Global Outlook

MBSecurities

Global Economic Outlook October, 2020

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GLOBAL ECONOMIC OUTLOOK

Highlights:

Global economic outlook this year has been revised upwards by IMF compared to the situation four months ago. However, the recovery process still largely depends on each country's efforts to combat the pandemic.

With the pandemic returns to the US and Europe, global economic activity is getting stagnant, leading to a risk of a drop in demand for oil and jobs.

The US continues to escalate its export control program in the high-tech sector when it imposed sanctions on China's largest semiconductor producer SMIC on September 25.

ECB kept the policy rate unchanged and did not provide more liquidity to the banking system despite the EUR has appreciated over 10% against the USD since March.

Politics is standing in the way of the US economic recovery as the House and the Senate have not come to an agreement on the scale and details of the second fiscal stimulus

World Economic Outlook

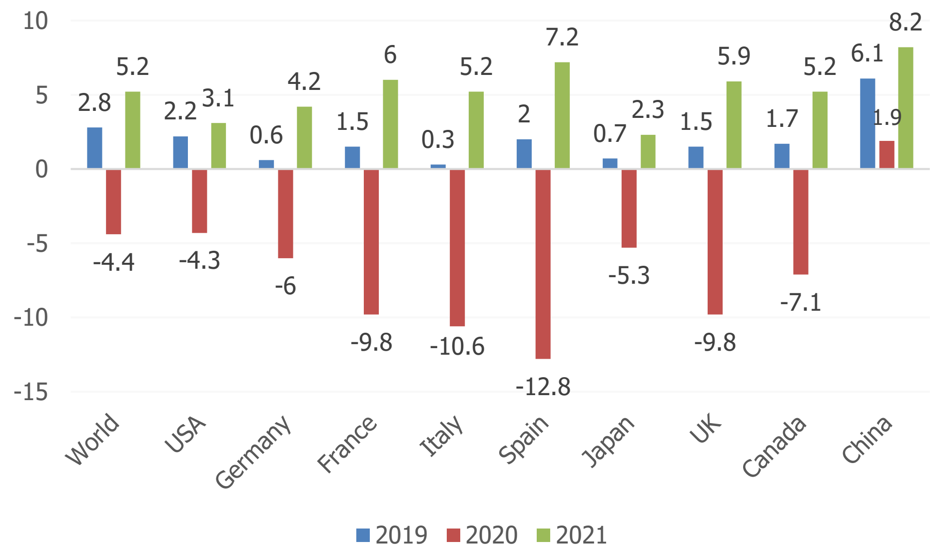
Growth outlook

IMF recently published an updated World Economic Outlook. In which, the global GDP growth forecast for this year is revised upwards compared to the last report, from negative 4.9% to negative 4.4%. This forecast is based on the assumption that social distancing measures will continue in 2021 in several major economies and the infection rate will drop significantly in 2022.

This positive projection is partly based on the quick recovery of China. After a rather succesful containment effort in Q1, China has recorded positive GDP growth in Q2 (+3.2% yoy) and Q3 (+4.9% yoy). Other major economies also receive an upgraded outlook compared to IMF's June report.

However, IMF also warned the recovery will be challenged by the uncertain development of Covid-19. At the moment, the pandemic has returned to Europe and the coming winter is an ideal environment for the virus to spread in the community. There may be possibility of another social distancing implementation in countries such as the UK, France, Spain, causing great damages to the recovery process.

Global growth in 1H2020

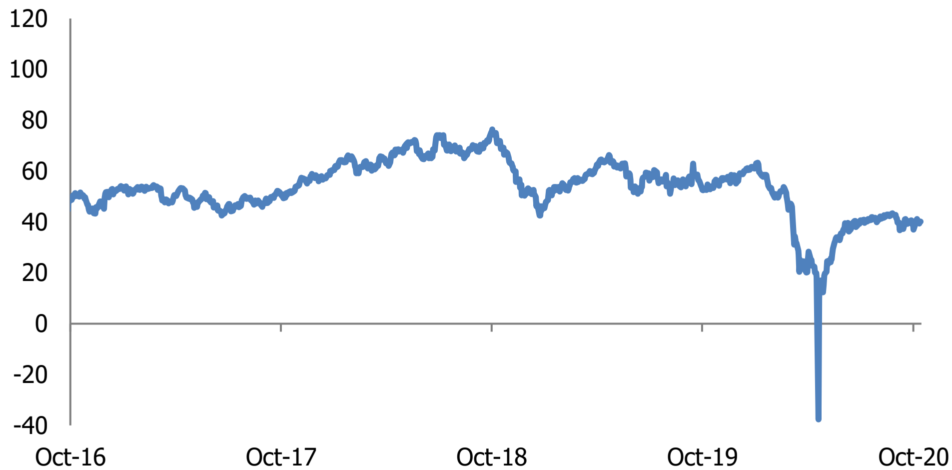


Source: Bloomberg.

