光銀國際 CEB INTERNATIONAL

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- Currencies plunges with central banks' intervention, staggering inflation alongside unresolved Russia-Ukraine military conflicts have dimmed the prospects of the global economy. The sharp depreciation of Japanese yen and British pound in the wake of U.S tighter monetary policy and untargeted fiscal packages has deepened the financial fragility in the financial system that endangers global economic recovery.

- Going forward, key central banks remains keen to raise policy interest rates faster and in higher increments by bringing down inflation through aggregate demand destruction. The cooling momentum is characterized by dipping productivity growth and high inflation with which high cost of capital cause slowdown in consumption, investment, external trading activities, and industrial production, coupled with falling business and consumer confidence, thus lending weak support to the revival of recovery momentum.

- We are of the view that substantial economic shocks from tighter financial conditions on more hawkish policy actions will put global economy embedded into further slowdown, adding urgency for more macroeconomic stimulus measures to rekindle growth momentum.

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Navigating growing recession risks across the globe

Currencies plunges with central banks' intervention, staggering inflation alongside unresolved Russia-Ukraine military conflicts have dimmed the prospects of the global economy. The sharp depreciation of Japanese yen and British pound in the wake of U.S tighter monetary policy and untargeted fiscal packages has deepened the financial fragility in the financial system with which financial markets are shadowed by rising risks that endanger global economic recovery. The intervention by the Central bank of Japan and the U.K to cut off rapid slide of their currencies reflected the urgent need for policymakers to avoid the emergence of a full-blown financial crisis. In sum, a synchronized wave of sharp monetary tightening to curb inflation continues to cause falling purchasing power and a spike in unemployment. The intensification of economic and geopolitical headwinds has led to rising concerns on slower global growth, thus enhancing fears of growing recession risks. Going forward, key central banks remains keen to raise policy interest rates faster and in higher increments by bringing down inflation through aggregate demand destruction. The cooling momentum is characterized by dipping productivity growth and high inflation with which high cost of capital cause slowdown in consumption, investment, external trading activities, and industrial production, coupled with falling business and consumer confidence, thus lending weak support to the revival of recovery momentum. The economic stagnation is compounding global economic woes, thus triggering a severe blow to different sectors of the economies and high financial market volatility. We are of the view that substantial economic shocks from tighter financial conditions on more hawkish policy actions will put global economy embedded into further slowdown, adding urgency for the implementation of more macroeconomic stimulus measures to rekindle growth momentum.

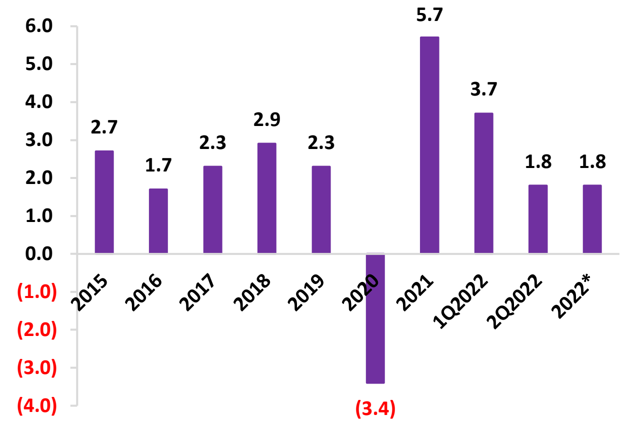
The U.S. economy facing slower growth momentum in coming quarters. The U.S. economic activities have decelerated with the downbeat momentum, driven by continuation of tight monetary conditions. Inflation and disrupted global energy supply chain continue to challenge business leaders and policymakers with which the rising cost of capital deepens the drop of aggregate demand for goods and services. As the inflation sticks at high level, the consistent rise in the benchmark U.S. Treasury bond yield demonstrates unstable recovery outlook for the U.S. economy, thus widening interest rate spread and strengthening the dollar. Looking forward, energy and food supply disruptions led by Russia-Ukraine crisis alongside staggering inflation and lingering supply-chain challenges are all factors darkening global economic outlook. The Fed prioritizes the easing of inflation burden with the economic cost involving job losses and lower consumer spending. Worldwide stagflation risks surge alongside faster-than-expected US rate hikes pull liquidity out of equity and fixed income markets under which dampened risk sentiment further weakened growth momentum of the US economy. We are of the view that the Fed will navigate aggressive tightening of liquidity with the aim to avoid further overshooting inflation but the Fed's move is likely to overly weaken economic growth, raising the risk of a hard landing for the economy.

