Global Economic Outlook February 2022

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GLOBAL ECONOMIC OUTLOOK

Highlights:

The world economy's real GDP growth rate is expected to be 4.4% in 2022. Two major factors will put downward pressure on the world economy in 2022 are the downturn in China's economy and high inflation accompanied by accelerating monetary policy normalization.

Experts increased their forecast price of Brent crude oil to USD 116/barrel and the price of WTI crude oil to USD 112/barrel for the second quarter of 2022. They also expect gasoline prices to average about USD 4.10/gallon during the second quarter of 2022 and then decline through the rest of the year.

The US unemployment rate edged down to 3.8% in February from 4% in the previous month, a new pandemic low and below market expectations of 3.9%. The number of unemployed persons edged down by 243 thousand to 6.270 million.

The Consumer Price Index rose by 7.9% through February, the fastest pace of annual inflation in 40 years. But even taking out energy and food, core inflation was at a 6.4% increase year over year – still far above the Federal Reserve's 2% inflation target.

New purchases of financial assets are expected to end in March 2022 and the FOMC members' forecast suggested there would be 3 rate hikes during the year. However, rate hikes are not expected in the EU and Japan in 2022.

The balance sheets of the central banks of Japan, the U.S. and Europe have expanded significantly due to the large-scale monetary easing measures used during the pandemic. Attention is paid to the market impact of the curbing or ending of ultra monetary easing measures in each country, like the end of new purchases of financial assets by the U.S and expected interest rate hikes in March.

World Economic Outlook

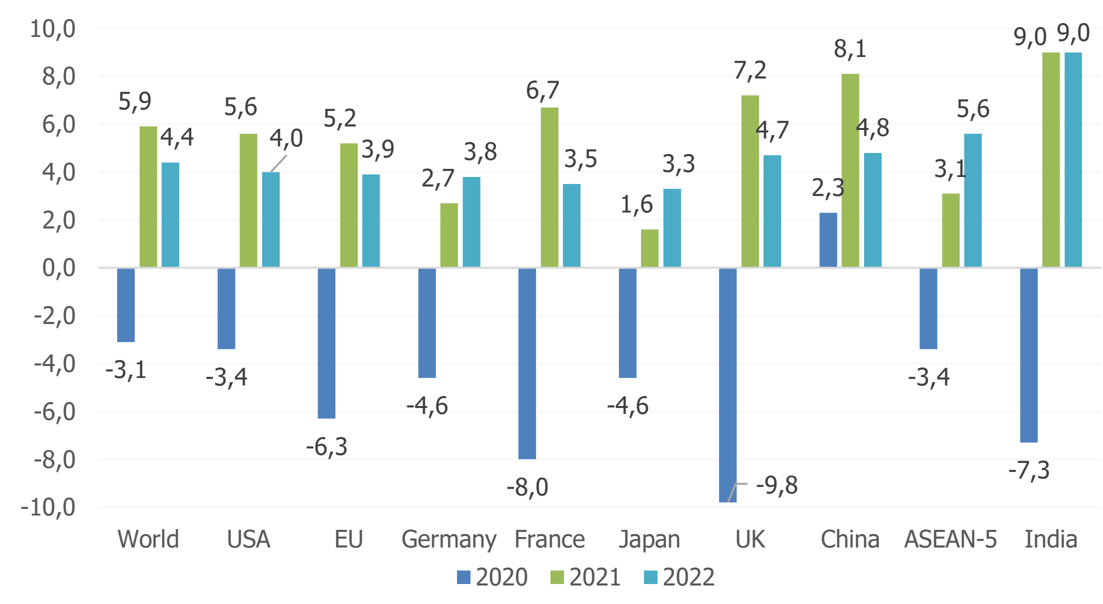
Economic growth

The world economy's real GDP growth rate is expected to be 4.4% in 2022. Although it will likely be lower than 2021 growth rate of 5.8%, which largely reflected the huge fall in growth in 2020, the recovery will still exceed annual average growth rates before the Covid pandemic, which is our main scenario. Two major factors will put downward pressure on the world economy in 2022 are the downturn in China's economy and high inflation accompanied by accelerating monetary policy normalization.

