November 3, 2022

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The Fed announced the fourth consecutive 75bps rate hike, lifting the benchmark federal fund rates (FFR) within a target range between 3.75% and 4.00%.
- The Fed's statement highlighted that inflation remains high on supply-demand imbalance driven by disrupted food and energy supply chain. Tighter monetary policy aimed to tame inflation through further softening of the labor market as well as economic growth momentum. The U.S. job market remains tight with low unemployment rate but persistence of high inflation and mounted geopolitical risks continued to weigh on economic activities, especially after a series of rate hikes since March.
- We are of the view that high inflation will last in the next three months to six months and the Fed will maintain tightening stance in monetary policy to head off inflation spiral. Amid cumulative impacts of liquidity tightening during the first ten months of 2022, we expect the Fed will deliver softening inflation alongside cooling growth of economic activities across the U.S. in coming quarters. The size of expected rate hike at December FOMC meeting will be reduced to 50 bps while the Fed will pursue a slower pace of rate hikes in 1Q2023.

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

The Fed raising interest rate by 75 bps for the fourth time this year

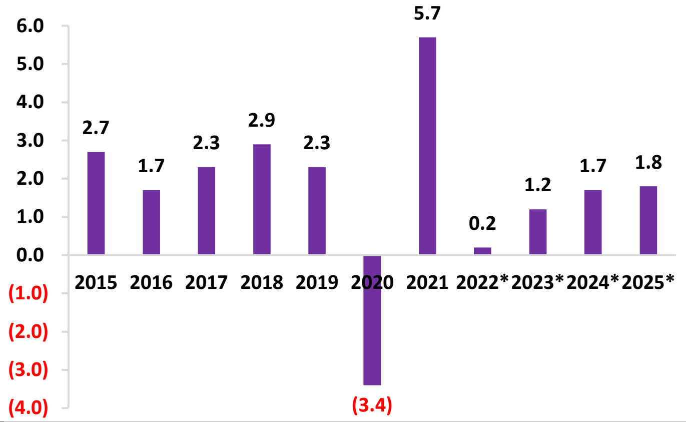
At the conclusion of the seventh Federal Open Markets Committee (FOMC) policy meeting in 2022, the U.S. Federal Reserve (Fed) announced the fourth consecutive 75bps rate hike, lifting the benchmark federal fund rates (FFR) within a target range between 3.75% and 4.00%. The Fed's statement highlighted that inflation remains high on supply-demand imbalance driven by disrupted food and energy supply chain. Tighter monetary policy aimed to tame inflation through further softening of the labor market as well as economic growth momentum. The U.S. job market remains tight with low unemployment rate but persistence of high inflation and mounted geopolitical risks continued to weigh on economic activities, especially after a series of rate hikes since March. Looking forward, worldwide energy and commodity prices recently demonstrate slowing trend alongside drop of aggregate demand for goods and services, thus providing room for the Fed to be embedded into slower pace of future rate hikes. We are of the view that high inflation will last in the next three months to six months and the Fed will maintain tightening stance in monetary policy to head off inflation spiral. Amid cumulative impacts of liquidity tightening during the first ten months of 2022, we expect the Fed will deliver softening inflation alongside cooling growth of economic activities across the U.S. in coming quarters. The size of expected rate hike at December FOMC meeting will be reduced to 50 bps while the Fed will pursue a slower pace of rate hikes in 1Q2023. Rate-sensitive personal consumption and investment will continue to face deceleration, thus enlarging the downside risks on the U.S economy.

The U.S. economy bracing for mounted economic uncertainties. The U.S. economy grew at an annual rate of 2.6% in the third quarter, marking its first increase in 2022 and a sharp turnaround after six months of contraction despite lingering fears that the country is at risk of a recession. However, a number of recent economic indicators point to a broader cooling of the economy, most notably in the housing market as home sales have tumbled for eight straight months and are likely to keep falling because of rising interest rates. Also, the U.S. manufacturing activities in October demonstrated slowing growth as S&P Global Manufacturing Purchasing Managers' Index (PMI) fell to 50.4 from September's 52.0 while business activity in the U.S. service sector faced accelerated contraction with S&P Global Services PMI dropping to 46.6 from September's 49.3. In sum, Russia-Ukraine crisis, labor shortages, and inflationary pressures as well as the Fed's expected interest rate hikes cause economic uncertainties that will likely weigh on consumer confidence and productivity, thus darkening the U.S. economic outlook for the rest of 2022 and 2023. We are of the view that the slowdown in economic activities will accelerate in coming months as growing financial market and geopolitical risks, higher cost of capital and falling consumer purchasing power will shrink key growth drivers of the economy such as investment and consumer spending in varying degrees.