European economies encountering growing downside risks from Russia-Ukraine crisis. Energy and food supply disruptions led by Russia-Ukraine crisis trigger high inflation and darken economic outlook of European economies. The military action has sparked significant shocks on global food and energy markets under which Eurozone economies are highly vulnerable to elevated energy prices, which have crimped consumer spending and disrupted recovery momentum. The immediate implications of energy supply chain meltdown will be higher inflation, lower growth and disruption to financial markets. In the wake of coordinated sanctions launched by Western nations on Russia, the direct impacts of lowering trading activities, economic isolation, ban on energy imports and financial contagion are likely to affect the ongoing fragile economic rebound of Eurozone economies. For the U.K economy, aggressive fiscal plan through tax cuts to alleviate high energy bill burden braces for confidence shock over the credibility of the government's fiscal strategy maintaining the debt affordability. Fears of larger budget deficits and higher interest rates in the U.K. enhance financial market risks with the U.K. bonds sinking and the British pound plummeting to a record low. In order to cool down financial turmoil, the Bank of England (BOE) restarted the bond purchase program to stabilize the market while Chancellor of the Exchequer scraped tax plan for the highest earners. Looking forward, the Europe's economic performance will largely hinge on the development of energy supply-chain resilience and inflation. We are of the view that Eurozone economies and the U.K economy will face tepid, uneven and fragile recovery in 2H2022 and 2023 as high energy and consumer inflation as well as worldwide supply constraints impair the recovery momentum. European Central Bank (ECB) and BOE is set to take more aggressive approach for monetary tightening to head off multidecade-high inflation and Europe's policymakers will stay on course to engineer a soft landing for the economy through enacting affordable fiscal stimulus to hedge against the headwinds and strengthen revival of economic activities.

Japan struggling on weak yen and worsening trade outlook. Japan's economy has demonstrated delayed pickup in growth momentum by returning to pre-pandemic size in the second quarter of 2022 amid continued normalization of manufacturing and business activities boosting consumption spending as well as exports. However, a series of economic challenges is clouding recovery momentum of Japan. The world's third-largest economy still faces an uncertain growth outlook on the growing concern over a synchronized global slowdown, rising inflation, supply chain constraints, Russia-Ukraine military crisis, a 24-year low yen against the dollar as well as increasing worries for Japan's economic and financial stability. Looking forward, the road for Japan's economic recovery road is still bumpy on economic challenges both at home and abroad. Lifted pandemic-related restrictions deepen the return to normal work and consumption as well as increase cross-border business and tourism-related activities, thus releasing pent-up demand and investment. Surging aggregate demand put upward pressure on price level due to rising domestic wages and the yen depreciation with which inflation becomes a headwind to Japan's recovery from the Covid-19 pandemic fallout. With unsuccessful yen intervention on increasingly divergent monetary settings between Japan and the U.S. alongside geopolitical tensions creating uncertainty for Japan's key industries, we are of the view that both consumption and export growth drivers have been undermined by the yen weakness and fluctuation of energy, commodity and food prices, thus posing risks to economic outlook of Japan's economy in coming quarters.

