光銀國際 CEB INTERNATIONAL

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Economic Acumen

Commentary by CEBI Research Team

In Brief

- Softening global growth expectations are escalating amid heightened market uncertainties namely continued anti-inflationary stance of major central banks, ongoing Russia-Ukraine conflict, and fluctuation of energy and food prices. Global central banks have pursued different scale of adjustment on aggressive monetary tightening along with governments' fiscal expansion to avoid financial meltdown.
- Global inflation has stepped near the peak in late 2022 but will remain high in 2023. The developed nations will maintain tight monetary stance to curb inflation, which causes falling purchasing power and a spike in unemployment, thus intensifying economic and geopolitical headwinds and driving the global economy closer to the edge of a recession.
- The previous and current hawkish monetary policy actions will add urgency for the implementation of more macroeconomic stimulus measures to rekindle growth momentum. Mixed trends of growth momentum in different economies become more apparent, thus lead to a strong likelihood of sluggish global growth in 2023.

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Policy divergence bracing for uneven global growth in 2023

Softening global growth expectations are escalating amid heightened market uncertainties namely continued anti-inflationary stance of major central banks, ongoing Russia-Ukraine conflict, and fluctuation of energy and food prices. In response to the headwinds, global central banks have pursued different scale of adjustment on aggressive monetary tightening along with governments' fiscal expansion to avoid financial meltdown. The continued complication of worldwide business environment makes the global economic recovery more challenging while divergent policy stance, unresolved supply-chain disruptions and hovering geopolitical risks add anxiety and confusion to global financial markets, thus dimming the prospect of the global economy. The economic stagnation is compounding global economic woes, thus triggering further blow to different sectors of the economies and high financial market volatility. We are of the view that global inflation has stepped near the peak in late 2022 but will remain high in 2023. The developed nations will maintain tight monetary stance to curb inflation, which causes falling purchasing power and a spike in unemployment, thus intensifying economic and geopolitical headwinds and driving the global economy closer to the edge of a recession. The previous and current hawkish monetary policy actions will add urgency for the implementation of more macroeconomic stimulus measures to rekindle growth momentum. Mixed trends of growth momentum in different economies become more apparent, thus lead to a strong likelihood of sluggish global growth in 2023.

The U.S. economy facing slower growth momentum in coming quarters. Surging economic downside risks emerging after a series of aggressive interest rate hikes in 2022 cause a massive blow to the U.S. economic growth momentum. The U.S Federal Reserve (Fed) prioritizes the easing of inflation burden with the economic cost involving job losses and lower consumer spending. Worldwide stagflation risks surge alongside sizable U.S. rate hikes pull liquidity out of financial markets under which dampened risk sentiment further weakens growth momentum of the US economy. In sum, the U.S. economy faces signs of further weakening as rising cost of capital deepens the drop of aggregate demand for goods and services. The U.S. manufacturing activities in December demonstrated contraction as S&P Global Manufacturing Purchasing Managers' Index (PMI) fell to 46.2 from November's 47.7 while business activity in the U.S. service sector dropped in December with S&P U.S. Services PMI falling to 44.7 from November's 46.2. In the wake of changing growth momentum, the Fed lowered the projection of GDP growth to 0.5% and 1.6% for 2023 and 2024 while the U.S unemployment rate was projected to edge up to 4.6% for 2023 and 2024. We are of the view that the Fed will navigate less aggressive tightening of liquidity with the aim to drive inflation back to 2% target alongside lowering the risks of 'hard landing' for the economy. The U.S. economy continues to encounter economic headwinds in 2023 with which gloomy economic outlook sends consumer confidence and manufacturing indicators tumbling.