China's economic growth rate is expected to fall to 5% in 2022 from 8% in 2021, due to the zero Covid policy, power shortages and problems in the housing market. Further on the downside is if the authorities continue to maintain restraint in invoking measures against these downward pressures on the economy.

The high inflation rate was brought on by the emergence of pent-up demand as a reaction to the sharp decline in demand during the first Covid-19 outbreak. This high inflation should peak in the 1st half of 2022. The problems of high resource prices, supply constraints due to supply chain deficiencies, and labor shortages due to supply and demand mismatches should be resolved by the 2nd half of 2022 with inflationary pressures expected to decline.

Major countries's GDP Forecast (%)



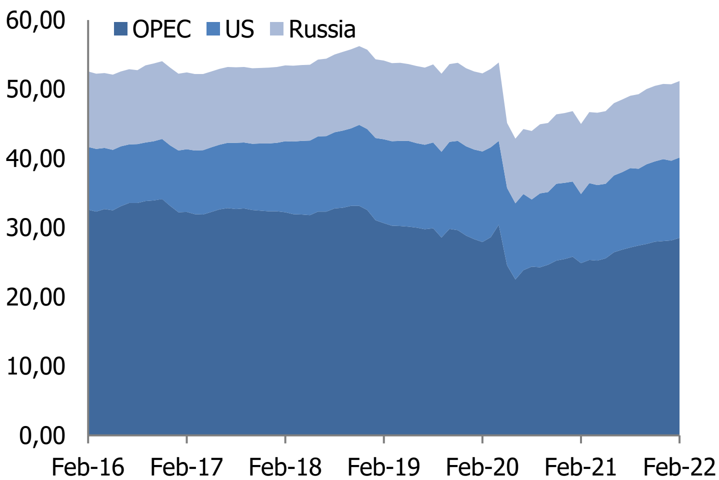
Oil Market

On February 24th, 2022, Russia initiated a further invasion of Ukraine that contributed to the recent sharp increase in the Brent and WTI crude oil prices. This sharp rise in crude oil prices reflects increased geopolitical risk and uncertainty regarding how announced and potential future sanctions may affect global energy markets.

In the Short-Term Energy Outlook, experts increased their forecast price of Brent crude oil to USD 116/barrel and the price of WTI crude oil to USD 112/barrel for the second quarter of 2022. They also expect gasoline prices to average about USD 4.10/gallon during the second quarter of 2022 and then decline through the rest of the year.

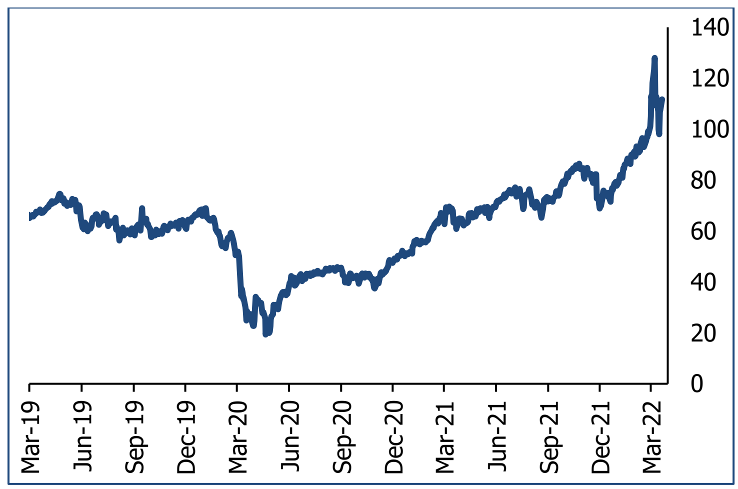
In 2021, withdrawals from global petroleum inventories averaged 1.4 million barrels per day and contributed to higher crude oil prices. These inventory draws resulted from petroleum consumption returning faster than petroleum production after the Covid-19 pandemic began in 2020. In 2022, we expect that petroleum production will increase and consumption growth will slow, leading to increases in petroleum inventories globally.

Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



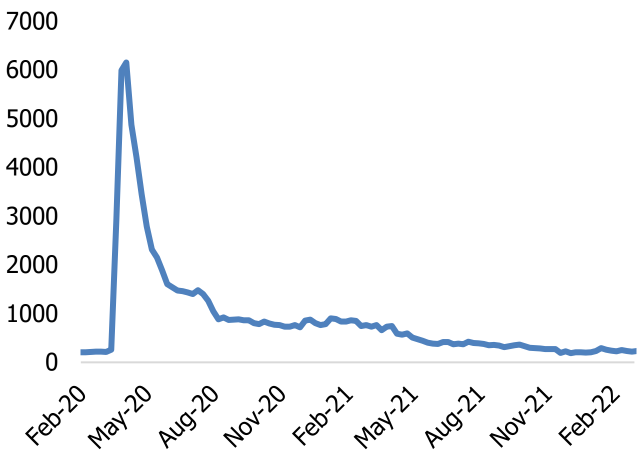
Source: Bloomberg

Labor Market

In the US, the unemployment rate is falling and job vacancy rate is rising. Job vacancies are especially prominent in the entertainment and hospitality sectors contributing to higher wages. In the US, which initially chose to pay unemployment benefits rather than use job retention measures, mismatches occurred as the unemployed returned to the labor market. On the other hand, in Europe, as result of efforts to maintain employment the unemployment rate hardly changed, while the job vacancy rate has significantly risen recently.

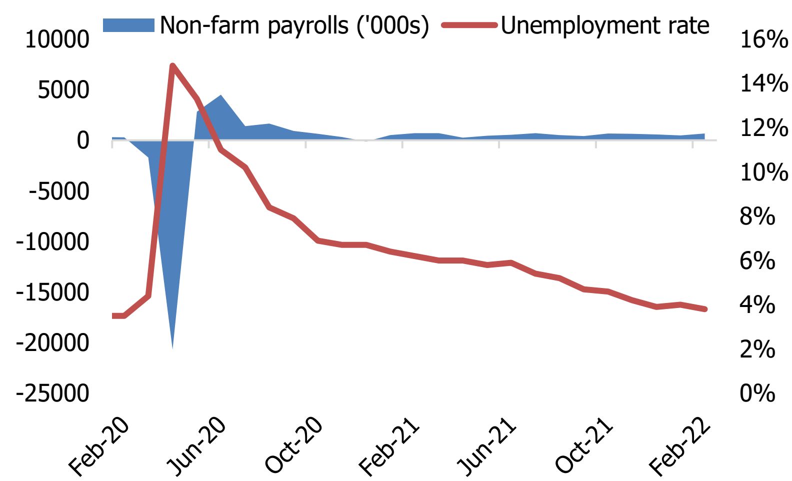
The US unemployment rate edged down to 3.8% in February of 2022 from 4% in the previous month, a new pandemic low and below market expectations of 3.9%. The number of unemployed persons edged down by 243 thousand to 6.270 million.

Initial weekly jobless claims in the U.S. ('000)



Source: Bloomberg

US unemployment rate and non-farm payrolls



Source: Bloomberg

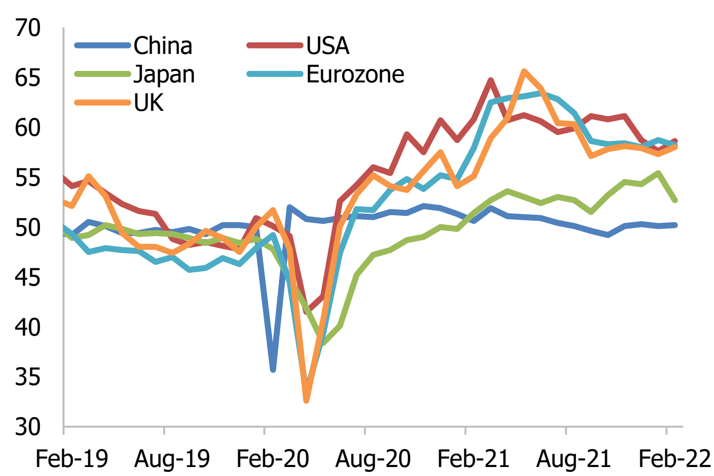
Manufacturing and consumption

Prices climbed at the fastest pace in decades in the month leading up to the war in Ukraine, underlining the high stakes facing the United States — along with many developed economies — as the conflict promises to drive costs higher.

