光銀國際
CEB INTERNATIONAL

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- Global oil markets have been on a turbulent ride as surging worldwide recession risks driven by tightened monetary stance cause an unprecedented impact on crude oil demand and supply. Skyrocketing inflation in the U.S. and Europe, slowdown of China's economic growth as well as rising global interest rates alongside mounting geopolitical risks worsen global economic outlook, thus triggering demand destruction of key commodities.
- Bearish sentiment is running rampant in oil markets as Organization of the Petroleum Exporting Countries and its allies (OPEC+) production cuts and supply threats from Russia are unable to slow the oil price slide.
- International crude oil prices continue to fluctuate on fears of sizable demand destruction and the likelihood of weak demand outlook for the commodities while Russia's supply side risks and China's recovery uncertainty further deepen supply-demand imbalance of oil markets.
- Taking all unfavorable factors against oil prices into account with the balance of relevant risks, we forecast crude oil prices will stay between USD $80 and $90 per barrel for the rest of 2022.

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Global recession risks building bearish sentiment in crude oil market

Global oil markets have been on a turbulent ride as surging worldwide recession risks driven by tightened monetary stance cause an unprecedented impact on crude oil demand and supply. Skyrocketing inflation in the U.S. and Europe, slowdown of China's economic growth as well as rising global interest rates alongside mounting geopolitical risks worsen global economic outlook, thus triggering demand destruction of key commodities. The escalating fears of recession across the globe further soften crude oil prices that has tumbled since early June and slipped around 22% in 3Q2022. Bearish sentiment is running rampant in oil markets as Organization of the Petroleum Exporting Countries and its allies (OPEC+) production cuts and supply threats from Russia are unable to slow the oil price slide. We are of the view that worries over the demand for crude oil rather than supply concerns continue to rattle the markets. Major central banks are expected to keep raising key interest rates in the next three to six months as they continue their fight against high inflation. The upcoming aggressive monetary policy moves could lead the global economy into a serious economic downturn, thus exacerbating concerns of a setback in oil demand. Looking ahead, international crude oil prices continue to fluctuate on fears of sizable demand destruction and the likelihood of weak demand outlook for the commodities while Russia's supply side risks and China's recovery uncertainty further deepen supply-demand imbalance of oil markets. Taking all unfavorable factors against oil prices into account with the balance of relevant risks, we forecast crude oil prices will stay between USD $80 and $90 per barrel for the rest of 2022.

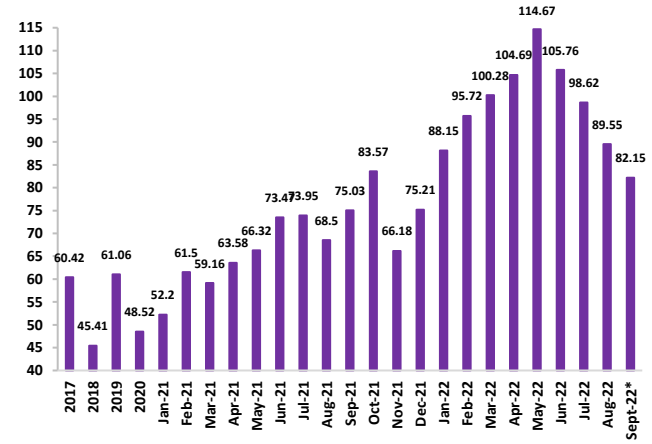
Crude oil price retreating on recession-led demand destruction. The global economy looks increasingly likely to be heading into a deeper slowdown as global central banks aggressively reverse ultra-loose monetary policy adopted during the pandemic to support growth. For the U.S., the U.S. Federal Reserve (Fed) has lifted the benchmark federal fund rates (FFR) by 300 bps since March to head off inflation spiral and it is expected that the Fed will deliver softening inflation alongside cooling aggregate demand across the U.S. in coming quarters by launching more hawkish rate hikes. Rate-sensitive

personal consumption and investment will face sharp deceleration of growth momentum, thus enlarging the drag on the U.S economy and reducing the demand for oil. For China, oil demand could contract as Covid-lockdowns lower industrial production and keep people at home during holidays, thus reducing fuel consumption. For Europe, Russia's cutoffs of energy supply push for energy saving in upcoming winter, thus bringing down energy consumption. In sum, major economies encounter headwinds circling around pricing pressures as well as mounted turbulence of financial markets and geopolitical risks with which gloomy economic outlook sends consumer confidence and manufacturing indicators tumbling. Crude oil prices have been prone to violent swings on further demand destruction under current gloomy global economic outlook.