U.S. rate hikes pushing up Hong Kong (HK) interest rates and enhancing financial burden on property buyers. In the wake of easing the staggering inflation, the U.S. Federal Reserve (Fed) has pursued 375 bps surge in FFR since March 2022 and launched quantitative tightening (QT) to downsize the Fed's balance sheet. As HK embraces the pegged exchange rate system with the U.S. dollar (USD), interest rate arbitrage helps stabilize the exchange rate. Interest rate spread between HK and the U.S. narrows as the aggregate balance of banking liquidity drops from HK $337 billion in March 2022 to the latest HK $100 billion that increases local interest rates. We are of the view that the Fed's tightening monetary stance will accelerate the pace of rising HK interbank offered rates (HIBOR) and prime rate in coming months, with which surging mortgage rates will continue to deter prospective property buyers, thus decreasing transaction volume and exaggerating the drop of property prices. Gloomy outlook of HK property market remains intact for the rest of 2022 and the first half of 2023.

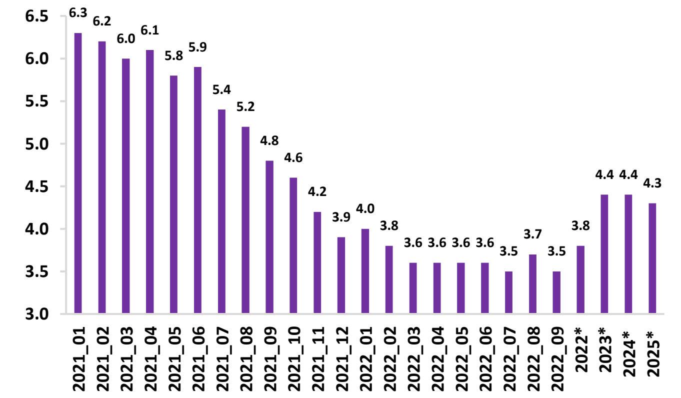
The Fed's tightening cycle cooling the growth momentum of emerging markets (EM). Given the Fed's hawkish outlook at the latest FOMC meeting alongside widening U.S. yield spread as well as the safe-haven flows in response to turbulent ride of global financial markets, the US dollar (USD) gained about 16.4% against a basket of currencies since the beginning of 2022. Dollar strengths driven by rising U.S. interest rates result in surging capital flows into the U.S. economy from EM economies, thus derailing recovery path of EM countries. In sum, faster US rate hikes could rattle financial markets and tighten financial conditions globally. These developments could come with rising global recession risks that cause further liquidity outflows and currency depreciation in EM economies. We are of the view that EM economies with high dependence on imported energy and food products, high public and private debt as well as lower current-account balances would face growing economic turbulence, including high volatility of their currencies relative to the USD, significant drop in foreign investment and external trading activities as well as surging inflationary pressures.

Fig. 1: US GDP (YoY %)



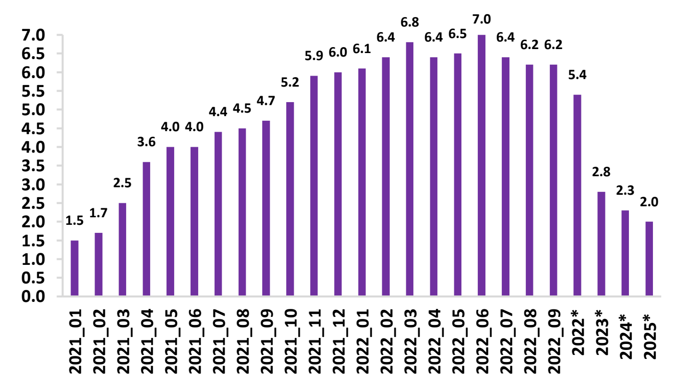
Source: Bloomberg *The Fed's forecast

Fig. 2: US Unemployment rate (%)



