Global
Outlook

MBSecurities

Global Economic Outlook May 2022

Tuan Hoang
Head of Institutional Research
Tuan.HoangCong@mbs.com.vn

Hoang Nguyen
Research Analyst
Hoang.NguyenTrong@mbs.com.vn

GLOBAL ECONOMIC OUTLOOK

Highlights:

The World Bank lowered its annual global growth forecast for 2022 in April by nearly a full percentage point, down from 4.1% to 3.2%, citing the impact that Russia's invasion of Ukraine is having on the world economy. Other factors behind the slowdown in growth from January's forecast include higher food and fuel costs being borne by consumers in developed economies across the world.

Severe new lockdown measures amid surging Covid cases in China have led to a downward revision in our expectations for global oil demand in 2Q22 and for the year as a whole. Global oil supply rose in April by 450 kb/d to 99.1 mb/d, led by non-OPEC+. Russian oil supply is expected to fall by 1.5 mb/d in April, with shut-ins projected to accelerate to around 3 mb/d from May.

U.S. employers maintained a brisk pace of hiring in April, driving the unemployment rate to a new two-year low of 3.6%. Worker demand is being driven by a sharp decline in Covid-19 infections, which has resulted in restrictions being lifted across the country. There is no sign yet that the Russia-Ukraine war, which has pushed gasoline prices above USD 4 per gallon, has impacted the labor market.

The annual inflation rate in the US accelerated to 8.5% in April of 2022, the highest since December of 1981 from 7.9% in March and compared with market forecasts of 8.4%. Energy prices increased 32%, namely gasoline (+48%) and fuel oil (+70.1%) as Russia's invasion of Ukraine pushed crude oil prices higher.

In the months ahead, policy rates are generally expected to rise further and record-high central bank balance sheets will begin to unwind, most notably in advanced economies. In emerging market and developing economies, several central banks also tightened policy, adding to those that had already done so in 2021. One exception is China, where inflation remains low and the central bank cut policy rates in January 2022 to support the recovery.

The World Bank is "preparing for a continued crisis response, given the multiple crises," Malpass told reporters. "Over the next few weeks, I expect to discuss with our board, a new 15-month crisis response envelope of around USD 170 billion to cover April 2022 through June 2023." This Ukraine crisis financing package is even larger than the one the World Bank organized for Covid-19 relief, which topped out at $160 billion.

