

December 17, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The Fed kept the target range of the FFR unchanged but accelerated the pace of tapering asset purchases by wrapping up pandemic-era bond purchases program in March 2022. The move paved the way of proceeding with expected three rate hikes in 2022 to battle escalating inflation pressure while ensuring continued recovery of economic activities.
- The economy was strengthening on the progress on vaccinations and strong policy support but supply and demand imbalances resulted in the elevation of inflation. The dramatic policy shift of the Fed helps clear the way to launch the first rate hike in 2022 after the pandemic in an attempt to ease the staggering inflation.
- Amid the U.S. economic rebound clouded by the recent fast-spreading Omicron Variant (OV) of Coronavirus and worldwide supply chain chaos, 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 in 1H2022 while three 25bp rate hikes will be launched in 2H2022, thus supporting growth momentum of the U.S. economy in 2022.

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

The Fed ending the bond-buying stimulus program in March 2022

At the conclusion of the last Federal Open Markets Committee (FOMC) policy meeting in 2021, the U.S. Federal Reserve (Fed) decided to keep the target range of the Fed fund rates (FFR) unchanged at the record-low level near zero but accelerated the pace of tapering asset purchases by wrapping up pandemic-era bond purchases program in March 2022. The move paved the way of proceeding with expected three rate hikes in 2022 to battle escalating inflation pressure while ensuring continued recovery of economic activities. The Fed pointed out that the U.S. economy was strengthening on the progress on vaccinations and strong policy support but acknowledged that supply and demand imbalances as well as continued reopening of the economy resulted in the elevation of inflation. In sum, the dramatic policy shift of the Fed aims at clearing the way to launch the first rate hike in 2022 after the pandemic in an attempt to ease the staggering inflation. We are of the view that the U.S. economy is recovering alongside improvement in labor market and broadening pricing pressures. Amid the U.S. economic rebound clouded by the recent fast-spreading Omicron Variant (OV) of Coronavirus and worldwide supply chain chaos, 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 in 1H2022 while three 25bp rate hikes will be launched in 2H2022, thus supporting growth momentum of the U.S. economy in 2022.

The U.S. economy facing growing strengths of economic activities and inflation. The U.S. economy has maintained growing strengths since the beginning of 2021, driven by continued rollout of vaccines and strong policy support, thus making significant improvement in economic conditions. The recent U.S. economic indicators showed proper expansion of growth momentum with which manufacturing activities led the recovery as December Markit manufacturing Purchasing Managers' Index (PMI) stayed above the expansion threshold of 50 at 57.8 while service sector was embedded

into continuation of activity normalization as December Markit services PMI reached 57.5. However, economic activities are recovering at a stable pace and most sectors have shown improvement in performance but have not fully recovered. The risk of higher inflation triggers uncertainties regarding economic rebound in coming quarters. In the wake of changing recovery momentum, the Fed lowered the projection of GDP growth to 5.5% for 2021 from September projection of 5.9% but raised the forecast of GDP growth to 4.0% for 2022 from September projection's 3.8%. The Fed also projected that personal consumption expenditure (PCE) index and core PCE index will rise to 5.3% and 4.4% as well as 2.6% and 2.7% in 2021 and 2022 from September projection of 4.2% and 3.7% as well as 2.2% and 2.3%. We are of the view that the Fed will maintain the accommodative stance by navigating a world of ample liquidity with the aim to support a proper revival of economic growth. It will move gradually to restore normal monetary stance to avoid overshooting inflation while propelling the recovery momentum of the U.S. economy. In general, the U.S. GDP will likely to return to pre-pandemic level in 2022 with which economic growth will demonstrate a slowing trend in 1H2022 while expected relief of worldwide supply chain meltdown and fading inflation pressures will strengthen the recovery path in the second half of 2022.

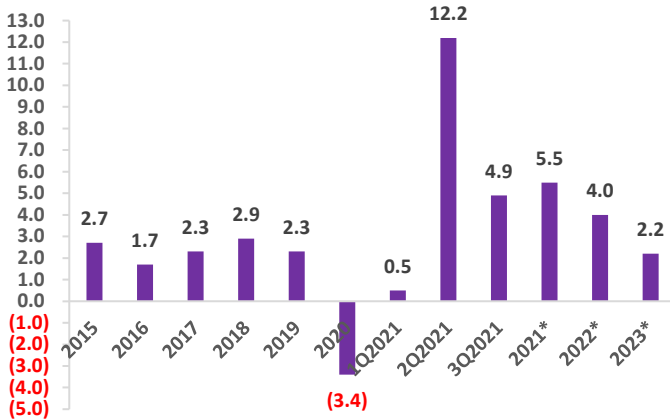
The Fed staying on course to retain favorable liquidity conditions.

