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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The path of global recovery remains bumpy as the spread of contagious Delta Variant (DV) renews lockdowns while many economies suffer from a shortage of raw materials, energy as well as final products.
- Post-pandemic recovery plans of Governments have been disrupted under which persistent supply chain disruptions and elevated inflation readings are constraining recovery momentum of the global economy. The disruptions on manufacturers, suppliers and distributors ultimately affect consumers and economic growth.
- The challenges involving higher labor, raw material and freight costs as well as shipment delays seem likely to be transitory for three to six months with which major economies of the world have stepped up efforts to restore the resilience of global supply chain.
- We are of the view that the global economic recovery is set to continue through 2022, but the pace of growth will be tempered by the threat of DV and ongoing supply chain chaos.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

Supply chain woes adding headwinds to global economic recovery

The rollout of coronavirus vaccines has put the global economy embedded into the recovery from the pandemic since the beginning of 2021 as most of the economies pursue proper work and consumption normalization with which economic activities embrace strong momentum of growth. However, the path of global recovery turns out to be bumpy as the spread of contagious Delta Variant (DV) renews lockdowns while the ongoing pandemic continues to wreck havoc on global supply chains, with many economies suffering from a shortage of raw materials, energy as well as final products. Governments' post-pandemic recovery plans have been disrupted under which persistent supply chain disruptions and elevated inflation readings are constraining the recovery momentum of global economy. In sum, the pandemic has demonstrated how interconnected, and how easily destabilized the global supply chains can be. Global chains of production activities curb labor and operating costs and spur innovation and competition. But the pandemic has highlighted deep fragilities in these networks, with disruption in one part of the chain having a ripple-down effect on other parts of the chain. The disruptions on manufacturers, suppliers and distributors ultimately affect consumers and economic growth. Looking forward, the global economy continues to recover from the pandemic but the ongoing supply chain bottlenecks risk global growth. The challenges involving higher labor, raw material and freight costs as well as shipment delays and disrupted logistics arrangement seem likely to be transitory for three to six months with which major economies of the world have stepped up efforts to restore the resilience of global supply chain. We are of the view that the global economic recovery is set to continue through 2022, but the pace of growth will be tempered by the threat of DV and ongoing supply chain chaos.

Pandemic-related supply-demand imbalance causing supply bottlenecks and upbeat inflationary pressures. Amid the outbreak of coronavirus, global economy faced sharp contraction in demand for goods in 2020, thus leading many producers to reduce production

capabilities and slash orders of intermediate inputs. As the recovery starts to gather strengths in 2021, aggregate demand rebounds strongly and manufacturers are unable to ramp up sufficient supply quickly to fulfill market demand. Supply chain meltdown are further intensified as distorted world distribution of shipping containers, surging commodity prices and lack of labor returning to job market continue to obstruct production normalization. In sum, supply constraints have coincided with a rapid increase in global demand, leading to occasional shortages and filtering into higher price inflation. Substantial supply bottlenecks are likely to continue into 2022 for some production inputs and sectors, with a gradual improvement. As a result, global inflation is expected to remain high in the next six months and supply constraints will trigger slowdown in global economic recovery.

The U.S. economy embracing stagflation headwind on global supply chain disruptions. The U.S. economy demonstrates strong recovery from the pandemic due to early access to vaccines and vigorous fiscal responses. However, the U.S. manufacturers' supply chains are increasingly strained, as a rapid recovery in goods demand combined with lingering pandemic-related constraints on international transport services such as congestion at ports and skyrocketing freight rates have caused delays in supplier deliveries to their highest level in over 40 years. As a result, supply chain bottlenecks negatively affect production, thus having significant impact on the economic healthiness of the U.S. economy. The latest World Economic Outlook published by the International Monetary Fund (IMF) downgraded the forecast of the U.S. economic growth for 2021 to 6% from July's 7%, reflecting the impact of ongoing pandemic, delayed production caused by supply shortages and acceleration of inflation. In sum, the U.S. economy has solid fundamentals to propel the recovery as supply chain constraints slowly ease but the near-term slowdown in economic activities is unavoidable. We are of the view that the U.S. economy will encounter slower growth momentum in 4Q2021 and 1Q2022.

