光銀國際
CEB INTERNATIONAL

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The Fed kept the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero but announced the widely-expected tapering in its asset purchases of $15 billion per month which will begin later this month.
- The Fed pointed out that the U.S. economy has maintained growing strengths. However, supply and demand imbalances related to the pandemic and the reopening of the economy enhance supply chain constraints and elevate inflation readings, adding headwinds to the recovery momentum of the U.S. economy.
- The U.S. economy is recovering at a stable pace and most sectors have shown improvement in performance but have not fully recovered. Continuation of near-zero interest rate and expansionary fiscal conditions remain intact, thus supporting the U.S. economy in coming quarters.
- The Fed will keep FFR until the end of 1H2022 under which the U.S. economic recovery is set to continue through 2022, but the pace of growth will be tempered by accelerated inflation and ongoing supply chain disruptions.

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The Fed beginning to wind down asset purchases

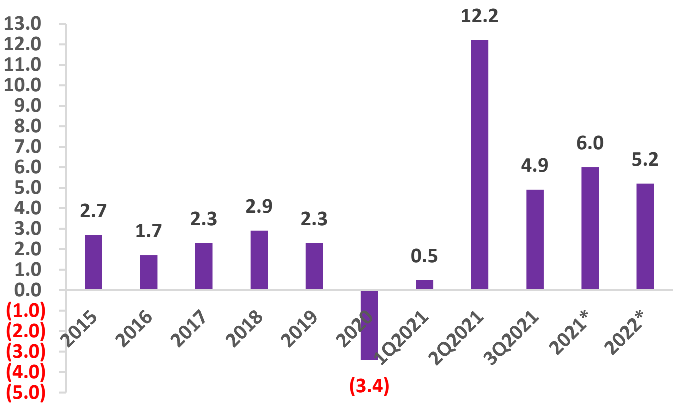
At the conclusion of the seventh Federal Open Markets Committee (FOMC) policy meeting in 2021 on 3rd November, the U.S. Federal Reserve (Fed) continued to keep the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero but announced the widely-expected tapering in its asset purchases of $15 billion per month ($10 billion for Treasury securities and $5 billion for agency mortgage-backed securities) which will begin later this month. The Fed pointed out that the U.S. economy has maintained growing strengths driven by continued rollout of vaccines and strong policy support, thus making significant improvement in economic conditions. However, supply and demand imbalances related to the pandemic and the reopening of the economy enhance supply chain constraints and elevate inflation readings, adding headwinds to the recovery momentum of the U.S. economy. In sum, the U.S. economy is recovering at a stable pace and most sectors have shown improvement in performance but have not fully recovered. The challenges involving higher labor, raw material and freight costs as well as shipment delays and disrupted logistics arrangement along with the threat of Delta variant (DV) seem likely to be transitory in slowing recovery momentum of the U.S. economy. 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 the U.S. economy in coming quarters. We are of the view that the Fed will keep FFR until the end of 1H2022 under which the U.S. economic recovery is set to continue through 2022, but the pace of growth will be tempered by accelerated inflation and ongoing supply chain disruptions.

The U.S. economy facing slower recovery momentum amid the threat of DV and worldwide supply disruptions. Amid rising health risks from the ongoing pandemic and supply chains chaos around the globe, the recent U.S. economic indicators embraced a cooling trend with growth of consumption and investment decelerating in vary degrees. On a quarterly basis, the U.S. economy slowed to a seasonally adjusted 2.0% in 3Q2021 from 2Q2021's 6.7% while manufacturing activities in October demonstrated signs of slowdown as Markit manufacturing Purchasing Managers' Index (PMI) fell to 58.4 from September's 60.7. In the wake of changing recovery momentum of the U.S. economy, 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 continues to benefit from ultra-low interest rate environment to propel the recovery but the near-term slowdown in economic activities is unavoidable due to high inflation from a clogged supply chain, high consumer demand and surging wages on labor shortage. We are of the view that the U.S. economy will continue to recover but encounter slower growth momentum in 4Q2021 and 1H2022.

The Fed staying on track to retain favorable liquidity conditions despite the reduction of asset purchases. 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 and supply constraints continue to pose economic risks to the U.S. economy. The sustainability of recovery growth momentum becomes shaky under which the Fed pledges to maintain the accommodative stance by navigating a world of ample liquidity with the aim to support a proper continuity 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.