The Fed is no longer signaling that the roaring inflation is transitory but tighter monetary policy may not be the effective tool to tame the current drivers of inflation, which could prompt a softening of the labor market well before jobs return to pre-pandemic levels. The challenges involving higher labor, raw material and freight costs as well as shipment delays and disrupted logistics arrangement along with the threat of OV seem likely to slow the recovery momentum of the U.S. economy. Looking ahead, the Fed's monetary stance and huge infrastructure stimulus package will help resist the growth headwinds, thus striking a balance between solid recovery and surging price level. We are of the view that the Fed aims at ending the quantitative easing program in March to battle escalating inflation pressures but near-zero interest rate environment remains intact during the first half of 2022 to maintain proper job gains returning to pre-pandemic level. Three 25 bps rates hikes are expected in the 2H2022 to ensure healthy growth recovery with stable inflation.

The U.S. dollar (USD) aligning for bullish trend on the Fed's hawkish stance and the threat of OV. With proper vaccination progress and launch of sizable fiscal stimulus, the U.S. economy demonstrates an optimistic outlook on acceleration of activity normalization alongside surging inflation pressure on the economy. The dollar has been on growing strengths on strong job creation and the Fed's hawkish approach to its monetary policy even through the U.S. is facing lasting impacts from the pandemic on the economy and the highest U.S. inflation in three decades. Early termination of tapering gives the Fed more flexibility to raise interest rates sooner in 2022 with which the Fed's change of monetary stance lifts the

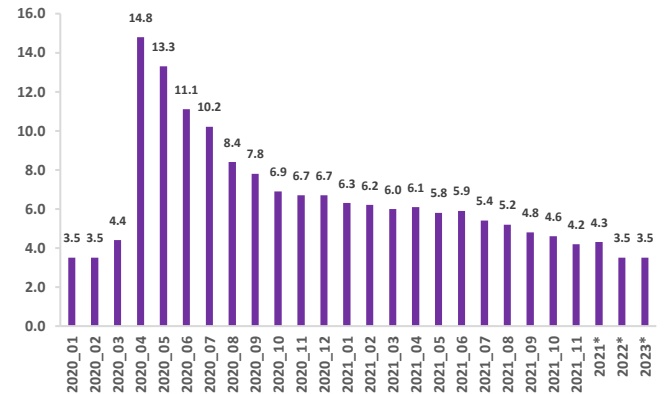
strengths of the USD. In addition, the outbreak of OV prompts governments to renew the containment measures. Rising health risks cloud economic outlook and shake market sentiment, thus pushing increasing holdings of the USD as the primary safe haven. We are of the view that the resilience of the U.S. economic recovery, the Fed's early tapering and the threat of OV become the major forces to support the USD.

Fig. 1: US GDP (YoY %)



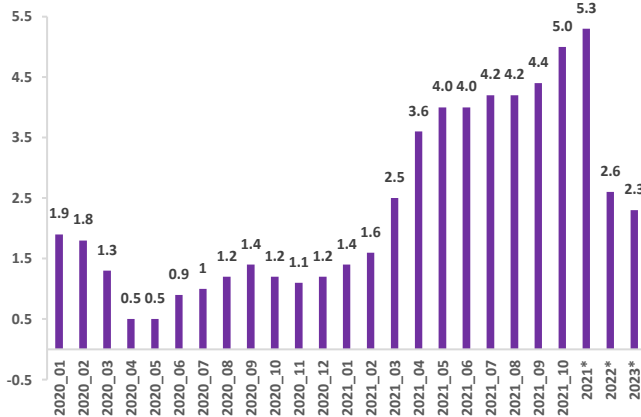
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