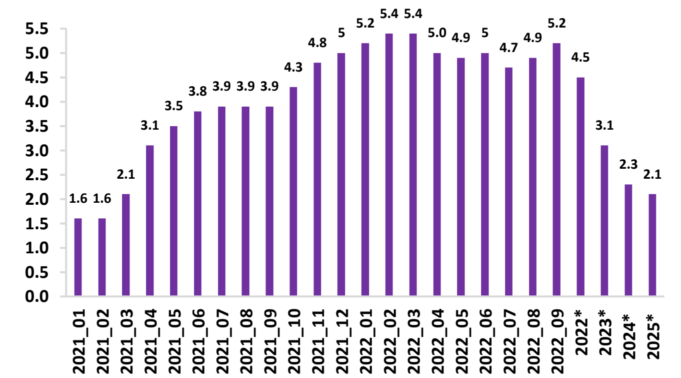
Source: Bloomberg *The Fed's forecast

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



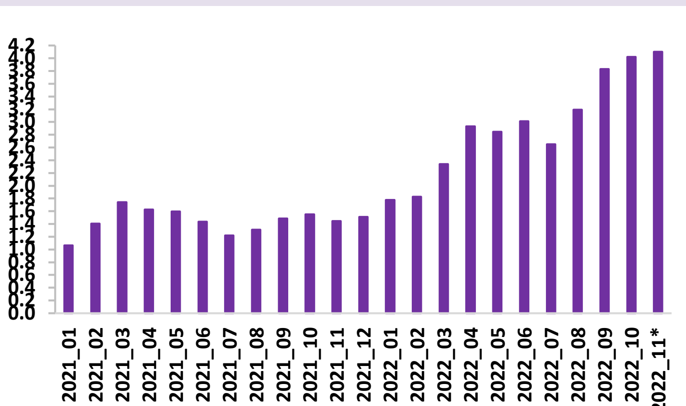
Source: Bloomberg *The Fed's forecast

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



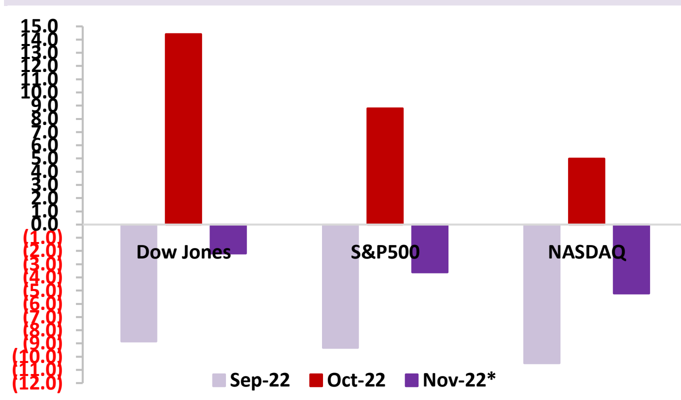
Source: Bloomberg *The Fed's forecast

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



Source: Bloomberg *2nd November

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



Source: Bloomberg *2nd November

China economic indicators

	1Q2021	2Q2021	3Q2021	4Q2021	2021	1Q2022	2Q2022	3Q2022
Real GDP (YoY%)	18.3	7.9	4.9	4.0	8.1	4.8	0.4	3.9
PMI Manufacturing (%)	51.3	51.0	50.0	49.9	50.3	49.9	49.1	49.5
PMI Non-Manufacturing (%)	53.4	54.5	51.3	52.5	52.7	50.4	48.1	52.3
Exports (RMB YoY %)	38.7	19.9	14.4	17.8	21.2	13.2	12.8	15.2
Imports (RMB YoY %)	19.3	32.4	15.7	18.6	21.5	8.4	1.8	5.6
Trade Balance (RMB/bn)	710.0	868.3	1181.1	1612.7	4372.1	986.6	1456.8	1793.0
Exports (USD YoY %)	48.8	30.6	24.2	22.9	29.9	15.5	12.5	10.1
Imports (USD YoY %)	29.4	44.1	25.4	23.6	30.0	10.6	1.6	0.9
Trade Balance (USD/bn)	108.8	134.2	183.1	250.9	676.9	155.0	224.6	265.5
CPI (YoY %)	0.0	1.1	0.8	1.8	0.9	1.1	2.2	2.7
PPI (YoY %)	2.1	8.2	9.7	12.2	8.1	8.7	6.8	2.5
FAI (YTD/ YOY %)	25.6	12.6	7.3	4.9	4.9	9.2	4.2	5.7
Real Estate Investment (YTD YoY %)	25.6	15.0	8.8	4.4	4.4	0.7	(9.0)	(20.7)
Industrial Production (YoY %)	24.6	9.0	4.9	3.9	9.6	6.5	0.6	4.8
Retail Sales (YoY%)	33.9	13.9	5.0	3.5	12.5	3.3	(4.6)	3.5
New Lending (RMB/bn)	7667.9	5084.5	3961.4	3231.2	19945.1	8338.9	5340.1	4407.0
M2 (YoY %)	9.4	8.6	8.3	9.0	9.0	9.7	11.4	12.1
Aggregate Financing (RMB bn)	10288.9	7510.9	6967.1	6584.1	31351.0	12050.9	8961.8	6760.1

