Global Economic Outlook September 2021

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GLOBAL ECONOMIC OUTLOOK

Highlights:

In September 2021, Fitch Ratings forecasts a 6.0% increase in global GDP, down from the previous 6.3% projection. Supply limitations are slowing the economic rebound, so the US GDP projection for 2021 has been lowered to 6.2% from 6.8% in June.

By mid-September 2021, at least one dosage of the Covid-19 vaccine has been given to over 35% of the world's population, and over 20% has been fully immunized. Globally, 5.98 billion doses have been delivered, with 30.4 million doses being administered every day.

Due to a recurrence of Covid-19 cases in Asia, global oil demand is expected to have fallen for 3 months in a row. As a result, since last month's report, 3Q/2021 has been adjusted down by 200,000 barrels/day. In August, North Sea Dated prices decreased USD 4.24/barrel to USD 70.75/barrel, while WTI at Cushing dropped USD 4.73/barrel to USD 67.73/barrel.

In the United Stated, the difference in participation rates now compared to February of last year is 1.6%, or 4.2 million individuals who are neither working nor jobless. According to a recent study by the Dallas Federal Reserve, about 1.5 million people will have retired as a result of the pandemic, implying that returned participation rates to pre-pandemic levels may be challenging.

The Manufacturing PMI for August was 59.9%, up 0.4 points from the previous month's reading of 59.5%. After contracting in April 2020, this number shows the total economy expanding for the 15th month in a row.

The move toward tighter policy that economists predicted has essentially taken place in the United States. According to the Federal Open Market Committee's (FOMC) most recent minutes, "assuming that the economy evolves generally as they expect, they concluded that it may be prudent to begin decreasing the pace of asset purchases this year."

Since the outbreak, the central banks of Japan, the United Kingdom, the United States, and the eurozone have added USD 9.6 trillion in security holdings to their balance sheets, bringing their total assets to over USD 25.4 trillion. The Fed is presently purchasing USD 120 billion in assets per month, with a total portfolio of USD 2.5 trillion in mortgage-backed securities and USD 5.3 trillion in U.S. Treasury securities.

