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DECISION ECONOMICS, INC.
Information for Decisions™

DE Global Markets Weekly

May 13, 2021

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Inflation and Interest Rate Angst

Inflation, in the latest data and anecdotally, and as a consequence of a “Boomlet” for the U.S. Economy as it exits the Pandemic, *has moved sharply higher*, raising the question of whether it is getting out-of-hand and will force the Federal Reserve to raise interest rates sooner than currently planned. Higher interest rates can lower valuations and potentially weaken the economy, so stocks are at risk on the interest rate effect from inflation and expected inflation.

Incredibly strong economic growth so far this year and a huge snap up for the economy are putting strains on supplies and bringing higher prices, especially for sensitive commodities from shortages in supplies, lengthening delivery times, and some rising costs. Inability to find workers fast enough to satisfy the surge up in jobs openings that is coming with super-strong growth in demands post-Pandemic is a wage cost-price risk. These factors are *spiking* up price inflation more typically seen much later in a business expansion and is showing up MoM in the PPI, CPI, and Consumption Price Deflator, particularly when arrayed against a year ago when the Collapse of the economy pushed prices into negative territory for a time.

Higher inflation typically occurs in a cyclical Recovery and then the much longer Expansion phase and is demand-based, with inflation rising more-or-less depending also on supply-side responses. The early signs of an inflationary process get reflected in rising interest rates and eventually less “Easy” Monetary Policy which, in turn, raises short- and long-term interest rates further.

During such periods, Consolidations and Corrections occur in an ongoing Equity Bull Market, based on the economic expansion and rising earnings, which, if demand-side in origin, as it is this Expansion, company earnings keep on rising and an Equity Bull Market continues.

At the moment, powerful demand-side forces are driving the U.S. Economy up, post-Pandemic, in an unprecedented fashion—stronger-than-expected—depleting inventories, straining supplies, causing trouble in finding workers in some cases, and raising the *risk* of too high inflation and a Fed that will get less Accommodative sooner-than-expected, in a far different fundamental backdrop for financial markets than has existed for many years; indeed, decades, i.e., an inflationary one.

The macro risk is that the spikes up in inflation and the *"Boomlet"* will bring about permanently higher and rising price inflation, higher market interest rates, and then the Federal Reserve will raise interest rates sooner-than-expected, not priced yet in financial market asset prices.

Higher interest rates, *ceteris paribus*, are equity market negative on potential lower valuations, or P/E ratios, against Forward Earnings and also can pose growth risks to parts of the economy, e.g., Housing.

Markets have been led by the Fed to expect *no* Federal Reserve interest rate increases before late 2023 with the Federal Reserve promising to *lag any rising price inflation* in order to achieve an *average* 2% longer-run price inflation target and to allow and support a return to full employment, roughly a 3-1/2% unemployment rate, but full employment that this time is spread widely and more deeply across the working population.

This and the Fed approach represents a major change from the past thirty years when the Fed's Forward Guidance was with early actions to *preempt* against potential, or forecasted, inflation. This was the *modus operandi* for quite some time. The current Fed approach represents a radical change, essentially *lagging price inflation rather than leading it*.

Given the strong fundamentals now underlying the upcycle in the economy, especially for at least awhile much higher inflation than might be acceptable, the sensitivity to the possibility of the Federal Reserve raising interest rates sooner rather than later as inflation picks up has shaken up the Fixed Income Market in a negative way and, in turn, the Equity Market as well.

Fundamental View—"Bear" Fixed Income Market But Still "Bull" Equity Market

Long-term interest rates are on the rise in the DE Basic Prospect forecast, 75% Odds. With Fixed Income Market Macro Fundamentals indicating a "Bear" Fixed Income Market. One consequence is a higher and more volatile Stock Market with Consolidations or Corrections as a consequence. This is not unusual in Upswings but is in the current situation where for years slowly-growing economies and relatively restrictive Monetary and Fiscal Policies have produced too low price inflation and underperforming economies.

The Decision Economics, Inc. (DE) Basic Prospect is rising interest rates, on average, short- and longer-term, shown in the Tables (1-3) and Charts (1-6) below.

Most likely, *the spiking price inflation being seen will abate in a few months*, especially on Year-over-Year comparisons, but trend higher than it has for many years so that rises in long-term interest rates and shaky Stock Market will stay for awhile, until the inflation and interest rate picture clarifies better.

On current S&P500 Op. EPS estimates and forecasts, which reflect the "Boomlet" going on, accelerating in price inflation over 2%, the incredibly strong earnings that have been seen likely will continue—despite higher interest rates and the negative effect of them on valuations and the Equity Bull Market will roll on.

DE some time ago indicated that on the "Fundamentals" underlying interest rates, a "Bear Market" in Fixed Income is in-process, one that could last for the duration of this Expansion, currently expected to be another several years.

The latest DE Interest Rate Forecast follows.

Interest Rate Prospect (May 12, 2021)

Table 1
U.S. Treasury Yield* (Qtly. Avg.) (%)

Treas.	21Q1A	21Q2F	21Q3F	21Q4F	22Q1F
3mo	0.04	**0.03**	**0.06**	**0.08**	**0.09**
12mo	0.09	**0.11**	**0.18**	**0.24**	**0.28**
2yr	0.14	**0.17**	**0.27**	**0.36**	**0.43**
5yr	0.66	**0.84**	**1.02**	**1.15**	**1.24**
10yr	1.39	**1.69**	**1.91**	**2.07**	**2.16**
30yr	2.09	**2.44**	**2.65**	**2.81**	**2.90**

Table 2
Treasury Yield Curve Spreads* (%)

Spread	21Q1A	21Q2F	21Q3F	21Q4F	22Q1F
3mo-2yr	0.10	**0.13**	**0.21**	**0.28**	**0.34**
3mo-10yr	1.35	**1.66**	**1.85**	**1.99**	**2.07**
3mo-30yr	2.05	**2.41**	**2.59**	**2.73**	**2.81**
2yr-10yr	1.26	**1.53**	**1.65**	**1.71**	**1.73**
2yr-30yr	1.95	**2.27**	**2.39**	**2.45**	**2.47**

Chart 1
Fed Funds Rate (DE and Alts.) (%)

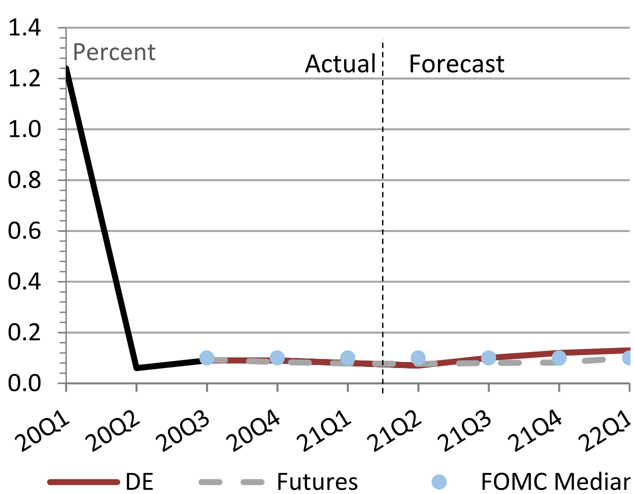

Chart 2
U.S. Treasury Bill Rates (%)

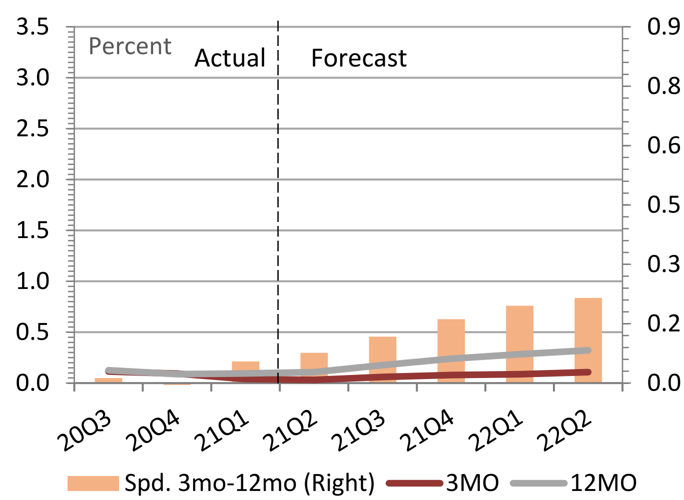

Chart 3
U.S. Treasury Note Rates (%)