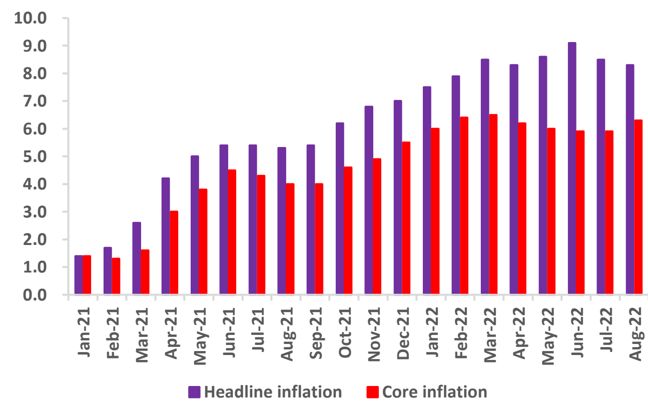
China positioning for modest economic recovery despite the challenging economic backdrop. Exacerbated by threats of looming Covid lockdowns, property market crisis, weakness of renminbi and rising risks of worldwide stagflation, China's economic activities have experienced sluggish recovery in 3Q2022. Stringent lockdowns to curb Covid-19 infections are taking a significant toll on the economy and global supply-chain, weighing on China's growth momentum due to stoppage of consumption and production. Looking forward, China will continue to experience pickup in economic activities, albeit gradually and with eventual turbulences. Against the backdrop of surging downward pressure on the economy, China's policymakers have pledged to ramp up support for the flagging economy in stabilizing the growth and reducing unemployment rate. Recent coordinated efforts on strengthening the size of stimulus measures aim to prop up growth in coming quarters in an attempt to prevent the economy from losing growth momentum. Overall, China's economy is rebalancing to attain more sustainable economic expansion. We are of the view that the pickup pace of consumption and investment driven by macroeconomic policy support will help alleviate the downside risks and accelerate growth momentum, thus ensuring a stable recovery of economic strengths.

Fig. 1: US GDP (YoY %)



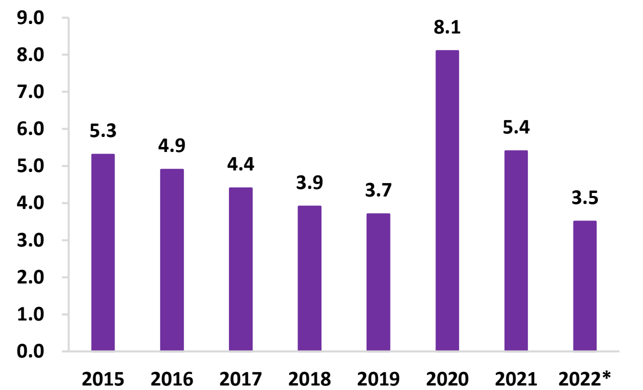
Source: Bloomberg *CEBI forecast

Fig. 2: US CPI and core CPI (YoY%)



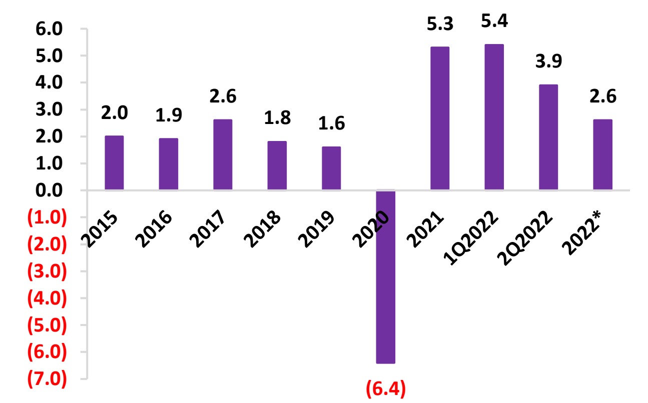
Source: Bloomberg

Fig. 3 : US unemployment rate (%)



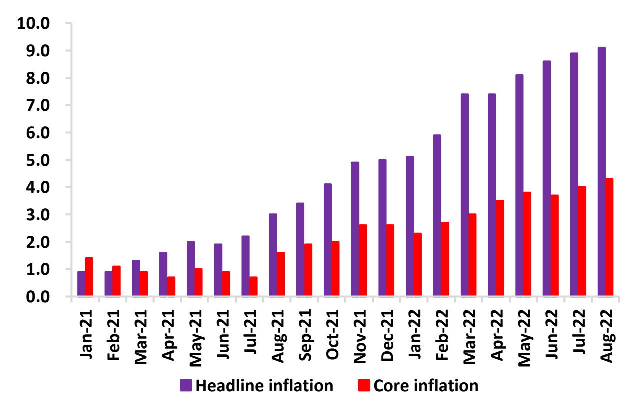
Source: Bloomberg *September

Fig. 4 : Eurozone GDP (YoY %)



