光銀國際
CEB INTERNATIONAL

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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 level near zero and wrap up pandemic-era bond purchases program in early March. The Fed also signaled the proceeding with earlier-than-expected rate hikes in 2022 to hedge against inflation spikes, thus ensuring continued recovery of economic activities.
- The economy was strengthening on solid job gains but the post-pandemic recovery momentum is constrained by residual supply-side disruption, upside inflation risks and the spread of the Omicron variant (OV). The policy shift of the Fed aims at tightening monetary conditions in 2022 to ease the staggering inflation.
- Amid the U.S. economic outlook clouded by growth and health headwinds, the U.S. policy makers point to maintain the accommodative stance of different economic tools to propel growth momentum in 2022.
- We expect four 25bp rate hikes will be launched during the year, with the first rate hike kicking off in March and the Fed's balance sheet shrinking in 2H2022.

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The Fed signaling earlier rate hikes to sustain inflation flight

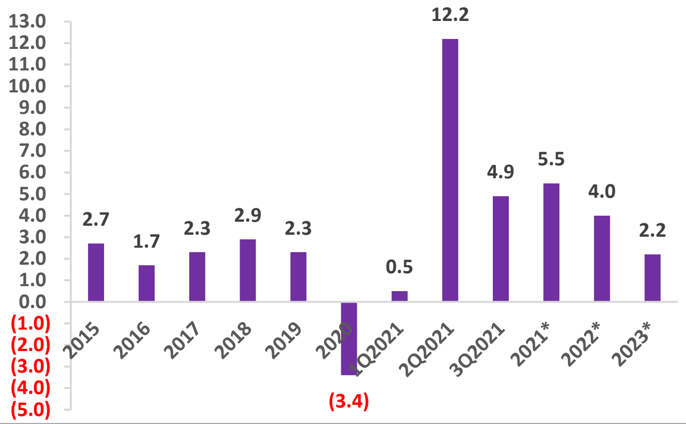
At the conclusion of the first Federal Open Markets Committee (FOMC) policy meeting in 2022, the U.S. Federal Reserve (Fed) continued to keep the target range of the Fed fund rates (FFR) unchanged at the level near zero and wrap up pandemic-era bond purchases program in early March. The Fed also signaled the proceeding with earlier-than-expected rate hikes in 2022 to hedge against inflation spikes, thus ensuring continued recovery of economic activities. In sum, the Fed pointed out that the U.S. economy was strengthening on solid job gains but the post-pandemic recovery momentum is constrained by residual supply-side disruption, upside inflation risks and the spread of the Omicron variant (OV). The policy shift of the Fed aims at tightening monetary conditions in 2022 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 outlook clouded by growth and health headwinds, the U.S. policy makers point to maintain the accommodative stance of different economic tools to propel growth momentum in 2022. We expect four 25bp rate hikes will be launched during the year, with the first rate hike kicking off in March and the Fed's balance sheet shrinking in 2H2022.

The U.S. economy facing slower growth momentum in 1Q2022. Amid rising health risks from the ongoing pandemic alongside 40-year high inflation, the recent U.S. economic indicators embraced a cooling trend with growth of consumption and investment decelerating in vary degrees. Manufacturing activities in January demonstrated signs of slowdown as Markit manufacturing Purchasing Managers' Index (PMI) fell to 55.0 from December's 57.7, the slowest pace in 15 months while service sector faced decelerating growth momentum as Markit services PMI dropped to 50.9 from December's 57.6, the lowest since July 2020. In sum, recent widespread of OV, labor shortages, and inflationary pressures as well as the Fed's expected interest rate hikes cause economic uncertainties that will likely weigh on impact consumer confidence and productivity, thus worsening moderately the U.S. economic outlook of 2022. We are of the view that the U.S. economy continues to benefit from strong labor market conditions to propel the recovery but the near-term slowdown in economic activities on reversing monetary easing is unavoidable. The U.S. economic recovery remains intact but will encounter slower growth momentum in 1Q2022 on the concerns circling around mounted financial market risks, elevated asset valuations, overshooting inflation, ongoing pandemic conditions and slow pace of economic re-opening.

