

GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY



Market Commentary – 2023.02.24

Comments on notable macro developments:

- Economic-related:
 - Global economy is proving more resilient than expected with the major economic blocs showing accelerating demand and business activities, especially on services related activities (*see Chart 1*)
 - Warnings of an imminent US recession have substantially quiet down as robust labor market continued to boost personal income and spending
 - On the other hand, the pace of moderation of inflationary pressure is showing signs of weakening and could force major central banks to push interest rates higher than previously expected and also staying high for longer period of time.
 - After last year's rapid interest rate hike (certainly the quickest pace since the early-80s), most central banks have trimmed the magnitude of rate hikes lately yet at the same time have warned of more hikes down the road (*see Chart 2*)
 - Since China's abandonment of "COVID Zero" policy and pandemic-related restrictions, global tourism has firmly proceeded on the path of normalization and this can be clearly seen from the number of tourist arrivals to the popular destinations in Asia (*see Chart 3*)

- Political-related:
 - The Russia-Ukraine war has just crossed the one-year mark and so far there are scan signs of imminent seize fire from either side. This is already the biggest and most costly military confrontation in Europe since World War II, with tens of thousands of lives lost.
 - This war has put an end to decades of political goodwill, economic cooperation, cross-border investments and multi-front trading between European nations and Russia (that took place shortly after the collapse of former USSR in the early-90s). As a consequence, Russia has largely halted exporting (at least directly) coal and pipeline gas to Europe. In turn, European nations have switched to importation of LNG via shipments and boosting investment and deployment of renewable and green energy capabilities as counter measures.
 - The whole development brings back memory of the Cold War era, a period of reduced global trade, less efficient use of resources and slower global economic growth.

Chart 1 – Purchasing manager indexes for the world’s Big-4 economies (namely, US, EU, China & Japan, which together account for about 70 percent of global GDP) showed continued rebound of business activities. This is especially so for services with all four economies returning to expansion mode and extending gains. (Note: Data for EU and Japan are of February, while US and China have yet to release February figures.)

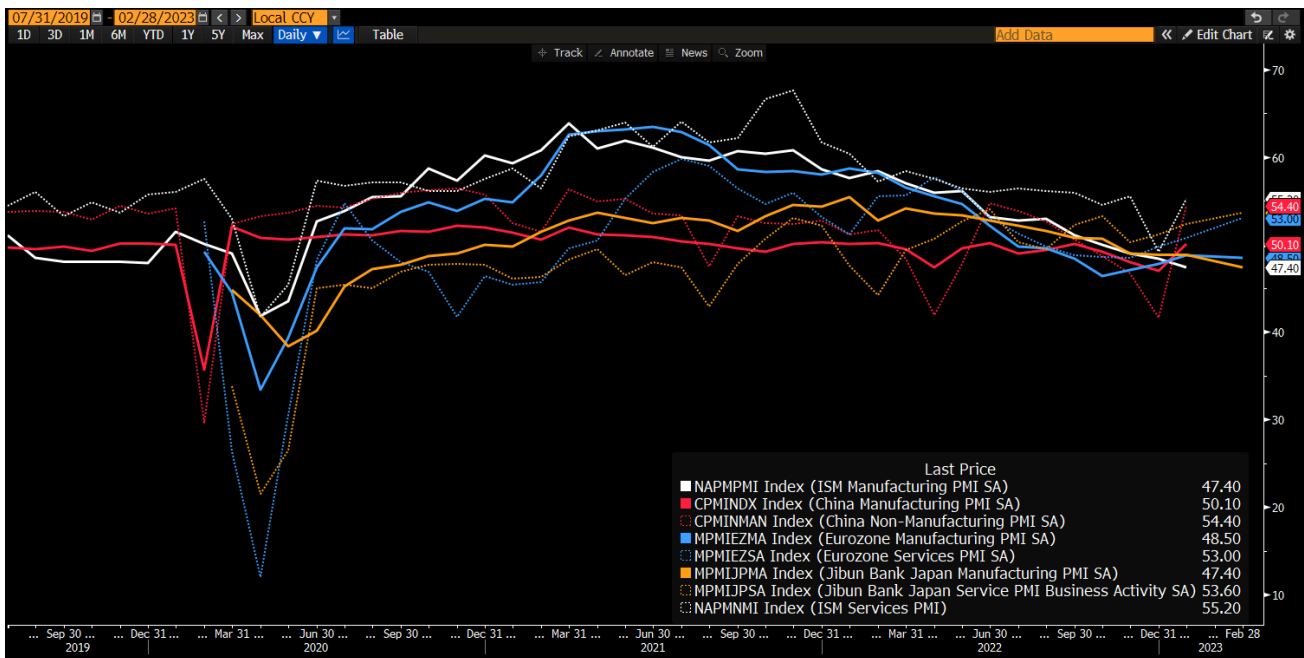


Chart 2 – Central banks of major economies have been hiking interest rate at the fastest pace in decades to rein in soaring inflation. Recently, more and more central bankers have tapered the magnitude of rate increase to allow for more time to assess the impact of higher interest rates but at the same time warned that further hikes are likely