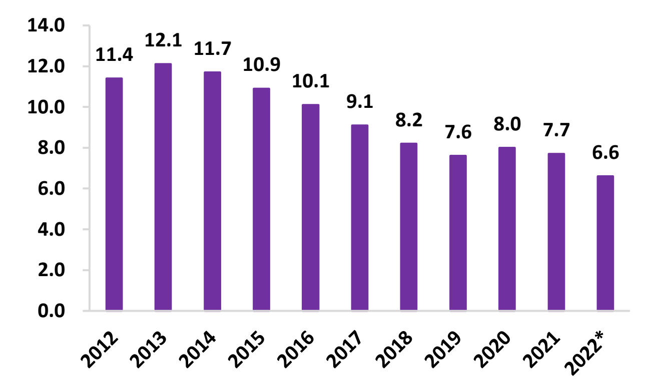
Source: Bloomberg *CEBI forecast

Fig. 5: Eurozone CPI and core CPI (YoY %)



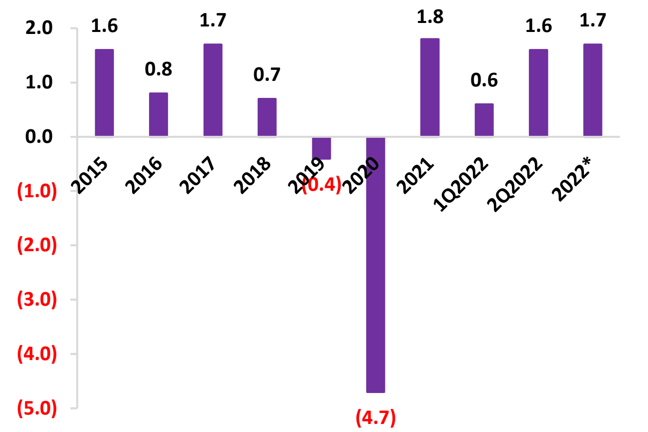
Source: Bloomberg

Fig. 6: Eurozone unemployment rate (%)



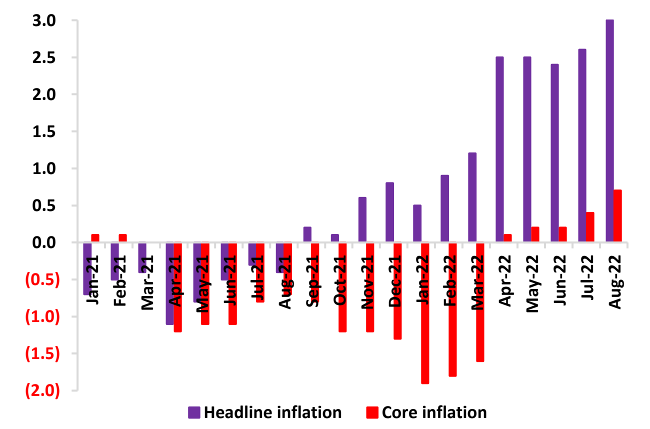
Source: Bloomberg *August

Fig. 7: Japan GDP (YoY%)



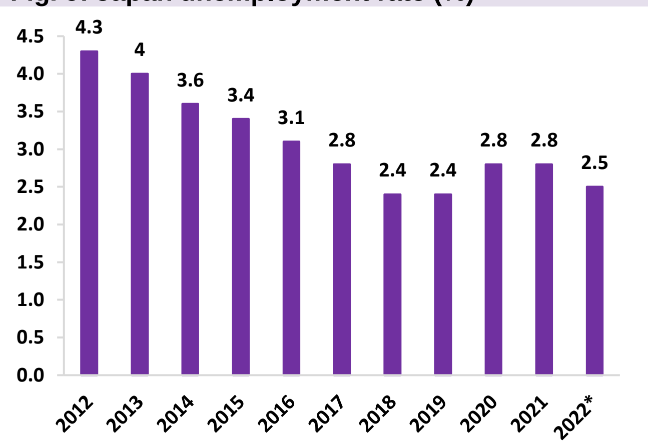
Source: Bloomberg *CEBI forecast

Fig. 8: Japan CPI and core CPI (YoY%)



