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



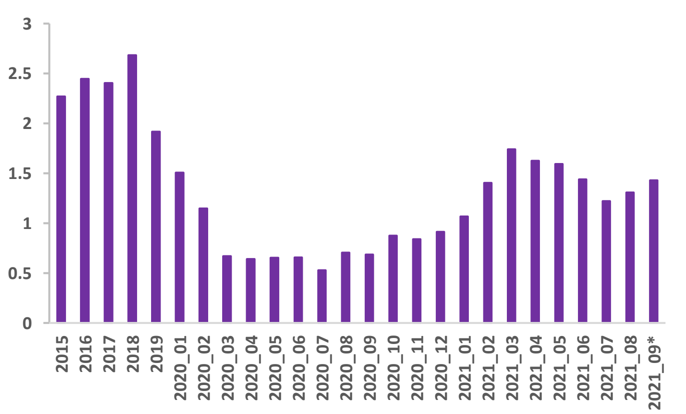
Source: Bloomberg *The Fed's forecast

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



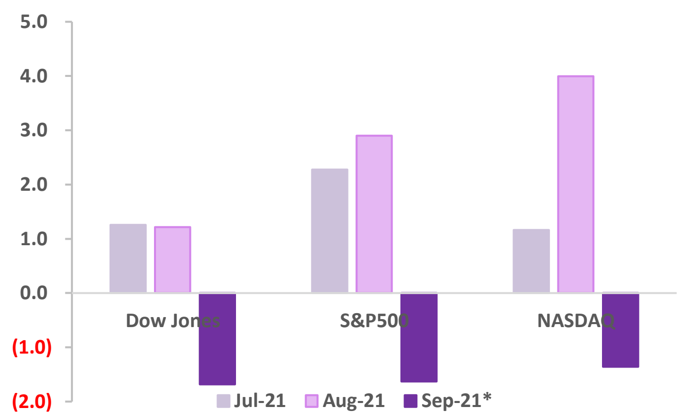
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg *23rd September 2021

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



Source: Bloomberg *23rd September 2021

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

	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21
Real GDP (YoY%)	-	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-	-
PMI - Manufacturing %	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1
PMI - Non-manufacturing%	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5
Exports (RMB YoY %)	11.2	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1	15.7
Imports (RMB YoY %)	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2	16.1	23.1
Trade Balance (RMB/bn)	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7	362.7	376.3
Export (USD YoY %)	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2	19.3	25.6
Import (USD YoY %)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7	28.1	33.1
Trade Balance (USD/bn)	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5	56.6	58.3
CPI (YoY %)	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8
PPI (YoY %)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5
FAI (YTD/ YOY %)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9
Real Estate Investment (YTD/ YoY %)	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9
Industrial Production (YoY %)	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3
Retail Sales (YoY%)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5
New Lending (RMB/bn)	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0	1083.2	1220.0
M2 (YoY %)	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2
Aggregate Financing (RMB bn)	3585.3	3469.3	1392.9	2135.5	1647.6	5193.6	1724.5	3372.1	1850.3	1926.3	3668.9	1056.6	2960.0
Urban Unemployment Rate (%)	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	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	5.3

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,764.82	20.95	0.04
S&P 500	4,448.98	26.73	(0.55)
NASDAQ	15,052.24	121.57	(0.85)
EUR			
FTSE 100	7,078.35	19.79	0.72
DAX	15,643.97	18.80	(0.05)
CAC40S	6,701.98	22.81	1.20
STOXX EUR 600	467.50	23.92	0.33
Asia			
HSI	24,510.98	10.11	(2.09)
HSCEI	8,733.73	9.40	(2.27)
CSI300	4,853.20	16.65	(1.30)
SSE Composite	3,642.22	15.55	(0.56)
SZSE Composite	2,451.36	35.27	(1.51)
NIKKEI 225	29,639.40	17.10	(2.86)
KOSPI	3,127.58	16.55	(0.01)
TWSE	17,078.22	15.67	(2.05)
S&P/ASX 200	7,370.22	24.74	(1.21)
MSCI Index			
MSCI WORLD	3,106.42	24.24	(0.52)
MSCI DEVELOPED	731.56	22.81	(0.50)
MSCI EMERGING	1,272.52	15.83	(0.33)
MSCI US	4,331.37	27.40	(0.52)
MSCI UK	1,981.54	18.95	0.70
MSCI France	192.50	23.57	1.28
MSCI Germany	170.65	18.92	(0.21)
MSCI China	90.42	16.23	0.10
MSCI Hong Kong	15,214.85	23.62	(1.28)
MSCI Japan	1,253.38	17.00	(2.48)

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)	0.07	0.005
US Treasury (5 Yr)	0.95	0.11
US Treasury (10 Yr)	1.43	0.09
US Treasury (30 Yr)	1.94	0.06
1-Month LIBOR	0.0833	(0.001)
3 Month LIBOR	0.1293	0.0093
Japan 1-Yr Gov. Bond	(0.11)	(0.024)
Japan 10-Yr Gov. Bond	0.04	(0.01)
German 1-Yr Gov. Bond	(0.67)	0.00
German 10-Yr Gov. Bond	(0.26)	0.04
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.32	0.01
China 5-Yr Gov. Bond	2.70	(0.04)
China 10-Yr Gov. Bond	2.86	(0.03)
O/N SHIBOR	2.04	(0.10)
1-mth SHIBOR	2.40	0.05
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.0006
1-mth HIBOR	0.06	(0.001)
O/N CNH HIBOR	3.12	1.18
1-mth CNH HIBOR	3.72	0.17
Corporate Bonds (Moody's)		
Aaa	2.45	0.01
Baa	3.15	(0.01)

* As of 2021/09/23 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	73.30	0.95
ICE Brent Oil	USD/bbl	77.25	2.09
NYMEX Natural	USD/MMBtu	4.98	(6.73)
BasicMetals			
LME Aluminum	USD/MT	2,932.25	2.62
CMX Copper	USD/lb.	423.10	(1.18)
LME Steel Rebar	USD/MT	667.00	1.06
LME Lead Cash	USD/MT	2,131.50	(3.23)
Precious Metals			
CMX Gold	USD/T. oz	1,774.71	(0.28)
Gold Futures	USD/T. oz	1,749.80	(0.39)
CMX Silver	USD/T. oz	22.78	(3.13)
NYMEX Platinum	USD/T. oz	1,005.60	6.92
Agricultural			
CBOT Corn	USD/bu	529.25	(0.05)
CBOT Wheat	USD/bu	717.75	0.67
NYB-ICE Sugar	USD/lb.	20.29	0.79
CBOT Soybeans	USD/bu.	1,284.25	(0.91)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	93.09	0.16
Euro/USD	1.1716	(0.42)
GBP/USD	1.3685	(1.00)
AUD/USD	0.7273	(0.60)
USD/CAD	1.2669	0.28
USD/JPY	109.84	0.44
USD/CHF	0.9245	(0.01)
USD/CNY Midpoint	6.4749	0.39
USD/CNY	6.4589	0.32
USD/CNY NDF-12-mth	6.6482	0.29
USD/CNH	6.4608	0.28
USD/HKD	7.7845	0.00
CNY/HKD	1.2053	0.00
CNH/HKD	1.2049	(0.27)
USD/KRW	1,175.70	(0.02)
USD/TWD	27.77	0.25
USD/SGD	1.3485	0.39
USD/INR	73.64	0.17

All data sources: Bloomberg

Disclosures

Analyst Certification

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