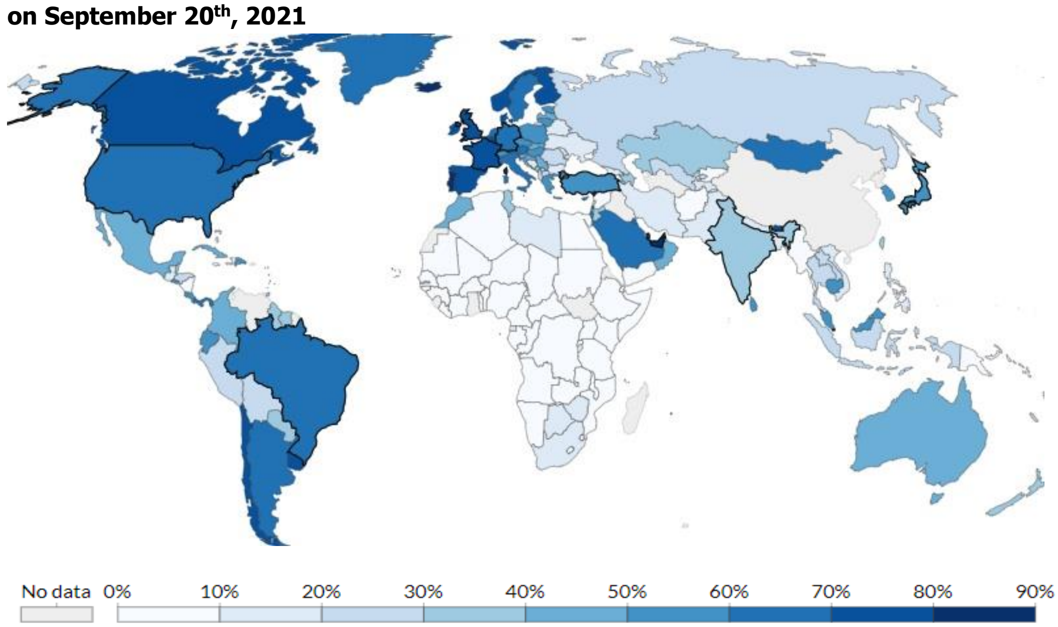
World Economic Outlook

Economic growth

In September 2021, Fitch Ratings forecasts a 6.0% increase in global GDP, down from the previous 6.3% projection. Supply limitations are slowing the economic rebound, so the US GDP projection for 2021 has been lowered to 6.2% from 6.8% in June. Price rises are reflecting a larger percentage of demand growth, and US inflation projections have been pushed upwards again. Economists have also cut China's GDP projection to 8.1% from 8.4%, citing the slowing housing market as a factor weighing on domestic demand. Following an increase in coronavirus infections and additional limitations, the projections for certain other Asian economies have been reduced also. However, the eurozone's growth forecast have been increased for 2021 from 5.0% to 5.2%.

By mid-September 2021, at least one dosage of the Covid-19 vaccine has been given to over 35% of the world's population, and over 20% has been fully immunized. Globally, 5.98 billion doses have been delivered, with 30.4 million doses being administered every day. In low-income nations, just about 5% of population have got at least one dosage. To terminate the pandemic, the World Health Organization proposes that vaccination rates need to reach at least 40% of the population in each country by the end of 2021 and at least 60% by the middle of 2022, as well as adequate diagnostics and therapies.

Share of people who received at least one dose of Covid-19 vaccine (% Population) on September 20th, 2021



Source: OurWorldInData

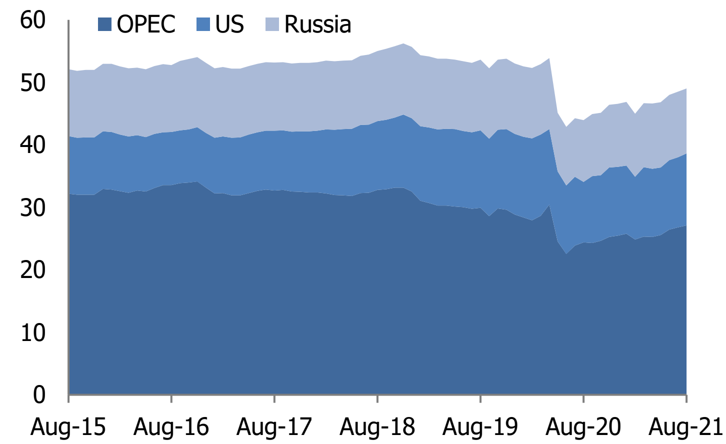
Oil Market

Due to a recurrence of Covid-19 cases in Asia, global oil demand is expected to have fallen for 3 months in a row. As a result, since last month's Report, 3Q/2021 has been revised down by 200,000 barrels/day. Demand is anticipated to rise by 1.6 million barrels/day in October, and continue to climb until the end of the year, indicating that Covid instances are abating. Global oil consumption is anticipated to grow by 5.2 million barrels/day this year and 3.2 million barrels/day in 2022.

From mid-August to mid-September, prices dropped on average, trading in a broad USD 8-9/barrel range, and the forward price curve flattened significantly. Concerns about economic growth, inflation, and decrease in oil demand, all of which are connected to the Covid-19 outbreaks

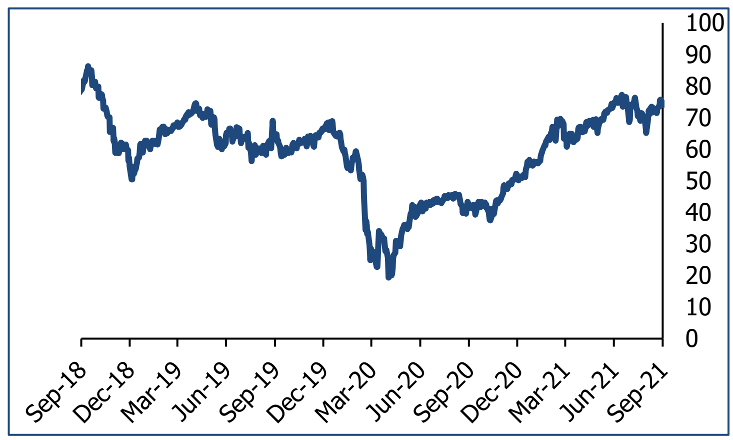
. Hurricane Ida's supply disruptions in early September sent prices almost back to early July levels. In August, North Sea Dated prices decreased USD 4.24/barrel to USD 70.75/barrel, while WTI at Cushing dropped USD 4.73/barrel to USD 67.73/barrel.

Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



Source: Bloomberg

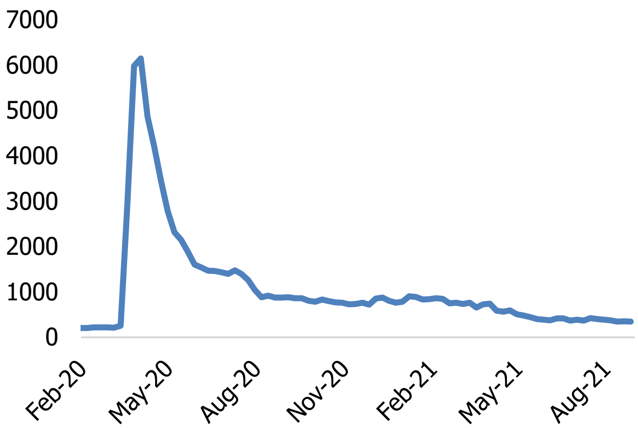
Labor Market

In the United States, a scarcity of workers is limiting production. This may seem unexpected at a time when unemployment rates are considerably over normal, but the rapidity with which businesses reopen, combined with a scarcity of qualified candidates, means that many job openings go unfilled.

The difference in participation rates now compared to pre-pandemic February of last year is 1.6%, or 4.2 million individuals who are neither working nor jobless. According to a recent study by the Dallas Federal Reserve, about 1.5 million people will have retired as a result of the pandemic, implying that returned participation rates to pre-pandemic levels maybe challenging.

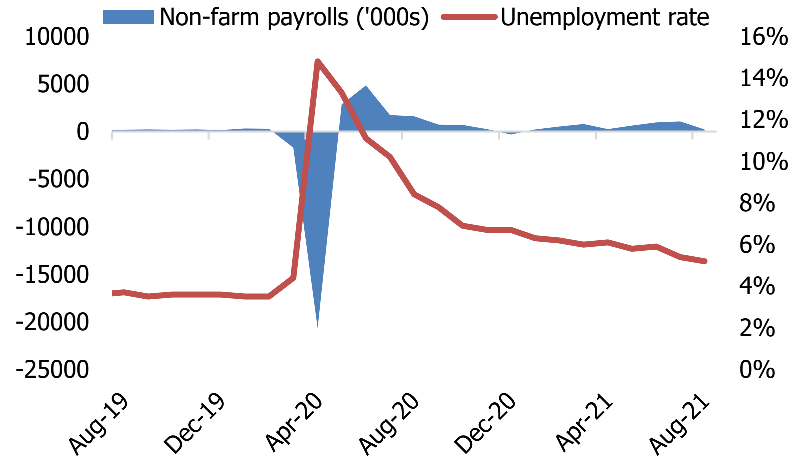
The labor market remains slack, as shown by the additional 3 million individuals who are officially jobless in February 2020 compared to February 2019. On larger metrics, this rises to 3.4 million. Nonetheless, the rise in wage pressure in the labor market implies that labor shortages are now severe in several industries, with job vacancies exceeding the official unemployment rate.

