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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The highly contagious OV poses a serious threat to the global pandemic flight and economies' reopening-led recovery. The detection of OV triggers global alarm as governments around the globe renew travel curbs with which financial markets respond with heavy sell-off, fearing that the new strain of coronavirus could resist vaccinations and disrupt the path of economic recovery after a two-year global pandemic.
- The possible large-scale spread of OV in the U.S., Europe and Asia may lead to some re-tightening of lockdown restrictions and deepened supply chain meltdown while major financial markets will continue to be shaken by the fears over fading recovery strengths.
- We are of the view that potential OV's surge along with the existing threat from the DV do inflict greater macroeconomic damage through delays in fully reopening of economies. The OV brings new headwind to the economic outlook with which the ongoing pandemic may pose larger-than-expected health and economic risks, thus enhancing volatility of capital markets for the rest of 2021.

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Global market sentiment tumbling on the spread of Omicron Variant

The highly contagious Omicron Variant (OV) has been reported around the world, posing a serious threat to the global pandemic flight and economies' reopening-led recovery. The detection of OV triggers global alarm as governments around the globe renew travel curbs with which financial markets respond with heavy sell-off, fearing that the new strain of coronavirus could resist vaccinations and disrupt the path of economic recovery after a two-year global pandemic. In sum, the OV instills new uncertainties around the path to economic normalization as the new strain recently triggers rebound in infected coronavirus cases, raising the concerns about slowdown of economic activities. The possible large-scale spread of OV in the U.S., Europe and Asia may lead to some re-tightening of lockdown restrictions and deepened supply chain meltdown while major financial markets will continue to be shaken by the fears over fading recovery strengths. We are of the view that potential OV's surge along with the existing threat from Delta Variant (DV) do inflict greater macroeconomic damage through delays in fully reopening of economies. Prolonged uncertainties regarding the control of the pandemic weigh on growth recovery momentum. Policy makers from different countries remain cautious as the OV brings new headwind to the economic outlook with which the ongoing pandemic may pose larger-than-expected health and economic risks, thus enhancing volatility of capital markets for the rest of 2021.

The ongoing pandemic swelling uncertainties of global outlook.

Despite the threat of the new strain of coronavirus, western nations are embedded into "living with Coronavirus" strategy that further reopens their economies and restores normalization of economic activities. Countries believe that higher vaccination rates could have reduced levels of hospitalizations, thus making restrictions shorter, alleviating economic risks and providing tailwinds for growth. However, the health risks over the spread of Omicron Variant (OV) as well as supply chain disruptions alongside high inflation remain as the headwinds to impinge on growth momentum in the next several

months. Global central banks and governments are aware of continued monetary and fiscal policy support as a sizable cushion against the possible downside risks of recovery path and they will proceed cautiously to an exit from their extraordinary pandemic-era support in the wake of global economic indicators returning to pre-pandemic level and demonstrating signs of stability.

Disruptions of economic activities on the new strain of coronavirus further deepening uneven global growth momentum.

