光銀國際
CEB INTERNATIONAL

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- A combination of fading global growth momentum, a more hawkish stance of the US Federal Reserve (Fed) and unresolved Russia-Ukraine crisis push forward continued flattening of yield curves in the sense that the evolution of inflation and central bank policy responses will likely drive higher fixed income market volatility.
- Although the Fed accelerates the pace of monetary normalization and bond yields are climbing steadily, global liquidity remains ample with the yields still rising at a reasonable pace. Investors continue to act as yield chasers, which bolster the prospects for high-yield and investment-grade bonds.
- Despite the current macroeconomic headwinds, global advances along the path to vaccinations and activities normalization will continue to boost business and consumer confidence. Cash flow and leverage will likely pick up for enterprises, which reduce default risks of fixed income market in coming quarters. Investors seek diversification in their portfolios, especially after turbulent run of equity markets and we are of the view that global liquidity will continue to flow into high-quality bonds to balance risks and returns in 2Q2022.

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Fixed income market embracing risks and opportunities in the wake of unwinding pandemic-induced ultra-loose monetary regime

Global economy has proven remarkable and challenging in 2021 and 1Q2022 as most economies faced faster rebound in activities, persistently high inflation, the ongoing threat of Covid-19 variants and rising geopolitical risks. Huge macroeconomic uncertainties emerge as the end of the ultra-low interest rate environment and ongoing world-wide supply chain chaos cloud the growth outlook across the globe. A combination of fading global growth momentum, a more hawkish stance of the US Federal Reserve (Fed) and unresolved Russia-Ukraine crisis push forward continued flattening of yield curves in the sense that the evolution of inflation and central bank policy responses will likely drive higher fixed income market volatility in 2Q2022. In sum, although the Fed accelerates the pace of monetary normalization and bond yields are climbing steadily, global liquidity remains ample with the yields still rising at a reasonable pace. Investors continue to act as yield chasers, which bolster the prospects for high-yield and investment-grade bonds. Looking forward, the biggest downside risk to global markets point to the continued imbalance between supply and demand, causing inflationary pressure to last longer. Despite the current macroeconomic headwinds, global advances along the path to vaccinations and activities normalization will continue to boost business and consumer confidence. Cash flow and leverage will likely pick up for enterprises, which reduce default risks of fixed income market in coming quarters. Investors seek diversification in their portfolios, especially after turbulent run of equity markets and we are of the view that global liquidity will continue to flow into high-quality bonds to balance risks and returns in 2Q2022.

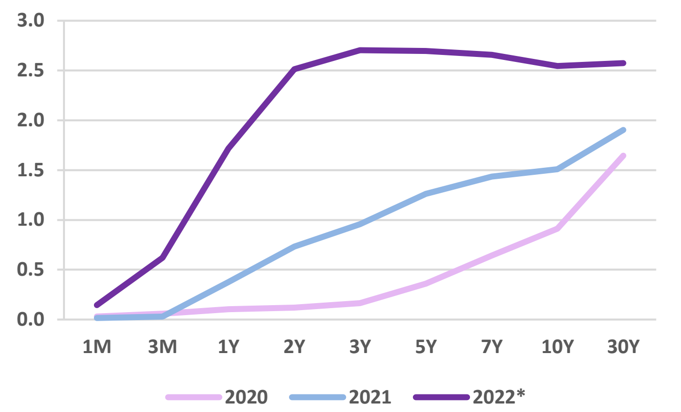
Asia ex-China bond market retaining attractiveness despite bracing for higher interest rate risks. The mixed performance of Asia ex-China economic indicators, strong dollar and hiking interest rate on the Fed's tightening as well as the threat of the pandemic trigger volatility in fixed income markets, thus posing risks and opportunities in 2Q2022. Asia ex-China economies have abandoned their zero-COVID strategies and transitioned to "living with COVID", slowly reopening their economies and borders amid rising vaccination numbers. These countries have responded with accommodative policies to support businesses and labor markets with which monetary and fiscal stimulus remains intact in driving growth of economic activities. In sum, potential interest rate shocks emerge to be the major headwind affecting the outlook of Asian fixed income investment products. Inflationary forces driven by supply chain chaos play out differently across the global economy, complicating the timelines towards activity normalization as well as the momentum of corporate recovery but improving cash flow for high-quality corporations amid economic recovery cycle offsetting the macroeconomic headwinds. Surging bond yields will ultimately drive investors towards high-quality investments on Asian investment grade products rather than government bonds, which will have substantial upside along with the path of economic rebound. In wake of an uncertain growth outlook and interest rate risk, high-quality Asian credit products should generate better risk-adjusted returns. We are of the view that the recent Russia's military actions against Ukraine and the related inflationary pressures could drive risk-off market sentiment and exacerbate short-term weakness in Asian fixed income market but it remains as one of the most attractive and resilient segments in a world of debt market, well-positioning to withstand the market turbulence in financial markets.