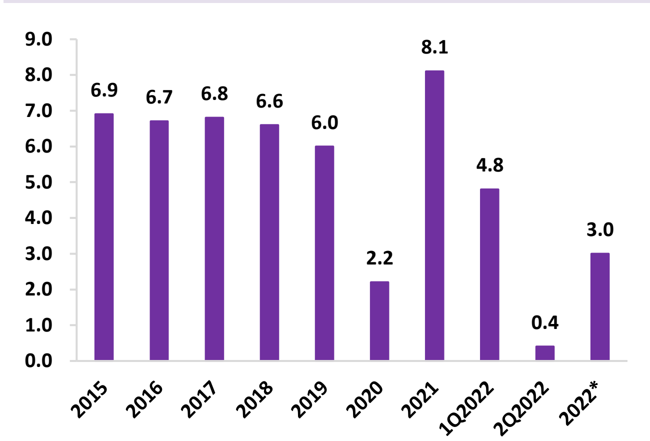
Source: Bloomberg

Fig. 9: Japan unemployment rate (%)



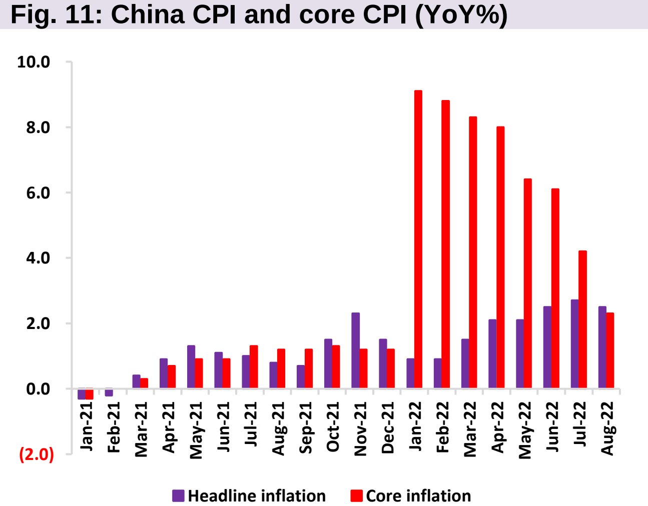
Source: Bloomberg * August

Fig.10: China GDP (YoY%)



Source: Bloomberg *CEBI forecast

Fig. 11: China CPI and core CPI (YoY%)



Source: Bloomberg

Fig. 12: China unemployment rate (%)

Source: Bloomberg

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	13.4	13.3
Imports (RMB YoY %)	(0.2)	19.3	32.4	15.7	18.7	21.5	7.6	1.9
Trade Balance (RMB/bn)	3634.2	709.3	866.8	1180.9	1608.4	4372.1	1029.7	1478.2
Exports (USD YoY %)	3.6	48.8	30.6	24.2	22.9	29.9	15.8	13.0
Imports (USD YoY %)	(0.6)	29.4	44.2	25.4	23.7	30.0	9.8	1.7
Trade Balance (USD/bn)	524.0	108.6	134.0	183.0	250.2	676.9	162.9	227.8
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	5340.1
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	12031.0	8946.9

	Sept 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22	Sept 22
Real GDP (YoY%)	4.9	-	-	4.0	-	-	4.8	-	-	0.4	-	-	-
PMI - Manufacturing %	49.6	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1
PMI - Non-manufacturing%	53.2	52.4	52.3	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6	50.6
Exports (RMB YoY %)	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 %)	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)	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 %)	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 %)	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)	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 %)	0.7	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	-
PPI (YoY %)	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 %)	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 %)	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 %)	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%)	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)	1663.0	826.2	1273.2	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1254.2	-
M2 (YoY %)	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)	2902.6	1617.6	2598.3	2368.3	6162.3	1221.2	4647.5	943.0	2833.8	5170.7	762.0	2432.2	-
Urban Unemployment Rate (%)	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	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	29,202.88	16.11	(0.98)
S&P 500	3,612.39	17.70	(1.80)
NASDAQ	10,542.10	33.80	(2.53)
EUR			
FTSE 100	6,959.31	13.49	0.73
DAX	12,272.94	11.97	0.52
CAC40S	5,840.55	12.31	0.80
STOXX EUR 600	390.12	13.59	(0.18)
Asia			
HSI	17,216.66	6.50	(0.04)
HSCEI	5,880.71	5.65	(0.56)
CSI300	3,720.94	13.61	(3.02)
SSE Composite	2,974.15	13.02	(2.53)
SZSE Composite	1,870.50	33.60	(4.03)
NIKKEI 225	27,116.11	27.34	4.55
KOSPI	2,232.84	9.46	2.85
TWSE	13,702.28	9.88	2.07
S&P/ASX 200	6,667.75	13.69	3.27
MSCI Index			
MSCI WORLD	2,395.61	15.46	(1.41)
MSCI DEVELOPED	557.51	14.56	(1.15)
MSCI EMERGING	884.81	9.91	0.99
MSCI US	3,438.74	18.16	(1.80)
MSCI UK	2,006.51	13.46	0.75
MSCI France	166.83	13.97	0.69
MSCI Germany	121.70	11.44	0.13
MSCI China	56.15	9.82	(1.37)
MSCI Hong Kong	11,696.52	17.35	1.66
MSCI Japan	1,162.29	14.80	4.10