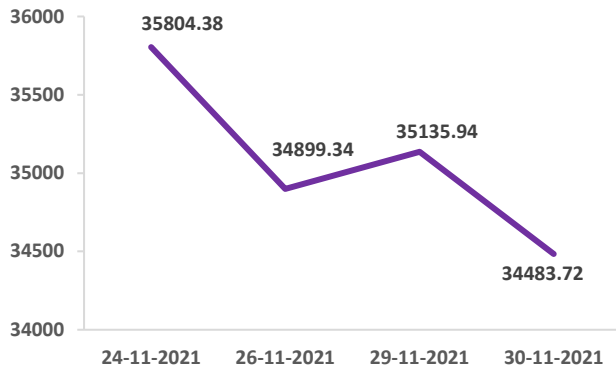
The ongoing coronavirus pandemic with the threat of OV, related policy responses, vaccination rollout, supply chain disruptions and inflation fears continue to dominate global economic developments in 2022. For the U.S., supply and demand imbalances related to the pandemic and the reopening of the economy enhance supply constraints and elevate inflation readings, clouding the recovery outlook of the U.S. economy. The U.S. Federal Reserve (Fed) and Biden's administration point to maintain the accommodative stance of economic tools in supporting the U.S. economy. For Europe, all big member states of Eurozone have experienced rising infection rates and renewed lockdowns. Uncertainty will likely accompany the recovery for a prolonged period and the Eurozone's economy continues to operate below pre-pandemic level in most sectors during 1H2022. Rising vaccination rates and effective containment measures will be the major push for stronger economic recovery in 2H2022. For Japan, economic conditions are likely to improve on gradual normalization of world trade and removal of travel restrictions. However, recent supply chain meltdown seriously affect automobile production and related exports, thus slowing the recovery momentum of the economy. The new Government is likely to keep its ultraloose monetary policy and sizable fiscal stimulus intact to buttress a fragile economic recovery from coronavirus malaise. For emerging Asian countries, most economies will face lagging growth acceleration on restoration of domestic and cross-border economic activities. Rising access to vaccines and improving health conditions will translate into rebound in domestic demand, giving a boost to the emerging Asian countries and helping them to pursue economic recovery.

'Zero-tolerance' policy allowing China's economy to maintain stable growth outlook.

China's economy decelerates on pandemic-related supply chain issues as factories were disrupted by outbreak of the Delta coronavirus variant (DV), delayed delivery of raw materials, power shortage and the resulting restrictions as part of government's zero-tolerance policy of pandemic. The ongoing pandemic and unstable weather conditions disrupted business operations of service sector and market sentiment for consumption, adding to the recovery headwinds on the second largest economy of the world. However, under the threat of OV, 'zero-tolerance' policy may help strike a balance between health risks and economic recovery momentum. We are of the view that China's policy makers will aim at preventing new outbreak of pandemic while retaining

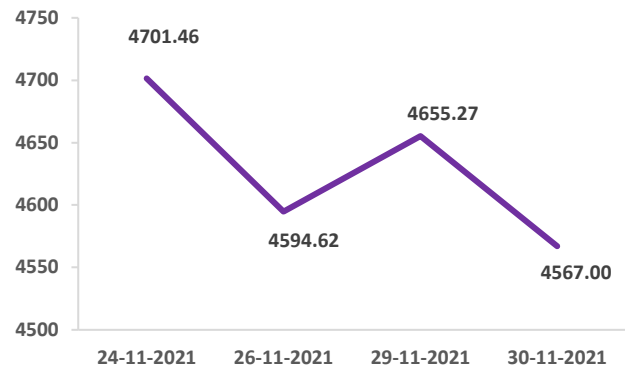
accommodative monetary and fiscal policy stance to prop up growth momentum and ensuring a more sustainable recovery of economic strengths. The trajectory of China's economy is towards sound and sustainable growth in 2022.

