

Global Outlook

April 2021

Vaccination roll-outs will not be rapid in all advanced economies, qualifying prospects for a rapid OECD recovery. Restraints on inflation apply, but even a small rise in long-term bond yields complicates the emerging market outlook. Several large emerging markets without rapid inoculation prospects may see private consumption stall in 2021.

HEADWINDS IMPACT VACCINE OPTIMISM

Our forecast is now for global economic activity to surpass its 2019 level in 2021, on the back of improving performance in China, the US and India. However, while early optimism about the global recovery being supported by Covid-19 vaccines is already priced into financial markets, it could yet dissipate, as it is quite apparent the roll-out will not be rapid even in the most advanced countries. This is resulting in a third wave in Europe, as new cases are rising in India, where it had been hoped that herd immunity had been achieved naturally.

Slow vaccine roll-outs and rising new cases undermine business confidence.

The vaccine supply chain is both delicate and politicised, and India and Europe are critical suppliers. Delays to a

successful global vaccination programme raise the spectre of new variants and fresh lockdowns beyond Europe, and may well confound the recovery in oil prices further above USD60/barrel.

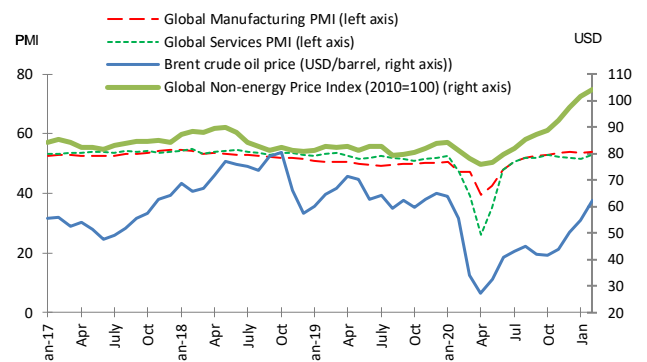
The US Federal Reserve and Treasury are not expecting a powerful contribution to headline inflation from the former's 2020 employment-prioritising monetary policy stance. The y/y declines in producer prices in Europe into at least January, and the lack of wage-price spirals during the pandemic crisis, do restrain inflation.

However, if US Treasury yields rise further, thanks to anticipations of

Long-term US Treasury yields do not have to rise far to affect emerging markets.

post-pandemic recovery and large fiscal stimulus effects, the potential exists for a ripple effect to hit emerging market bonds and both private and public debt-servicing costs, when they are already set to face the challenges of a stronger dollar.

KEY GLOBAL GROWTH INDICATORS



'PMI' is the Purchasing Managers' Index – a reading above 50 denotes an expansion in sectoral activity, and one below 50 a contraction; the Global Energy and Non-Energy Price Indices are made available by the World Bank (2010=100). Sources: World Bank; Markit; Haver Analytics; Dun & Bradstreet

KEY RISK: SCARRED JOB MARKETS AND A COSTLIER GLOBAL SUPPLY CHAIN

Large emerging markets will struggle to achieve significant inoculation rates in 2021, and their labour force participation rates are already depressed by the pandemic. In Q4 2020, they fell by 5.1 percentage points (pp) y/y in Brazil, by 3.6pp in Turkey, by 3.2pp in South Africa, by 2.9pp in Mexico and 2.7pp in the Philippines.

Labour markets remain depressed in several large emerging markets.

For Brazil, Mexico and the Philippines, their labour force participation rates in

Q3-Q4 fell to their lowest level since at least 2000. It is unclear how rapidly consumption can revive in such economies.

The situation in the OECD is masked by government schemes. In the UK the furloughed and unemployed workforce at 23.1% of the total in January was well above the post-financial crisis, with the 2011 peak unemployment rate of 8.9%.

Pandemic demand surges are causing ramp-ups in costs along value chains.

Supply-chain imbalances have moved beyond container shortages to reflect the deficits in port

capacity, while the vulnerability of just-in-time supply chains was twice exposed in just a few weeks by the grounding of a single ship in the Suez Canal, and a plant fire at a major automotive chip supplier in Japan.

The greatest single demand-side driver is US imports of containerised goods. US West Coast container imports were up 25.3% y/y in January-February, according to BIMCO. In this context, the cost of twenty-foot equivalent container units has risen sharply since late 2020, as a focus on major routes has led to market-wide tightness in container availability and port-side capacity.

Xeneta's XSI index based on long-term freight contracts was

Freight costs plateau at highly profitable levels for carriers.

up by 20% from October 2020 at end-March, and freightos.com's spot China-West Coast rate was up 224% y/y in mid-March. As spot rates feed through into contracted rates in such a tight market, shipping costs will remain elevated into Q3.

In smaller, low-income countries, the increases will be large enough to affect both the balance of payments, and weaker cross-border traders' viability.

Meanwhile, the prospects for carriers remain excellent, with Hapag-Lloyd, for example, selling seven-year debt at a 2.5% coupon in March, lower than that for New Zealand sovereign debt maturing in 2025.