The Consumer Price Index rose by 7.9% through February, the fastest pace of annual inflation in 40 years. But even taking out energy and food, core inflation was at a 6.4% increase year over year – still far above the Federal Reserve's 2% inflation target.

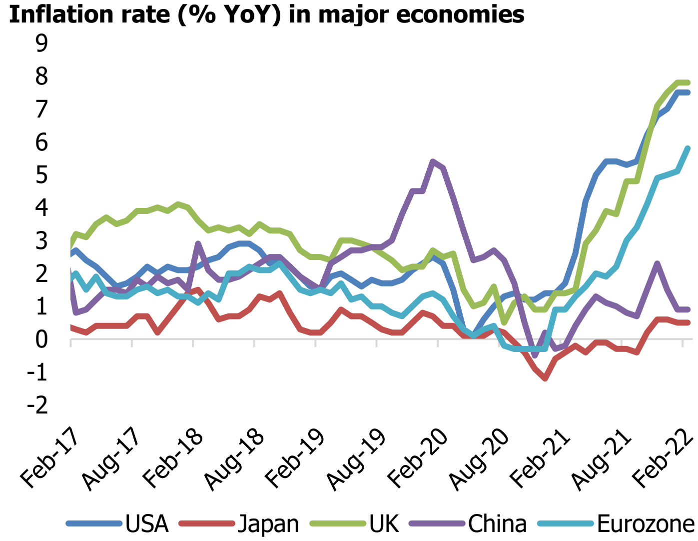
Rising food and rent costs contributed to the big increase, the Bureau of Labor Statistics said, as did a nascent surge in gas prices that will become more pronounced in the March inflation report. The February report caught only the start of the surge in gas prices that came in response to Russia's invasion of Ukraine late last month. Economists expect inflation to pick up even more in March because prices at the pump have since jumped to record-breaking highs. The average price for gas reached USD 4.32/gallon.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

Policies

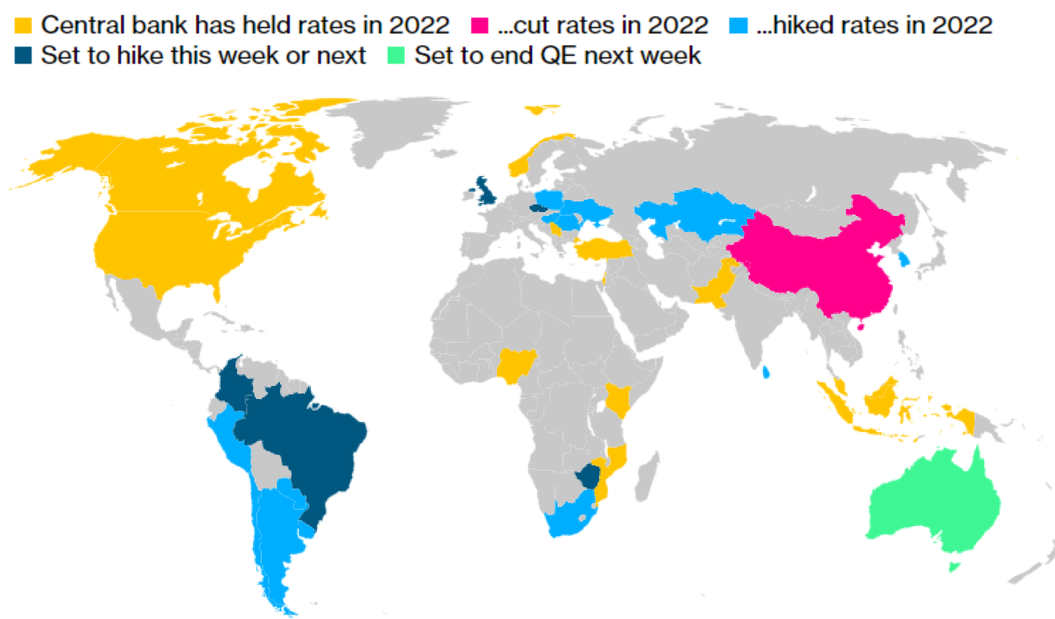
Monetary policy

The Federal Open Market Committee decided to leave the policy rate unchanged until March and accelerate tapering of its quantitative easing. New purchases of financial assets are expected to end in March 2022 and the FOMC members' forecast suggested there would be 3 rate hikes during the year. However, rate hikes are not expected in the Euro Zone and Japan in 2022.