Fig. 1: Dow Jones Industrial Index



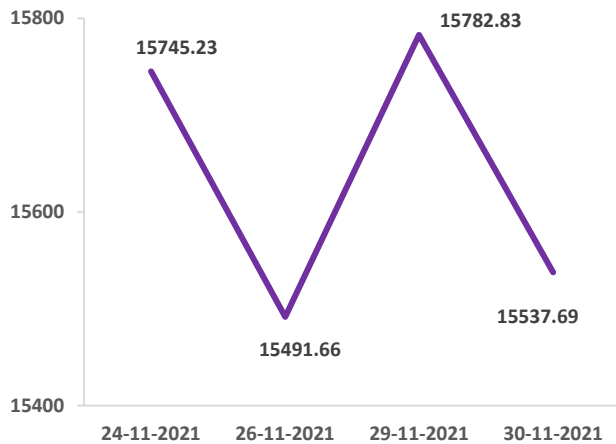
Source: Bloomberg

Fig. 2: S&P 500 Index



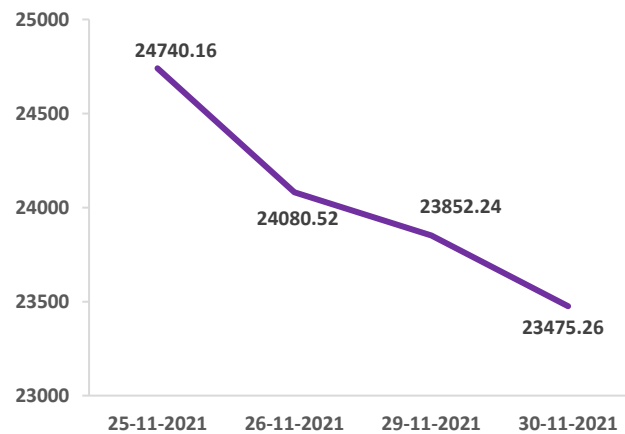
Source: Bloomberg

Fig. 3: NASDAQ Index



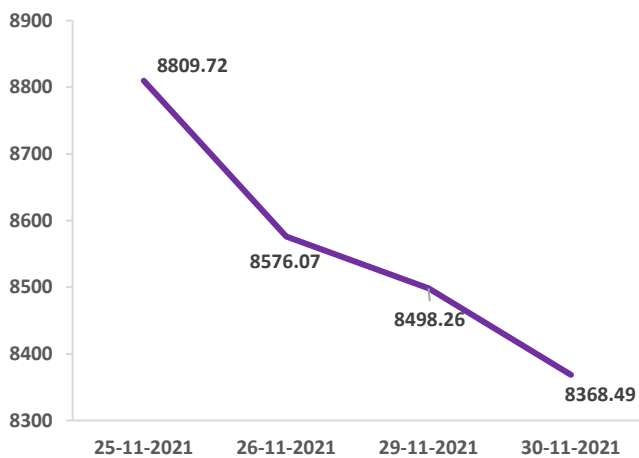
Source: Bloomberg

Fig. 4: HangSeng Index



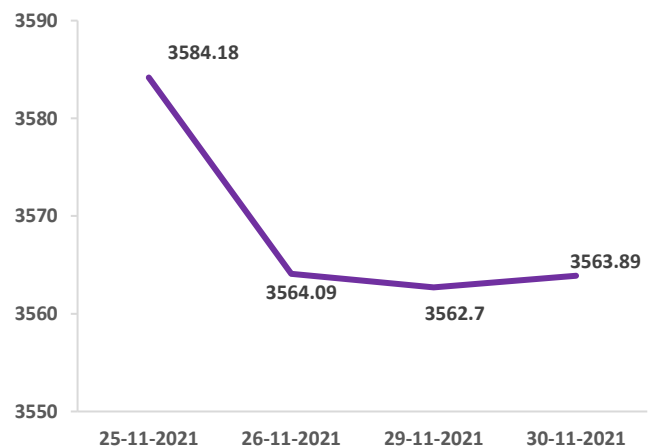
Source: Bloomberg

Fig. 5: HSCEI Index



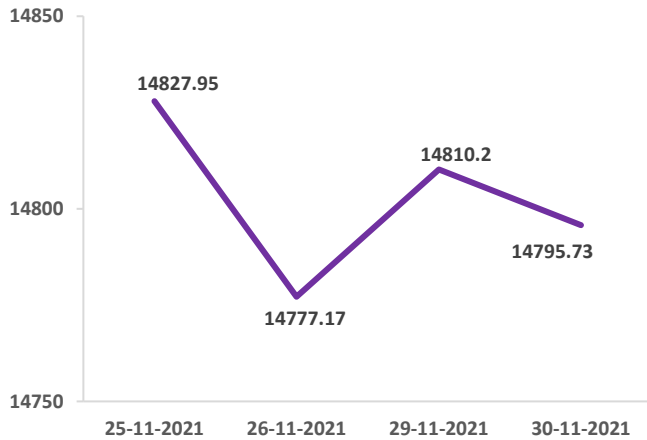
Source: Bloomberg

Fig. 6: Shanghai Composite Index



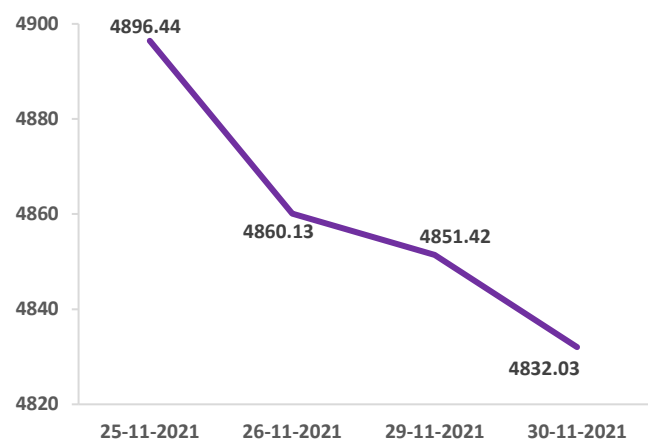
Source: Bloomberg

Fig. 7: Shenzhen Component Index



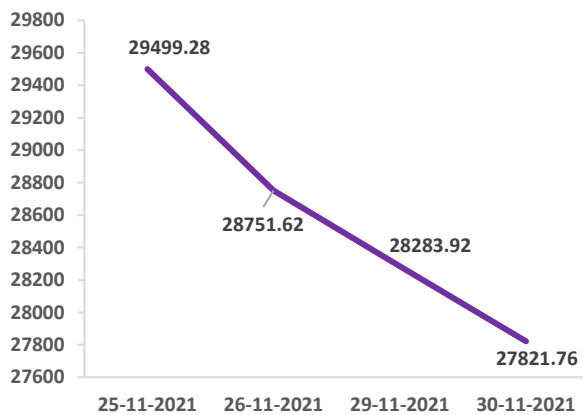
Source: Bloomberg

Fig. 8: CSI300 Index



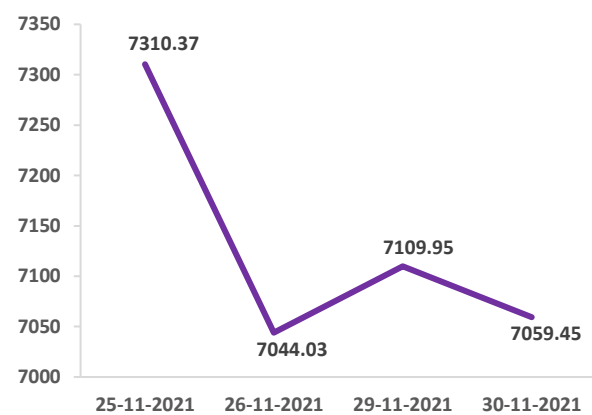
Source: Bloomberg

Fig. 9: NIKKEI 225



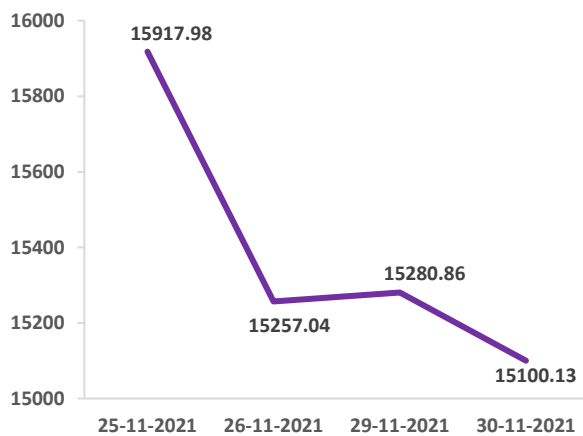
Source: Bloomberg

Fig. 10: FTSE 100



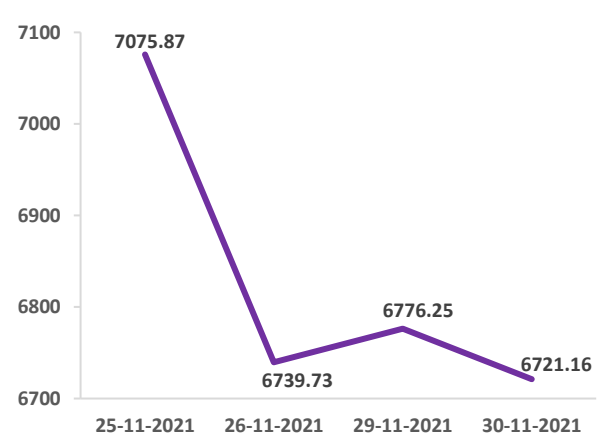
Source: Bloomberg

Fig. 11: DAX Index



Source: Bloomberg

Fig. 12: CAC40 Index



Source: Bloomberg

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	32.2	16.2
Trade Balance (RMB/bn)	95.8	1065.4	1078.0	1395.0	3634.3	712.6	877.0	1170.3
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)	29.4	44.0	25.9
Trade Balance (USD/bn)	12.6	151.2	152.8	207.4	524.0	109.1	135.6	181.4
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	7509.0	6966.1