The Fed staying on course to prevent inflationary spiral while propelling sustainable growth momentum. The Fed has maintained a strong stance that the roaring inflation is no longer transitory and tighter monetary policy is the effective tool to tame the current drivers of inflation. Looking ahead, the pandemic-era inflation poses risks to block normal recovery momentum of the U.S. economy. The Fed takes liquidity out of the market in an attempt to create a stable environment for a stronger and stable post-pandemic recovery. In sum, favorable fiscal policy including 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 and restore normal monetary stance to battle escalating inflation pressures alongside maintaining proper job gains returning to pre-pandemic level. In wake of restoring a sustainable growth momentum for the U.S. economy, four 25 bps rates hikes along with balance sheet reductions are expected in 2022 to ensure healthy growth recovery with inflation returning to targeted level.

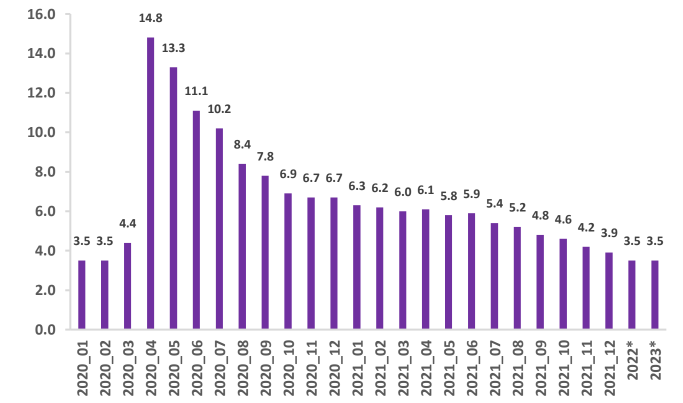
The U.S. equity markets entering into a period of turbulent correction. The U.S. equity markets have experienced a turbulent ride since the beginning of 2022 as Dow Jones industrial index, S&P 500 index and NASDAQ composite index posted accumulated loss between 6% and 13.5% during January. The investment horizon faces 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. Market risks are expected to skew to the high side. Looking forward, markets will shift the focus to economic fundamentals with long-term competitiveness. We are of the view that rising recovery momentum of the U.S. economy continue along with surging inflation. Investors' optimism will re-escalate under which the U.S. equities following recovery cycles on solid fundamentals will justify the volatile rally despite the rate hikes.

Fig. 1: US GDP (YoY %)



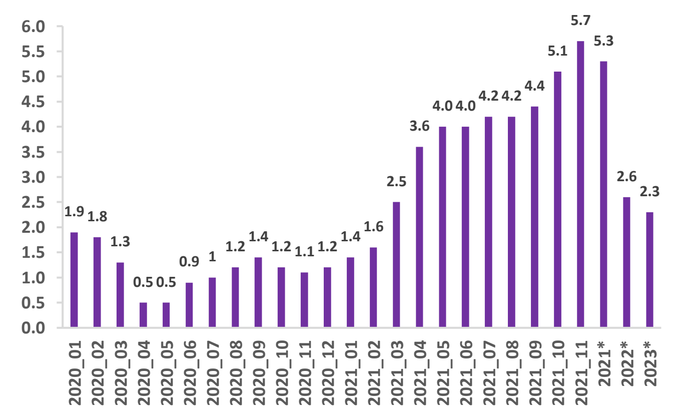
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