Disrupted energy supply-chain hammering recovery path of Eurozone economies. Ongoing energy shocks sparked by Russia-Ukraine crisis remain as the major headwind disrupting work and consumption normalization of Eurozone economies in 2023. Rising concerns on sharp drop of growth momentum exacerbate the supply-demand imbalances and ultimately affect consumer sentiment and recovery momentum. The outcome of continued energy supply chain meltdown will be stagflation coupled with significant disruptions to financial markets. Eurozone economies will face tepid, uneven and fragile recovery as high energy and consumer inflation as well as worldwide supply constraints impair the recovery momentum. We are of the view that Europe's post-pandemic recovery is expected to continue but growth will be constrained by fluctuating energy prices, residual supply-side disruption and global tightening of financial conditions. Depressed confidence alongside surging financial instability risks stemming from high public debts and shrinking trade balance cloud the area outlook. It is expected that European Central Bank (ECB) is set to soften aggressive approach for monetary tightening to head off multi-decade-high inflation and Europe's policymakers will enact affordable fiscal stimulus to hedge against the headwinds and strengthen revival of economic activities.

Japan positioning for bumpy recovery. Although Bank of Japan (BOJ) retains loose monetary policy to stimulate economic growth, Japan's economic recovery momentum remains slow as the world's third-largest economy struggles with economic headwinds including high input costs, shortage of raw materials, and logistics chaos alongside excessive fluctuation of yen. In sum, Japan's economic outlook remains bleak as operational environment of manufacturers has been worsened on yen's volatility that amplifies the impact of soaring energy and commodity import prices. Competitive advantages of Japanese exports would be further undermined that prohibits continued recovery of Japan's economy. In addition, Japan's inbound tourism is expected to recover gradually with the aid of relaxed border restrictions that help buoy the Japan's economy. However, pre-pandemic tourism to Japan was heavily influenced by the Chinese outbound market and the return of mass tourism in Japan is likely to be limited as Japan recently steps up Covid curbs on Chinese tourists. We are of the view that weakness of Japan's consumption and export growth drivers remains intact and the road for Japan's economic recovery road is still bumpy on economic challenges both at home and abroad.

China's divergent monetary policy stance alongside economy reopening brightening economic outlook. The global economy is experiencing growing recession risks with high inflation and mounted geopolitical risks with which global central banks continue to tighten monetary stance that alleviates pricing pressures but weakens the recovery momentum. For China, the People's Bank of China (PBOC) adopts a loose monetary policy on the basis of a prudent stance as mild and stable consumer inflation leaves more room for an accommodative stance of liquidity management to help revive growth momentum. We are of the view that China's economy embraces modest recovery with challenges on the back of exit from zero-Covid policy alongside continued policy stimulus in 2023. The PBOC will strengthen the support to maintain liquidity at an ample level, thus reducing the funding costs of banks and boosting credit expansion in the real economy. Under this monetary stance, we believe the PBOC will further lower the loan prime rate (LPR) and conduct reserve requirement ratio (RRR) cuts as well as roll out a mix of targeted lending facilities in 1H2023, thus entailing more flexibility to accommodate capital demand and underpin economic recovery.

China economic indicators

	2019	2020	2021	1Q2022	2Q2022	3Q2022	4Q2022	2022
Real GDP (YoY%)	6.0	2.2	8.4	4.8	0.4	3.9	-	-
PMI Manufacturing (%)	50.2	51.9	50.3	49.9	49.1	49.5	48.1	47.0
PMI Non-Manufacturing (%)	53.5	55.7	52.7	50.4	48.1	52.3	45.7	41.6
Exports (RMB YoY %)	5.0	4.0	21.0	13.2	12.6	15.4	2.3	10.5
Imports (RMB YoY %)	1.7	(0.2)	21.5	8.5	1.5	5.4	2.4	4.3
Trade Balance (RMB/bn)	2912.0	3634.2	4330.0	981.2	1453.7	1796.5	1627.5	5863.0
Exports (USD YoY %)	0.5	3.6	29.6	15.5	12.4	10.3	(6.5)	7.0
Imports (USD YoY %)	(2.7)	(0.6)	30.0	10.6	1.3	0.7	(6.5)	1.1
Trade Balance (USD/bn)	421.1	524.0	670.4	154.2	224.2	266.1	232.6	877.6
CPI (YoY %)	2.9	2.5	0.9	1.1	2.2	2.7	1.8	2.0
PPI (YoY %)	(0.3)	(1.8)	8.1	8.7	6.8	2.5	(1.1)	4.1
FAI (YTD/ YOY %)	5.4	2.9	4.9	9.2	4.2	5.7	-	-
Real Estate Investment (YTD YoY %)	9.9	7.0	4.4	0.7	(9.0)	(20.7)	-	-
Industrial Production (YoY %)	5.7	2.8	9.6	6.5	0.6	4.8	-	-
Retail Sales (YoY%)	8.0	(3.9)	12.5	3.3	(4.6)	3.5	-	-
New Lending (RMB/bn)	16815.7	19632.9	19945.1	8338.9	5340.1	4407.0	3228.8	21314.9
M2 (YoY %)	8.7	10.1	9.0	9.7	11.4	12.1	11.8	11.8
Aggregate Financing (RMB bn)	25673.5	34791.8	31351.0	11868.9	8957.7	6761.6	4211.5	32010.0