	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21
Real GDP (YoY%)	-	-	6.5	-	-	18.3	-	-	7.9	-	-	4.9	-
PMI - Manufacturing %	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2
PMI - Non-manufacturing%	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4
Exports (RMB YoY %)	7.2	14.5	10.9	16.5	139.3	20.6	22.0	18.0	20.2	8.1	15.7	19.9	20.3
Imports (RMB YoY %)	0.6	(1.4)	(0.2)	20.2	11.8	28.7	33.1	40.3	24.6	16.2	23.1	10.1	14.5
Trade Balance (RMB/bn)	395.7	502.8	509.2	405.0	231.7	75.7	264.7	284.1	328.1	360.4	376.3	433.6	545.9
Export (USD YoY %)	10.9	20.6	18.1	24.6	154.7	30.5	32.2	27.8	32.2	19.3	25.6	28.2	27.1
Import (USD YoY %)	4.4	3.9	6.5	28.7	18.9	39.1	44.0	52.0	37.1	28.3	33.1	17.6	20.6
Trade Balance (USD/bn)	57.3	74.3	75.8	61.8	35.5	11.9	41.1	44.7	50.8	56.2	58.3	66.8	84.5
CPI (YoY %)	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5
PPI (YoY %)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5
FAI (YTD/ YOY %)	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1
Real Estate Investment (YTD/ YoY %)	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2
Industrial Production (YoY %)	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5
Retail Sales (YoY%)	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9