Asia ESG-linked credit products embracing rapid growth. The volume of fixed income products linked to environmental, social and governance (ESG) factors in Asia continues to demonstrate signs of rapid expansion, spurred by increased investor demand as well as the need for issuers to meet their decarbonization targets amid global efforts to combat climate change. In sum, Asia is still the world's biggest emitting region with over 50% of global emissions. The declaration on decarbonization and energy transition by China along with India's net zero commitments will continue to drive net zero emission growth amongst corporates and industry. While electrification can help reduce emissions, a shift on the supply side from coal to renewable energy sources is of paramount importance to achieve the target under which wind, solar, biomass and hydrogen are critical sectors that will require more ESG sustainable financings in the future. In sum, Asian economies recognize the importance of sustainable development, thus rolling out measures such as environmental commitments and stimulus programs with which the ESG initiative propels the fast development of ESG debt issuance. Looking forward, investors worldwide are enhancing their capital allocations to ESG-themed credit products that deliver measurable societal and environmental impacts and competitive risk-adjusted investment returns. We are of the view that Asian ESG assets will embrace booming growth in coming decades.

China onshore bond market stepping into better position for rally amid government stimulus policy. China's economy faces surging downward pressures on economic activities driven by fading domestic growth expectations, continued supply-chain bottlenecks, unresolved Russia-Ukraine conflict and rising US-China economic and political tensions. An economic slowdown and ongoing policy reforms are posing risks while also creating opportunities, as potential policy easing and supportive measures reverse the defensive sentiment. For China onshore RMB bond market, China's policy stance is of paramount importance in driving the growth and development. We are of the view that easy China's economic policies favor trend rally in the onshore bond market, thus deepening the size and trading. Government bond issuance should remain manageable while the amount of local government special bonds for infrastructure investment will likely increase and China's sovereign bonds are seen benefitting from slower growth and continuous foreign inflows. In sum, the People's Bank of China (PBOC) will continue to provide sufficient liquidity to the banking system, thus ensuring the attractiveness of China's bonds investment. Monetary policy support alongside a stabilized credit impulse should provide an overall impetus for China onshore fixed income market. The State-Owned Enterprises (SOE) and Local Government Financing Vehicles (LGFV) in strategically important sectors will the main beneficiaries. Looking forward, China's modest economic recovery will push forward more issuance of bonds from different sectors, which enhance greater investment allocation from both domestic and international investors.

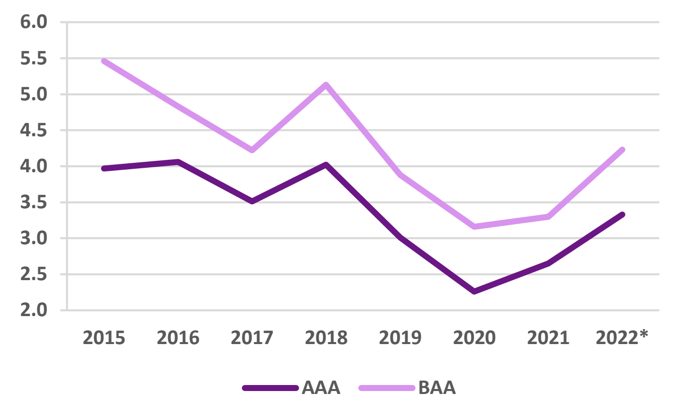
China offshore USD market embracing slow growth amid credit uncertainty of China's developers and the rising US interest rate risks. The China offshore USD bond market was hit by a series of defaults and credit events caused by China's property developers and the regulatory clamp-down on various sectors in the second half of 2021 and 1Q2022. The developers were virtually facing a shutdown of bond financing channel due to the significant surge in bond yields and the widening spread in coupon rates. The panic sentiment due to weak investors' demand and their concerns over the heightened default risk alongside the U.S. hawkish pivot contributed to the tough environment on the demand side for offshore bond issuance. In sum, the current policy-tightening drive towards property sector has led to growth concerns. The PBOC has vowed to ensure a healthy development of property market by somewhat loosening credits to the sector. The government stance of a gradual easing of restrictive policies demonstrates signs of improvement in debt situation as leverage in the property sector was alleviated through consolidation and forced deleveraging. However, policy uncertainty remains as a key theme for investors, as property developers come under pressure from mounting debt maturities in 2Q2022. We are of the view that the offshore dollar bond market remains sluggish and China’s SOE enterprises will still be the major dollar bond issuers in 2Q2022.