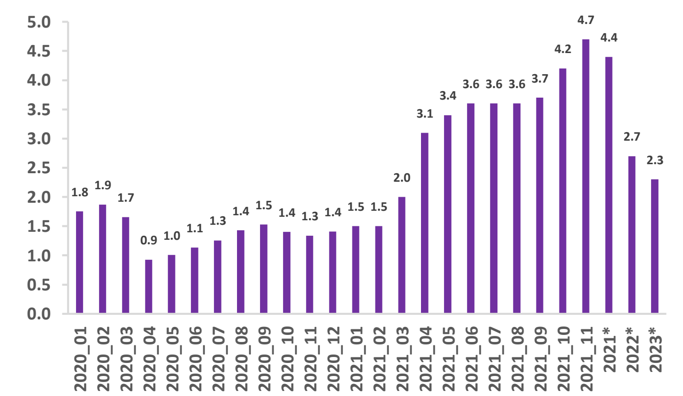
Source: Bloomberg *The Fed's forecast

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



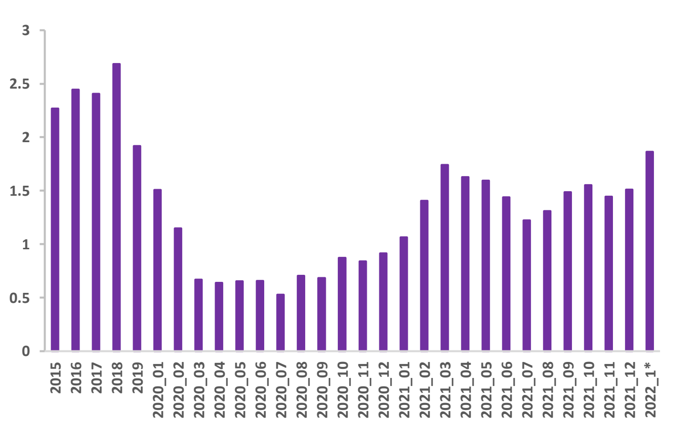
Source: Bloomberg *The Fed's forecast

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



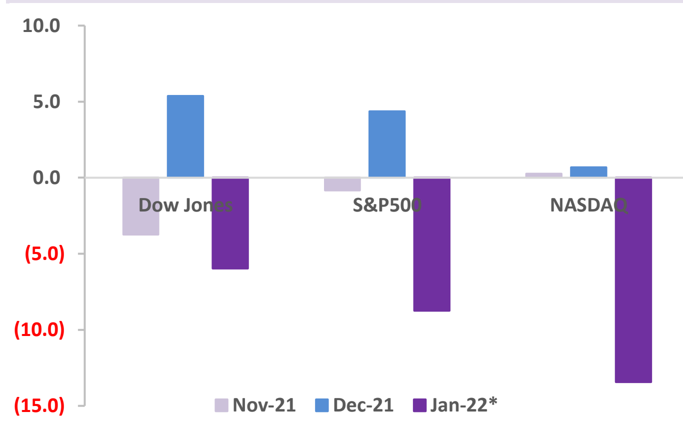
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg *26th January 2022

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



Source: Bloomberg *26th January 2022

China economic indicators

	2018	2019	2020	1Q2021	2Q2021	3Q2021	4Q2021	2021
Real GDP (YoY%)	6.7	6.0	2.2	18.3	7.9	4.9	4.0	8.1
PMI Manufacturing (%)	49.4	50.2	51.9	51.3	51.0	50.0	49.9	50.3
PMI Non-Manufacturing (%)	53.2	53.5	55.7	53.4	54.5	51.3	52.5	52.7
Exports (RMB YoY %)	7.1	5.0	4.0	38.7	20.0	14.4	17.8	21.2
Imports (RMB YoY %)	12.9	1.7	(0.2)	19.3	32.2	15.9	18.7	21.5
Trade Balance (RMB/bn)	2324.7	2912.0	3634.2	710.9	873.8	1173.4	1610.8	4368.7
Exports (USD YoY %)	9.9	0.5	3.6	48.8	30.6	24.2	23.0	29.9
Imports (USD YoY %)	15.8	(2.7)	(0.6)	29.4	44.0	25.6	23.7	30.1
Trade Balance (USD/bn)	351.0	421.1	524.0	108.9	135.1	181.9	250.6	676.4
CPI (YoY %)	2.1	2.9	2.5	0.0	1.1	0.8	1.8	0.9
PPI (YoY %)	3.5	(0.3)	(1.8)	2.1	8.2	9.7	12.2	8.1
FAI (YTD/ YOY %)	5.9	5.4	2.9	25.6	12.6	7.3	4.9	4.9
Real Estate Investment (YTD YoY %)	9.5	9.9	7.0	25.6	15.0	8.8	4.4	4.4
Industrial Production (YoY %)	6.2	5.7	2.8	24.6	9.0	4.9	3.9	9.6
Retail Sales (YoY%)	9.0	8.0	(3.9)	33.9	13.9	5.0	3.5	12.5
New Lending (RMB/bn)	12579.4	16815.7	19632.9	7667.9	5084.5	3961.4	3231.2	19945.1
M2 (YoY %)	8.1	8.7	10.1	9.4	8.6	8.3	9.0	9.0
Aggregate Financing (RMB bn)	22492.0	25673.5	34791.8	10288.9	7510.9	6967.1	6584.1	31351.0

