LIVERPOOL INVESTMENT LETTER

November 2020

Cardiff Business School
Ysgol Busnes Caerdydd

Julian Hodge Institute of Applied Macroeconomics

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LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

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The Julian Hodge Institute was launched in autumn 1999 in a new collaboration between the Cardiff Business School of Cardiff University and Hodge. The aim of the Institute is to carry out research into the behaviour of the UK economy, and to study in particular its relationship with the other economies of Europe. The research has been particularly germane in recent years and has proved to be of significant social and political relevance as Europe has navigated the difficulties of the global financial crash, the Eurozone crisis and most recently the UK referendum on EU membership. The Liverpool Investment Letter is written by Patrick Minford, with the assistance of other members of the Group; in particular the emerging markets section is written by Anupam Rastogi, and the focus on Japan is written by Francesco Perugini. The Investment Letter is published monthly.

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POLICYMAKING IS IN A COVID FUNK BUT IT NEEDS TO GET MORE ROBUST

For all the official panic over the latest rise in Covid infections across the country, deaths from Covid have remained low. Also overall deaths from all causes have barely risen above their expected rate to date[1]. This is in line with the very low death rate from second waves around the world. Here some extra deaths from Covid have been offset by less deaths from other causes.

The following chart shows that while UK cases have certainly shot up in this second wave, deaths have not followed suit (Figure 1).

The death and hospitalisation rate here has plummeted (Figures 2 and 3). The death rate in 28 countries with second waves has also fallen sharply (Figure 4).

Table 1: Summary of Forecast

	2017	2018	2019	2020	2021	2022	2023
GDP Growth[1]	1.8	1.3	1.4	-6.6	6.2	2.9	3.1
Inflation CPI	2.6	2.4	1.8	1.7	2.0	2.0	2.0
Wage Growth	2.8	3.0	3.5	3.0	3.2	3.1	3.3
Unemployment (%)[2]	4.4	4.2	4.1	7.2	5.6	3.5	2.8
Exchange Rate[3]	77.4	78.6	78.1	78.9	77.9	77.7	77.6
3 Month Interest Rate	0.4	0.7	0.8	0.4	1.9	4.5	5.0
5 Year Interest Rate	0.6	1.0	0.6	0.4	2.6	5.0	5.0
Current Balance (£bn)	-68.3	-82.9	-83.8	-64.3	-54.1	-45.5	-40.3
PSBR (£bn)	53.7	39.3	43.2	239.1	101.9	51.0	7.6

[1]Expenditure estimate at factor cost
[2]U.K. Wholly unemployed excluding school leavers (new basis)
[3]Sterling effective exchange rate, Bank of England Index (2005 = 100)