World Economic Outlook

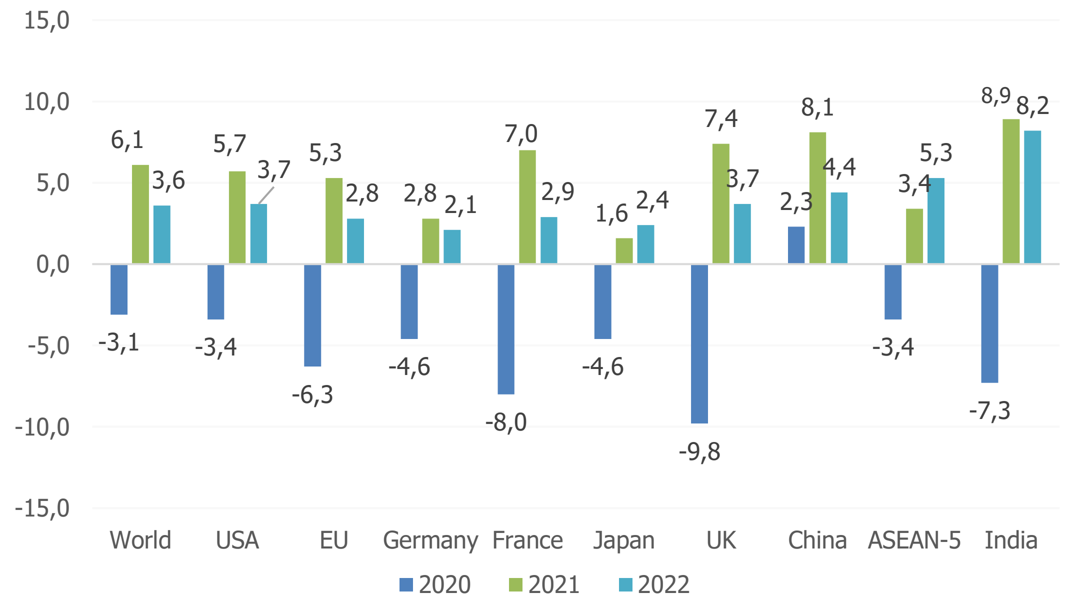
Economic growth

The World Bank lowered its annual global growth forecast for 2022 in April by nearly a full percentage point, down from 4.1% to 3.2%, citing the impact that Russia's invasion of Ukraine is having on the world economy. World Bank President David Malpass told reporters on a conference call that the largest single factor in the reduced growth forecast was a projected economic contraction of 4.1% across Europe and Central Asia, according to Reuters.

Other factors behind the slowdown in growth from January's forecast include higher food and fuel costs being borne by consumers in developed economies across the world, said Malpass. These are partly the result of Western sanctions on Russian energy, which have driven up the price of oil and gas worldwide. Supply disruptions to Ukrainian agricultural exports are also cited as contributing factors to pushing prices higher.

Earlier this month, the World Bank projected that Ukraine's annual GDP would fall by 45.1%, an astonishing figure for a country of more than 40 million people. The World Bank predicted that Moscow's GDP would fall 11.2% this year as a result of the sanctions.

Major countries' GDP forecast (%)



Source: IMF

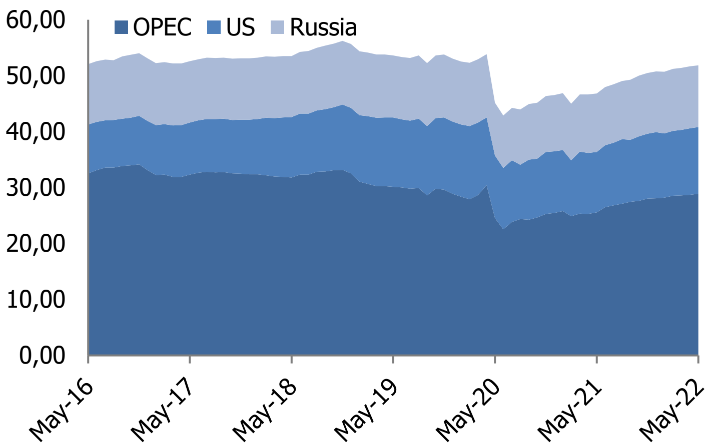
Oil Market

Severe new lockdown measures amid surging Covid cases in China have led to a downward revision in our expectations for global oil demand in 2Q22 and for the year as a whole. Weaker-than-expected demand in OECD countries at the start of the year added to the decline. As a result, EIA estimate for global oil demand has been lowered by 260 kb/d for the year versus last month's Report, and demand is now expected to average 99.4 mb/d in 2022, up by 1.9 mb/d from 2021.

Global oil supply rose in April by 450 kb/d to 99.1 mb/d, led by non-OPEC+. Russian oil supply is expected to fall by 1.5 mb/d in May, with shut-ins projected to accelerate to around 3 mb/d from June. Despite the disruption to Russian oil supplies, lower demand expectations, steady output increases from OPEC+ members along with the US and other non OPEC+ countries, and massive stock releases from IEA member countries should prevent a sharp deficit from developing.

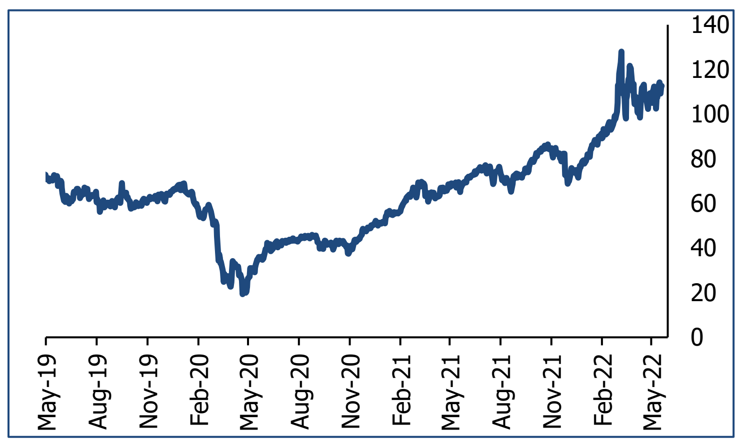
According to the latest report, the EIA expects the Brent oil price will average USD 108/barrel in the second quarter of 2022 and USD 102/barrel in the second half of 2022, before falling next year. Looking ahead to 2023, EIA sees Brent spot prices averaging USD 92.57/barrel in the May report, while its March report saw Brent spot prices averaging USD 88.98/barrel.

Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



Source: Bloomberg

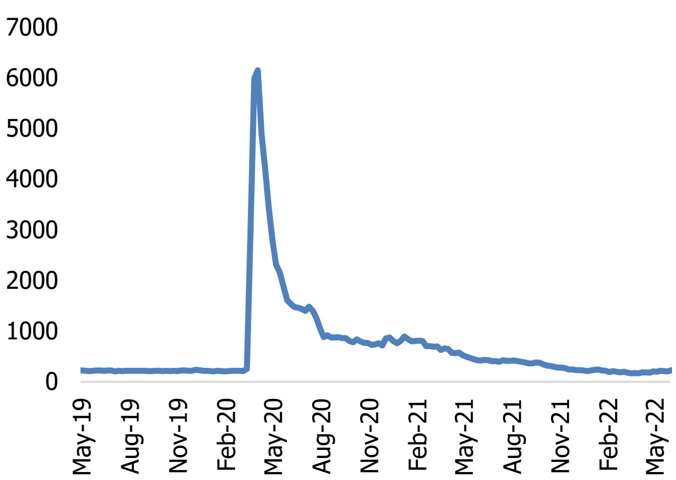
Labor Market

U.S. employers maintained a brisk pace of hiring in March, driving the unemployment rate to a new two-year low of 3.6%. Worker demand is being driven by a sharp decline in Covid-19 infections, which has resulted in restrictions being lifted across the country. There is no sign yet that the Russia-Ukraine war, which has pushed gasoline prices above USD 4 per gallon, has impacted the labor market.

The survey of establishments showed that nonfarm payrolls increased by 431,000 jobs last month. The broad increase in payrolls was led by the leisure and hospitality industry, which added 112,000 jobs. Professional and business services payrolls increased by 102,000 jobs, hoisting employment in the sector 723,000 above its pre-pandemic level.

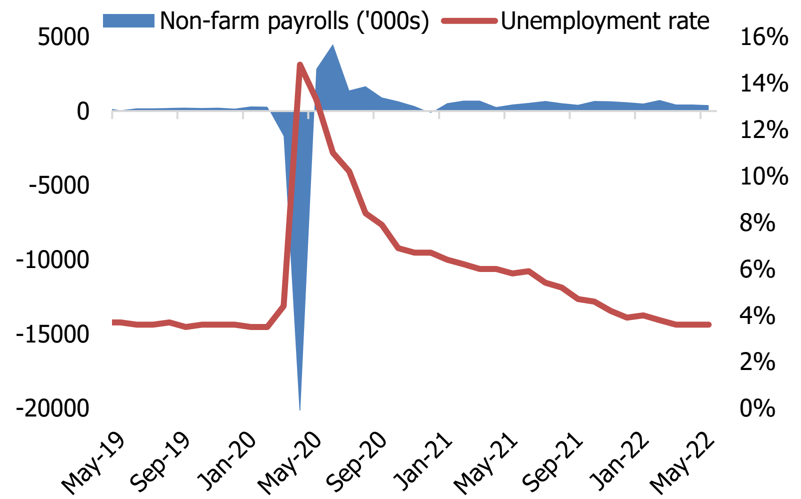
The econoy created 95,000 more jobs in the first 4 months than initially estimated. Overall employment is now 1.6 million jobs below its pre-pandemic level, with many economists predicting all the jobs lost will be recouped by July. Economists polled by Reuters had forecast payrolls increasing 490,000 in April. Estimates ranged from as low as 200,000 to as high as 700,000.