Small OPEC+ oil supply cut unlikely stabilizing oil prices. In the wake of four consecutive months of oil price dips, OPEC+ agreed a small oil production cut of 100,000 barrels per day for October to bolster prices as OPEC+ is wary of protracted price volatility generated by weak macro sentiment, tighter liquidity, China Covid-lockdowns, uncertainty over a potential US–Iran deal, growing constraints on Russia's oil exports and capping the price of Russian energy supplies. However, the amount of crude oil production that OPEC+ committed to cut is unlikely to erase weakness of oil prices. We are of the view that supply-side solution targeting energy market to stop oil price slump may not be effectively to stabilize the market fluctuations as demand softening in oil market is on top of the ongoing economic slowdown. Worldwide oil producers will maintain soft supply cuts to protect their revenues as economic slowdown continues to cloud the outlook of oil market. Market imbalances remain unchanged, thus exaggerating the volatility of oil prices with downside.

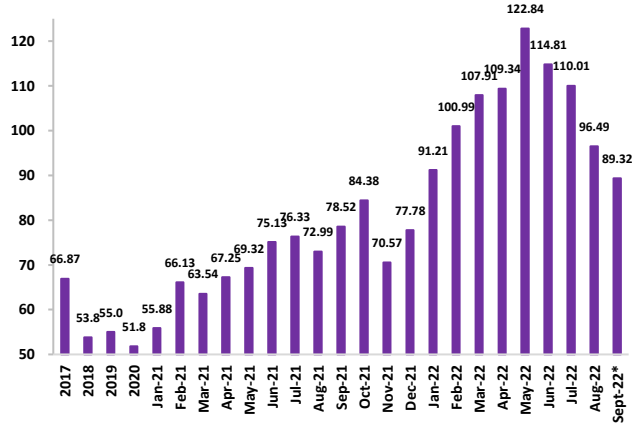
Dollar strengths embracing oil price pullback. The aggressive stance of the Fed in raising interest rates to tackle inflation lifts the value of U.S. dollar (USD) against major currencies and make dollar-denominated oil more expensive for buyers, thus deteriorating countries' fiscal position and lowering their demand for oil. In sum, the USD index has experienced an upside of more than 17% during the first nine months of 2022, reflecting that the widening yield spread strengthens the USD. During 3Q2022, crude oil price plummeted more than 22% against the rise of the dollar by 7.6%. Looking ahead, the Fed will prioritize the easing of inflation burden with the economic cost involving job losses and lower consumer spending. Worldwide stagflation risks surge alongside sizable US rate hikes pull liquidity out of financial markets under which dampened risk sentiment drives investors into increased holdings of the safe-haven USD. The continued dollar's strength will add downward pressure on crude oil prices.

Fig. 1: WTI Oil Futures (US$/barrel)



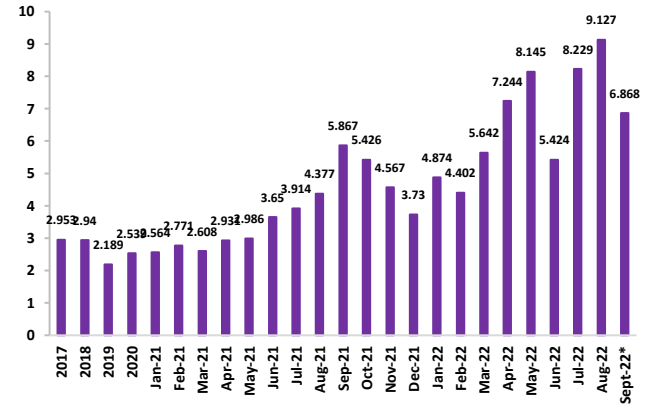
*Source: Bloomberg *28th September*

Fig. 2: Brent Oil Futures (US$/barrel)