	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22	Sept 22	Oct 22	Nov 22	Dec 22
Real GDP (YoY%)	4.0	-	-	4.8	-	-	0.4	-	-	3.9	-	-	-
PMI - Manufacturing %	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0
PMI - Non-manufacturing%	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6	50.6	48.7	46.7	41.6
Exports (RMB YoY %)	17.3	20.8	3.9	12.6	1.5	14.6	21.2	24.1	12.1	10.6	7.0	0.7	(0.5)
Imports (RMB YoY %)	16.0	18.0	9.6	(0.9)	(1.8)	2.3	3.9	6.9	4.3	5.1	6.8	(1.1)	2.2
Trade Balance (RMB/bn)	596.7	524.2	174.9	282.0	313.4	496.4	643.9	686.7	540.5	569.4	587.2	490.2	550.1
Export (USD YoY %)	20.9	24.0	6.1	14.3	3.5	16.2	17.1	18.2	7.5	5.7	(0.2)	(8.9)	(9.9)
Import (USD YoY %)	19.5	21.0	11.8	0.7	0.2	3.5	0.1	1.8	0.1	0.3	(0.7)	(10.6)	(7.5)
Trade Balance (USD/bn)	93.2	82.2	27.5	44.5	49.3	77.8	97.1	101.9	80.1	84.1	85.3	69.3	78.0
CPI (YoY %)	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8
PPI (YoY %)	10.3	9.1	8.8	8.3	8.0	6.4	6.1	4.2	2.3	0.9	(1.3)	(1.3)	(0.7)
FAI (YTD/ YOY %)	4.9	-	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8	5.3	-
Real Estate Investment (YTD/ YoY %)	4.4	-	3.7	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)	(8.0)	(8.8)	(9.8)	-
Industrial Production (YoY %)	4.3	-	7.5	5.0	(2.9)	0.7	3.9	3.8	4.2	6.3	5.0	2.2	-
Retail Sales (YoY%)	1.7	-	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4	2.5	(0.5)	(5.9)	-
New Lending (RMB/bn)	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1254.2	2473.8	615.2	1213.6	1400.0
M2 (YoY %)	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	12.1	11.8	12.4	11.8
Aggregate Financing (RMB bn)	2358.0	6155.8	1175.9	4637.2	929.5	2838.9	5189.3	759.6	2462.2	3539.8	914.1	1987.4	1310.0
Urban Unemployment Rate (%)	5.1	5.3	5.5	5.8	6.1	5.9	5.5	5.4	5.3	5.5	5.5	5.7	-
Urban Unemployment Rate in 31 major cities (%)	5.1	5.1	-	6.0	6.7	6.9	5.8	5.6	5.4	5.8	6.0	6.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,189.97	19.72	3.83
S&P 500	3,983.17	19.28	4.60
NASDAQ	11,001.10	54.68	6.75
EUR			
FTSE 100	7,794.04	14.58	2.10
DAX	15,058.30	13.92	4.31
CAC40S	6,975.68	14.42	3.17
STOXX EUR 600	450.22	15.41	2.48
Asia			
HSI	21,514.10	7.75	2.19
HSCEI	7,311.84	6.70	1.94
CSI300	4,017.87	14.77	1.24
SSE Composite	3,163.45	14.32	0.26
SZSE Composite	2,048.77	37.75	0.57
NIKKEI 225	26,449.82	17.90	2.85
KOSPI	2,365.10	11.16	4.44
TWSE	14,731.64	10.60	3.01
S&P/ASX 200	7,280.40	14.71	3.07
MSCI Index			
MSCI WORLD	2,720.09	17.44	4.83
MSCI DEVELOPED	634.03	16.45	4.68
MSCI EMERGING	1,018.31	11.43	3.49
MSCI US	3,779.02	19.69	4.70
MSCI UK	2,239.19	14.36	1.96
MSCI France	198.07	16.66	3.17
MSCI Germany	151.16	13.11	4.50
MSCI China	71.17	12.18	2.59
MSCI Hong Kong	13,988.69	19.91	0.12
MSCI Japan	1,166.00	13.68	2.52