	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21	Nov 21	Dec 21
Real GDP (YoY%)	6.4	-	-	18.3	-	-	7.9	-	-	4.9	-	-	4.0
PMI - Manufacturing %	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2	50.1	50.3
PMI - Non-manufacturing%	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4	52.3	52.7
Exports (RMB YoY %)	10.9	16.4	139.2	20.5	22.0	17.9	20.0	7.9	15.6	19.7	20.1	16.3	17.3
Imports (RMB YoY %)	(0.2)	20.2	11.8	28.6	33.1	40.3	24.5	16.2	22.7	9.7	14.3	25.6	16.0
Trade Balance (RMB/bn)	509.2	404.6	231.0	75.4	264.2	283.2	326.3	358.6	378.8	435.8	545.1	460.9	604.7
Export (USD YoY %)	18.1	24.6	154.6	30.4	32.1	27.7	32.1	19.2	25.4	28.0	26.9	21.7	20.9
Import (USD YoY %)	6.5	28.7	18.9	39.1	44.0	52.0	37.1	28.2	32.7	17.2	20.4	31.4	19.5
Trade Balance (USD/bn)	75.8	61.7	35.4	11.8	41.0	43.6	50.5	56.0	58.7	67.2	84.4	71.7	94.5
CPI (YoY %)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5
PPI (YoY %)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5	12.9	10.3
FAI (YTD/ YOY %)	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1	5.2	4.9
Real Estate Investment (YTD/ YoY %)	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2	6.0	4.4
Industrial Production (YoY %)	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	3.8	4.3
Retail Sales (YoY%)	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	3.9	1.7
New Lending (RMB/bn)	1255.2	3578.3	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2	1273.2	1131.8
M2 (YoY %)	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7	8.5	9.0
Aggregate Financing (RMB bn)	1647.6	5188.4	1724.3	3376.2	1857.0	1952.2	3701.7	1075.2	2989.3	2902.6	1617.6	2598.3	2398.3
Urban Unemployment Rate (%)	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9	5.0	5.1
Urban Unemployment Rate in 31 major cities (%)	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1	5.1	5.1

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World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,168.09	18.88	(2.46)
S&P 500	4,349.93	23.68	(4.03)
NASDAQ	13,542.12	113.96	(5.57)
EUR			
FTSE 100	7,469.78	17.92	(1.58)
DAX	15,459.39	14.92	(2.22)
CAC40S	6,981.96	21.16	(2.66)
STOXX EUR 600	467.31	19.07	(2.83)
Asia			
HSI	24,289.90	9.71	0.67
HSCEI	8,512.29	9.05	0.84
CSI300	4,712.31	17.04	(1.42)
SSE Composite	3,455.67	14.79	(2.88)
SZSE Composite	2,329.17	35.21	(4.63)
NIKKEI 225	27,011.33	15.29	(1.66)
KOSPI	2,709.24	12.56	(4.68)
TWSE	17,674.40	14.25	(3.03)
S&P/ASX 200	6,951.60	21.62	(5.30)
MSCI Index			
MSCI WORLD	2,979.70	18.54	(3.84)
MSCI DEVELOPED	701.13	17.76	(3.66)
MSCI EMERGING	1,211.45	13.45	(2.29)
MSCI US	4,160.65	20.05	(4.24)
MSCI UK	2,122.31	17.60	(1.39)
MSCI France	198.51	21.99	(2.68)
MSCI Germany	166.84	14.94	(2.28)
MSCI China	83.05	14.45	(1.19)
MSCI Hong Kong	15,220.40	21.83	1.24
MSCI Japan	1,168.22	13.96	(1.67)