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



Source: Bloomberg

US unemployment rate and non-farm payrolls



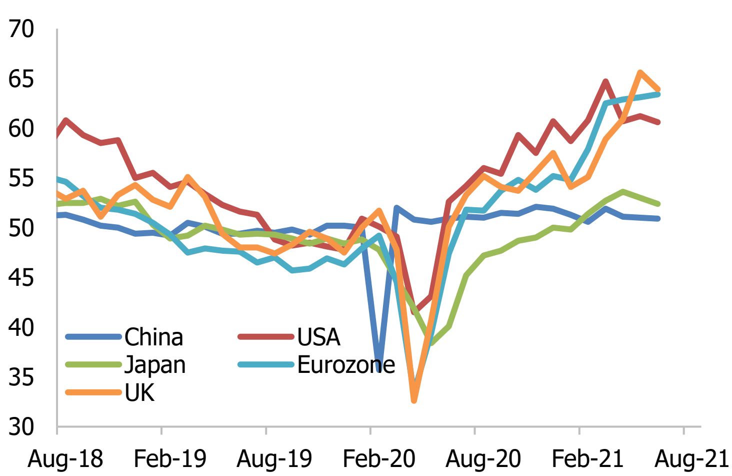
Source: Bloomberg

Manufacturing and consumption

The US Manufacturing PMI for August was 59.9%, up 0.4 point from the previous month's reading of 59.5%. After contracting in April 2020, this number shows the total economy expanding for the 15th month in a row. The New Orders Index rose 1.8 points from 64.9% in July to 66.7% in August. The Production Index was 60% in August, up 1.6 points from the previous month's figure of 58.4%.

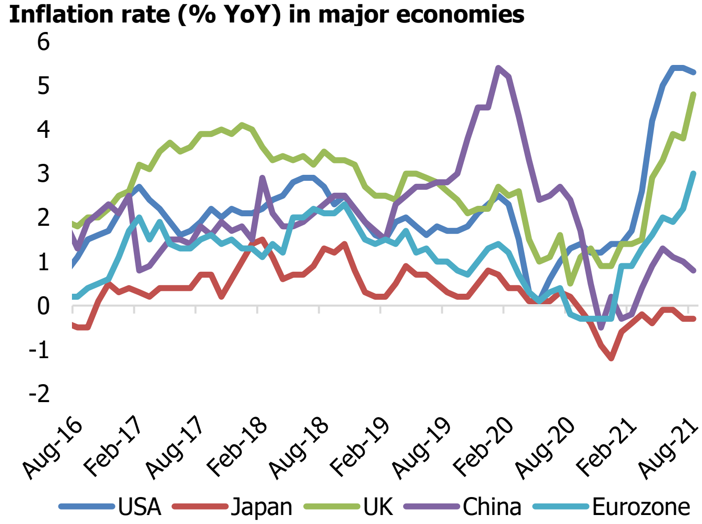
According to Labor Department statistics issued recently, the consumer price index climbed 0.3% from July, the lowest gain in seven months. The CPI increased by 5.3% YoY. Consumers predict inflation to be at 4.0% over the next three years, according to a Federal Reserve Bank of New York survey released in August, the highest level since records since mid-2013. The CPI data also revealed that the hot housing market is beginning to affect rent costs, which have increased by the highest since March 2020.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

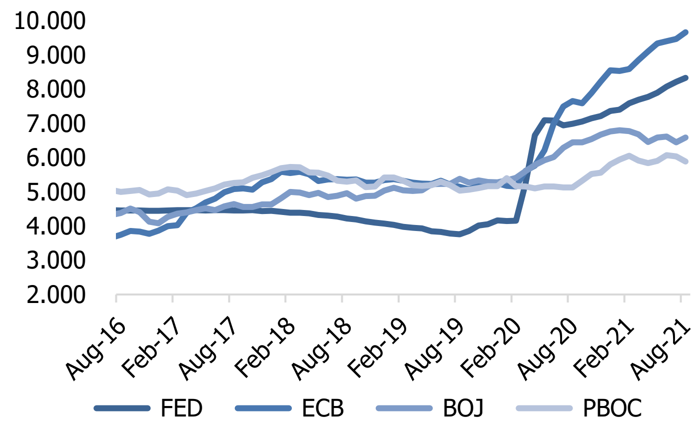
Policies

Monetary policy

The move toward tighter policy that economists predicted has essentially taken place in the United States. According to the Federal Open Market Committee's (FOMC) most recent minutes, "assuming that the economy evolves generally as they expect, they concluded that it may be prudent to begin decreasing the pace of asset purchases this year." All FOMC members agreed that the economy had made progress toward the maximum employment and price stability goals since last December when discussing the timing of tapering. We still expect a statement at the FOMC meeting on September 22 that tapering would begin at a USD 10 billion per month pace at the end of the year.