China's production disruptions adding global supply chain chaos and trimming short-term growth momentum. China is experiencing growth headwinds on the back of supply chain issues. The post-pandemic commodities boom on rebound of global demand for goods and services and ambitious climate targets have driven up coal prices, reducing the incentive of electricity generators to enhance production capabilities. As global demand for Chinese products surge on continued reopening of economies around the world, electricity supply lags behind the robust recovery of manufacturing activities. The power supply crunch triggers blackouts for households and force factories to cut production, thus threatening to slow the China's economy and placing more strain on global supply chains. Other supply chain challenges also emerge as freight rates remain high and chip shortages are still a critical issue for industries like equipment,

automobiles and telecommunication devices. In sum, China has made coordinated efforts to avoid surging downward pressure on the economy by ensuring stable power supply and normalization of production activities as well as restoring supply chain resilience. China's policy makers will further strengthen the size of stimulus measures to prop up growth momentum and cope with volatile changes in the external environment. We are of the view that China's economy will face slower growth in 4Q2021. The pick-up pace of consumption and investment along with macroeconomic policy support will help alleviate the downside risks and stimulate growth in 1H2022, thus ensuring a more sustainable recovery of economic strengths.

China economic indicators

	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021	3Q2021
Real GDP (YoY%)	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9	4.9
PMI Manufacturing (%)	45.9	50.8	51.2	51.8	51.9	51.3	51.0	50.0
PMI Non-Manufacturing (%)	45.3	53.7	55.1	56.1	55.7	53.4	54.5	51.3
Exports (RMB YoY %)	(11.7)	4.2	9.8	10.8	4.0	38.7	20.1	14.5
Imports (RMB YoY %)	(1.0)	(5.5)	4.8	0.3	(0.2)	19.3	31.8	16.2
Trade Balance (RMB/bn)	95.8	1065.4	1078.0	1395.0	3634.3	718.2	890.8	1171.2
Exports (USD YoY %)	(13.6)	(0.2)	8.4	16.6	3.6	48.8	30.7	24.4
Imports (USD YoY %)	(3.1)	(9.4)	3.7	5.7	(0.6)	29.2	43.6	25.9
Trade Balance (USD/bn)	12.6	151.2	152.8	207.4	524.0	110.0	137.7	181.5
CPI (YoY %)	4.9	2.7	2.3	0.1	2.5	0.0	1.1	0.8
PPI (YoY %)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2	9.6
FAI (YTD/ YOY %)	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6	7.3
Real Estate Investment (YTD YoY %)	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0	8.8
Industrial Production (YoY %)	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0	4.9
Retail Sales (YoY%)	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9	5.0
New Lending (RMB/bn)	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5084.5	3961.4
M2 (YoY %)	10.1	11.1	10.9	10.1	10.1	9.4	8.6	8.3
Aggregate Financing (RMB bn)	11111.0	9757.4	8747.4	5176.0	34791.8	10288.5	7509.8	6949.9

	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21
Real GDP (YoY%)	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-	-	4.9
PMI - Manufacturing %	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6
PMI - Non-manufacturing%	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2
Exports (RMB YoY %)	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1	15.7	19.9
Imports (RMB YoY %)	11.2	0.6	(1.4)	(0.2)	20.0	11.6	28.5	32.8	39.6	24.3	16.1	23.1	10.1
Trade Balance (RMB/bn)	248.0	395.7	502.8	509.2	406.8	233.5	77.9	267.8	291.3	331.5	361.8	376.3	433.2
Export (USD YoY %)	9.4	10.9	20.6	18.1	24.6	154.7	30.5	32.2	27.8	32.2	19.3	25.6	28.1
Import (USD YoY %)	12.7	4.4	3.9	6.5	28.5	18.7	38.9	43.7	51.2	36.7	28.1	33.1	17.6
Trade Balance (USD/bn)	35.3	57.3	74.3	75.8	62.0	35.8	12.2	41.5	44.8	51.3	56.5	58.3	66.8
CPI (YoY %)	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7
PPI (YoY %)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7
FAI (YTD/ YOY %)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3
Real Estate Investment (YTD/ YoY %)	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8
Industrial Production (YoY %)	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1
Retail Sales (YoY%)	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4
New Lending (RMB/bn)	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0
M2 (YoY %)	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3
Aggregate Financing (RMB bn)	3469.3	1392.9	2135.5	1647.6	5187.2	1724.3	3377.0	1856.7	1952.2	3700.9	1075.2	2972.9	2901.8
Urban Unemployment Rate (%)	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9
Urban Unemployment Rate in 31 major cities (%)	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,730.48	20.58	0.36
S&P 500	4,596.42	26.39	1.03
NASDAQ	15,448.12	97.78	1.53
EUR			
FTSE 100	7,249.47	19.39	0.82
DAX	15,696.33	17.80	1.45
CAC40S	6,804.22	21.41	1.77
STOXX EUR 600	475.16	22.13	1.16
Asia			
HSI	25,555.73	10.48	(1.77)
HSCEI	9,052.70	8.23	(2.38)
CSI300	4,864.14	16.77	(1.30)
SSE Composite	3,518.42	15.07	(2.12)
SZSE Composite	2,362.24	34.44	(2.23)
NIKKEI 225	28,820.09	16.50	0.39
KOSPI	3,009.55	14.79	0.07
TWSE	17,041.63	15.26	0.90
S&P/ASX 200	7,430.38	24.50	0.20
MSCI Index			
MSCI WORLD	3,179.44	24.00	0.86
MSCI DEVELOPED	746.98	22.54	0.60
MSCI EMERGING	1,276.07	15.23	(1.31)
MSCI US	4,467.08	27.22	0.83
MSCI UK	2,038.15	18.62	0.85
MSCI France	195.33	22.09	1.81
MSCI Germany	170.67	18.04	1.20
MSCI China	93.22	16.39	(3.01)
MSCI Hong Kong	15,411.22	23.94	0.00
MSCI Japan	1,227.62	16.43	(0.02)