* As of 2022/1/26 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)	0.0228	(0.01)
US Treasury (1 Yr)	0.6956	0.1613
US Treasury (5 Yr)	1.6844	0.0364
US Treasury (10 Yr)	1.8637	(0.001)
US Treasury (30 Yr)	2.1649	(0.011)
1-Month LIBOR	0.1079	0.0042
3 Month LIBOR	0.2676	0.0136
Japan 1-Yr Gov. Bond	(0.109)	(0.002)
Japan 10-Yr Gov. Bond	0.141	(0.003)
German 1-Yr Gov. Bond	(0.682)	(0.027)
German 10-Yr Gov. Bond	(0.074)	(0.063)
China LPR (1-year)	3.70	(0.1)
China 1-Yr Gov. Bond	1.983	(0.063)
China 5-Yr Gov. Bond	2.417	(0.026)
China 10-Yr Gov. Bond	2.717	(0.016)
O/N SHIBOR	1.740	(0.295)
1-mth SHIBOR	2.419	(0.003)
HK Base rate	0.5	0.0
O/N HIBOR	0.1099	0.0429
1-mth HIBOR	0.1821	0.0271
O/N CNH HIBOR	2.0525	0.1230
1-mth CNH HIBOR	2.8835	0.2772
Corporate Bonds (Moody's)		
Aaa	3.04	0.04
Baa	3.69	0.04

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	87.35	0.45
ICE Brent Oil	USD/bbl	89.96	1.72
NYMEX Natural	USD/MMBtu	4.28	6.10
BasicMetals			
LME Aluminum	USD/MT	3,106.00	1.57
CMX Copper	USD/lb.	451.50	1.01
LME Steel Rebar	USD/MT	695.00	(0.64)
LME Lead Cash	USD/MT	2,329.25	(1.65)
Precious Metals			
CMX Gold	USD/T. oz	1,846.94	1.55
Gold Futures	USD/T. oz	1,832.00	(0.73)
CMX Silver	USD/T. oz	23.92	0.44
NYMEX Platinum	USD/T. oz	1,046.77	4.73
Agricultural			
CBOT Corn	USD/bu	627.00	2.70
CBOT Wheat	USD/bu	795.00	(0.19)
NYB-ICE Sugar	USD/lb.	18.49	(3.04)
CBOT Soybeans	USD/bu.	1,440.00	3.50

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.48	1.01
Euro/USD	1.1282	(0.57)
GBP/USD	1.3513	(0.87)
AUD/USD	0.7176	(0.53)
USD/CAD	1.2569	0.78
USD/JPY	114.16	(0.28)
USD/CHF	0.9204	0.54
USD/CNY Midpoint	6.3246	(0.59)
USD/CNY	6.3209	(0.38)
USD/CNY NDF-12-mth	6.4534	(0.33)
USD/CNH	6.3265	(0.37)
USD/HKD	7.7848	(0.10)
CNY/HKD	1.2317	0.30
CNH/HKD	1.2305	0.28
USD/KRW	1,197.75	0.53
USD/TWD	27.74	0.36
USD/SGD	1.3445	(0.28)
USD/INR	77.7762	4.28

All data sources: Bloomberg

Disclosures

Analyst Certification

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