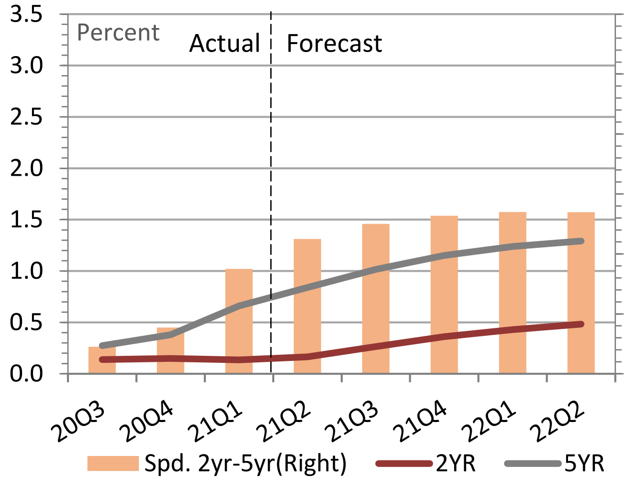

Chart 4
U.S. Treasury Note Rates (%)

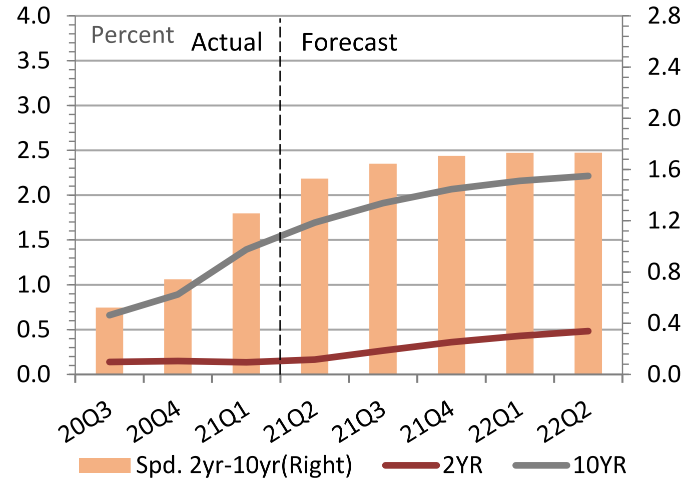

Chart 5
U.S. Treasury Note/Bond Rates (%)

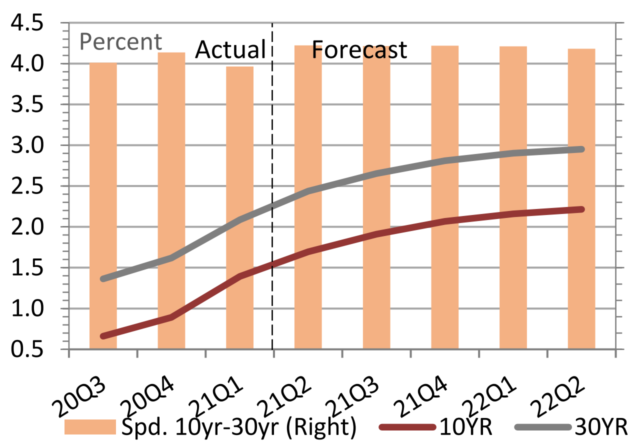

Chart 6
U.S. Treasury Yield Curve (%)

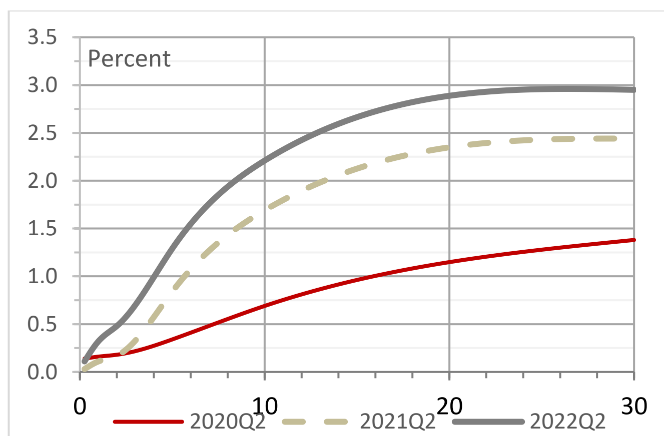

Table 3: Factors Underlying U.S. Treasury Rates

	21Q1A	21Q2F	21Q3F	21Q4F	22Q1F	22Q2F
Monetary Policy						
Federal Funds (%)	0.08	0.07	0.10	0.12	0.13	0.15
Federal Funds Futures (%)	0.08	0.08	0.08	**0.08**	**0.10**	**0.13**
3-Mo. Treasury Bill (%)	0.05	0.03	0.06	0.08	0.09	0.11
2-Yr. Treasury Bill (%)	0.09	**0.17**	**0.27**	**0.36**	**0.43**	**0.48**
Economy, Inflation, and Volatility						
Real GDP (2012 $ Bils.)	19087.6	**19851.0**	**20101.7**	**20410.4**	**20614.1**	**20843.0**
Ann. Q/Q (%)	6.7	17.0	5.1	6.3	4.1	4.5
Y/Y (%)	0.4	14.7	8.2	8.7	8.0	5.0
Federal Budget Surplus or Deficit ($ Bils.)	-1133.3	-1527.8	-1243.3	-1012.2	-1043.0	-1082.2
PCE Price Deflator Y/Y (%)	1.7	**2.8**	**2.3**	**2.4**	**2.2**	**2.2**
U. of M. Expected Inflation 5-10 Yrs. (%)	2.70	2.70	2.72	2.72	2.72	2.70
SPX Volatility Index (VIX)	23.3	**18.4**	**19.0**	**20.0**	**19.4**	**18.8**
Money & Banking						
Monetary Base ($ Bils.)	5511.3	6107.9	6486.3	6829.5	7161.7	7514.9
Y/Y (%)	53.4	22.2	35.3	34.6	29.9	23.0
Nonborrowed Res. ($ Bils.)	3352.3	3864.9	4157.0	4477.2	4804.5	5130.7
Y/Y (%)	82.8	30.6	53.6	51.8	43.3	32.8
Treasury Debt Held by Public ($ Trils.)	21.7	22.1	22.6	23.1	23.7	24.2
Y/Y (%)	25.5	14.2	9.0	8.9	8.8	9.8
Treasury Securities Held by the Fed ($ Bils.)	4806.5	**5039.2**	**5296.1**	**5583.0**	**5923.0**	**6327.2**
Y/Y (%)	95.0	27.6	22.5	22.3	23.2	25.6
Foreign Fixed Income						
Germany 10-Yr Govt. Bond (%)	-0.41	-0.23	**-0.18**	**-0.16**	**-0.13**	**-0.08**
Japan 10-Yr Govt. Bond (%)	0.07	**0.09**	**0.13**	**0.16**	**0.20**	**0.23**

A = Actual
F = Forecast

Rising price inflation and rising interest rates in an economy that is moving sharply higher should not be unexpected.

Such a pattern has characterized portions of at least 8-of-12 Expansions and Upswings since WWII.

Asset Allocation Rebalancing—Watching-Out for High P/Es

Valuations and portfolio balances need to be adjusted with such a backdrop. But what is happening is not new!

For some three decades, price inflation has been trending down and low, on average, in the U.S. and Global economies, with still lower and low interest rates, although with some backing-up at various times. Real Economic Growth, while rising, has been anemic and slow to move higher, damping price inflation in the U.S. and Global economies. *But this was a very different backdrop than now and what looks to be ahead!*

The "Change," occasioned by numerous factors, which has produced the "Boomlet" in a U.S. Economy that has sprung upward, stronger-than-expected, now already in the Expansion phase of the Business Cycle with Boom signs, we are calling it a "Boomlet," the signs are rising sensitive commodity prices, price inflation moving sharply higher in the short-run, supply shortages, and longer delivery times and lots of unfilled job openings. *The financial asset price inflation and sensitive commodity price inflation showing up are typically forerunners of future price inflation, but lags here can be very long*.