New Lending (RMB/bn)	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2
M2 (YoY %)	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7
Aggregate Financing (RMB bn)	1392.9	2135.5	1647.6	5187.2	1724.3	3377.0	1856.7	1952.2	3700.1	1075.2	2974.4	2916.5	1589.9
Urban Unemployment Rate (%)	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9
Urban Unemployment Rate in 31 major cities (%)	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,483.72	19.23	(3.19)
S&P 500	4,567.00	25.05	(2.48)
NASDAQ	15,537.69	90.28	(2.00)
EUR			
FTSE 100	7,059.45	16.94	(2.85)
DAX	15,100.13	14.94	(5.25)
CAC40S	6,721.16	20.33	(4.59)
STOXX EUR 600	462.96	19.73	(3.40)
Asia			
HSI	23,475.26	9.46	(4.77)
HSCEI	8,368.49	7.52	(5.20)
CSI300	4,832.03	16.51	(1.66)
SSE Composite	3,563.89	15.17	(0.70)
SZSE Composite	2,519.27	37.05	(0.04)
NIKKEI 225	27,821.76	15.86	(6.56)
KOSPI	2,839.01	13.24	(5.28)
TWSE	17,427.76	14.22	(1.35)
S&P/ASX 200	7,255.97	22.56	(2.09)
MSCI Index			
MSCI WORLD	3,101.80	22.04	(2.97)
MSCI DEVELOPED	726.53	20.62	(3.03)
MSCI EMERGING	1,212.42	13.70	(3.42)
MSCI US	4,424.07	25.69	(2.49)
MSCI UK	1,988.65	16.51	(2.78)
MSCI France	192.80	21.12	(4.27)
MSCI Germany	163.58	14.60	(5.03)
MSCI China	87.04	15.23	(3.70)
MSCI Hong Kong	14,547.12	21.17	(4.62)
MSCI Japan	1,193.43	14.74	(5.49)