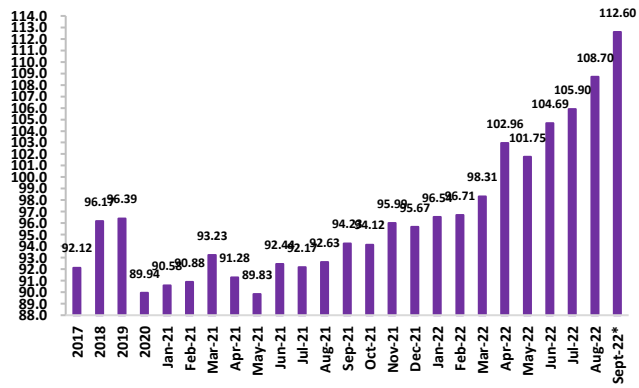
*Source: Bloomberg *28th September*

Fig. 3: NYMEX Natural Gas (USD/MMBtu)



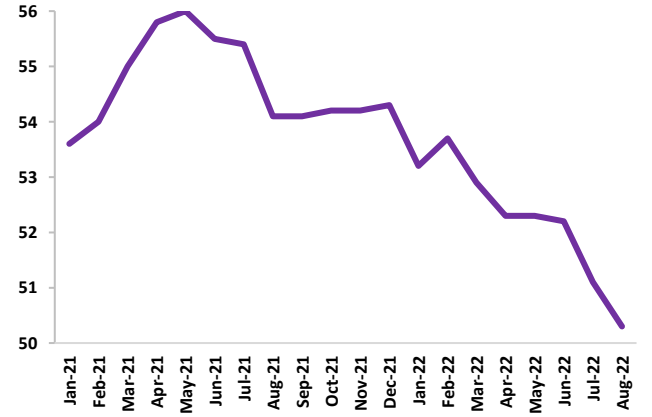
*Source: Bloomberg *28th September*

Fig. 4: US Dollar Index



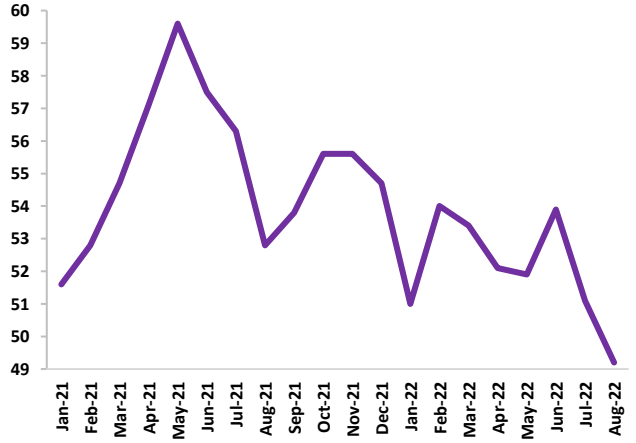
*Source: Bloomberg *28th September*

Fig. 5: JP Morgan Global Manufacturing PMI



Source: Bloomberg

Fig. 6: JP Morgan Global Services PMI



Source: Bloomberg

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China economic indicators

	2020	1Q2021	2Q2021	3Q2021	4Q2021	2021	1Q2022	2Q2022
Real GDP (YoY%)	2.2	18.3	7.9	4.9	4.0	8.1	4.8	0.4
PMI Manufacturing (%)	51.9	51.3	51.0	50.0	49.9	50.3	49.9	49.1
PMI Non-Manufacturing (%)	55.7	53.4	54.5	51.3	52.5	52.7	50.4	48.1
Exports (RMB YoY %)	4.0	38.7	19.9	14.4	17.8	21.2	13.1	13.1
Imports (RMB YoY %)	(0.2)	19.3	32.4	15.7	18.7	21.5	8.0	1.9
Trade Balance (RMB/bn)	3634.2	709.3	866.8	1180.9	1608.4	4365.6	1008.1	1472.9
Exports (USD YoY %)	3.6	48.8	30.6	24.2	22.9	29.9	15.7	12.9
Imports (USD YoY %)	(0.6)	29.4	44.2	25.4	23.7	30.1	10.2	1.7
Trade Balance (USD/bn)	524.0	108.6	134.0	183.0	250.2	675.9	158.4	227.0
CPI (YoY %)	2.5	0.0	1.1	0.8	1.8	0.9	1.1	2.2
PPI (YoY %)	(1.8)	2.1	8.2	9.7	12.2	8.1	8.7	6.8
FAI (YTD/ YOY %)	2.9	25.6	12.6	7.3	4.9	4.9	9.3	4.2
Real Estate Investment (YTD YoY %)	7.0	25.6	15.0	8.8	4.4	4.4	0.7	(9.0)
Industrial Production (YoY %)	2.8	24.6	9.0	4.9	3.9	9.6	6.5	0.6
Retail Sales (YoY%)	(3.9)	33.9	13.9	5.0	3.5	12.5	3.3	(4.6)
New Lending (RMB/bn)	19632.9	7667.9	5084.5	3961.4	3231.2	19945.1	8338.9	5343.8
M2 (YoY %)	10.1	9.4	8.6	8.3	9.0	9.0	9.7	11.4
Aggregate Financing (RMB bn)	34791.8	10288.9	7510.9	6967.1	6584.1	31351.0	12054.6	8957.5

