March 15, 2021

# Weekly Macro & Markets View

## Highlights and View

- **Export activity remains strong in China, Taiwan and South Korea**

  While this trend is likely to continue in the next few months, we expect it to level out later this year.

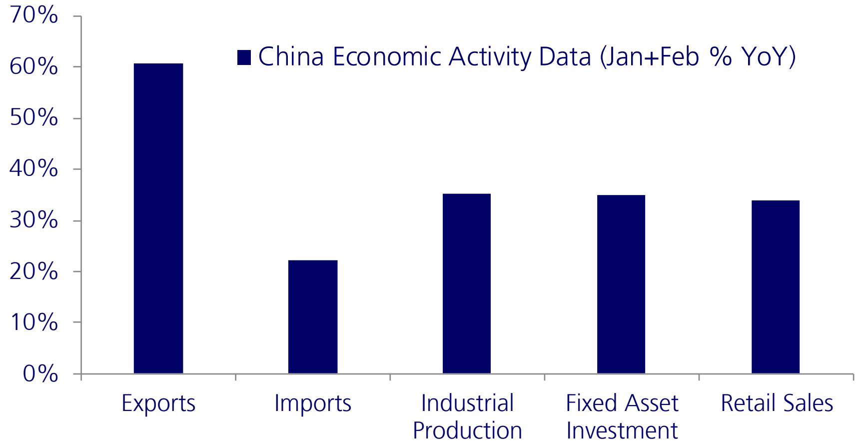
- **President Biden signs the USD 1.9tn American Rescue Plan after it was approved by Congress**

  The fiscal stimulus will significantly boost consumer spending and provide a massive tailwind to economic growth this year.

- **The ECB announces an increase in the pace of asset purchases from Q2**

  The ECB announcement is a welcome development, but vagueness over the details could blunt some of its impact.

## Export boom in China, Taiwan and Korea




Source: NBS, CGA PRC, Bloomberg

China's economic activity data for the first two months of the year have been very strong, as shown in the chart. Although combining the statistics of January and February avoids distortions created by the Lunar New Year, which alters every year, we need to consider that another base effect is distorting these figures to the upside. Economic activity slowed down significantly last year due to lockdown measures following the outbreak of COVID-19 in Wuhan. However, even adjusting for this impact, China's exports, for example, were still up an estimated 30% YoY, and about 33% higher than two years ago. Strong export activity is also visible in other North Asian countries. In Taiwan, exports were up 23.2% YoY in January/February. South Korea's exports were up 10.5% YoY in the same period and 25.2% in the first ten days of March on working day adjusted terms. Semiconductor exports continue to grow at a solid pace amid chip supply bottlenecks, while exports of autos, consumer electronics, 5G mobile phones and furniture are also doing very well. Lockdown measures in the US and Europe have ignited strong demand for home office and entertainment equipment as well as home renovation articles. Low inventories will keep this trend intact for the next few months, but growth may slow in the second half of the year as services demand will start to replace goods demand once vaccinations are rolled out at a faster pace.

## US: Congress passes the 1.9tn USD American Rescue Plan

After a one-month break the S&P 500 rose to a new record high last week, shaking off worries regarding higher bond yields. Even tech stocks, which suffered the most from the recent rise in yields, rebounded with the Nasdaq rising for the first time in four weeks, gaining more than 2%. Investors focused on Biden's 1.9tn USD American Rescue Plan, which passed Congress and was signed by the president last week. The stimulus will boost consumer spending and accelerate the ongoing recovery. Consumer sentiment rose to the highest in a year in March lifted by the prospect of fiscal support and significant progress in getting people vaccinated. Small business optimism also ticked up in February with both capex plans and hiring intentions rising. Interestingly, the highest share of firms on record reported that they were not able to fill open positions. Finally, headline inflation picked up in February, as expected, though there will be more upside in the months ahead as base effects kick in and economic growth accelerates.