Oil Market

WTI oil price remains stable around $40/barrel due to relatively constant demand and supply. Even though the 9.7mbd cut deal is still in effect, several countries such as Iraq, Nigeria, UAE have been overproducing. Thus, Saudi Arabia is urging oil producers to comply with the oil cuts. With the raging pandemic still depresses the rdemand for oil and the production cut deal at 7.7mbd in 2021, oil price is at risk of another drop.

WTI oil price (USD/barrel)



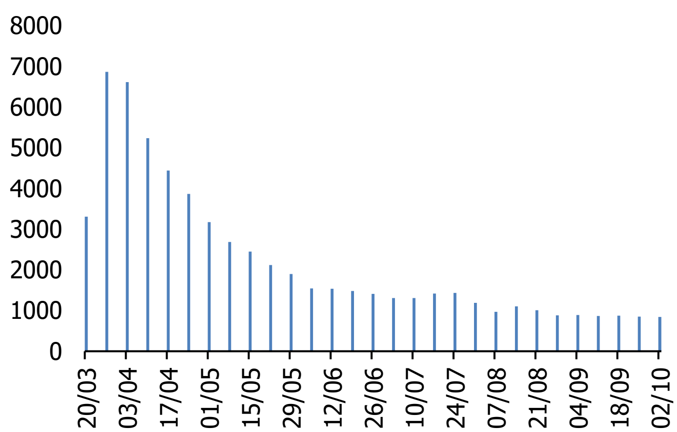
Source: Bloomberg.

Labor Market

In September, the unemployment rate in the US has dropped another 0.5 percentage point down to 7.9%. The rate is slower than the 1.8 percentage point drop last month due to the worsening pandemic situation.

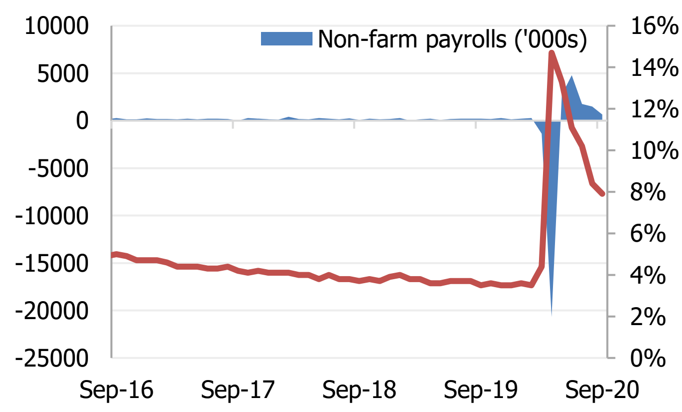
Meanwhile, in Europe, the fiscal packages supporting businesses to keep employees have expired while the Covid-19 situation keeps activities from returning to normal so businesses have started making redudancies. If there is no new supporting packages, the longer the pandemic stays, the worse the employment number gets.

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



Source: Bloomberg.

US unemployment rate and non farm payrolls



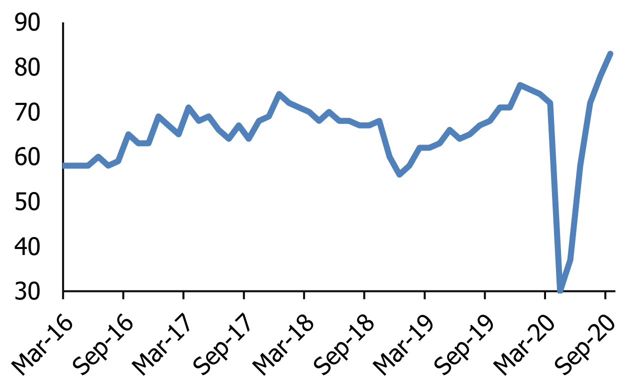
Source: Bloomberg.

Consumption

The National Homebuilders Association's housing market index - which measures contractors' opinion on the housing market - has reached peak in over a decade in September. The Fed’s commitment to maintain near zero interest rate until 2023 creates attractive conditions for home buyers. The Mortgage Bankers Association is at 3.05%, a 2-percentage point drop compare to 2 years ago, reduce the interest paying pressure for homeowners.