All things considered, *bond traders have to be systematically short with price inflation currently and expected to outstrip current levels of interest rates, derivative to a huge surge in growth of demands*. So long as this continues and it is the DE expectation that it will, more-or-less; *interest rates, on average, irregularly so, should keep moving up*.

Valuations and asset allocations tend to shift in what should still be a continuing Equity Bull Market, away from Growth to Value on the widespread increasing strength and expansion of the U.S. and Global economies. Super-high P/E ratios need to be watched and company earnings prospects be real.

Technology, the "New" New Technology long favored by DE, most used highest Sector allocation, last year second, now still is a Solid Overweight, but less so than previously. The Health Care, Consumer Discretionary, Financials and Industrials are deemed Overweight. Equities are still the asset-of-choice on a relative value basis, particularly in the U.S. where interest rate increases likely will lead the parade that ultimately will come throughout the Global Economy.

Concluding Perspectives—Equity Bull Market Still

Financial market adjustments always occur on the early signs of fledging inflation and a possible shift in Federal Reserve policy. What is being seen now is no exception.

What is different is an incredibly sharp snap up in the U.S. Economy post-the worst of the Pandemic, an unleashing of Pentup Demands unique to the current circumstance, and *massive* Monetary and Fiscal Stimulus set into play, and quickly, to cushion the U.S. Economy and move it back to a pre-Pandemic state. *There is no historical precedent to calibrate this, although the Business Cycle dynamics are very familiar*.

In process looks like the strongest growth seen since the late 1990s, much of the 1980s and the 1960s, when "Easy" Money-"Loose" Fiscal Policy was the Policy Mix that propelled U.S. economic growth at rates not seen for the last two decades.

The DE Basic Prospect, shown in Table 4, updated, reflects these Fundamentals—Real Economic Growth well above trend, accelerating price inflation in excess of the *average* 2% price target of the Federal Reserve, declining unemployment rates but not back to the 3-1/2% peak of the last upturn, and spectacular growth in company earnings, as measured by S&P500 Operating Earnings, over the next few years.

Historically, on this kind of business expansion and with these kinds of earnings, inflation and interest rates lag the economy and are derivative, and the Equity Bull Market rolls on.

But, at the same time, a "Bear Market" in Fixed Income occurs.

This combination represents a huge change from recent decades and financial markets are grappling with it at this point.

Table 4
Decision Economics, Inc. (DE) "Basic Prospect" Key Forecast Dimensions—Growth, Inflation, Unemployment Rate and Profits—Odds 75%*

	Quarterly					Annual				
	Q1 21F	**Q2 21F**	**Q3 21F**	**Q4 21F**	**Q1 22F**	**2019A**	**2020A**	**2021F**	**2022F**	**2023F**
Real GDP Growth										
(Pct. Chg., Qtrly. at Ann. Rate)	6.4	12.2	5.1	6.3	4.1	2.3	-2.4	8.2	5.3	3.5
Inflation—Consumption										
Price Deflator (Pct. Chg. Ann.; YoY)	3.5	4.4	2.4	2.0	2.3	1.5	1.2	3.1	2.5	2.7
Unemployment Rate (Pct.)										
(Ann., Q4 Avg.)	6.2	5.8	5.4	5.1	4.8	3.6	6.8	5.1	4.5	3.9
S&P500 Op. EPS										
(Level, $s, Avg. Ann.)	47.32	49.45	50.35	51.25	51.90	166.32	144.51	198.37	219.97	232.80
(Pct. Chg., YoY)	41.0	74.6	20.7	18.8	10.2	1.0	-13.1	37.3	10.9	5.8

**A-Actual; F-Forecast; Real GDP Annual, Q4-over-Q4; Inflation Annual, Q4-over-Q4; Unemployment Annual, Q4 Average*
Source: Decision Economics, Inc. (DE) Basic Prospect as of May 12, 2021.

Table 5
Key Worldwide Economic Indicators and Events at a Glance
May 10 – May 21, 2021

	Release	Time (EST)	Last	DE / Consensus	Comment/Event/Venue
		May 10-May 14			
U.S.	CPI (Apr)	We 8:30 am	0.6%	0.3% / 0.2%	Consumer Prices rise at eased pace.
	Retail Sales (Apr)	Fr 8:30 am	9.7%	0.9% / 1.1%	Retail Sales growth slows substantially as prior month received boost from stimulus.
	Indus. Prod. (Apr)	Fr 9:15 am	1.4%	1.6% / 1.3%	Production grows strongly as inventories rebuild.
	Mich. Sentiment (May)	Fr 10:00 am	88.3	89.7 / 90	Sentiment continues to improve with vaccinations and Reopenings.
		May 17-May 21			
	NAHB Housing (May)	Mo 10:00 am	83	83	Housing Market remains optimistic.
	Housing Starts (Apr)	Tu 8:30 am	1.739M	1.717M / 1.7M	Housing Starts and Building Permits stay at high levels.
	Building Permits (Apr)	Tu 8:30 am	1.759M	1.786M / 1.775M	
	CB Leading (Apr)	Th 10:00 am	1.3%	1.4% / 1.2%	Conference Board Leading Index to suggest strong growth ahead.
		May 10-May 14			
EUR	ZEW Survey (May)	Tu 5:00 am	66.3	64.6	Expectations Index slides but still high.
	Indus. Prod. (Mar)	We 5:00 am	-1%	1.2% / 0.9%	Production rebounds after prior fall.
		May 17-May 21			
	Markit PMI (May)	Fr 4:00 am	53.8	53.1	Composite PMI suggests third straight month of growth.
	Cons. Conf. (May)	Fr 10:00 am	-8.1	-8	Consumer Confidence improves a tiny bit.
		May 10-May 14			
CHN	CPI (Apr)	Mo 9:30 pm	0.4%	0.9% / 1% YoY	CPI to rise strongly on improving demand.
	PPI (Apr)	Mo 9:30 pm	4.4%	4.8% / 6.5% YoY	PPI to keep upward momentum on rising commodity prices.
		May 17-May 21			
	Indus. Prod. (Apr)	Su 10:00 pm	14.1%	14.4% / 10% YoY	Industrial Production and Consumption both set to maintain strong growth on demand Recovery.
	Retail Sales (Apr)	Su 10:00 pm	34.2%	30.6% / 25% YoY	
	Fixed Asset (Apr)	Su 10:00 pm	25.6%	23.8%/20% YTD YoY	Fixed asset investment grows steadily amid stable economic Recovery.
	1-Yr Loan Pr. Rate	We 9:30 pm	3.85%	Hold / Hold	People's Bank of China (PBOC) to hold on rates with Recovery on track.
	5-Yr Loan Pr. Rate	We 9:30 pm	4.65%	Hold / Hold	
		May 10-May 14			
JPN	HH Spending (Mar)	Mo 7:30 pm	-6.6%	0.6% / 1.6% YoY	Household Spending to improve on demand pickups after restrictions lifted.
		May 17-May 21			
	Real GDP (Q1)	Mo 7:50 pm	2.8%	0.6% / -1.1% QoQ	GDP to rise marginally on limited demand and consumption amid virus restrictions.
	Tert. Ind. Act (Mar)	Tu 12:30 am	0.3%	1.1%	Tert. Ind. Activity to surge on pent-up demand as emergency lifted.
	Trade Balance (Apr)	We 7:50 pm	663.7	265.5 B Yen	Trade Balance to keep surplus on extending global Recovery.
	Core Orders (Mar)	We 7:50 pm	-8.5%	-5.6%	Core Orders to fall on earthquake damages.