Figure 1: UK Deaths and Cases

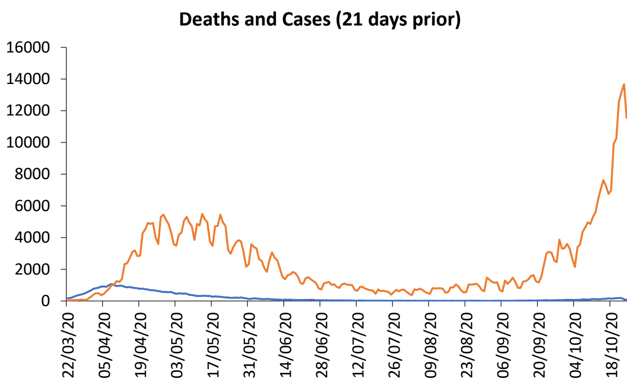


Figure 2: UK Deaths as a Percent of Cases 21 Day Prior

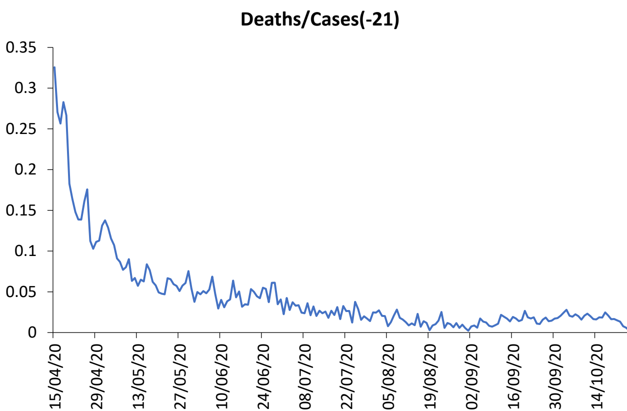


Figure 3: UK Hospitalisations as a Percent of Cases

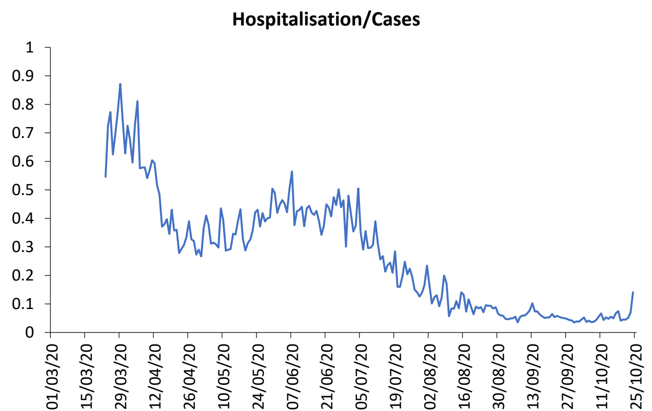
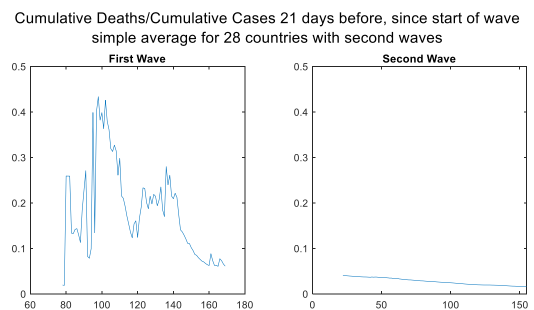


Figure 4: 28 Countries Deaths as a Percent of Cases 21 Day Prior (First and Second Wave Comparison)



[1]https://fingertips.phe.org.uk/static-reports/mortality-surveillance/excess-mortality-in-england-latest.html

With such low death rates here and elsewhere, you might have expected policy around the world to be more robust in leaving the economy open. But you would be wrong. Governments across the developed world generally, with the possible exception of the US where policy is riven with controversy in this election period, have tightened restrictions.

True, there is backing from public opinion, frightened by Covid as a nasty disease, threatening death to the old and infirm and possible longterm complications even to the young. So restrictions have been accepted by the public. Here in Wales there is another complete lockdown on socialising. Yet policies to fast-spreading infectious diseases like flu have never closed society and the economy down in the recent past. The Sage advisory committee is constantly producing gloomy projections of deaths in spite of the evidence above. These are called 'reasonable worst case scenarios'; yet why these rather than 'central projections' should be used is never explained.

It is true that cases of infection are rising sharply; but as the facts above show, this second wave is far less deadly than the first. It could be that tests are picking up many previously ignored, who recovered without being hospitalised. Also, treatments have improved. Currently the government is again in a panic, locking down again. We must hope that as the evidence accumulates that Covid is not causing extra deaths, policies will normalise towards our usual past robustness.

These restrictions might well be stopping the economy in its tracks again. However, the evidence suggests otherwise. Global purchasing indicators suggest world GDP is slightly up on a year ago. Here in the UK they and the ONS' monthly GDP estimates suggest GDP is headed for year ago levels by the year end; it was 9% below in August but growing by 2% a month, with purchasing indices still running above the 50 mark in October. Retail sales are already 5.5% above pre-Covid levels in February. What with online and local deliveries business is side-stepping the restrictions- much as many a country under sanctions has regularly done. The hospitality and arts sectors are the big exceptions that are caught most tightly by the clampdowns; even there stirrings are being seen, with shows going online, and some quarantine 'corridors' opening up to restore travel.

Monetary Policy — We Must be Ready to Reverse the QE and Not Move to Negative Rates

If we raise our eyes to policy for 2021 when we can perhaps assume that the economy has returned to normal, also with a vaccine in the offing, they are met by worrying policy developments.

We have seen extreme monetary ease in 2020. This needs to be rolled back once the economy recovers. Yet the sounds from the Bank of England's Monetary Policy Committee suggest that yet more loosening is more likely. There is even some support for negative interest rates — for example in a speech recently by Gertjan Vlieghe, an MPC member[2]. He argues that the economy requires yet more easing.

This is worrying in the extreme. We have seen damaging effects on the economy's health from zero interest rates, brought about by aggressive buying of gilts by the Bank. Returns on savings have evaporated, pushing pension funds into trouble. Large firms have been able to borrow or issue equity for next to no cost and create impregnable market positions, greatly reducing competition.

Furthermore, the growth rate of money (M4) has risen sharply and is now over 10% on a year ago[3]. This reflects both the QE programme and the relaxation of bank regulation under the Covid response programme; credit is now growing sharply, and deposits rising with it as people and firms shift out of bonds into money. Why hold bonds at no yield when you can hold money which is safer as it has no capital risk? The Bank's policies have recreated the 'liquidity trap' that Keynes identified in the 1930s, where the willingness to switch into money out of bonds would be limitless.