	Aug 21	Sept 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22
Real GDP (YoY%)	-	4.9	-	-	4.0	-	-	4.8	-	-	0.4	-	-
PMI - Manufacturing %	50.1	49.6	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4
PMI - Non-manufacturing%	47.5	53.2	52.4	52.3	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6
Exports (RMB YoY %)	15.6	19.7	20.1	16.3	17.3	20.8	3.9	12.7	1.6	14.8	21.8	23.9	11.8
Imports (RMB YoY %)	22.7	9.7	14.3	25.6	16.0	17.9	9.4	(1.1)	(1.9)	2.2	4.8	7.4	4.6
Trade Balance (RMB/bn)	381.7	441.6	547.8	460.6	600.1	537.3	178.8	287.6	317.7	494.8	646.5	682.7	535.9
Export (USD YoY %)	25.4	28.0	26.9	21.7	20.9	24.0	6.1	14.4	3.6	16.4	17.7	18.0	7.1
Import (USD YoY %)	32.7	17.2	20.4	31.4	19.5	20.9	11.5	0.5	0.1	4.0	1.0	2.3	0.3
Trade Balance (USD/bn)	59.2	68.1	84.8	71.7	93.7	82.7	28.1	45.3	50.0	77.5	97.4	101.3	79.4
CPI (YoY %)	0.8	0.7	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5
PPI (YoY %)	9.5	10.7	13.5	12.9	10.3	9.1	8.8	8.3	8.0	6.4	6.1	4.2	2.3
FAI (YTD/ YOY %)	8.9	7.3	6.1	5.2	4.9	-	12.2	9.3	6.8	6.2	6.1	5.7	5.8
Real Estate Investment (YTD/ YoY %)	10.9	8.8	7.2	6.0	4.4	-	3.7	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)
Industrial Production (YoY %)	5.3	3.1	3.5	3.8	4.3	-	7.5	5.0	(2.9)	0.7	3.9	3.8	4.2
Retail Sales (YoY%)	2.5	4.4	4.9	3.9	1.7	-	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4
New Lending (RMB/bn)	1215.2	1663.0	826.2	1273.2	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1250.0
M2 (YoY %)	8.2	8.3	8.7	8.5	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2
Aggregate Financing (RMB bn)	2989.3	2902.6	1617.6	2598.3	2368.3	6172.2	1228.2	4654.2	942.0	2835.8	5179.7	756.1	2430.0
Urban Unemployment Rate (%)	5.1	4.9	4.9	5.0	5.1	5.3	5.5	5.8	6.1	5.9	5.5	5.4	5.3
Urban Unemployment Rate in 31 major cities (%)	5.2	5.3	5.0	5.1	5.1	5.1	-	6.0	6.7	6.9	5.8	5.6	5.4