Fig. 1: US treasury yield curve (%)



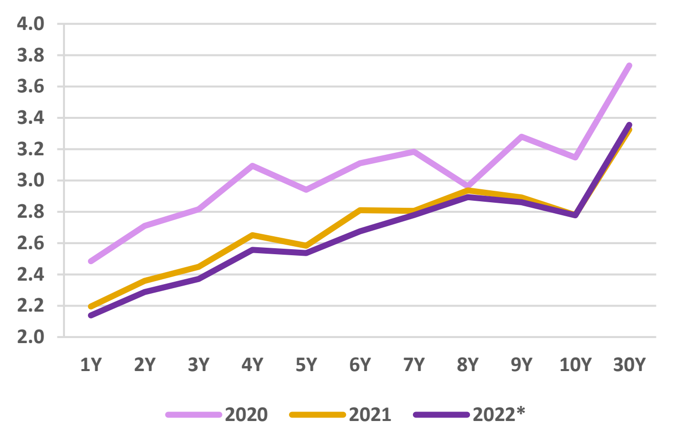
Source: Bloomberg *5th April

Fig. 2: US Corporate AAA & BAA bond yield (%)



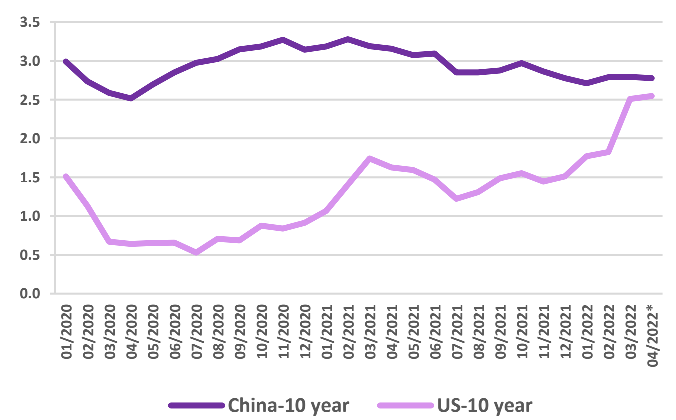
Source: Bloomberg *5th April

Fig. 3: China Government yield curve (%)



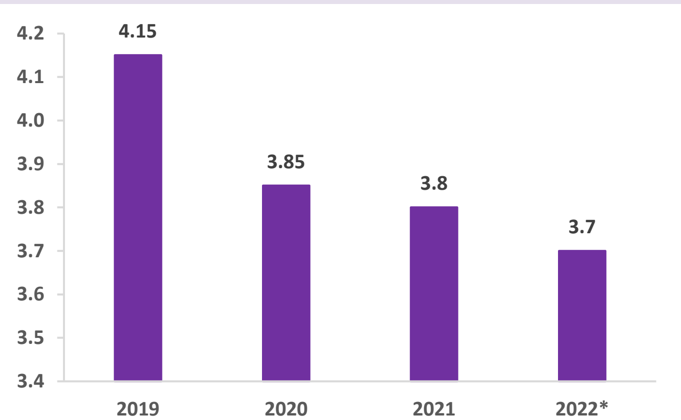
Source: Bloomberg *1st April

Fig. 4: China-US Bond Yield Spread-10 year (%)