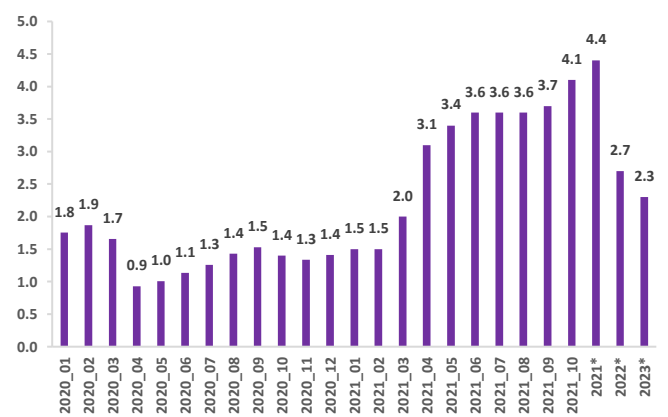
Source: Bloomberg *The Fed's forecast

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



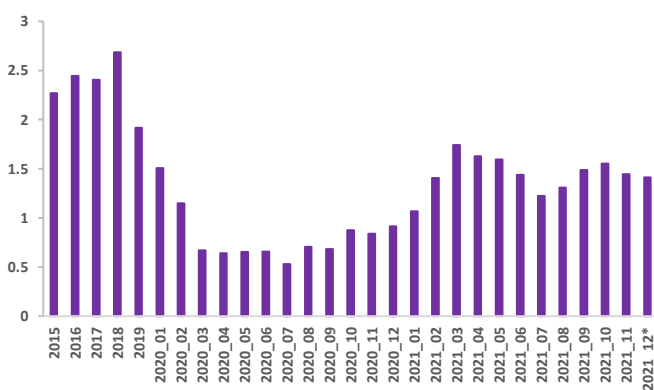
Source: Bloomberg *The Fed's forecast

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



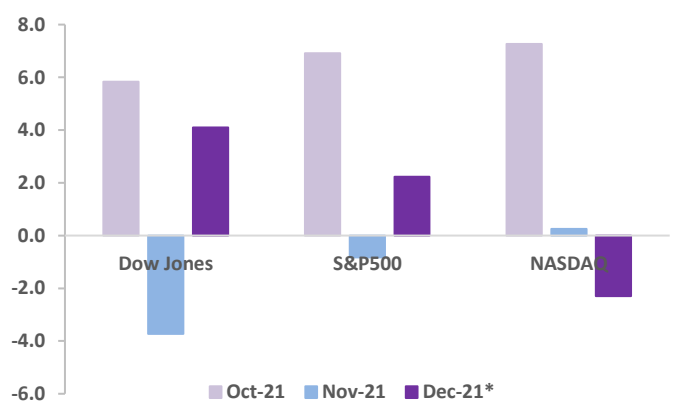
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg *16th December 2021

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



Source: Bloomberg *16th December 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	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	10288.7	7510.2	6966.1

	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21	Nov 21
Real GDP (YoY%)	-	6.5	-	-	18.3	-	-	7.9	-	-	4.9	-	-
PMI - Manufacturing %	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2	50.1
PMI - Non-manufacturing%	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4	52.3
Exports (RMB YoY %)	14.5	10.9	16.5	139.3	20.6	22.0	18.0	20.2	8.1	15.7	19.9	20.3	16.6
Imports (RMB YoY %)	(1.4)	(0.2)	20.2	11.8	28.7	33.1	40.3	24.6	16.2	23.1	10.1	14.5	26.0
Trade Balance (RMB/bn)	502.8	509.2	405.0	231.7	75.7	264.7	284.1	328.1	360.4	376.3	433.6	545.9	460.7
Export (USD YoY %)	20.6	18.1	24.6	154.7	30.5	32.2	27.8	32.2	19.3	25.6	28.2	27.1	22.0
Import (USD YoY %)	3.9	6.5	28.7	18.9	39.1	44.0	52.0	37.1	28.3	33.1	17.6	20.6	31.7
Trade Balance (USD/bn)	74.3	75.8	61.8	35.5	11.9	41.1	44.7	50.8	56.2	58.3	66.8	84.5	71.7
CPI (YoY %)	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3
PPI (YoY %)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5	12.9
FAI (YTD/ YOY %)	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1	5.2
Real Estate Investment (YTD/ YoY %)	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2	6.0
Industrial Production (YoY %)	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	3.8
Retail Sales (YoY%)	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	3.9
New Lending (RMB/bn)	1433.7	1255.2	3578.3	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2	1273.2
M2 (YoY %)	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7	8.5
Aggregate Financing (RMB bn)	2135.5	1647.6	5187.8	1724.3	3376.6	1856.9	1952.2	3701.1	1075.2	2974.4	2916.5	1607.3	2614.1
Urban Unemployment Rate (%)	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9	5.0
Urban Unemployment Rate in 31 major cities (%)	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1	5.1