* As of 2023/1/12 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	4.50	0.00
US Prime Rate	7.50	0.00
US Discount Window	4.50	0.00
ECB Rate (Refinancing)	2.50	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	4.1612	0.0637
US Treasury (1 Yr)	4.6444	(0.1089)
US Treasury (5 Yr)	3.5357	(0.3775)
US Treasury (10 Yr)	3.4400	(0.2781)
US Treasury (30 Yr)	3.5768	(0.2173)
1-Month LIBOR	4.4234	0.0391
3 Month LIBOR	4.8150	0.0266
Japan 1-Yr Gov. Bond	0.001	0.004
Japan 10-Yr Gov. Bond	0.510	0.076
German 1-Yr Gov. Bond	2.652	(0.108)
German 10-Yr Gov. Bond	2.159	(0.158)
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	2.100	0.036
China 5-Yr Gov. Bond	2.679	0.069
China 10-Yr Gov. Bond	2.876	0.039
O/N SHIBOR	1.465	0.891
1-mth SHIBOR	2.194	0.005
HK Base rate	4.75	0.00
O/N HIBOR	1.1289	(0.6431)
1-mth HIBOR	3.1820	(0.3955)
O/N CNH HIBOR	2.1489	0.4827
1-mth CNH HIBOR	2.2468	0.1352
Corporate Bonds (Moody's)		
Aaa	4.40	(0.19)
Baa	5.53	(0.23)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	78.39	6.41
ICE Brent Oil	USD/bbl	84.03	6.79
NYMEX Natural	USD/MMBtu	3.70	(0.67)
BasicMetals			
LME Aluminum	USD/MT	2,516.25	13.19
CMX Copper	USD/lb.	419.65	9.83
LME Steel Rebar	USD/MT	685.00	(1.30)
LME Lead Cash	USD/MT	2,212.00	(2.33)
Precious Metals			
CMX Gold	USD/T. oz	1,884.41	1.91
Gold Futures	USD/T. oz	1,898.80	3.16
CMX Silver	USD/T. oz	23.70	0.98
NYMEX Platinum	USD/T. oz	1,070.81	(1.38)
Agricultural			
CBOT Corn	USD/bu	671.00	2.80
CBOT Wheat	USD/bu	742.75	(0.54)
NYB-ICE Sugar	USD/lb.	19.59	1.29
CBOT Soybeans	USD/bu.	1,518.50	3.25

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	102.25	(2.66)
Euro/USD	1.0762	1.35
GBP/USD	1.2179	1.27
AUD/USD	0.6905	1.13
USD/CAD	1.3426	(0.60)
USD/JPY	131.01	(1.11)
USD/CHF	0.9319	0.59
USD/CNY Midpoint	6.7680	(1.81)
USD/CNY	6.7295	(2.19)
USD/CNY NDF-12-mth	6.6170	(1.46)
USD/CNH	6.7597	(1.68)
USD/HKD	7.8089	0.00
CNY/HKD	1.1603	2.21
CNH/HKD	1.1552	1.71
USD/KRW	1,245.65	(1.88)
USD/TWD	30.45	(0.88)
USD/SGD	1.3295	(0.70)
USD/INR	81.55	(1.21)

All data sources: Bloomberg

Disclosures

Analyst Certification

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