	National CPI (Apr)	Th 7:30 pm	-0.2%	-0.4% YoY	CPI to narrow deflation on rising demand with lifted emergency.
U.K.	Real GDP (Q1)	**May 10-May 14** We 2:00 am	1.3%	-1.6%/-1.7% QoQ	Economy to show contraction due to outbreaks and restrictions.
	RICS House Pr. (Apr)	We 7:01 pm	58.6	55.8	House Prices keep growing in hot Housing market.
	Employ. Chg. (Mar)	**May 17-May 21** Tu 2:00 am	-73K	-100K	Employment likely contracted from January to March.
	CPI (Apr)	We 2:00 am	0.3%	0.3%	Consumer Prices to rise near prior pace.
	Retail Sales (Apr)	Fr 2:00 am	5.4%	1.1%	Growth in Retail Sales eases but still notable.
	Markit PMI (May)	Fr 4:30 am	60.7	59.8	PMI to suggest strong overall expansion.
CAN	CPI (Apr)	**May 17-May 21** We 8:30 am	0.5%	0.4%	Consumer Prices to increase for fourth consecutive month.
MEX	Banxico Decision	**May 10-May 14** Th 2:00 pm	4 %	Hold / Hold	Banxico to hold on rate as policymakers have stated limited room for further cuts.
RUS	GDP (1Q)	**May 17-May 21** Mo 12:00 pm	-1.8%	-1% / -1.2% YoY	Production, Services and Consumer demand to support GDP growth.

United States

The U.S. economic Recovery, now one year old, is moving forward with speed. Large-scale Fiscal Stimulus, a successful vaccine rollout, and Reopenings are paving the way. Ultra-Easy Monetary Policy remains supportive and stimulative. The economy will reach the Expansion stage of the business cycle this quarter. The Expansion phase is typically the longest in a Business Cycle Upswing, often evolving into a Boom which, in turn, sows the seeds of the processes that lead to the next Downturn. Expansions typically last years.

The latest Bureau of Labor Statistics (BLS) Employment Report garnered major attention. DE and Consensus forecasts expected a massive rise in Nonfarm Payrolls (about 1 million) but actual figures came in far softer (266,000 new Jobs) and a rise in the Unemployment Rate to 6.1%, although with solid Demand and Supply behind it.

The Equity Market was largely positive following the April Employment figures, despite the disappointment on expectations. The still long way from Full Employment character of the Labor Market suggested nothing hawkish from the Federal Reserve for still some time and was a big reason for the short-run better stock market. *Continuing far-above expectations company earnings keep raising the Fair Value ranges on equities.*

This highlights what may seem a *Main Street-Wall Street disconnect. How can stocks keep rising with underwhelming hiring?* A similar disconnect came about during the early Pandemic stock market rally.

Looking deeper, there is justification for the disparity between stock market optimism and Labor Market hurdles. The demand side of the economy is strong, supporting revenues. At the same time, firms are showing hesitancy in hiring and have some trouble finding workers. Maintaining lean Payrolls limits costs tremendously, thus supporting earnings. This is one reason why recent equity performance and record highs are not out-of-line.

Another key is Monetary Policy. The Federal Reserve has reiterated time and again that it is nowhere close to tightening its stance. The Fed is aiming for maximum Employment and price stability. *The limited hiring in April means that the economy is far from the Fed's goal, so policy will remain Ultra Easy for a long time—thus supporting stocks.*

"Upcoming Indicators"

May 10-14: CPI (Wed.), Retail Sales and Michigan Sentiment (Fri.)

Consumer Prices *are expected to rise at a softer pace in April* **(DE 0.3%, Consensus 0.2%)** following the 0.6% rise in March.

Annual inflation, YoY, will surge because prices collapsed 0.7% back in April 2020 amid shutdowns.

It will be key to look for any non-transitory pressure in the underlying inflation data.

Retail Sales *should grow strongly in April* **(DE 0.9%, Consensus 1.1%)** but at a far lesser pace than the Reopenings and seasonal factor-related 9.7% jump in March.

The March gain was fueled in part by stimulus checks. Savings from direct payments and Reopenings will support Retail Sales for April, but the boost will be much smaller.

The University of Michigan Consumer Sentiment Index *should continue to improve in May* **(DE 89.7, Consensus 90)** rising from 88.3 in April.

Intuitively, vaccinations and a gradual return to normal life will be main factors at play.

May 17-21: Housing Starts and Building Permits (Tue.)

The Housing Sector has been a strong aspect of the economy for most of the Pandemic, thanks to low mortgage rates, better Household Finances and work-from-home opportunities. Brief setbacks along the way were primarily due to extreme weather.

Housing Starts and Building Permits should be high in April, and continuing to-come.

Starts are expected to soften a bit **(DE 1.717M, Consensus 1.7M)** from the seasonally-adjusted annual rate of 1.739M recorded in March. **Permits** could move up **(DE 1.786M, Consensus 1.775M)** from 1.759M.

"Indicator Wrap-Up": Employment Report for April (released Fri. May 7)

Nonfarm Payrolls rose just 266K in April (DE 1.01M, Consensus 1M) following a revised 770K gain in March (originally 916K). *This was a huge disappointment from expectations and a puzzle.* **The Unemployment Rate** rose to 6.1% (DE 5.6%, Consensus 5.8%) from 6%, also a huge disappointment.

The Labor Force Participation Rate (LFPR) went to 61.7% (DE and Consensus 61.6%) from 61.5% with a 430K increase in the Labor Force. The Employment-Population Ratio rose to 57.9% from 57.8%, suggesting Persons were returning to try to find work.

Data—Leisure and Hospitality Shows Notable Growth

- **Total Private Payrolls** rose 218K after a 708K gain last month.
- Employment in the **Goods Sector** decreased 16K following a 166K rise. Manufacturing faced an 18K contraction. Employment was unchanged for Construction. Mining and Logging saw a mere 2K rise.
- **Private Services** Employment grew 234K following a 542K increase.
- **Leisure and Hospitality Employment increased 331K following a 206K rise**. *This was the main, only, reason for the 218K rise in Private Payrolls.* Payrolls grew 187K for Food Services and Drinking Places and increased 54K for Accommodation.
- **Professional and Business Services** experienced a 79K contraction after a 67K rise. Temporary Help dropped 111K.
- **Transportation and Warehousing** showed a 74K fall from a 45K gain.
- Employment fell 15K for **Retail Trade** after a 33K increase.
- **Other Services** tallied a 44K gain following a 39K rise.

- **Government** Employment grew 48K after a 62K increase. Local, State and Federal experienced increases of 32K, 7K and 9K mostly from returns to educational activities.
- Average Weekly Hours rose to 35 from 34.9. Average Hourly Earnings increased 0.7% and were up 0.3% YoY, accelerating in recent months but still very low as a cost factor to Business.

Perspectives—Some Firms Face Labor Constraints, But Not the Major Factor in the Weaker Labor Market Report

Nonfarm Payrolls rose far less than expected in April, at only 266,000 (218,000 Private Sector) instead of the expected 1 million-or-so. Additionally, jobs growth for March was revised down a considerable amount, to 770K from 916K.

Leisure and Hospitality was the main bright spot of the Jobs Report on more Reopenings and hiring for that, Pent-up Demands for Eating and Drinking Establishments, and improving weather and seating capacity in numerous Establishments. Employment in this industry grew in-line with DE expectations, supported by vaccinations and Reopenings.

But, the Labor Market Report suggested weakness for most other industries.

Ahead of the Release, one anecdotal theme was that firms were having trouble finding workers due to economic growth outpacing reentry to the Labor Market in some industries. While true, this is unlikely to be the major constraint on jobs growth despite some blowing-up because of seasonal factors.

The Labor Force expanded by around 130K more than DE expected, but that does not discount the short-term labor constraints. Many who are reentering the Labor Force are looking for a suitable job, rather than just any job, and this likely contributed some to the weak headline Payrolls.

Total Nonfarm Payrolls were down 5.4% compared with the peak in February 2020. Similarly, **Leisure and Hospitality** was down 16.8% and Employment for **Food Services and Drinking Places** down 13.5% from back then.