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



Source: Bloomberg

US unemployment rate and non-farm payrolls



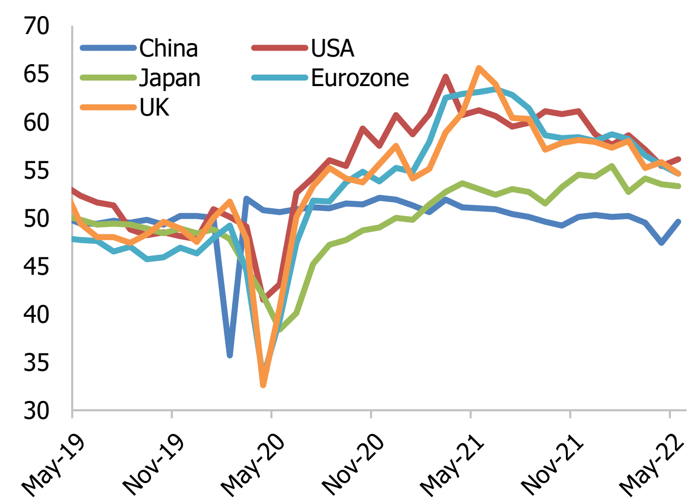
Source: Bloomberg

Manufacturing and consumption

The annual inflation rate in the US accelerated to 8.5% in April of 2022, the highest since December of 1981 from 7.9% in February and compared with market forecasts of 8.4%. Energy prices increased 32%, namely gasoline (48%) and fuel oil (70.1%) as Russia's invasion of Ukraine pushed crude oil prices higher. Also, food prices jumped 8.8%, the most since May 1981. Also, inflation accelerated for shelter (5% vs 4.7% in March) and new vehicles (12.5% vs 12.4%) but eased for used cars and trucks (35.3% vs 41.2%). Excluding volatile energy and food categories, the CPI rose 6.5%, the most in 40 years but slightly below forecasts of 6.6%.

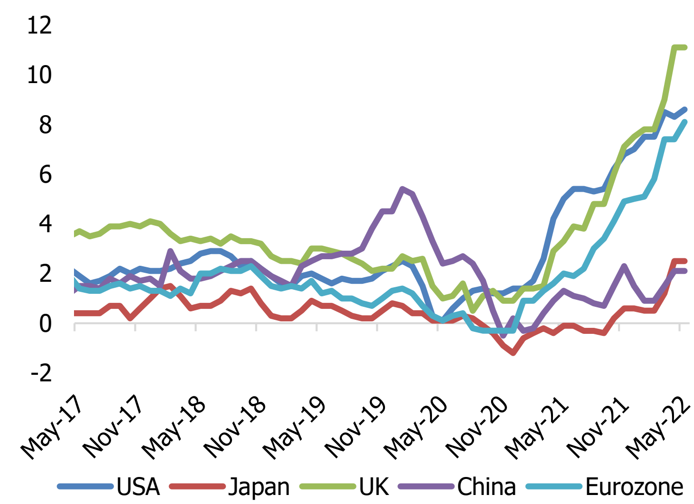
Many analysts expect that March will mark the peak in inflation although the war in Ukraine is far from over, supply chain bottlenecks persist and consumer demand remains elevated which is likely to weigh on the CPI for longer.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

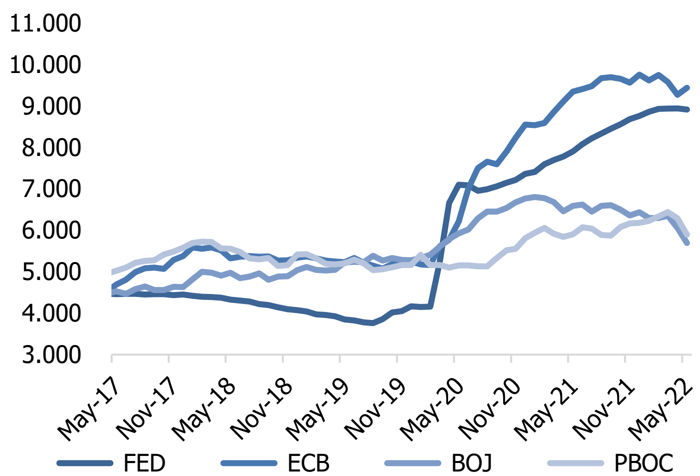
Policies

Monetary policy

Even before the war, inflation had risen significantly, and many central banks tightened monetary policy. This contributed to a rapid increase in nominal interest rates across advanced economy sovereign borrowers. In the months ahead, policy rates are generally expected to rise further and record-high central bank balance sheets will begin to unwind, most notably in advanced economies. In emerging market and developing economies, several central banks also tightened policy, adding to those that had already done so in 2021.