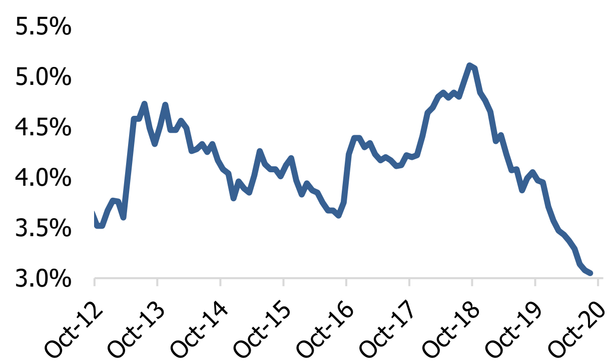
Meanwhile, Evergrande Group, one of China's largest property developers is having difficulties raising funds. The latest second offering only sold about half of the intended amount at a 15% discount from market price, collecting about USD 555mn, reflecting investors' doubts about the group's business. The market concerns about the USD 123bn debt of Evergrande and their unsuccessful fund raising efforts While a liquidity crunch is improbable, investors are waiting to see how Evergrande will continue improving their liquidity after selling shares in a few subsidiaries and issuing corporate bonds.

National Homebuilders Association Index



Source: Bloomberg.

MBA's 30-Year mortgage rate



Source: OpenTable.

Trade

The US continues to escalate its export control program in the high-tech sector when it imposed sanctions on China's largest semiconductor producer SMIC on September 25. The Department of Commerce cites national security reasons for claiming that exports of US semiconductor software and equipment to SMICs are diverted for use by the Chinese military. Companies supplying products to SMIC will have to apply for a license from the US government.

This regulation will affect both US and other global suppliers, depending on how the US government implements this regulation. Directly affected US businesses include equipment manufacturer Applied Materials, Lam Research, KLA-Tencor, and semiconductor designers such as Broadcomm, Qualcomm, Nvidia. Meanwhile, the foreign companies directly affected are ASML of the Netherlands, Tokyo Electron (Japan), MediaTek, Novatek and Realtek (Taiwan). The global semiconductor manufacturing supply chains are interconnected, including four main areas: equipment manufacturing, software system design, semiconductor design and semiconductor manufacturing. Manufacturing semiconductors are supplied to entities who are semiconductor consumers such as Huaweii to make phones and telecommunications equipment. As such, the Trump administration has continued to target key links in the supply chain of semiconductors to China's leading technology group Huawei.

We think the high-tech competition between the US and China will continue with escalating tensions and the US will further impose sanctions on other Chinese tech corporations if Donald Trump is re-elected.

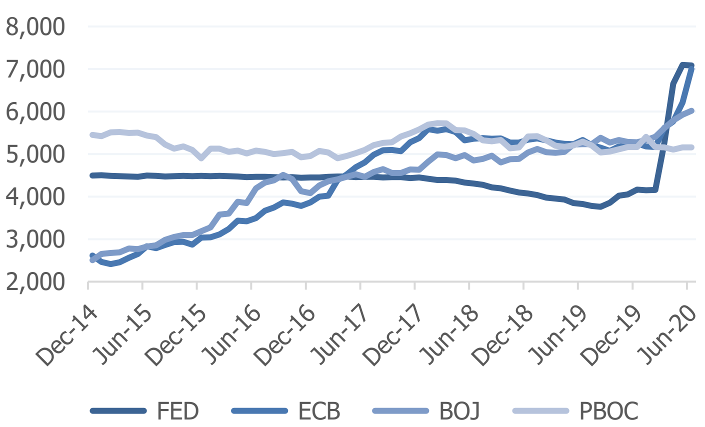
Policies

Monetary policy

European Central Bank ECB will hold next policy meeting on October 29, as the meeting is held every 6 week. In the meeting on September 9, ECB kept the policy rate unchanged and did not provide more liquidity to the banking system. The EUR has appreciated over 10% against the USD since March while the EU is still experiencing a deflation period with September CPI at -0.3%. The market was quite surprised when ECB Chairwoman Christine Largarde made no intention to continue to ease monetary policy further to support the economy when the EUR is strengthening significantly and inflation in the region is at a negative level. A strong euro reduces the competitiveness of the regional economy and reduces inflationary pressures. ECB shows no concern about the deflation of the region, as the bank thinks that deflation is only temporary, at the same time raising the core inflation forecast for the region from 0.7% to 0.9% per year in 2021 and 0.9% to 1.1% for 2022. ECB President said she will continue to fully implement Pandemic Emergency Purchase Program (PEPP) worth 1.35 trillion EUR for at least up until June 2021.