There is still ample room for Recovery to come in the Labor Market.

Table 6
U.S. Economy Update
Recovery Well Along and Very Strong—Occurring Sooner and Stronger

Economy	Inflation	Monetary Policy	Key Market Views
Q3 2020 brought a 33.4% rebound from the first half collapse. Growth slowed substantially in Q4 to 4.3% but leapt up 6.4% in Q1. Q2 track so far in double-digits. Fed policy on Hold, is Ultra-Easy. Short-term interest rates set at zero as far as eye can see. Fiscal Stimulus propping up incomes and supporting the unemployed for spending. Hiring is being outpaced by Pent-up Demands and strong incomes.	The Consumption Price Deflator (PCE) now is above the 2% Average Price Inflation Target of the Fed, running at 2.3% YoY in March. With Ultra-Easy Fed Policy, inflation allowed to run over the 2% Average Target for an unspecified length of time, and the Fed "Letting Go" on price inflation, lagging it in actuality on purpose, is a big, big change from history.	Pandemic-induced Collapse in the economy pushed the Fed to cut the fed funds rate to essentially zero, restart aggressive QE, with additional direct lending facilities—an Ultra-Easy Monetary Policy, still in-place and strongly localized. The FOMC goals are maximum sustainable growth and full employment with now a 2% *Average* Price Inflation target, allowing what previously used to be too high inflation for a time. This will necessitate continuing near zero short-term interest rates for some time yet, undetermined.	Equities, on a Relative Value Basis, should perform far better than Fixed Income going forward despite high stock price levels. The American Rescue Plan will drive growth and earnings in Q2 and Q3. Reopenings should continue to move the economy and markets positively. *Q1 Earnings season continues to be unbelievably strong.* Weak hiring in April will help earnings, as companies keep costs low.

(Rohan Kumar)

Eurozone and UK

Real GDP estimates are coming in for Q1. As expected, the Eurozone economy contracted due to efforts to limit outbreaks. Countries that took stricter measures faced a greater economic toll. For instance, German Real GDP fell but France managed to tally slight growth. UK Real GDP is due soon and should also show shrinkage.

On the vaccine front, over half the UK's population has received at least one dose of the vaccine. Similarly, Germany and France's are at around 31% and 25%, respectively.

The Recovery for Eurozone Services has faced many headwinds due to restrictions and slow vaccinations. But as vaccinations continue to catch up, the outlook is improving. Fiscal support will also help.

Meanwhile, the UK economy is set to accelerate. The efficient vaccine rollout should soon pay major dividends, so long as immunity holds up strong against variant strains. The UK has been conservative in reducing restrictions. This comes with short-term economic costs. However, the furlough program is proving pivotal in reducing Labor Market stress.

Regarding Monetary Policy, both the European Central Bank (ECB) and the Bank of England (BoE) maintained accommodative stances at recent meetings.

"Upcoming Indicators"

May 10-14: ZEW Survey (Tue.), Industrial Production (Wed.), UK Real GDP (Wed.)

ZEW Survey results will be published.

In Germany, *the Expectations Index should improve for May* **(DE 71.7, Consensus 72)** from 70.7 in March and April. Manufacturing resilience amid restrictions spurs optimism for the economy's potential once rules are eased.

For the Eurozone, *the Expectations Index will likely slide* **(DE 64.6)** from 66.3, but will still be quite high.

Eurozone Industrial Production *is poised to grow in March* **(DE 1.2%, Consensus 0.9%)** following a 1% slide in February.

UK Real GDP *will contract for Q1* **(DE -1.6%, Consensus -1.7%)** after the 1.3% QoQ increase in Q4. Restrictions were the main constraint, as cases spiked at the start of the year.

Q2 should then see considerable Real GDP growth **(DE 4.8%)**, thanks to widespread vaccinations.

May 17-21: Markit PMI and Consumer Confidence (Fri.)

Eurozone Consumer Confidence *will likely rise only minimally in May* **(DE -8)** from -8.1 in April.

The Index already largely recovered from the Pandemic plunge and should stay fairly stable until current restrictions are lifted.

Markit PMI Reports will be released across Europe this week.

The Eurozone Composite PMI *could fall in May* **(DE 53.1)** from 53.8 in April but will suggest a third month of growth. Manufacturing will remain in the Expansion zone but Services could show a contraction.

The UK Composite PMI *should slide* **(DE 59.8)** from 60.7, yet will still entail substantial expansion.

"Indicator Wrap-Up": BoE, Industrial Production, German Factory Orders

The BoE released its latest policy statement.

The Monetary Policy Committee (MPC) voted 9-0 to hold the Bank Rate at 0.1% and to maintain the Target for Corporate Bond Purchases at £20B. The Target for Government Bond Purchases was held at £875B on an 8-1 vote, with Andrew Haldane voting to reduce the Target to £825B. Purchases will be lowered to a weekly pace of £3.4B from £4.4B.

DE expects rates to stay steady until 2023. New economic projections were also released. The median MPC projection shows UK Real GDP contracting 1.6% QoQ in Q1 but then rebounding 3.5% in Q2.

German Industrial Production grew 2.5% in March (DE and Consensus 2.2%) after a revised 1.9% fall in February (originally -1.6%).

Manufacturing and Mining experienced a 0.7% increase from a 1.9% decline. Production expanded 10.8% for Construction, 2.9% for Consumer Goods and 2.4% for Energy. Intermediate Goods tallied a 1.2% gain, while Capital Goods saw a 0.4% contraction.

French Industrial Production rose 0.8% in March (DE 2.1%, Consensus 2%) following a revised 4.8% contraction in February (originally -4.7%). Manufacturing Production went up 0.4% from a 4.8% fall.

German Factory Orders grew 3% in March after a revised 1.4% rise in February (originally 1.2%).

Orders for Consumer Goods jumped 8.5% after a 1.8% fall. Intermediate Goods and Capital Goods experienced growth of 2.8% and 2.5%, respectively. Domestic Orders rose 4.9%

following a 4% gain. Orders from elsewhere in the Eurozone increased 0.7%, while those from outside the Eurozone grew 2.2%.

German Manufacturing continues to drive economic progress in the Eurozone and will be complemented by a rebound for Services once restrictions are pared down.

Table 7
Europe Update—Real GDP Figures to Show Q1 Woes

Economy	Inflation	Monetary Policy	Key Market Views
Eurozone GDP collapsed 11.6% QoQ in the second quarter last year after a prior 3.8% fall. Q3 brought a 12.5% rebound, but Q4 showed a 0.7% fall and 2021 began with a 0.6% drop. UK Q4 GDP rose 1.3% after a 16.9% gain in Q3 and will face contraction in Q1. Deep and longer downturn than the U.S., but increased vaccinations create forward optimism.	Still limited fundamental upward pressure on prices. Rising prices are partly due to supply chain disruptions rather than an overheating economy. This has allowed Easy Monetary Policy to support economies through a tough Q1 and beyond.	The ECB kept policy steady at the recent Meeting. DE anticipates that the ECB will reduce its pace of securities purchases in June. The BoE kept policy largely steady in May and DE expects interest rates to stay put until 2023.	Brexit and vaccine studies were key factors in the past. Vaccine distribution will remain a market mover in the Eurozone. When the Restrictions are lifted, any notable outbreaks could then impact markets negatively.

(Rohan Kumar)

China

China's economic growth soared in Q1. Exports and Manufacturing remained strong amid the Global Recovery. *On top of that, mass vaccinations are bringing back consumer demand and spending. Private businesses started to gain pace, adding optimism to the outlook.*

With the Virus under control, demand for outings and travels were boosted during the China Holidays.

It is the first Golden Week after the travel curbs during the Lunar New Year last February. Chinese officials have estimated a record 250 million people travelling during the five-day Holidays, 28% more than in pre-Pandemic 2019.

Consumer spending also accelerated during the Holiday with Retail Sales and Tourism soaring 153.4% YoY and sales from the hospitality industry gaining for the first time compared with the pre-Pandemic level.

The strong Recovery in Tourism and Hospitality signaled that consumer demand gained pace, which should fuel economic growth.