At a press conference, Fed Chair Powell was repeatedly asked about maximum employment, which is a condition for further policy normalization. However, that standard has not yet been stated. At the moment, the impact of rising wages is limited, but he said it will be a key point going forward if rents rise.

With the exception of ASEAN countries, where economic recovery has been hampered, many emerging economies have been tightening their monetary policies. Russia, Brazil and others have consecutively raised rates. However, Turkey has been the outlier by cutting rates.

Global Monetary Policy Tracker in February 2022



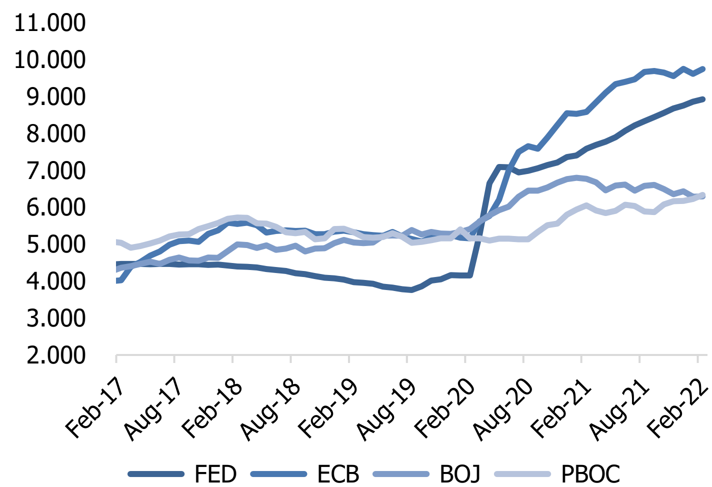
Source: Bloomberg, International Economics

Fiscal Policy

In the US, there are 2 infrastructure bills. The hard infrastructure bill has passed, while the social infrastructure bill was passed only in the White House. Total spending in the bills is USD 3 trillion. They are multi-year plans in which spending in 2022 could be about USD 250 billion, equaling 1.2% of GDP for both bills.

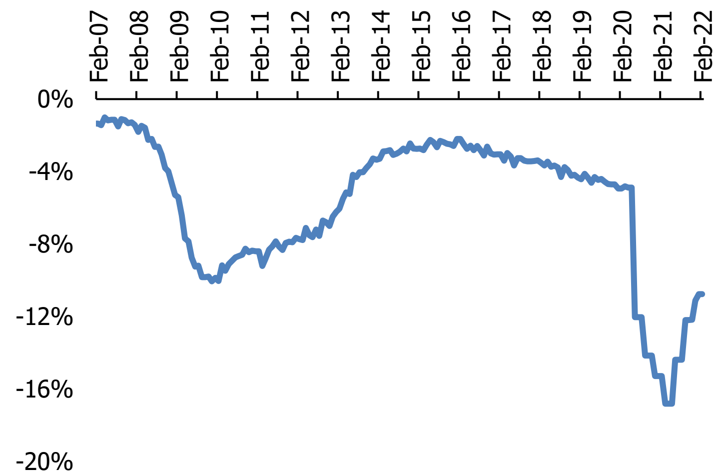
The balance sheets of the central banks of Japan, the U.S. and Europe have expanded significantly due to the large-scale monetary easing measures used during the pandemic. The supply of funds has flowed into financial assets, commodities, real estate,…. Attention is paid to the market impact of the curbing or ending of ultra monetary easing measures in each country, like the end of new purchases of financial assets by the U.S and expected interest rate hikes in March.

Total assets on major CB's balance sheets (USD bn)



Source: Bloomberg

US budget deficit (%GDP)



Source: Bloomberg

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