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## Eurozone: ECB raises the pace of PEPP

The main event last week was the ECB monetary policy meeting and press conference where ECB President Christine Lagarde announced that it was going to increase the pace of PEPP purchases from next quarter in order to combat rising bond yields and an unwanted tightening in financial conditions. However, Lagarde did not give any details on how many more bonds the ECB was preparing to buy, and core bond yields only declined modestly on the announcement. We think the policy change is more likely to keep a lid on spreads rather than on core bond yields per se, but the announcement is still a welcome development and shows that the ECB is prepared to act. Lagarde also noted that risks to the economic outlook were more balanced, while the headline inflation forecast for this year was revised up to 1.5% from 1.0%, though mainly due to base effects from high oil prices. Meanwhile, Eurozone equities continue to do well, benefitting in particular from continued investor rotation into so called value stocks, with the German DAX Index hitting a record high last week, for example.

## Australia: The RBA reaffirms its commitment to stay dovish

In his speech on recovery, investment and monetary policy Reserve Bank of Australia (RBA) Governor Lowe reiterated the RBA's stance on no policy rate hikes until 2024 and its commitment to keeping the three-year yield target at 0.1%. Also, additional QE should be in the cards later in the year. With regard to the housing market, Lowe emphasised that the RBA did not have an explicit target for house prices and would focus on upholding lending standards through macroprudential tools. Interestingly, the governor saw the possibility of a lower non-accelerating inflation rate of unemployment (NAIRU) for Australia. Given that full employment is the key mandate of the RBA, a lower NAIRU means the central bank will need to do more to meet its target. Meanwhile, the economy continues to heal markedly. February business confidence reached the highest level since 2000, indicating a further rebound in business investment. The Westpac Consumer Sentiment Index also hovered around multi-year high levels in March.

## Brazil: Increasing concerns about the economic and fiscal situation

The Supreme Court found the federal court of Curitiba that issued the sentences against former president Lula da Silva did not have the jurisdiction to try him and annulled his corruption convictions, paving the way for his presidential candidacy in 2022. The constitutional reform that permits the government to implement a new round of emergency cash transfers of BRL 250 per month between March and June was approved by the lower house and will be enacted as law. The worsening pandemic has forced some governors to implement new lockdowns, increasing both concerns that this new round of emergency aid could be insufficient and pressures to extend other measures related to COVID-19. Retail sales continue to contract, showing the weakness in household consumption after the end of emergency transfers along with the worsening of the pandemic. Inflation continues to surprise to the upside, reaching 5.2% YoY, while inflation expectations continue to rise above the BCB's target. We expect the BCB to begin with the monetary policy normalisation process this week.

## Bonds: Bond yields return to pre-COVID levels

Treasury yields rebounded and pushed higher last week as the USD 1.9tn rescue package was signed into law, led by higher real yields while inflation expectations were contained. At above 1.6%, the 10yr Treasury yield is now back to pre-COVID levels, and similarly for gilts. Bund yields ended the week broadly flat as the ECB announced that it would step up the pace of bond purchases and likely also reflecting the slower vaccination pace. Investors are concerned with inflation, which we anticipate will be contained (see Q1 Inflation Focus), though transitory effects will lead inflation higher in coming months. This should be well anticipated, but untested policies and massive stimulus mean that investors are edgy and bond markets are likely to remain volatile. We expect the Fed to leave its interest rate guidance unchanged in this week's FOMC meeting, but the Fed view is now being challenged by investors, with lift-off expected well before the end of 2023.

## What to Watch

- While no action is expected from the Fed, the FOMC will adjust its economic and inflation projections to reflect the massive fiscal stimulus bill. Retail sales are expected to have moderated in February from their strong start at the beginning of the year.
- In Japan, we will focus on the Reuters Tankan for March as well as foreign trade and CPI statistics for February. Australia's job statistics for February should continue to be robust. We will also watch Australia's house price data for Q4 and retail sales statistics for February. Export data for Indonesia, Singapore and India are also worth noting.
- The Bank of Japan will announce the results of its policy assessment. We expect policy rates to be unchanged, but tweaks may be made to yield curve control and ETF/JREIT purchases. No policy rate changes are expected from the BoE, Taiwan's CBC or Bank Indonesia while the Central Bank of Brazil should begin normalising policy with a 50bps hike in the Selic rate.

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