* As of 2021/10/28 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	82.81	0.38
ICE Brent Oil	USD/bbl	84.32	(0.34)
NYMEX Natural	USD/MMBtu	5.78	13.04
Basic Metals			
LME Aluminum	USD/MT	2,735.50	(5.57)
CMX Copper	USD/lb.	443.85	(2.63)
LME Steel Rebar	USD/MT	710.00	(0.63)
LME Lead Cash	USD/MT	2,460.75	1.35
Precious Metals			
CMX Gold	USD/T. oz	1,799.64	0.86
Gold Futures	USD/T. oz	1,802.60	1.16
CMX Silver	USD/T. oz	24.07	(0.67)
NYMEX Platinum	USD/T. oz	1,020.17	(2.77)
Agricultural			
CBOT Corn	USD/bu	562.75	5.73
CBOT Wheat	USD/bu	772.50	4.22
NYB-ICE Sugar	USD/lb.	19.62	3.59
CBOT Soybeans	USD/bu.	1,246.00	1.01

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)	0.05	0.02
US Treasury (1 Yr)	0.11	0.003
US Treasury (5 Yr)	1.18	(0.05)
US Treasury (10 Yr)	1.58	(0.121)
US Treasury (30 Yr)	1.98	(0.17)
1-Month LIBOR	0.087	0.001
3 Month LIBOR	0.1286	0.0004
Japan 1-Yr Gov. Bond	(0.10)	0.003
Japan 10-Yr Gov. Bond	0.09	0.00
German 1-Yr Gov. Bond	(0.67)	0.00
German 10-Yr Gov. Bond	(0.14)	(0.03)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.24	(0.06)
China 5-Yr Gov. Bond	2.83	(0.00)
China 10-Yr Gov. Bond	2.97	(0.01)
O/N SHIBOR	1.94	0.26
1-mth SHIBOR	2.40	0.03
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.0030
1-mth HIBOR	0.07	0.004
O/N CNH HIBOR	1.46	(1.01)
1-mth CNH HIBOR	2.87	(0.311)
Corporate Bonds (Moody's)		
Aaa	2.59	(0.14)
Baa	3.23	(0.17)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	93.35	(0.45)
Euro/USD	1.1606	(0.29)
GBP/USD	1.3761	(0.31)
AUD/USD	0.7525	0.47
USD/CAD	1.2359	0.15
USD/JPY	113.59	(0.37)
USD/CHF	0.9185	(0.03)
USD/CNY Midpoint	6.3957	0.10
USD/CNY	6.3918	(0.02)
USD/CNY NDF-12-mth	6.5798	(0.11)
USD/CNH	6.3947	(0.02)
USD/HKD	7.7777	0.02
CNY/HKD	1.2168	0.06
CNH/HKD	1.2163	0.04
USD/KRW	1,169.65	(0.64)
USD/TWD	27.83	(0.26)
USD/SGD	1.3471	0.11
USD/INR	74.92	0.08

Disclosures

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