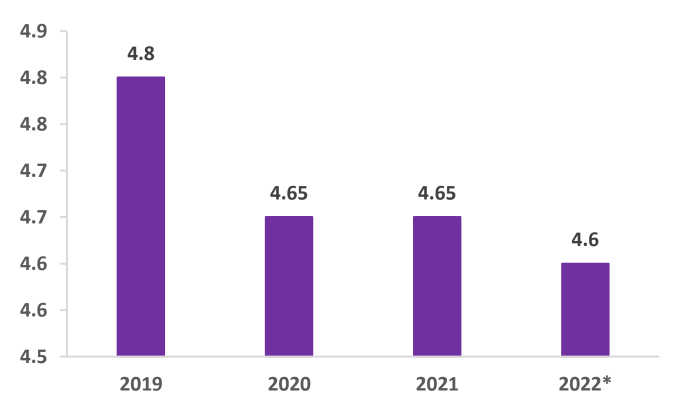
Source: Bloomberg *1st April

Fig. 5: China Loan Prime Rate (LPR) (1 Year) (%)



Source: Bloomberg *5th April

Fig. 6: China Loan Prime Rate (LPR) (5 Year) (%)



Source: Bloomberg *5th April

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	19.9	14.4	17.8	21.2
Imports (RMB YoY %)	12.9	1.7	(0.2)	19.3	32.3	15.8	18.6	21.5
Trade Balance (RMB/bn)	2324.7	2912.0	3634.2	710.9	868.9	1179.4	1612.2	4370.5
Exports (USD YoY %)	9.9	0.5	3.6	48.8	30.6	24.2	22.9	29.9
Imports (USD YoY %)	15.8	(2.7)	(0.6)	29.4	44.1	25.4	23.7	30.1
Trade Balance (USD/bn)	351.0	421.1	524.0	107.8	134.3	182.8	250.8	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

	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sept 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22
Real GDP (YoY%)	18.3	-	-	7.9	-	-	4.9	-	-	4.0	-	-	-
PMI - Manufacturing %	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2	50.1	50.3	50.1	50.2	49.5
PMI - Non-manufacturing%	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4	52.3	52.7	51.1	51.6	48.4
Exports (RMB YoY %)	20.5	22.0	17.9	20.0	7.9	15.6	19.7	20.1	16.3	17.3	21.0	4.1	-
Imports (RMB YoY %)	28.6	33.1	40.3	24.5	16.2	22.7	9.7	14.3	25.6	16.0	16.8	8.3	-
Trade Balance (RMB/bn)	75.0	263.6	281.4	323.9	258.2	381.4	439.8	546.9	461.0	604.2	544.4	194.4	-
Export (USD YoY %)	30.4	32.1	27.7	32.1	19.2	25.4	28.0	26.9	21.7	20.9	24.1	6.2	-
Import (USD YoY %)	39.1	44.0	52.0	37.1	28.2	32.7	17.2	20.4	31.4	19.5	19.8	10.4	-
Trade Balance (USD/bn)	10.8	41.0	43.3	50.1	55.9	59.1	67.8	84.7	71.8	94.4	85.4	30.6	-
CPI (YoY %)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	0.9	-
PPI (YoY %)	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5	12.9	10.3	9.1	8.8	-
FAI (YTD/ YOY %)	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1	5.2	4.9	-	12.2	-
Real Estate Investment (YTD/ YoY %)	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2	6.0	4.4	-	3.7	-
Industrial Production (YoY %)	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	3.8	4.3	-	7.5	-
Retail Sales (YoY%)	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	3.9	1.7	-	6.7	-
New Lending (RMB/bn)	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2	1273.2	1131.8	3980.0	1233.6	-
M2 (YoY %)	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7	8.5	9.0	9.8	9.2	-
Aggregate Financing (RMB bn)	3376.2	1857.0	1952.2	3701.7	1075.2	2989.3	2902.6	1617.6	2598.3	2398.3	6172.6	1192.8	-
Urban Unemployment Rate (%)	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9	5.0	5.1	5.3	5.5	-
Urban Unemployment Rate in 31 major cities (%)	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1	5.1	5.1	-	5.4	-