This situation is a threat to monetary policy, as well as causing that structural damage to the economy by undermining savings and competition. Confidence in monetary assets in general is being undermined by the threat of inflation from this massive money creation. The Bank should be thinking now of how best it can retreat from this dangerous predicament, not planning to deepen it by going to negative rates.

Currently it has the excuse of the virus crisis, helping the Treasury to fund its Covid emergency package by keeping borrowing costs down. But we need to look forward to 2021 when the crisis will at some point be over. We really do not want to see endless money printing in the post-Covid recovery period. Indeed, money will need to be tightened then to head off inflation.

The Bank would be wise to prepare for that episode now, by pulling back some of the overhang of money it has already printed and forcing the Treasury to borrow genuinely in the markets, while rates are still low across the world. The

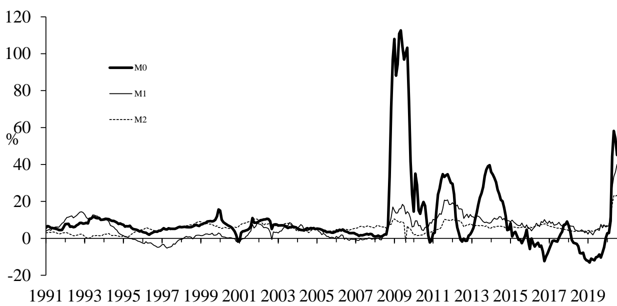
[2] https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/assessing-the-health-of-the-economy-speech-by-gertjan-vlieghe.pdf?la=en&hash=6F764B4A74358C059E7BCE6C322C3DDE7746AC77

[3] https://mcusercontent.com/78302034f23041fbbcab0ac6d/files/8dea4789-d85c-4ce8-a3ac-d993ed94f279/Monthly_e_mail_2009_Global_money_round_up_v2.pdf

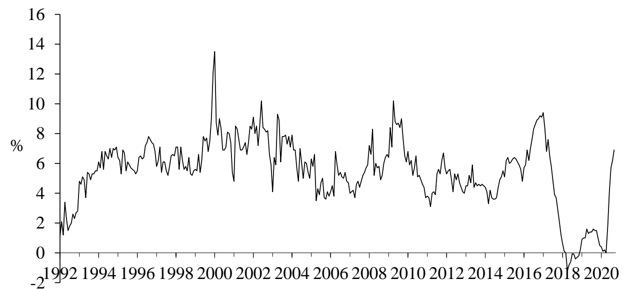
Treasury should then move to lock in these low rates, for the taxpayer's sake, by borrowing at the longest possible maturities — perpetuities as far as possible.

Better all round that the Bank starts that pullback now rather than be forced into suddenly raising interest rates sharply, destabilising the economy and Treasury finances, in a recovery period where inflation is getting out of control. That would both wreck the recovery and endanger the Bank's independence.

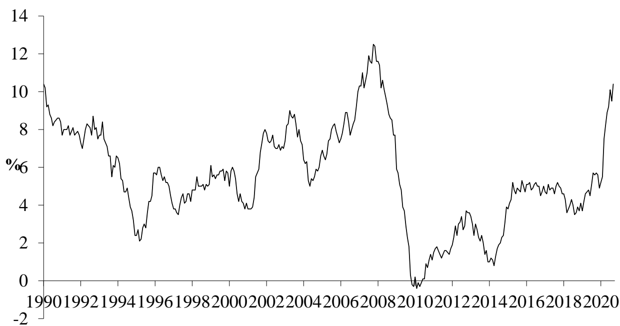
U.S.: Growth in Monetary Aggregates (Yr - on - Yr)



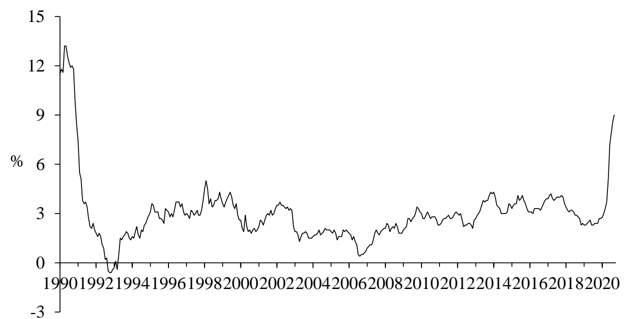
UK: Notes and Coins in Circulation Growth



Eurozone M3 Growth



Japan: Growth of M2+CD's



FOCUS ON JAPAN

Francesco Perugini

The challenges facing the new Prime Minister Suga

On September 14, Yoshihide Suga replaced Shinzo Abe as Japan's prime minister after nearly eight years as Abe's chief cabinet secretary during which time he had jointly run the government. Suga was elected by parliament after becoming head of the ruling Liberal Democratic Party with 314 votes in the 465-member House of Representatives and 142 votes in the 245-member House of Councillors. At 71 years and 9 months, he is the oldest prime minister to take office since Kiichi Miyazawa in 1991.