* As of 2022/10/10 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	3.25	0.00
US Prime Rate	6.25	0.00
US Discount Window	3.25	0.00
ECB Rate (Refinancing)	1.25	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	2.9062	0.1909
US Treasury (1 Yr)	4.2188	0.2729
US Treasury (5 Yr)	4.1423	0.2641
US Treasury (10 Yr)	3.8814	0.2427
US Treasury (30 Yr)	3.8417	0.1634
1-Month LIBOR	3.3136	0.1709
3 Month LIBOR	3.9087	0.1540
Japan 1-Yr Gov. Bond	(0.137)	(0.011)
Japan 10-Yr Gov. Bond	0.252	0.006
German 1-Yr Gov. Bond	1.752	0.168
German 10-Yr Gov. Bond	2.342	0.425
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	1.753	(0.072)
China 5-Yr Gov. Bond	2.504	0.004
China 10-Yr Gov. Bond	2.726	0.025
O/N SHIBOR	1.110	(0.160)
1-mth SHIBOR	1.644	(0.038)
HK Base rate	3.50	0.00
O/N HIBOR	1.3150	(0.9470)
1-mth HIBOR	2.4205	(0.1956)
O/N CNH HIBOR	1.4109	(0.3903)
1-mth CNH HIBOR	2.6518	(0.2087)
Corporate Bonds (Moody's)		
Aaa	4.90	(0.01)
Baa	6.06	(0.01)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	91.13	8.97
ICE Brent Oil	USD/bbl	96.19	8.25
NYMEX Natural	USD/MMBtu	6.44	(0.54)
BasicMetals			
LME Aluminum	USD/MT	2,259.80	2.22
CMX Copper	USD/lb.	343.05	0.60
LME Steel Rebar	USD/MT	688.00	(0.29)
LME Lead Cash	USD/MT	2,024.50	8.65
Precious Metals			
CMX Gold	USD/T. oz	1,679.32	0.83
Gold Futures	USD/T. oz	1,675.20	(1.57)
CMX Silver	USD/T. oz	19.79	2.07
NYMEX Platinum	USD/T. oz	906.48	4.33
Agricultural			
CBOT Corn	USD/bu	698.25	2.57
CBOT Wheat	USD/bu	938.00	2.85
NYB-ICE Sugar	USD/lb.	18.61	6.83
CBOT Soybeans	USD/bu.	1,374.00	0.00

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	113.14	1.25
Euro/USD	0.9693	(0.88)
GBP/USD	1.1048	(1.34)
AUD/USD	0.6306	(2.20)
USD/CAD	1.3729	(0.20)
USD/JPY	145.52	0.25
USD/CHF	0.9990	0.91
USD/CNY Midpoint	7.0992	0.99
USD/CNY	7.1554	0.26
USD/CNY NDF-12-mth	7.0413	(0.26)
USD/CNH	7.1545	0.07
USD/HKD	7.8498	0.00
CNY/HKD	1.0971	(0.53)
CNH/HKD	1.0972	(0.05)
USD/KRW	1,412.80	(1.82)
USD/TWD	31.68	(0.30)
USD/SGD	1.4373	0.13
USD/INR	82.32	1.20

All data sources: Bloomberg

Disclosures

Analyst Certification

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