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World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,641.18	18.26	(1.85)
S&P 500	4,525.12	23.28	(2.30)
NASDAQ	14,204.17	55.54	(2.84)
EUR			
FTSE 100	7,613.72	15.79	1.01
DAX	14,424.36	14.77	(2.67)
CAC40S	6,645.51	15.34	(2.16)
STOXX EUR 600	463.07	16.17	0.21
Asia			
HSI	22,502.31	8.34	3.77
HSCEI	7,770.98	7.38	5.07
CSI300	4,276.16	15.40	2.43
SSE Composite	3,282.72	13.94	2.19
SZSE Composite	2,127.82	30.89	0.67
NIKKEI 225	27,787.98	15.76	(1.64)
KOSPI	2,759.20	12.28	0.66
TWSE	17,625.59	13.28	(0.29)
S&P/ASX 200	7,527.86	18.26	0.85
MSCI Index			
MSCI WORLD	3,049.39	20.33	(1.97)
MSCI DEVELOPED	711.83	19.42	(1.57)
MSCI EMERGING	1,156.75	13.45	1.79
MSCI US	4,333.91	24.42	(2.38)
MSCI UK	2,183.95	15.56	1.28
MSCI France	189.94	16.43	(2.10)
MSCI Germany	152.07	14.07	(2.95)
MSCI China	75.24	12.59	3.31
MSCI Hong Kong	14,502.09	17.56	1.36
MSCI Japan	1,201.07	13.79	(2.24)

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.50	0.00
US Prime Rate	3.50	0.00
US Discount Window	0.50	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.1445	0.0025
US Treasury (1 Yr)	1.7168	0.0697
US Treasury (5 Yr)	2.6955	0.1972
US Treasury (10 Yr)	2.5469	0.1525
US Treasury (30 Yr)	2.5729	0.0718
1-Month LIBOR	0.4286	(0.021)
3 Month LIBOR	0.9690	(0.0273)
Japan 1-Yr Gov. Bond	(0.064)	(0.017)
Japan 10-Yr Gov. Bond	0.219	(0.033)
German 1-Yr Gov. Bond	(0.417)	0.022
German 10-Yr Gov. Bond	0.614	(0.020)
China LPR (1-year)	3.70	0.00
China 1-Yr Gov. Bond	2.138	0.017
China 5-Yr Gov. Bond	2.536	(0.059)
China 10-Yr Gov. Bond	2.777	(0.022)
O/N SHIBOR	2.011	0.006
1-mth SHIBOR	2.313	0.005
HK Base rate	0.0472	0.000
O/N HIBOR	0.0472	0.000
1-mth HIBOR	0.2059	(0.107)
O/N CNH HIBOR	2.4023	(0.179)
1-mth CNH HIBOR	3.0420	(0.055)
Corporate Bonds (Moody's)		
Aaa	3.33	(0.18)
Baa	4.23	(0.17)

* As of 2022/04/05 closing for all markets

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	101.96	(2.19)
ICE Brent Oil	USD/bbl	106.64	(3.26)
NYMEX Natural	USD/MMBtu	6.03	13.04
BasicMetals			
LME Aluminum	USD/MT	3,443.50	0.80
CMX Copper	USD/lb.	479.50	1.35
LME Steel Rebar	USD/MT	942.00	(2.84)
LME Lead Cash	USD/MT	2,425.29	1.52
Precious Metals			
CMX Gold	USD/T. oz	1,928.90	0.87
Gold Futures	USD/T. oz	1,927.50	0.50
CMX Silver	USD/T. oz	24.67	0.30
NYMEX Platinum	USD/T. oz	984.10	0.74
Agricultural			
CBOT Corn	USD/bu	759.75	4.61
CBOT Wheat	USD/bu	1,045.25	3.06
NYB-ICE Sugar	USD/lb.	19.65	2.83
CBOT Soybeans	USD/bu.	1,631.00	(0.73)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	99.47	1.09
Euro/USD	1.0970	(0.70)
GBP/USD	1.3126	0.22
AUD/USD	0.7626	1.73
USD/CAD	1.2456	(0.26)
USD/JPY	122.89	(0.50)
USD/CHF	0.9259	(1.06)
USD/CNY Midpoint	6.3482	(0.25)
USD/CNY	6.3400	(0.44)
USD/CNY NDF-12-mth	6.4346	(0.69)
USD/CNH	6.3702	(0.17)
USD/HKD	7.8326	0.06
CNY/HKD	1.2314	0.12
CNH/HKD	1.2296	0.24
USD/KRW	1,212.70	(0.57)
USD/TWD	28.699	0.30
USD/SGD	1.3557	(0.29)
USD/INR	75.33	(1.10)

All data sources: Bloomberg

Disclosures

Analyst Certification

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