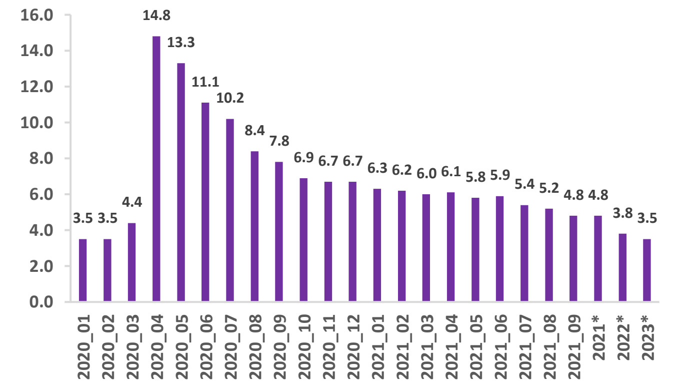
The U.S. equity markets experienced more volatile trading with upside. The U.S. equity markets are embedded into volatile ride in 4Q2021. On the bullish side, the U.S. economy continues to rebound with better-than-expected corporate earnings, thus lending great support to the markets. On the bearish side, the fears centering on the threat of DV, supply chain meltdown and the Fed's hawkish pivot to prevent surging inflation emerge to be negative factors to trigger market correction. In sum, stock markets across the globe have been on volatile swing, which has been mainly driven by uncertain economic outlook. Although the U.S. economy is on track recovering from the pandemic, the investment horizon will eventually face potential market headwinds due to relative expensive valuation, economic uncertainties driven by the ongoing pandemic, the Fed's adjustment of ultra-accommodative policy, inflationary pressures and geopolitical risks. The market risks are expected to skew to high side in 4Q2021. Looking forward, the markets will shift the focus to economic fundamentals with long-term competitiveness. There could be a risk of inflation rising much strongly than expected in the near term but the U.S. economic activities demonstrate uptrend as consumer demand grows on the back of rising income and job growth. In the wake of widening negative real interest rate, equities following recovery cycles on solid fundamentals will justify the volatile rally. The investment-conducive condition supported by massive fiscal stimulus and ample liquidity will continue to extend the bullish run of U.S. stock markets in 4Q2021.

Fig. 1: US GDP (YoY %)



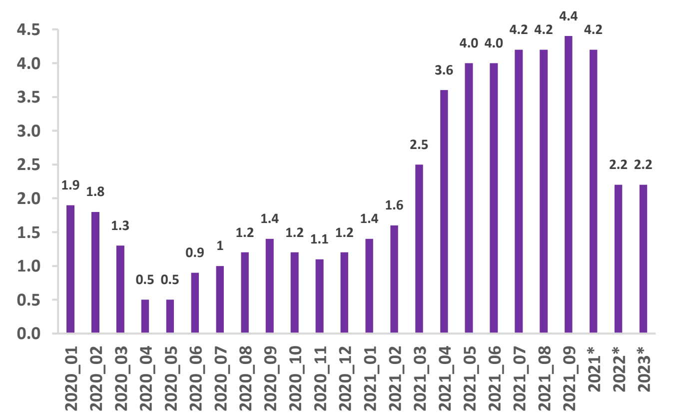
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



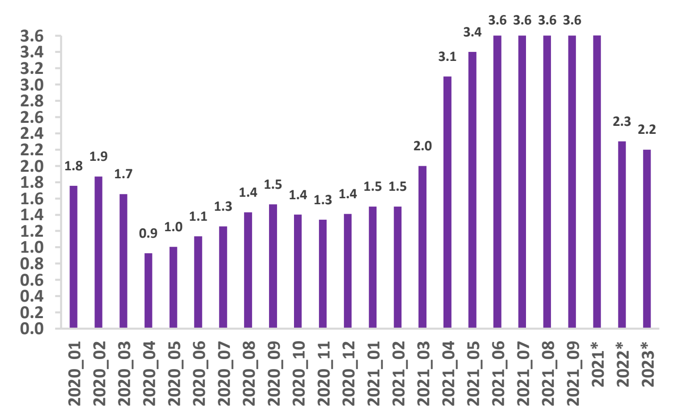
Source: Bloomberg *The Fed's forecast

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



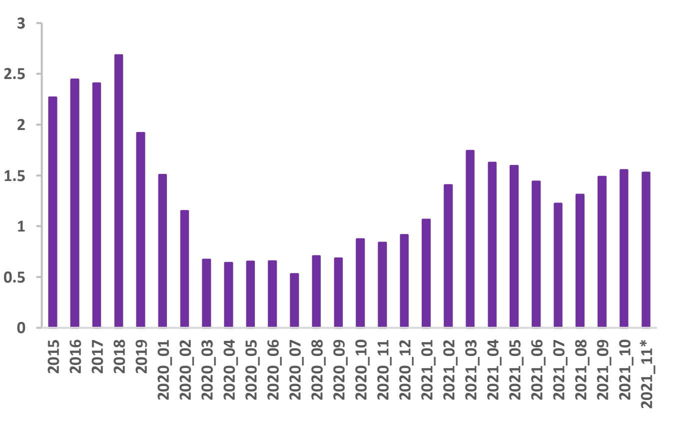
Source: Bloomberg *The Fed's forecast

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



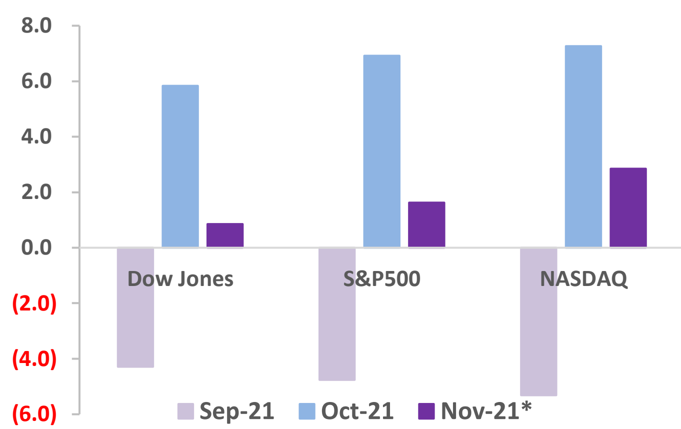
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg *4th November 2021