	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22	Sept 22	Oct 22
Real GDP (YoY%)	-	-	4.0	-	-	4.8	-	-	0.4	-	-	3.9	-
PMI - Manufacturing %	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2
PMI - Non-manufacturing%	52.4	52.3	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6	50.6	58.7
Exports (RMB YoY %)	20.1	16.3	17.3	20.8	3.9	12.6	1.6	14.7	21.5	23.8	11.8	10.7	-
Imports (RMB YoY %)	14.3	25.6	16.0	17.9	9.6	(0.9)	(1.8)	2.6	4.5	7.2	4.6	5.2	-
Trade Balance (RMB/bn)	547.8	460.6	599.8	526.0	176.8	283.7	315.5	495.2	646.2	683.9	535.6	573.6	-
Export (USD YoY %)	26.9	21.7	20.9	23.9	6.0	14.4	3.5	16.3	17.4	17.8	7.1	5.7	-
Import (USD YoY %)	20.4	31.4	19.5	20.9	11.7	0.7	0.2	3.9	0.7	2.1	0.3	0.3	-
Trade Balance (USD/bn)	84.8	71.7	93.7	82.5	27.8	44.7	49.6	77.6	97.4	101.3	79.4	84.7	-
CPI (YoY %)	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	-
PPI (YoY %)	13.5	12.9	10.3	9.1	8.8	8.3	8.0	6.4	6.1	4.2	2.3	0.9	-
FAI (YTD/ YOY %)	6.1	5.2	4.9	-	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	-
Real Estate Investment (YTD/ YoY %)	7.2	6.0	4.4	-	3.7	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)	(8.0)	-
Industrial Production (YoY %)	3.5	3.8	4.3	-	7.5	5.0	(2.9)	0.7	3.9	3.8	4.2	6.3	-
Retail Sales (YoY%)	4.9	3.9	1.7	-	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4	2.5	-
New Lending (RMB/bn)	826.2	1273.2	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1254.2	2473.8	-
M2 (YoY %)	8.7	8.5	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	12.1	-
Aggregate Financing (RMB bn)	1617.6	2598.3	2368.3	6169.3	1227.4	4654.2	945.3	2836.3	5180.2	772.2	2460.8	3527.1	-
Urban Unemployment Rate (%)	4.9	5.0	5.1	5.3	5.5	5.8	6.1	5.9	5.5	5.4	5.3	5.5	-
Urban Unemployment Rate in 31 major cities (%)	5.0	5.1	5.1	5.1	-	6.0	6.7	6.9	5.8	5.6	5.4	5.8	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	32,147.76	18.36	0.97
S&P 500	3,759.69	18.15	(1.85)
NASDAQ	10,524.80	45.20	(4.07)
EUR			
FTSE 100	7,144.14	12.42	1.25
DAX	13,256.74	12.77	0.46
CAC40S	6,276.88	12.87	0.01
STOXX EUR 600	413.39	13.91	0.75
Asia			
HSI	15,827.17	6.04	3.33
HSCEI	5,355.03	5.16	2.64
CSI300	3,677.81	13.44	0.57
SSE Composite	3,003.37	13.45	0.13
SZSE Composite	1,968.20	36.00	0.53
NIKKEI 225	27,663.39	27.13	0.84
KOSPI	2,336.87	10.36	3.88
TWSE	13,100.17	9.41	2.92
S&P/ASX 200	6,986.66	14.29	2.58
MSCI Index			
MSCI WORLD	2,499.79	16.04	(1.42)
MSCI DEVELOPED	578.22	15.03	(1.01)
MSCI EMERGING	873.02	9.82	2.49
MSCI US	3,572.10	18.68	(1.92)
MSCI UK	2,054.70	12.34	1.33
MSCI France	178.99	14.59	(0.01)
MSCI Germany	130.50	12.16	(0.28)
MSCI China	51.53	9.05	2.49
MSCI Hong Kong	10,764.60	16.06	3.25
MSCI Japan	1,188.27	15.04	1.34

