CIMB MONTHLY INSIGHTS

JAN 2022

[1] **The International Monetary Fund has delayed the January update of its World Economic Outlook to factor in the latest COVID-19 developments.** The outlook will be released on 25 January 2022, one week later than planned, to allow the IMF team to incorporate the latest developments related to the global health crisis. The IMF in October had forecasted global economic growth of 5.9% in 2021 and 4.9% in 2022. IMF Managing Director Kristalina Georgieva, however, told Reuters last month that the IMF was likely to further downgrade its global economic growth projections to reflect the emergence of the Omicron variant of the coronavirus.

Despite the COVID-19 Omicron cases still clearly rising, US equities started 2022 with a bang, reaching fresh record highs in the first trading week, but they retreated in the second week as the US Central Bank turned markedly hawkish on US labour market and economic growth optimism. As interest rates rise, can tech stocks stage a comeback? Can gold attract investors? Will market participants continue to rotate out of technology-heavy growth shares and into more value-oriented shares, which they think may do better in a rising interest rate environment? Meanwhile, all eyes and ears on what the world's largest semiconductor foundry, Taiwan Semiconductor Manufacturing Co, has to say about the global chip crunch.

With the mixed US Dec jobs report out of the way, attention now turns to the start of the new corporate reporting season. Although only 199,000 jobs were created in December 2021, less than half of the market forecasts, the US jobless rate fell to 3.9%, the lowest since February 2020, and hourly wages rose 4.7% from a year ago, well above market estimates of 4.2%. The consensus forecast is for the US CPI to rise to 7.1% YOY in December 2021, the highest since June 1982. Meanwhile, US Senate confirmation hearings will be held for Jerome Powell, nominated for a second term as Fed's chair, and Lael Brainardas the deputy chair.

Over in Europe, the UK will publish monthly GDP figures for November, alongside manufacturing production, construction output and foreign trade. Other key macro data includes Eurozone November unemployment report, balance of trade and industrial production, France, Spain, and Poland final December inflation updates.

European equity markets closed mostly lower Friday as investors digested a batch of economic data from the Eurozone and the US. The pan-European Stoxx600 index fell 0.4% Friday and 0.3% on week. The index rose to a fresh record high the previous week. Germany's DXY fell 0.7% Friday but managed to gain 0.4% on week. On the data front, the bloc's inflation rate likely jumped to a record high of 5% YOY in December 2021, beating market expectations of

[1] Adapted from "Sentiments from the week before", Song Seng Wun, 10 Jan 2022

4.7% and remaining above the ECB's target for a sixth straight month. At the same time, economic sentiment in the Eurozone weakened to a seven-month low, while industrial production in Germany and France unexpectedly contracted in November 2021.

In the UK, **FTSE 100** rose 0.5% to close at 7,485 on Friday as mining stocks were supported by firmer copper prices and as investors digested a batch of economic data released during the session. UK house prices in December 2021 were 9.8% higher than a year earlier, the sharpest annual increase since July 2007, while a PMI survey suggested the country's construction sector growth eased to a three-month low as the rapid spread of the COVID-19 Omicron variant had impacted economic recovery. On the week, the benchmark UK index added 1.4%, extending gains for a third consecutive week.

After the previous record-breaking week, US stocks traded mixed on Friday and ended the second trading week of 2022 lower, as investors digested the latest payrolls report which reinforced the view that the Fed may accelerate its timeline for interest rate hikes amid the unfolding COVID-19 Omicron news. US equities fell on Friday after the US jobs report for December missed expectations but was still seen as strong enough to keep the US central bank's tightening path in place. Although only 199,000 jobs were created in December 2021, less than half of the market forecasts, the jobless rate fell to 3.9% and hourly wages rose 4.7% from a year ago. The DJIA was little changed Friday (-0.01%) after falling 0.3% earlier in the session as gains in bank stocks amid expectations of higher yields were offset by tech losses. Meanwhile, the S&P slipped 0.4% and the tech-heavy Nasdaq Composite dropped 1% to book its worst week since February 2021, down 4.5%. On the week, the S&P traded 1.9% lower and the DJIA slipped 0.3%.

Meanwhile, **US Treasury yields climbed across the board**, with the US5Y rate rising to pre-pandemic levels, topping 1.50% last Friday. The US2Y rate was steady but gained 13 bps on week to 0.86%, the biggest weekly spike since October 2019. The benchmark US10Y yield surpassed the 2021 high, to end Friday at 1.77%. Over in the UK, the 10Y bond gained 2 bps to 1.18%, highest since 21 October 2021. Elsewhere, Germany 10Y bond yield increased to a 31-month high of -0.04% while Italy 10Y bond yield increased to a 17-month high of 1.32%.