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



Source: Bloomberg *4th November 2021

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	36,124.23	20.28	1.10
S&P 500	4,680.06	25.92	1.82
NASDAQ	15,940.31	100.35	3.19
EUR			
FTSE 100	7,279.91	19.52	0.42
DAX	16,029.65	18.00	2.12
CAC40S	6,987.79	21.62	2.70
STOXX EUR 600	483.21	22.20	1.69
Asia			
HSI	25,225.19	10.22	(1.29)
HSCEI	8,953.12	8.00	(1.10)
CSI300	4,868.74	16.61	0.09
SSE Composite	3,526.87	14.99	0.24
SZSE Composite	2,425.16	35.60	2.66
NIKKEI 225	29,794.37	16.54	2.39
KOSPI	2,983.22	14.48	(0.87)
TWSE	17,078.86	15.10	0.22
S&P/ASX 200	7,427.99	23.72	(0.03)
MSCI Index			
MSCI WORLD	3,224.63	23.63	1.42
MSCI DEVELOPED	755.85	22.14	1.19
MSCI EMERGING	1,268.45	14.84	(0.60)
MSCI US	4,546.80	26.74	1.78
MSCI UK	2,047.66	18.71	0.47
MSCI France	200.35	22.29	2.57
MSCI Germany	174.53	17.79	2.26
MSCI China	92.09	15.97	(1.21)
MSCI Hong Kong	15,181.84	23.59	(1.49)
MSCI Japan	1,263.86	16.17	2.09

* As of 2021/11/04 closing for all markets.

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)	0.0304	(0.02)
US Treasury (1 Yr)	0.1421	0.036
US Treasury (5 Yr)	1.1105	(0.07)
US Treasury (10 Yr)	1.5262	(0.054)
US Treasury (30 Yr)	1.9631	(0.02)
1-Month LIBOR	0.0855	0.08
3 Month LIBOR	0.1398	0.01
Japan 1-Yr Gov. Bond	(0.0840)	0.014
Japan 10-Yr Gov. Bond	0.0730	(0.02)
German 1-Yr Gov. Bond	(0.6900)	(0.02)
German 10-Yr Gov. Bond	(0.2240)	(0.09)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.3050	0.03
China 5-Yr Gov. Bond	2.7770	(0.05)
China 10-Yr Gov. Bond	2.9200	(0.05)
O/N SHIBOR	1.8860	(0.05)
1-mth SHIBOR	2.3970	0.00
HK Base rate	0.5	0.00
O/N HIBOR	0.0436	0.0034
1-mth HIBOR	0.0679	0.000
O/N CNH HIBOR	2.1717	0.71
1-mth CNH HIBOR	2.8165	(0.055)
Corporate Bonds (Moody's)		
Aaa	2.64	0.05
Baa	3.30	0.07

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	78.81	(4.83)
ICE Brent Oil	USD/bbl	80.54	(4.48)
NYMEX Natural	USD/MMBtu	5.72	(1.14)
BasicMetals			
LME Aluminum	USD/MT	2,638.30	(1.02)
CMX Copper	USD/lb.	432.05	(2.66)
LME Steel Rebar	USD/MT	732.00	1.39
LME Lead Cash	USD/MT	2,401.25	(0.76)
Precious Metals			
CMX Gold	USD/T. oz	1,778.75	(1.16)
Gold Futures	USD/T. oz	1,793.50	(0.50)
CMX Silver	USD/T. oz	23.67	(1.66)
NYMEX Platinum	USD/T. oz	1,046.60	2.59
Agricultural			
CBOT Corn	USD/bu	559.25	(0.62)
CBOT Wheat	USD/bu	773.75	0.16
NYB-ICE Sugar	USD/lb.	19.63	0.05
CBOT Soybeans	USD/bu.	1,222.75	(1.87)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.35	1.07
Euro/USD	1.1546	(0.52)
GBP/USD	1.3634	(0.92)
AUD/USD	0.7424	(1.34)
USD/CAD	1.2418	0.48
USD/JPY	113.94	0.31
USD/CHF	0.9139	(0.50)
USD/CNY Midpoint	6.3943	(0.02)
USD/CNY	6.3972	0.08
USD/CNY NDF-12-mth	6.5823	0.04
USD/CNH	6.4002	0.09
USD/HKD	7.7829	0.07
CNY/HKD	1.2168	0.00
CNH/HKD	1.2160	(0.02)
USD/KRW	1,182.65	1.11
USD/TWD	27.86	0.12
USD/SGD	1.3516	0.33
USD/INR	74.46	(0.76)

All data sources: Bloomberg

Disclosures

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