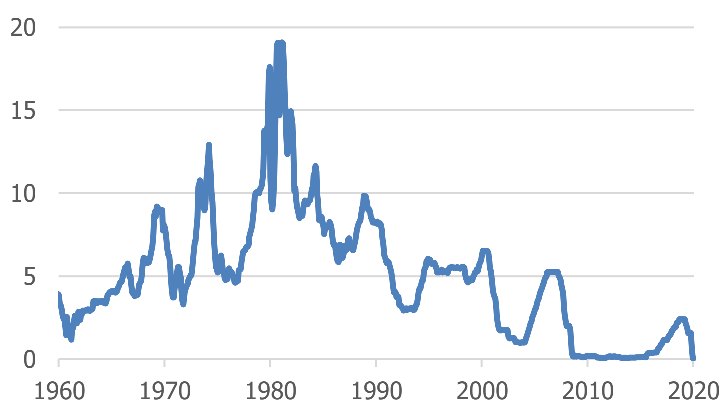
Coronavirus and strict quarantine measures to prevent the epidemics of EU countries have caused the supply of goods and production output to decline, causing the price of many goods to rise, increasing inflationary pressure. Meanwhile, the high unemployment rate and the decline in demand for goods and services due to the stay-at-home order made the deflation increase. In the medium term, the deflation effect will be stronger, so it is possible to expect more supportive monetary policies from the European Central Bank in the coming time. We believe that ECB can expand the program to buy PEPP assets and reduce operating rates to support the recovery of the European economy.

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



Source: Bloomberg.

Fed's Fund Rate (%)



Source: Bloomberg.

Fiscal Policy

The bipartisan politics is increasing the risk of hampering the recovery of the US economy. US President Donald Trump has changed his view several times of his support for Congress' fiscal stimulus package as the US presidential election will end in 2 weeks. After demanding to postpone negotiations with the Democrats on the terms of the second stimulus package this year, on October 8, President Trump again urged Republicans in the House of Representatives to reach a deal soon with Democrats for a large-scale bailout package.

The probability that Congress will reach agreement on the scale of the bailout before the US presidential election ends on November 3 is shrinking, as many Republican fiscal hawks continued to oppose sending $ 1,200 checks to the American people for the second time, while Democrats reject an incomprehensive Coronavirus support package. The Democratic Party proposed a $2.2 trillion aid package, down from a previous $3.4 trillion proposal, while the Republican Party with fiscal conservative senators proposed a 1.6 trillion USD support package. However, many Republicans (GOP) MPs still believe that this package is too expensive and the proposal is unlikely to be passed by the US Senate which is controlled by the GOP. Meanwhile, Fed Chairman Jerome Powell also voiced his support for the government's economic assistance programs, urging policymakers to finish negotiating the bailout packages for the much needed unemployed workers and businesses.

We believe that the US Congress will not be able to reach agreement on support packages before the presidential election, while the recovery of the US economy may be interrupted in the absence of government stimulus programs.

Economic indicators of selected countries

Countries	GDP (% yoy)		CPI (% yoy)		Unemployment rate (%)	
	Latest		Latest		Latest	
US	-9.5	Q2	1.0	Jul	10.2	Jul
EU	-15.0	Q2	0.4	Jul	7.8	Jun
Germany	-11.6	Q2	-0.1	Jul	4.2	Jun
France	-19.0	Q2	0.8	Jul	7.7	Jun
Italy	-17.3	Q2	-0.4	Jul	8.8	Jun
Spain	-22.1	Q2	-0.6	Jul	15.6	Jun
UK	-21.7	Q2	0.6	Jun	3.9	May
Japan	-1.7	Q1	0.1	Jun	2.8	Jun
China	3.2	Q2	2.7	Jul	3.8	Q2
Russia	-8.5	Q1	3.4	Jul	6.2	Jun

Source: OECD, MBS summarized.

Economic indicators forecast of selected countries

Countries	GDP (% yoy)		CPI (% yoy)		Unemployment rate (%)	
	2019	2020F	2019	2020F	2019	2020F
US	2.3	-7.3	1.8	0.6	3.7	10.4
EU	1.2	-9.1	1.2	0.2	7.7	11.1
Germany	0.6	-6.6	1.3	0.3	3.2	5.0
France	1.3	-11.4	1.3	0.3	8.6	12.3
Italy	0.3	-11.3	0.6	0.2	10.3	12.7
Spain	2.0	-11.1	0.7	-0.3	14.1	21.8
UK	1.4	-11.5	1.8	1.2	3.8	9.7

Countries	GDP (% yoy)		CPI (% yoy)		Unemployment rate (%)	
Japan	0.7	-6.0	1.6	0.2	2.4	4.1
China	6.1	1.2	2.2	2.4	3.6	4.3
World	2.9	-6.0	3.5			

Source: OECD, IMF.

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