At the Communist Party's Politburo Meeting on April 30, top leaders pledged to focus on accelerating the Recovery in domestic demand and *promoting the Recovery of Investment in Manufacturing and Private Businesses, which tends to be more import intensive.*

The Government also committed to maintain a stable monetary policy with "no sharp turn" to guarantee reasonable and sufficient liquidity, supporting sustainable economic Recovery.

On the front of high-tech, Taiwan Semiconductor Manufacturing Co. (TSMC) has decided to invest $2.8 billion in Mainland China for the first time. The new facilities will start work by the second half of 2022, which are expected to have monthly production capacity of 40000 wafers at a 28-nanometer level.

Though the technology is generations old compared with the cutting-edge 5-nanometer level, 28-nanometer chips are critical to automakers amid the protracted global chip shortage.

While the new production lines could strengthen China's exports, TSMC's investment will also take an important step in promoting China's development in the semiconductor high-tech field.

Meanwhile, however, China is also facing headwinds from Taiwan, which has barred its companies from posting jobs in China amid escalated tensions. This drastic move aims to prevent talent outflow to the Mainland, especially those in integrated circuits and semiconductors. It will undoubtedly bring setbacks to China's semiconductor development.

Looking forward, DE sees *China's economic Recovery consolidating at a strong pace amid the Global Recovery and rising domestic demand.* Though growing fast, Imports remain relatively weak compared with Exports. More efforts are needed to further stimulate domestic demand in a bid to fuel sustainable economic growth.

Challenges remain as financial instability lurks with high debt levels when the central bank wants to reduce liquidity, though it should be only transitory. Meantime, the new variants sweeping the world should remain a major concern, which could threaten to set back the Global Recovery.

"Upcoming Indicators"

May 10-14: Apr. CPI and PPI (Tue.)

The **Consumer Price Index** is expected to continue recovering on rising consumer demand **(DE 0.9% YoY, Consensus 1%)**. The **Producer Price Index** is poised to grow on rising commodity prices and improving demand amid the Global Recovery **(DE 4.8% YoY, Consensus 6.5%)**.

May 17-21: Apr. Industrial Production, Retail Sales, Urban Fixed Assets (Mon.), 1-Year Prime Loan Rate and **5-Year Prime Loan Rate (Thu.)**

Industrial Production is *set to edge up* on growing overseas demand **(DE 14.4% YoY, Consensus 10%)**.

Retail Sales are *expected to maintain upward momentum* on rising demand with relaxed virus restrictions **(DE 30.6% YoY, Consensus 25%)**.

Fixed Asset Investment excluding rural areas is *set to stay strong* amid a stable economic Recovery **(DE 23.8% YTD YoY, Consensus 20%)**.

The rates on **One-Year Prime** and **Five-Year Prime Loans** are projected to stay unchanged at **3.85%** and **4.65%,** respectively **(DE and Consensus).**

"Indicator Wrap-Up"

China's Industrial Profits surged 92.3% YoY in March, marking 137% cumulative growth for Jan.-Mar. and suggesting a consolidated and strong Recovery. China's Industrial Profits are set to maintain strength on the Global Recovery.

PMIs Remain Strong With Private Businesses Paced Up

China's April official PMIs remained in expansionary territory, but the pace eased.

The **official Manufacturing PMI** slowed to 51.1 from 51.9 and **Non-manufacturing PMI** eased to 54.9 from 56.3. The **Composite PMI** edged down to 53.8 from 55.3, but still Expansion after a significant rebound last month.

In contrast, the **Caixin Manufacturing PMI** rose to 51.9 from 50.6 in April, recording a four-month high. **Caixin Services PMI** advanced to 56.3 from 54.3. The **Composite PMI** rose to 54.7 from 53.1, *suggesting that the Recovery in private businesses started to gain pace.*

Exports Jumped Faster on Global Recovery

China's Exports jumped at a faster pace of 32.3% YoY in April, supported by robust external demand amid the Global Recovery. **Imports surged 43.1% YoY** from 38.1%, buoyed mainly by rising commodity prices, and also reflected a recovery in domestic demand. The **Trade Surplus** widened to $42.85 billion from $13.8 billion.

The Exports boom bolsters optimism for continued strong growth. China's trade growth should keep its strong momentum in the near-term.

Table 8
China Update—Consolidated Strong Recovery

Economy	Inflation	Monetary Policy	Key Market Views
Q1 GDP growth soared comparing with the Pandemic slump a year earlier. About 11% Real GDP growth in 2021 expected Q4-over-Q4. U.S.-China tension seems not to ease but is more predictable. The Virus is well under control domestically. Rising demand has fueled Consumption and Services. Robust external demand amid Global Recovery has sustained growth in Exports and Manufacturing.	CPI inflation rose 0.4% in Mar. on recovering demand, but still was dragged down by falling pork prices. The Core gauge grew 0.3%. CPI inflation should keep picking up but is set to remain weak for the moment on a slow Recovery in household spending.	The Peoples Bank of China (PBOC) held LPRs steady in April. It's unlikely for the PBOC to cut rates further now that growth and inflation are up. The central bank stated will scale back to normal gradually to support a continual Recovery.	The Chinese equity market index has stayed high and kept an upward trend on strong economic Recovery. The Government has been working for healthier financial markets.

(Lu Yu)

Japan

Japan's economy slowed in Q1 due to the lingering virus. The strong rebound in Manufacturing and Exports are set to fuel the Recovery, while weak consumption and the slow Recovery in domestic demand are likely to hold back the pace of growth.

Industrial Production is expected to maintain growth momentum despite the chip shortage, even though some automakers have declared short-term suspensions of production due to chip shortages. Robust overseas demands amid the Global Recovery should bring tailwinds to Manufacturing.

Consumer Spending continued to ramp up in March after emergency restrictions were lifted across the country. However, resilience is to be tested.

The third state of emergency forced by the recent wave of infections has set back the Government's efforts to stimulate demand. The renewed restrictions hurt the Services

Sector again as households cut down on travel, leisure and dining out, signaling a slowdown in demand.

As rising infections have brought patients already beyond hospitals' capacity, the Government is considering an extension of the current state of emergency and is expected to declare by next Tuesday. *With more prefectures to be involved in the restrictions, the sustainability of the Consumption Recovery at a solid pace is at risk.*

Meanwhile, the lower fees on the smartphone weighed down the Tokyo CPI in April, making the inflation target of 2% out of reach. *With reduced consumer demand, prices are likely to remain subdued for a longer period.*

The BOJ revised down its Core CPI inflation forecast to 0.1% for the current fiscal year, a significant reduction.

A new type of coronavirus vaccine developed by VLP Therapeutics is slated to start clinical trials by this summer, hoping to counter new variants of the virus. For now, the shortage of vaccinations remains a major issue in containing severe infections.

Japan's Parliament approved the RCEP trade deal, the world's largest. The Pact was signed by 15 Asia-Pacific countries and will come into force after required ratifications from other countries.

It will be Japan's first trade deal involving China and South Korea simultaneously, which will eliminate tariffs on 91% of goods and introduce common rules on investment and intellectual property to promote free trade. *Japan's Government expects the trade deal will boost its GDP by 2.7% and create 570000 jobs.*

Looking ahead, the contagious virus variants seemingly continue to restrain Japan's economic Recovery in Q2.

Manufacturing is expected to maintain strength despite constraints from chip shortages.

However, demand and consumption are likely to stay weak amid extended restrictions on raging virus variants. This could lead the Services sector to recover slowly, resulting in an uneven Recovery across industries. Regardless, the situation should only be transitory with the Recovery's pace heavily dependent on vaccine rollouts.

"Upcoming Indicators"

May 10-14: Mar. Household Spending (Tue.)

Household Spending is likely to *grow on improving demand as restrictions were lifted* **(DE 0.6% YoY, Consensus 1.6%).**

May 17-21: Q1 P Real GDP (Tue.), Mar. Tertiary Industry Activity (Tue.), Mar. Core Machinery Orders and Apr. Trade Balance (Thu.), Apr. National CPIs (Fri.)