* As of 2022/11/2 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	4.00	0.75
US Prime Rate	7.00	0.75
US Discount Window	3.25	0.00
ECB Rate (Refinancing)	2.00	0.75
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	3.5041	0.1401
US Treasury (1 Yr)	4.6945	0.1850
US Treasury (5 Yr)	4.3093	0.1247
US Treasury (10 Yr)	4.1005	0.0977
US Treasury (30 Yr)	4.1405	0.0025
1-Month LIBOR	3.8416	0.2451
3 Month LIBOR	4.4597	0.1017
Japan 1-Yr Gov. Bond	(0.101)	0.013
Japan 10-Yr Gov. Bond	0.254	0.001
German 1-Yr Gov. Bond	2.122	0.031
German 10-Yr Gov. Bond	2.141	0.030
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	1.752	0.008
China 5-Yr Gov. Bond	2.462	(0.017)
China 10-Yr Gov. Bond	2.689	(0.021)
O/N SHIBOR	1.755	(0.020)
1-mth SHIBOR	1.684	0.027
HK Base rate	4.25	0.75
O/N HIBOR	2.0739	0.2062
1-mth HIBOR	3.2085	0.1279
O/N CNH HIBOR	0.8946	(0.5173)
1-mth CNH HIBOR	2.0000	(0.3970)
Corporate Bonds (Moody's)		
Aaa	5.09	(0.21)
Baa	6.29	(0.18)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	90.00	2.38
ICE Brent Oil	USD/bbl	96.16	0.49
NYMEX Natural	USD/MMBtu	6.27	11.81
BasicMetals			
LME Aluminum	USD/MT	2,238.45	(3.97)
CMX Copper	USD/lb.	346.85	(2.16)
LME Steel Rebar	USD/MT	640.00	1.83
LME Lead Cash	USD/MT	2,000.99	5.36
Precious Metals			
CMX Gold	USD/T. oz	1,655.43	(0.81)
Gold Futures	USD/T. oz	1,650.00	(1.15)
CMX Silver	USD/T. oz	19.67	0.42
NYMEX Platinum	USD/T. oz	952.46	1.60
Agricultural			
CBOT Corn	USD/bu	687.50	0.36
CBOT Wheat	USD/bu	846.00	0.65
NYB-ICE Sugar	USD/lb.	18.47	3.42
CBOT Soybeans	USD/bu.	1,454.00	4.38

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	111.35	1.50
Euro/USD	0.9901	(1.22)
GBP/USD	1.1508	(0.49)
AUD/USD	0.6423	(0.80)
USD/CAD	1.3604	0.43
USD/JPY	146.86	(0.18)
USD/CHF	0.9972	0.78
USD/CNY Midpoint	7.2197	0.78
USD/CNY	7.2900	1.63
USD/CNY NDF-12-mth	7.1155	1.08
USD/CNH	7.2980	1.45
USD/HKD	7.8499	0.00
CNY/HKD	1.0768	(1.60)
CNH/HKD	1.0756	(1.42)
USD/KRW	1,417.65	(0.60)
USD/TWD	32.18	(0.16)
USD/SGD	1.4116	0.30
USD/INR	82.79	0.07

All data sources: Bloomberg

Disclosures

Analyst Certification

I, LAM Chiu Kei, Banny (CE Number: AGH217) being the person primarily responsible for the content of this research report, in whole, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to any listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of any listed company(ies) covered in this report.

Disclaimer

Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600