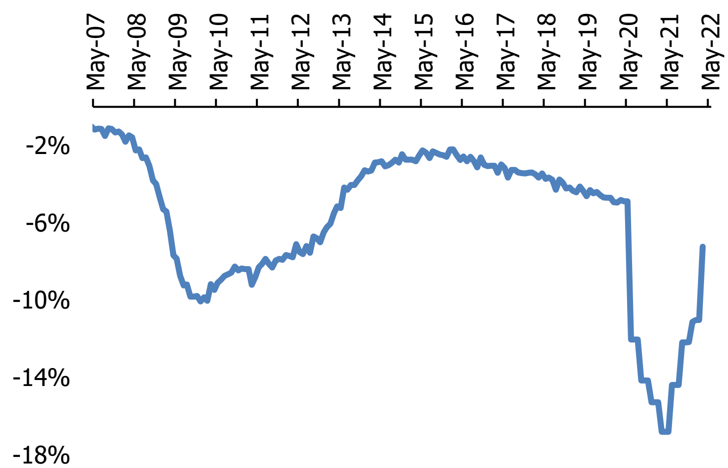
One exception is China, where inflation remains low and the central bank cut policy rates in January 2022 to support the recovery. Expectations of tighter policy and worries about the war have contributed to financial market volatility and risk repricing. In particular, the war and related sanctions have tightened global financial conditions, lowered risk appetite, and induced flight-to-quality flows. In Russia, the sanctions and the impairment of domestic financial intermediation have led to large increases in its sovereign and credit default swap spreads. Emerging market economies in the region, as well as Caucasus, Central Asia, and North Africa, have also seen their sovereign spreads widen.

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



Source: Bloomberg

US budget deficit (%GDP)



Source: Bloomberg

Fiscal Policy

The World Bank is "preparing for a continued crisis response, given the multiple crises," Malpass told reporters. "Over the next few weeks, I expect to discuss with our board, a new 15-month crisis response envelope of around USD 170 billion to cover April 2022 through June 2023." This Ukraine crisis financing package is even larger than the one the World Bank organized for Covid-19 relief, which topped out at USD 160 billion.

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. However, at this moment, President Biden's infrastructure bill is unlikely to pass. However, if it passes, it will most certainly be far smaller than anticipated. As a result, federal budget policy is on a far more moderate course than was anticipated six months ago.

MBS RESEARCH CENTER

We offer economic and equity research. The Economic Research Team offers periodic reports on macroeconomics, monetary policies and fixed income markets. The Equity Research Team offers reports on listed firms, private equities and sector reviews. MBS Research Center also offers regular market commentaries - The Investor Daily.

MB SECURITIES (MBS)

Established since May 2000, MBS was one of the first 5 securities firms operating in Vietnam. After years of continuous development, MBS has become one of the leading securities companies in Vietnam, providing a full range of services including: brokerage, research and investment advisory, investment banking and capital markets underwriting. MBS's network of branches and transaction offices has been expanded and operated effectively in many major cities such as Hanoi, Ho Chi Minh City, Hai Phong and other strategic areas. MBS's clients include individual investors and institutions, financial institutions and enterprises. As a member of the MB Group, including MB Bank, MB Land, MB Asset Management, MB Capital and Viet R.E.M.A.X (Viet REM), MBS is able to leverage substantial human, financial and technological resources to provide its clients with tailored products and services that few securities firms in Vietnam can match.

MBS is proud to be recognized as:

- A leading brokerage firm – ranked No.1 in terms of brokerage market share since 2009;
- A renowned research firm with a team of experienced analysts that provides market-leading research products and commentaries on equity markets and the economy; and
- A trusted provider of investment banking services for corporate clients.

MBS HEAD OFFICE
MB Building, 21 Cat Linh, Dong Da, Hanoi
Tel: + 8424 7304 5688 - Fax: +8424 3726 2601
Website: www.mbs.com.vn