Finally, the IHS Markit PMI data showed the rate of global economic expansion slowed slightly at the end of 2021, as a weaker increase in services activity offset faster growth of manufacturing production. The IHS Markit Global Composite Output Index slipped to a three-month low of 54.3 in December, down from 54.8 in November. Nonetheless, the headline index has now signalled expansion in each of the past 18 months. Although growth of services business activity eased to a three-month low, the sector continued to outperform its manufacturing counterpart (which nonetheless saw output growth accelerate to a five-month high). According to the HIS Markit PMI data, five out of the six sub-industries covered by the December survey (consumer and intermediate goods producers and business, consumer, and financial service providers) saw their rates of expansion decelerate during the month. The exception was the investment goods category, where the rate of increase surged to a seven-month record – taking the sector to first position in the growth rankings.

Business services was edged into second place, with an output index reading of 56.0 (a tick behind the 56.1 registered for investment goods). Almost all of the nations covered registered economic growth during December. Signs of slowdown were widespread, however, with only one of the twelve countries where output rose (China) seeing a faster rate of expansion.

The US recorded the strongest performance overall, followed by Ireland and then India. Germany was the only country to register contraction, ending a 17-month sequence of growth.

• **Singapore's economy expanded by a stronger-than forecast 5.9% YOY in 4Q21**, slowing from a 7.1% growth in Q3, preliminary data showed. For the whole of 2021, the economy grew by 7.2%, rebounding from the 5.4% contraction in 2020. The manufacturing sector expanded 12.8% in 2021 on solid global demand for the city-state's key exports. The official forecast is for the Singapore economy to expand by 3 – 5% in 2022.

• **Private home prices in Singapore jumped 5.0% QOQ in 4Q21, accelerating from a 1.1% rise in Q3**, preliminary figures showed. This marked the seventh straight quarter of increases in private home prices. On a Year-On-Year basis, the PPI rose 10.6% in Q4 2021, the most since Q1 2011 (13.7% YOY).

• **Singapore's retail sales** rose by 1.9% YOY in November 2021, slowing sharply from a 7.5% gain in October 2021. This was the weakest growth in retail trade since a drop in August 2021.

• **Unemployment rates in Singapore** continued to decline in November 2021. Resident unemployment fell to 3.2% in November, from 3.4% in October. Unemployment for citizens was at 3.5%, a slight decrease from 3.6% previously. Overall unemployment dipped from 2.6% to 2.5%.

• The **IHS Markit Singapore PMI** climbed to 55.1 in December 2021 from 52.0 in November, marking 1 straight months of growth which was the strongest pace since July and was above the 2021 average. Both demand and output growth accelerated as economic conditions improved, aided by vaccinated travel lanes. Also, buying levels grew after falling in November, amid the need for safety stocks. Meantime, foreign order growth eased but stayed strong, and employment remained affected by pandemic disruptions.

In addition to supply issues, the manpower shortages sent backlogged work building at a survey record rate. Suppliers' delivery times continued to lengthen, surpassing the 2021 average, due to shipping issues. On prices, output cost inflation rose to a record level. This stemmed from a record rate of purchase price inflation which, along with higher wages, led to overall input prices rising at the second-fastest rate on record. Lastly, sentiment was at a two-month high.

• **ASEAN manufacturing conditions continued to improve sharply during December, according to the latest HIS Markit Purchasing Managers' Index data.** Output and new orders expanded again, with the pace of growth in the former nearing October's peak. Ongoing supply constraints contributed to more intense inflationary pressures, however, as the rates of both cost and output price inflation accelerated on the month and remained among the strongest on record. The headline PMI remained well above the neutral 50.0 level in December, signalling a third successive monthly improvement in the health of the ASEAN manufacturing sector. Moreover, rising from 52.3 in November to 52.7 in December, the latest reading was indicative of an accelerated pace of improvement that was the second-fastest on record. Five of the seven constituent ASEAN nations reported an improvement in manufacturing conditions during the closing month of 2021. Growth was led by Singapore, where the headline PMI hit an all-time high of 58.0 (joint with April 2013) and signalled a rapid overall upturn. Meanwhile, Indonesia recorded a fourth straight monthly improvement in conditions. The PMI (53.5) dipped further from October's peak, but nonetheless pointed to a sharp rate of expansion.

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