Both Production and Consumption were hampered by nationwide restrictions amid the Winter Outbreak from mid-January through March. However, rebounds in Industrial Production and robust Exports should fuel the Recovery. The pickup of Retail Sales also brightens sentiment. Improved business activities should lift Q1 economic growth not so bad as initially thought. DE expects Q1 Real GDP to edge up marginally from Q4's growth **(DE 0.6% QoQ, Consensus -1.1% QoQ).**

The **Tertiary Industry Index** is *likely to improve* on rising demand as the emergency was lifted **(DE 1.1% MoM).**

Core Machinery Orders are *set to continue to fall* on chip shortages and damages from the earthquake in March **(DE -5.6% MoM)**.

The **Trade Balance** is projected to *maintain its surplus* on Global Recovery **(DE ¥ 265.5 B)**.

The National CPI is *expected to fall* on lower mobile fees and constrained consumption on renewed restrictions, indicated by the fall of Tokyo CPI **(DE -0.4% YoY)**. The **Core CPI** (Excluding Fresh Food) is also likely to soften **(DE -0.2% YoY)**, and the gauge Excluding Fresh Food and Energy is set to ease **(DE 0.2% YoY)**.

"Indicator Wrap-Up"

The Bank of Japan (BOJ) Holding on Policy Rates

The BOJ held its main policy rates unchanged at its latest Meeting. The Bank pledged to continue Quantitative and Qualitative Monetary Easing with Yield Curve Control to achieve the long fight target of 2% price inflation. It also committed to take additional easing measures if necessary.

For the time being, the BOJ expects short- and long-term interest rates to remain at present or lower levels.

Retail Sales Continue To Recover

Japan's Retail Sales rose 1.2% MoM in March from February's 3.1% gain, the second straight month of strong growth. It marked the first annual gain after falling for three months.

This suggests a strengthened Recovery in Consumption. However, the resilience is uncertain with a renewed state of emergency.

Tokyo CPI Fell on Lower Mobile Fees

Japan's Tokyo CPI fell 0.6% YoY in April after a 0.2% drop in March, still significant deflation. Lower mobile fees weighed down the headline CPI. In addition, declines in consumer demand for Food and Transportation also dragged down the total price index, constrained by renewed virus restrictions. The Core CPI declined 0.2% YoY after falling 0.3%. Another Core gauge (Excluding Fresh Food and Energy) eased to a flat rate after rising for three months.

Prices are expected to remain subdued at least through May, rising as consumption is restrained by renewed restrictions.

The Unemployment Rate fell to 2.6% in March from 2.9%. The **Jobs-to-Applicant Ratio** climbed back to 1.1 after briefly dropping to 1.09, suggesting an improved job market as restrictions relaxed.

Industrial Production Rebounded

Industrial Production surprisingly rebounded 2.2% MoM in March after a 1.3% drop in February. This shows a resilient Recovery in factory output despite a worsened chip shortage, supported by strong external demand.

Industrial Production is set to maintain growth momentum amid the Global Recovery.

Labor Cash Earnings grew 0.2% YoY in March, the first gain since March 2020. Pay for regular workers jumped 0.8% YoY and that for contract workers rebounded 0.2% YoY. However, wages for overtime remained negative at -6.2% YoY.

This wage gain signaled an improvement in the jobs market as consumption picked up. However, the renewed emergency and slow vaccine rollouts raise the risk of falling back.

Table 9
Japan Update—Big Recession Derails Reflation Efforts

Economy	Inflation	Monetary & Fiscal Policy	Key Market Views
Growth has declined along with the global economy due to weak aggregate demand and the coronavirus fallout. The economy started to recover in July. The continual QE and stimulus on tourism should be helpful but limited as uncertainties due to the lingering virus still make for strong headwinds to sustained Recovery.	Japan suffers from perpetually low inflation, well below the central bank target of 2%. Though the inflation rate is improving, the fourth wave and the potential new emergency put downward risks on the Recovery and price inflation as well.	No change in policy rate in sight, with rates already at zero or negative; very, very costly for banks. BOJ holds on QE with Yield Curve Control. Other fiscal policy: (1) ETF purchase upper limit: 12T yen (2) cap for J-REITs purchases: 180B yen (3) corporate bond holdings upper limit: 20T yen (4) 15T yen flexible purchase between CP and corporate bonds (5) Special Funds Support: until end of Sep. 2021;—remove funding upper limit provided to eligible counterparty.	The Japanese yen has stayed strong as the fresh waves of virus in Europe and the U.S. pushed investors to pursue a favorite foreign currency for safety. The stock market hit its 30-year high recently on hopes over the U.S. expanded stimulus.

(Lu Yu)

Canada

The Labor Market faced stress in April as the country battled another surge in virus infections. Despite the setback, *Employment is still far stronger than during the trough of the Pandemic shock.*

Resilient overall Employment progress from March 2020 through March 2021 induced a shift in Monetary Policy. In April, the Bank of Canada (BOC) kept interest rates steady but reduced the target for bond purchases. It was the first conservative move from a major Central Bank.

Recent tribulations do not substantially alter the longer-term Recovery potential, in DE's view. The vaccine rollout faced many hurdles, but now around 36% of the population has received at least one dose – better than Germany, France, Italy and Spain.

DE expects Real GDP to tally a 6.2% QoQ annualized gain in Q1 and then to grow 5.8% in Q2.

"Upcoming Indicators"

May 10-14: No Major Releases

May 17-21: CPI (Wed.)

Consumer Prices *should rise for the fourth straight month in April* **(DE 0.4%)** following the 0.5% rise in March.

Annual growth will run high, largely due to the weak base. For perspective, the CPI fell 0.6% and 0.7% in March and April 2020.

Reduced activity and the recent Labor Market slide will keep fundamental inflation pressures in check. Annual inflation likely will not consistently converge to the target until late 2022.

"Indicator Wrap-Up": Employment Report

Employment contracted 207.1K in April following a 303.1K gain in March.

The Goods Sector faced an 11.8K decline after a 43.2K rise with a 12.7K dip for Construction.

Services Employment went down 195.4K after a 260K gain. Retail and Wholesale Trade showed an 89.1K slide while Employment fell 59.2K in Accommodation and Food Services.

Educational Services experienced a 35.8K fall. Recreation and Culture Employment went down 26.2K. Public Sector Employment slid 13.2K from a 45.5K increase.

Compared with February 2020, Employment was down 503.1K.

The Unemployment Rate has risen to 8.1% from 7.5% and the Labor Force Participation Rate (LFPR) has declined to 64.9% from 65.2%.

Overall, the Labor Market contraction was worse than expected. The third wave of the virus and ensuing restrictions constrained many in-person services. However, vaccinations and Reopenings should help the Labor Market rebound over the summer.

Table 10
Canada Update—Labor Market Slides but Recovery to Forge Ahead With Vaccinations

Economy	Inflation	Monetary Policy	Key Market Views
Real GDP contracted 38.5% SAAR in Q2 but then rebounded 40.6% in Q3. Q4 tallied a 9.6% rise. Q1 to be weaker but still positive. The Labor Market faced challenges in April but still stands at a solid spot thanks to a notable prior Recovery.	Annual Inflation jumped above the 2% target because of the shock a year ago. Monthly inflation to rise again in April. Inflation unlikely to reach the Central Bank's long-term target until late 2022.	The BoC held its policy rate at 0.25% in April to support the economy but announced a lower target for weekly bond purchases. DE expects rates to stay steady at least until late 2022.	The stock market at large has more than made up losses from the Pandemic drought. News on vaccine distribution and restrictions will remain key. The Labor Market slide is not alarming, as struggles are transitory.