**As of 2021/11/30 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	(0.1)	0.00
US Treasury (1 Mth)	0.0963	0.051
US Treasury (1 Yr)	0.2183	0.041
US Treasury (5 Yr)	1.1596	(0.18)
US Treasury (10 Yr)	1.4443	(0.221)
US Treasury (30 Yr)	1.7911	(0.23)
1-Month LIBOR	0.0993	0.0069
3 Month LIBOR	0.1709	0.0013
Japan 1-Yr Gov. Bond	(0.123)	0.003
Japan 10-Yr Gov. Bond	0.057	(0.02)
German 1-Yr Gov. Bond	(0.785)	(0.04)
German 10-Yr Gov. Bond	(0.349)	(0.13)
China LPR (1-year)	2.85	0.00
China 1-Yr Gov. Bond	2.240	(0.012)
China 5-Yr Gov. Bond	2.670	(0.051)
China 10-Yr Gov. Bond	2.862	(0.053)
O/N SHIBOR	2.173	(0.005)
1-mth SHIBOR	2.356	0.003
HK Base rate	0.5	0.00
O/N HIBOR	0.0618	0.009
1-mth HIBOR	0.1020	0.005
O/N CNH HIBOR	2.9071	0.546
1-mth CNH HIBOR	2.9472	0.152
Corporate Bonds (Moody's)		
Aaa	2.67	(0.03)
Baa	3.33	(0.01)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.18	(13.77)
ICE Brent Oil	USD/bbl	70.57	(14.26)
NYMEX Natural	USD/MMBtu	4.57	(4.64)
Basic Metals			
LME Aluminum	USD/MT	2,634.75	(1.26)
CMX Copper	USD/lb.	428.00	(2.65)
LME Steel Rebar	USD/MT	695.00	(1.84)
LME Lead Cash	USD/MT	2,318.25	2.15
Precious Metals			
CMX Gold	USD/T. oz	1,796.15	(0.04)
Gold Futures	USD/T. oz	1,776.50	(1.80)
CMX Silver	USD/T. oz	22.89	(4.13)
NYMEX Platinum	USD/T. oz	952.62	(5.01)
Agricultural			
CBOT Corn	USD/bu	567.50	(2.87)
CBOT Wheat	USD/bu	787.25	(8.19)
NYB-ICE Sugar	USD/lb.	18.60	(5.87)
CBOT Soybeans	USD/bu.	1,217.25	(4.47)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	95.99	(0.52)
Euro/USD	1.1362	0.96
GBP/USD	1.3354	(0.04)
AUD/USD	0.7131	(1.27)
USD/CAD	1.2782	0.34
USD/JPY	112.84	(1.74)
USD/CHF	0.9180	(1.46)
USD/CNY Midpoint	6.3794	(0.21)
USD/CNY	6.3644	(0.43)
USD/CNY NDF-12-mth	6.5472	(0.30)
USD/CNH	6.3752	(0.22)
USD/HKD	7.7977	0.06
CNY/HKD	1.2248	0.45
CNH/HKD	1.2231	0.28
USD/KRW	1,188.05	(0.13)
USD/TWD	27.80	0.01
USD/SGD	1.3665	0.02
USD/INR	75.17	1.00

All data sources: Bloomberg

Disclosures

Analyst Certification

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