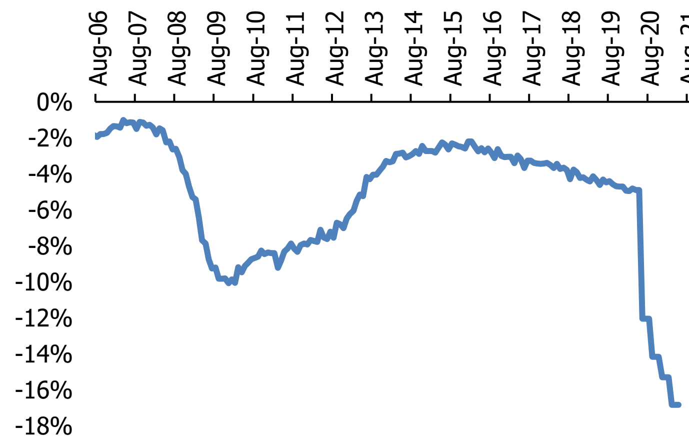
There is a case to be made for a more rapid tapering of policy, it appeared to be little sense in boosting demand in an economy with supply-side issues. The Fed, on the other hand, is likely to put up with the greater inflation this produces. The first interest rate rise is still expected at the end of 2022.

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



Source: Bloomberg

US budget deficit (%GDP)



Source: Bloomberg

Fiscal Policy

Since the outbreak, the central banks of Japan, the United Kingdom, the United States, and the eurozone have added USD 9.6 trillion in security holdings to their balance sheets, bringing their total assets to over USD 25.4 trillion. The Fed is presently purchasing USD 120 billion in assets per month, with a total portfolio of USD 2.5 trillion in mortgage-backed securities and USD 5.3 trillion in U.S. Treasury securities. Securities issued by the Treasury Department.

It's difficult to measure the impact of QE because of the wide range of macroeconomic conditions and policies. Asset purchases, on the other hand, are widely acknowledged as having contributed to decreasing government bond rates. Bernanke (2020) recently calculated that each USD 500 billion in QE in 2014 reduced the 10-year treasury rate by 0.2%. If today's transmission mechanism is similar to 2014, the Fed's USD 1.8 trillion in securities purchases in March and April 2020 alone could have reduced the 10-year treasury yield by 0.7%, while the total USD 3.7 trillion in asset purchases since the pandemic began could have suppressed yields by as much as 1.5%. Because QE's influence on bond rates reduces when long-term yields approach zero, which has been the case in both economies, the effects in the Euro area and Japan are expected to be lower.

Economic indicators of selected countries

Countries	GDP (% YoY)		CPI (% YoY)		Unemployment rate (%)	
	Latest		Latest		Latest	
US	6.4	Q2	5.0	June	5.8	June
EU	-1.3	Q2	2.3	June	8.3	June
Germany	-3.4	Q2	2.5	June	6.0	June
France	1.2	Q2	1.4	June	7.3	June
Italy	-0.8	Q2	1.2	June	10.7	June
Spain	-4.3	Q2	2.7	June	16.0	June
UK	-6.1	Q2	2.1	June	4.7	June
Japans	-1.6	Q2	0.1	June	2.8	June
China	18.3	Q2	1.3	June	5.5	June
Russia	-0.7	Q2	6.0	June	5.2	June

Source: OECD, MBS summarized.

Economic indicators forecast of selected countries

Countries	GDP (% YoY)		CPI (% YoY)		Unemployment rate (%)	
	2020	2021F	2020	2021F	2020	2021F
US	-3.5	6.4	1.2	2.3	8.1	5.8
EU	-6.6	4.4	2.0	3.1	8.3	8.5
Germany	-4.9	3.6	0.4	2.2	4.2	4.4
France	-8.2	5.8	0.5	1.1	8.2	9.1
Italy	-8.9	4.2	-0.1	0.8	9.1	10.3
Spain	-11.0	6.4	-0.3	1.0	15.5	16.8
UK	-9.9	5.3	0.9	1.5	4.5	6.1
Japan	-4.8	3.3	0.0	0.1	2.8	2.8
China	2.3	8.4	2.4	1.2	3.8	3.6
World	-3.3	6.0	2.1	2.5		

Source: OECD, MBS summarized.

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