(Rohan Kumar)

Emerging Markets

Q1 GDP figures are approaching. The hovered virus constrained the Recovery pace in Emerging Markets, while relaxed restrictions since mid-February helped Production and Exports to resume. *Economic activities and consumer demand have started to pick up, which stepped up economic activity in Q1. However, slow vaccine rollouts are holding back the Recovery somewhat. DE expects marginal Emerging Economy growth in Q1.*

The Global Recovery is still at an early stage and its sustainability remains uncertain. The raging virus and variants in India are hitting its economy sharply. This Pandemic wave also brings potential risks to other countries. *A potential new round of lockdowns could bring higher inflation risks, clouding the outlook of a sustainable Recovery.*

Central Banks have decided to hike interest rates as high inflation and rising Treasury yields tumbled the currency market.

“Upcoming Indicators”

May 10-14: Mexico Overnight Rate (Thu.)

The Bank of **Mexico** (Banxico) is expected to hold on rates as policymakers state that there is limited room for further interest rate cuts **(DE and Consensus 4%)**.

May 17-21: Russia Q1 Real GDP (Mon.)

Russia’s Q1 economic activities continued to recover as infections fell. Production and demand have kept growing stably, though remained low compared with a year ago. Therefore, Real GDP should only improve in narrowing its contraction in Q1 **(DE -1% YoY, Consensus -1.2% YoY)**.

“Indicator Wrap-Up”

South Korea’s Advance Q1 GDP jumped 1.6% QoQ after expanding 1.2% QoQ in Q4 2020, beating the market expectation. It marked the first gain of annual growth (1.8% YoY) since Q2 2020.

An Exports boom amid the global chip shortage encouraged pickups in Investment, which grew 3.3% QoQ from 1.7% QoQ. Consumption rebounded 1.1% QoQ following a 1.5% drop, with Wholesale and Retail Sales climbing 2.2% QoQ from a 0.1% slide. Meanwhile, *Manufacturing continued to underpin the economic Recovery*, though slowed down growth to 2.8% QoQ from a 3% gain, limited by chips shortages.

However, the Winter break in January still dragged down Business Activities as well as Services, and slowed down Construction and Real Estate, hindering the pace of Recovery.

Looking forward, *DE expects a continual Recovery in 2021, bolstered by strong external demand.* However, a worsening virus remains a factor holding back the Recovery as social distancing restrictions can remain on worsening infections, while vaccinations are yet to start for the broader public.

Considering the still weak Consumption restrained by virus restrictions, the Central Bank has pledged to maintain supportive policies. The potential cash handouts are expected to boost Consumption.

Mexico Q1 Preliminary GDP Continued To Grow, But Slowly

Mexico’s Q1 Preliminary GDP grew 0.4% QoQ as expected, beating the market expectation. The continuing Recovery lifted its change to -3.8% YoY from a -4.3% contraction. Services rose 0.7% QoQ, while Agriculture fell 1.3% QoQ and Manufacturing remained flat. Growth lost momentum, dragged by softened Industrial Production. But the contraction should be transitory. Thanks to falling infections and relaxed restrictions, a rebound in Services should offset downward pressure and continue to bolster economic Recovery.

Strong external demand amid Global recovery is expected to maintain support for further growth. However, the renewed worldwide wave of infections due to virus variants remains a headwind. Weak domestic demand also put some pressures on the slowly recovering Services.

Reserve Bank of Australia (RBA) Held Key Rates Steady

The **RBA** left key rates unchanged at its May Meeting, holding the 0.1% target for the Cash Rate and three-year bond yield.

Though the economic Recovery has become stronger, the inflation comeback and wage growth are set to remain modest. *Still pressured by weak wages and inflation, the bank reiterated a Hold on interest rates at least until 2024.*

On the other hand, as the firmer economy backdrop brightens the sentiments of policymakers, the RBA stated it would not consider an extension of the Term Funding Facility. It also started to consider a shift in the target yield of the November 2024 bond at the July Meeting as well as a further extension of the bond purchase program.

Brazil Raises Policy Rate Again To Contain Inflation Risks

Brazil's Monetary Policy Committee delivered another 75 basis point raise of its policy rate to 3.5% from 2.75% at the May Meeting, as expected. The policymakers continued to see this cycle as "partial normalization" of rates, while stated it is committed.

The Bank kept its forecast for inflation and stated to have a similar move at the next Meeting in June. That means the Selic Rate will hike to 4.25%, the level before the local Covid-19 outbreak in March 2020.

DE expects another 75-basis points rate hike at the June Meeting and at such a pace, the Selic Rate is expected to finish 2021 at about 5.5%.

CBRT Held on Key Rate

The Central Bank of the Republic of **Turkey** (CBRT) held on its key One-week Repo Rate, 19% at the May Meeting. The Bank signaled no rush to cut interest rates and stated a cautious negative tilt on policy. The risky market condition remains a prevention factor for easing with rising inflation and weakening currency. The Bank also stated interest to maintain the current monetary policy stance until a significant fall of price inflation.

As the Government has imposed a three-week lockdown to contain the virus spread, Turkey's economic growth is set to slow down. This could force the CBRT to deliver a rate cut in the next Meeting, aiming to stimulate the economy.

(Lu Yu)

Snapshot of Global Views – **Recent Changes in Bold**

Economy	Inflation	Monetary Policy	Market Implications
Korea			
Q1 GDP grew 1.6% QoQ, gaining 1.8% YoY for the first time since Q2 2020. While strong external demand fueled Exports and Production, domestic demand lagged. Supportive monetary policy and cash handouts should help bolster the Recovery in consumption.	CPI rose 0.2% MoM; 2.3% YoY in Apr. Inflation is expected to keep rising with rising demand.	Bank of Korea (BOK) held the 7-day repo rate at 0.5%, expected to hold through end-2021. Signaled asset purchases.	Easy money and some fiscal stimulus likely to bring stronger growth and a higher stock market over the year.
Brazil			
Q4 GDP expanded 3.2% QoQ or -1.1% YoY. The economic Recovery remained uneven as Services lagged. The lagged vaccination and new virus variants put risks on a sustainable Recovery.	IBGE inflation rose to 6.1% YoY in Mar., beyond the 4% Central Bank target.	Brazil Central Bank raised Selic Rate to 3.5% as “partial normalization” to contain high inflation.	Monetary policy in easing mode supportive to the economy and relatively low interest rates fuel the equity market.
Mexico			
Mexico’s Q1 GDP grew 0.4% QoQ but -3.8% YoY. Falling virus infections enabled demand to pick up, though production was softened due to chip shortages. Strong external demand should support exports and the economy.	CPI rose 0.8% MoM (4.7% YoY) in Mar. as business activities and demand picked up. The policymakers are likely to cut interest rates further in the near-term, which could cause inflation to rise more.	Banxico cut the overnight rate by 25 bps to 4% in Feb. The central bank is likely to cut the policy rate further to support the economy, depending on new information.	Stock market in a rising trend on economic prospects and interest rate outlook.
Turkey			
Turkey Q4 GDP continued to recover at 1.7% QoQ, driven by Production, Consumption and Investment. The Government’s rate cuts boosted Investment. The Recovery outlook is brightened on better exports.	Turkey CPI accelerated to 1.68% MoM (17.1% YoY) in Apr., nudged up by interest rate reductions and rising demand.	The central bank raised the policy rate to 19% in Mar. to contain inflation. The Lira has been strengthened; rising inflation tightening policy.	Monetary policy has tightened since August 2020 to contain inflation and inflation expectations. However, uncertain foreign exchange for the Lira, a stronger currency, is an equity market restraint.
India			
India’s Q4 GDP rebounded 0.4% YoY, drawing the economy out of the Pandemic-induced Recession. But the Recovery has remained uneven with Consumption contracting because of the deadly Virus out-of-control.	India’s CPI rose 5.52% YoY in Mar. on rising oil prices and input prices. Soaring infections could bring more upside risks to inflation in April, while the central bank is likely to maintain its easing stance to put downward pressure on yields generally and to support economic Recovery.	Reserve Bank of India (RBI) has held the benchmark rate at 4%. It stated to maintain accommodation until the economic Recovery is sustainable. Upside risk to Core inflation on surging domestic fuel prices but at the same time downside risk to economic growth from rising infections.	Easy money and a recovering economy as well as rising equity market can occur. The Pandemic, worst in the world here, should abate going forward.