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World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	29,683.74	16.36	(1.66)
S&P 500	3,719.04	18.24	(1.87)
NASDAQ	11,051.64	35.53	(1.50)
EUR			
FTSE 100	7,005.39	13.52	(3.21)
DAX	12,183.28	11.89	(4.57)
CAC40S	5,765.01	12.15	(4.42)
STOXX EUR 600	389.41	13.55	(4.33)
Asia			
HSI	17,250.88	6.52	(6.47)
HSCEI	5,958.62	5.72	(4.92)
CSI300	3,828.71	14.00	(1.92)
SSE Composite	3,045.07	13.35	(2.31)
SZSE Composite	1,938.26	34.75	(3.30)
NIKKEI 225	26,173.98	26.39	(5.47)
KOSPI	2,169.29	9.19	(7.58)
TWSE	13,466.07	9.69	(6.64)
S&P/ASX 200	6,462.03	13.27	(5.06)
MSCI Index			
MSCI WORLD	2,438.78	15.75	(3.09)
MSCI DEVELOPED	565.81	14.78	(3.42)
MSCI EMERGING	875.85	9.81	(6.03)
MSCI US	3,540.04	18.71	(1.93)
MSCI UK	2,017.57	13.49	(3.14)
MSCI France	164.67	13.79	(4.47)
MSCI Germany	121.26	11.40	(4.77)
MSCI China	57.77	10.13	(4.69)
MSCI Hong Kong	11,549.42	17.11	(7.66)
MSCI Japan	1,130.27	14.40	(5.07)

* As of 2022/09/28 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	3.25	0.00
US Prime Rate	6.25	0.75
US Discount Window	3.25	0.75
ECB Rate (Refinancing)	1.25	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	2.4732	0.0585
US Treasury (1 Yr)	3.9287	(0.1041)
US Treasury (5 Yr)	3.9478	0.1816
US Treasury (10 Yr)	3.7312	0.2013
US Treasury (30 Yr)	3.6990	0.1966
1-Month LIBOR	3.1206	0.0687
3 Month LIBOR	3.6419	0.0402
Japan 1-Yr Gov. Bond	(0.113)	0.014
Japan 10-Yr Gov. Bond	0.247	(0.012)
German 1-Yr Gov. Bond	1.756	0.020
German 10-Yr Gov. Bond	2.120	0.227
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	1.866	0.058
China 5-Yr Gov. Bond	2.531	0.113
China 10-Yr Gov. Bond	2.708	0.064
O/N SHIBOR	1.270	(0.198)
1-mth SHIBOR	1.682	0.089
HK Base rate	3.50	0.00
O/N HIBOR	1.5716	0.3989
1-mth HIBOR	2.6088	0.0139
O/N CNH HIBOR	1.0347	(0.1958)
1-mth CNH HIBOR	2.9608	0.1075
Corporate Bonds (Moody's)		
Aaa	4.92	0.40
Baa	6.05	0.35

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	82.15	(0.95)
ICE Brent Oil	USD/bbl	89.32	(0.57)
NYMEX Natural	USD/MMBtu	6.87	(11.71)
BasicMetals			
LME Aluminum	USD/MT	2,102.75	(3.43)
CMX Copper	USD/lb.	335.85	(3.13)
LME Steel Rebar	USD/MT	672.50	0.52
LME Lead Cash	USD/MT	1,830.50	0.58
Precious Metals			
CMX Gold	USD/T. oz	1,628.92	(2.73)
Gold Futures	USD/T. oz	1,670.00	(0.34)
CMX Silver	USD/T. oz	18.27	(6.47)
NYMEX Platinum	USD/T. oz	847.81	(9.64)
Agricultural			
CBOT Corn	USD/bu	670.50	(2.19)
CBOT Wheat	USD/bu	903.25	(0.06)
NYB-ICE Sugar	USD/lb.	17.71	(0.56)
CBOT Soybeans	USD/bu.	1,408.75	(3.59)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	112.60	1.77
Euro/USD	0.9574	(3.51)
GBP/USD	1.0670	(5.92)
AUD/USD	0.6415	(3.88)
USD/CAD	1.3766	3.00
USD/JPY	144.67	0.53
USD/CHF	0.9896	2.66
USD/CNY Midpoint	7.1107	2.26
USD/CNY	7.2005	2.13
USD/CNY NDF-12-mth	7.1327	2.83
USD/CNH	7.2387	2.60
USD/HKD	7.8498	0.00
CNY/HKD	1.0901	(2.09)
CNH/HKD	1.0844	(2.53)
USD/KRW	1,440.15	3.25
USD/TWD	31.88	1.36
USD/SGD	1.4461	2.34
USD/INR	81.94	2.45

All data sources: Bloomberg

Disclosures

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