REAL GDP GROWTH (%)

	2020e	2021f	2022f
World	-3.9	4.9	3.8
Advanced economies	-4.9	4.6	3.4
US	-3.5	6.4	4.2
Euroland	-6.9	3.8	3.0
Japan	-4.8	2.4	0.8
UK	-9.9	4.8	5.7
Emerging economies	-2.1	5.3	4.5
Brazil	-4.3	3.0	2.0
Russia	-3.1	2.8	2.3
India	-8.0	9.9	6.9
China	2.3	6.9	5.5

Sources: Haver Analytics; Dun & Bradstreet

REGIONAL SUMMARIES

North America

The market outlook for Q3-Q4 has improved with the enactment of the USD1.9trn American Rescue Plan and the acceleration of the US Covid-19 vaccination programme. A forthcoming two-part USD3trn physical and social infrastructure plan could ultimately be a fillip for medium- to long-term productivity and growth.

Western and Central Europe

Countries like France, Germany, Finland and Belgium are either extending or reintroducing lockdowns as the region is hit by another wave of infections. Positively, the supply-chain effects of such public health measures are smaller than those seen in 2020. Worryingly, our data shows a rise in the average B2B payment delay in the region.

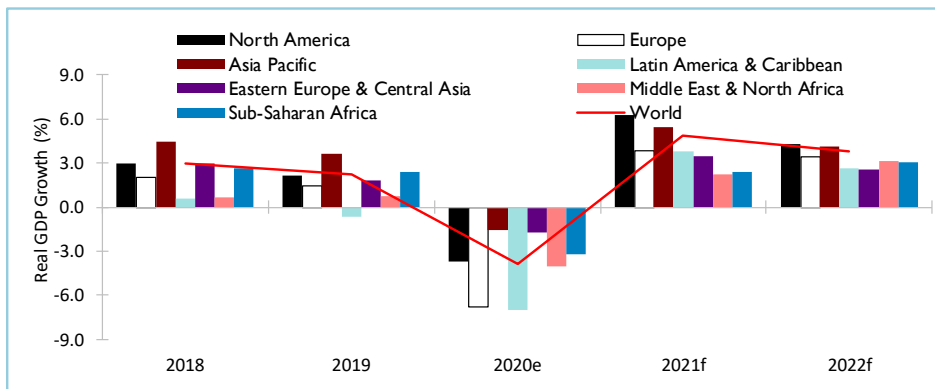
Asia Pacific

With China likely to post double-digit y/y growth in Q1 and taking a larger share of world trade as the pandemic evolves, we upgraded its risk indicator two quartiles to DB4a in March. However, global shortages of semiconductors beyond the automotive sector challenge the narrative of an uncomplicated boom in technology for the home and remote working.

Latin America & Caribbean

Brazil is the pandemic’s current epicentre with a collapsing health system struggling with rising infection rates. Its politicised and patchwork state-level approach to containment and tightened border restrictions increase Brazil’s supply chain and business continuity risks. The region is heavily impacted and without an obvious recovery path.

GROWTH OUTLOOK BY REGION



The recovery in the sum of emerging market GDP to exceed 2019 levels in 2021 will almost wholly reflect the recovery in China, and to a lesser degree in India if its second wave is more limited. The prospects for many other emerging markets remain highly uncertain in 2021.

Eastern Europe & Central Asia

With a third wave of the Covid-19 pandemic now sweeping through many countries in the region, the downside risks to our 3.5% regional growth projection for this year are mounting. Indeed, the rising prospect of governments being forced to reimpose harsher lockdown measures threatens to derail the nascent recovery.

Middle East & North Africa

Regional business activity will show considerable variations which will be dictated by the success or failure to roll out a vaccine programme. Israel, the UAE and Bahrain are among the leading countries globally, while Sudan, Egypt and Iran are among the laggards. Positively, stronger oil prices will support regional business activity.

Sub-Saharan Africa

Limited access to vaccines will undermine business activity across the region well into 2022 as containment measures remain in place. Growth will also be held back by economic and political constraints in the two largest economies, South Africa and Nigeria, by debt distress risks, lack of tourism flows and continuing logistics disruption.

EXCHANGE RATES

	Dec-20	Jan-21	Feb-21	Latest	2020e	2021f	2022f
EUR:USD	0.845	0.821	0.821	0.850	0.876	0.826	0.820
JPY:USD	104.42	103.77	103.73	109.77	106.77	102.80	109.00
GBP:USD	0.757	0.743	0.733	0.726	0.779	0.736	0.738
BRL:USD	5.43	5.15	5.36	5.80	5.16	5.25	4.98
Key US interest rate	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	1.63	0.13	0.13
Key ECB interest rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00

We expect a weaker euro as lockdowns return to Europe and vaccinations and fiscal stimulus accelerate in the US. The exchange rate will track relative recovery, vaccination and stimulus prospects on each side of the Atlantic.

COMMODITY PRICES (PERIOD AVERAGE)

	Dec-20	Jan-21	Feb-21	Latest	2020	2021f	2022f
Aluminium (USD/tonne)	2,017	2,003	2,080	2,261	1,703	2,055	2,085
Copper (USD/tonne)	7,761	7,964	8,460	8,929	6,179	7,419	6,525
Gold (USD/ounce)	1,861	1,871	1,811	1,732	1,770	1,725	1,500
Brent oil price (USD/barrel)	50.2	55.1	62.2	64.6	42.3	56.2	50.0
WTI oil price (USD/barrel)	47.09	51.90	59.10	61	39.31	53.60	47.71
Cocoa (USD/kg)	2.4	2.4	2.4	n.a.	2.4	2.4	2.5
Coffee (US cents/lb)	170.6	173.6	176.4	177.3	157.7	153.0	153.0

Commodity prices remain strong, although oil has fallen from its early March highs and gold continues to weaken.