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,897.64	20.02	0.40
S&P 500	4,668.67	25.56	0.03
NASDAQ	15,180.43	125.95	(2.17)
EUR			
FTSE 100	7,260.61	17.38	(0.83)
DAX	15,636.40	15.21	(0.02)
CAC40S	7,005.07	21.19	(0.05)
STOXX EUR 600	476.56	20.28	(0.09)
Asia			
HSI	23,475.50	9.38	(3.21)
HSCEI	8,349.65	7.39	(3.56)
CSI300	5,034.73	18.21	(0.87)
SSE Composite	3,675.02	15.68	0.05
SZSE Composite	2,559.31	38.43	0.64
NIKKEI 225	29,066.32	16.56	1.19
KOSPI	3,006.41	13.95	(0.76)
TWSE	17,785.74	14.50	(0.72)
S&P/ASX 200	7,295.66	22.68	(1.20)
MSCI Index			
MSCI WORLD	3,167.33	22.71	(0.16)
MSCI DEVELOPED	740.91	21.19	(0.36)
MSCI EMERGING	1,223.89	13.88	(1.91)
MSCI US	4,495.93	26.55	(0.25)
MSCI UK	2,048.06	16.89	(0.76)
MSCI France	199.62	21.78	(0.27)
MSCI Germany	168.74	15.11	(0.11)
MSCI China	84.82	14.35	(3.97)
MSCI Hong Kong	14,650.49	21.02	(2.38)
MSCI Japan	1,245.23	15.19	1.33

* As of 2021/12/16 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)	(0.0025)	(0.015)
US Treasury (1 Yr)	0.2361	(0.025)
US Treasury (5 Yr)	1.1637	(0.104)
US Treasury (10 Yr)	1.4106	(0.089)
US Treasury (30 Yr)	1.8524	(0.024)
1-Month LIBOR	0.1086	0.007
3 Month LIBOR	0.2156	0.015
Japan 1-Yr Gov. Bond	(0.103)	0.003
Japan 10-Yr Gov. Bond	0.047	0.0
German 1-Yr Gov. Bond	(0.652)	0.087
German 10-Yr Gov. Bond	(0.348)	0.005
China LPR (1-year)	3.85	0.0
China 1-Yr Gov. Bond	2.2970	0.057
China 5-Yr Gov. Bond	2.6920	(0.016)
China 10-Yr Gov. Bond	2.8950	0.011
O/N SHIBOR	2.1160	(0.038)
1-mth SHIBOR	2.3660	0.006
HK Base rate	0.5	0.0
O/N HIBOR	0.0407	(0.004)
1-mth HIBOR	0.1992	(0.006)
O/N CNH HIBOR	0.8483	(1.244)
1-mth CNH HIBOR	2.7340	(0.372)
Corporate Bonds (Moody's)		
Aaa	2.67	0.04
Baa	3.30	(0.01)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	72.38	2.03
ICE Brent Oil	USD/bbl	75.02	0.81
NYMEX Natural	USD/MMBtu	3.77	(1.26)
Basic Metals			
LME Aluminum	USD/MT	2,656.00	1.11
CMX Copper	USD/lb.	430.45	(0.66)
LME Steel Rebar	USD/MT	692.00	(1.56)
LME Lead Cash	USD/MT	2,322.50	0.74
Precious Metals			
CMX Gold	USD/T. oz	1,786.69	0.21
Gold Futures	USD/T. oz	1,798.20	1.21
CMX Silver	USD/T. oz	22.22	(0.40)
NYMEX Platinum	USD/T. oz	935.21	(1.39)
Agricultural			
CBOT Corn	USD/bu	591.25	(0.08)
CBOT Wheat	USD/bu	770.50	(0.80)
NYB-ICE Sugar	USD/lb.	19.40	(1.47)
CBOT Soybeans	USD/bu.	1,278.25	0.47

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.04	(0.24)
Euro/USD	1.1300	(0.12)
GBP/USD	1.3284	0.72
AUD/USD	0.7202	0.64
USD/CAD	1.2776	0.78
USD/JPY	114.17	0.56
USD/CHF	0.9253	0.33
USD/CNY Midpoint	6.3637	0.22
USD/CNY	6.3683	(0.15)
USD/CNY NDF-12-mth	6.5436	0.38
USD/CNH	6.3771	0.48
USD/HKD	7.8029	0.08
CNY/HKD	1.2250	0.21
CNH/HKD	1.2236	(0.39)
USD/KRW	1,183.95	0.83
USD/TWD	27.82	0.41
USD/SGD	1.3650	0.02
USD/INR	76.09	0.76

All data sources: Bloomberg

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**