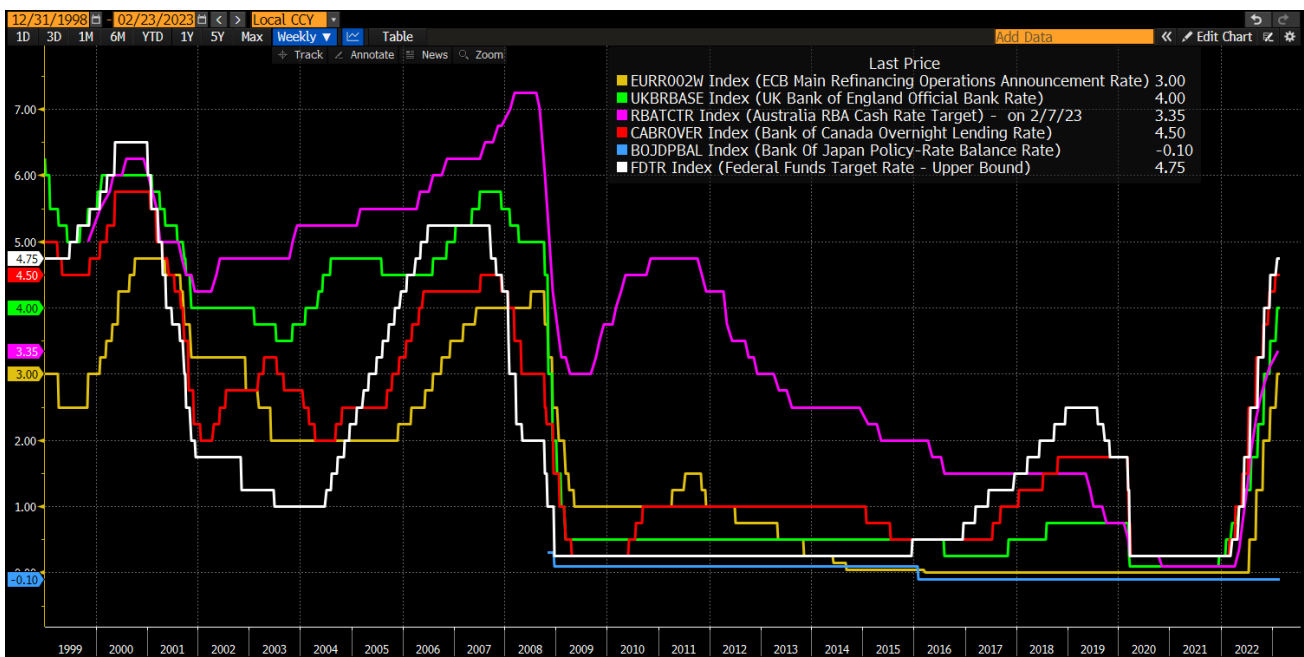
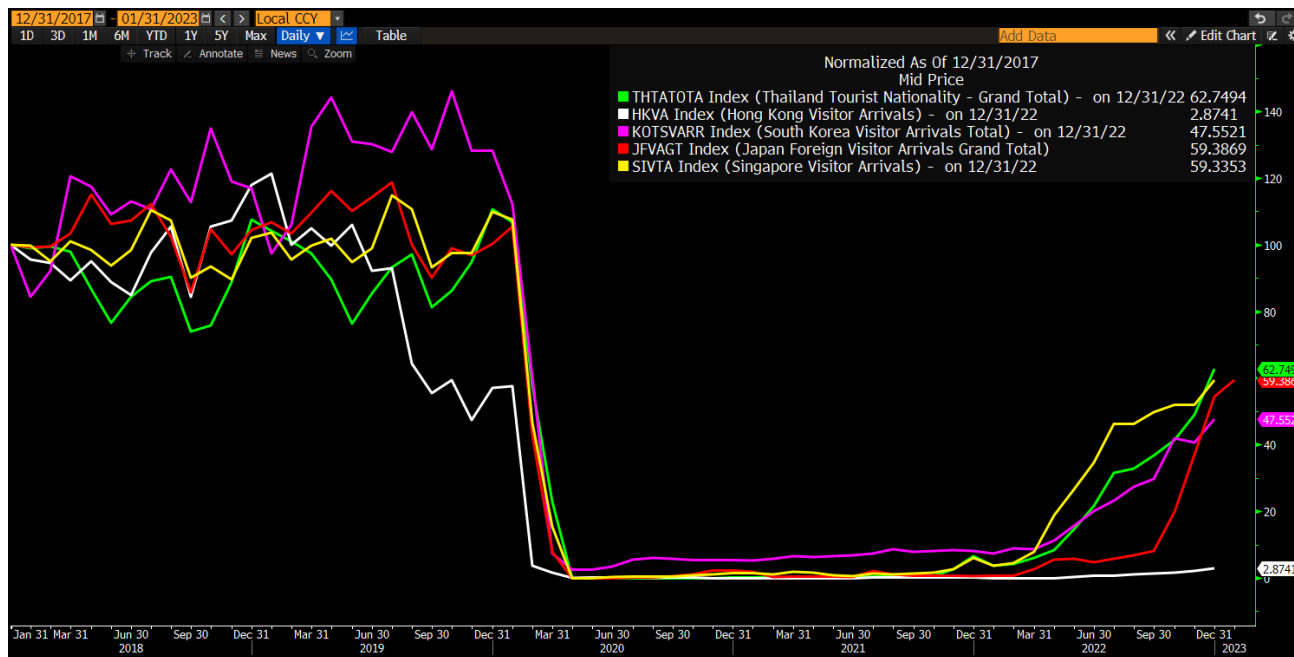


Chart 3 – With more and more countries turning the page on COVID, tourism is rebounding strongly and the trends of tourist arrivals in major Asian destinations are clear indications. The rebound in tourism could be stronger yet and is currently curtailed by constraints from carriers in ramping up capacity



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