Suga has kept a low profile for much of his career, and until recently was not considered a contender for the top job. Behind the scenes, however, Suga has gotten results by taming Japan's often intractable bureaucracy to push through administrative reforms, sometimes using heavy-handed tactics. The son of a farmer who unlike Abe and many other lawmakers in Japan is not the scion of a political dynasty, Suga has promised to push ahead with administrative reforms "to shatter bureaucratic sectionalism, vested interests and bad precedents" that are hindering the government. Former defence chief Taro Kono, viewed as a future contender for premier, was tapped as minister responsible for spearheading the reforms. Having been Cabinet Secretary under Abe, Suga was already responsible for the implementation of some reforms and now wants to initiate further reform projects. He has already hinted at the creation of a new agency for digital transformation and a reform of the country's numerous regional banks.

He also said he is committed to advancing Abe's policies including "Abenomics", a mix of monetary easing, fiscal stimulus and structural reform aimed at beating deflation and putting the world's third-largest economy on a growth track, citing the fight against the coronavirus and the economic crisis as the most important points of his government work.

In addition to the economic crisis, Suga also has to deal with other problems such as the aging society and foreign policy challenges. For example, relations with China, North and South Korea and Russia are currently strained. He may also call early parliamentary elections in Japan, and, finally, Suga must also decide how to proceed vis-à-vis the Olympic Games that have been postponed to 2021 due to the pandemic.

Political experts and insiders describe Suga as a "dry" and pragmatic "workaholic" who implements reforms "with an iron hand", and, unlike colleagues like Abe, who frequently hail from dynasties of politicians, he comes from a relatively humble background, both of which gained him great support from the public. The usually low-key and private figure came to the public's attention in May 2019, when he was chosen to announce the name selected for Japan's new imperial era — "Reiwa", meaning "Beautiful Harmony" — after Emperor Naruhito ascended to the throne, an episode that granted him the nickname of "Reiwa Ojisan" — "Uncle Reiwa".

Some analysts accuse him of a lack of vision, others praise his will to reform. According to observers, he owes his election to the party's internal power plays, where he is probably regarded as a guarantee for stability and continuity in the crisis. Not only does Suga continue to rely on the "Abenomics" concept, but he is making few changes to his cabinet, leaving key ministerial positions unchanged.

Aside from tackling the short-term economic damage that the coronavirus has caused by forcing people to stay home and wiping out tourism from overseas virtually overnight, Suga will be tasked with stemming the country's falling birth rate and improving its dismal fiscal health. The consumption tax will eventually need to be raised from the current 10% to cover swelling social security costs, Suga said recently, though he later walked back those comments by saying a hike would not be necessary within the next decade. In the press conference after the election, Suga reaffirmed his promise to make fertility treatment eligible to be covered by national health insurance and to take steps to revive regional economies that have shrivelled along with the greying population.

Japan's security alliance with the US will remain the foundation of its foreign policy, he said, while also seeking to maintain "stable relations" with neighbouring countries including China and Russia, both of which have territorial disputes with Tokyo. The new leader also renewed his determination to continue working toward securing the return of Japanese nationals who were abducted by North Korea in the 1970s and 1980s.

For Suga, now may not be the ideal time to become the nation's leader, as steering a fragile economy will require a sensitive balancing act weighing economic activity against measures to limit the spread of the coronavirus. That said, tough times come with opportunities. In fact, this could be the perfect time to push bold regulatory and administrative reforms, analysts say, which is increasingly looking to be what "Suganomics" might be all about. And the COVID-19 pandemic carved out the need for such reforms. Suga said he wants to create a new agency for digital transformation of the public sector, and he has already hinted to reform the country's regional banking system. Moreover, he has demanded that mobile phone carriers cut fees, and plans to appoint reform-minded individuals to cabinet posts. He also urges companies to set hiring targets to help women's advancement in society and proposes insurance coverage for fertility treatment as the country faces sharp depopulation.

To support an economy battered by the coronavirus pandemic he also wants to push ahead with fiscal policy stimulus. “We are ready to compile a third extra budget to fight pandemic”, he recently said. Under normal circumstances, drastic reforms tend to draw fierce opposition. But the new administration may be able to take advantage of the pandemic to drive forward what would normally be challenging policies.

MARKET DEVELOPMENTS

Equity market nerves are being tested by the second wave and the US election confusion. But with recovery underway here, and worldwide GDP already back above pre-Covid levels, markets will recover. Money should also tighten and bring down bond prices.

Table 1: Market Developments

	Market Levels		Prediction for Sep/Pct 2021	
	Oct 5	Oct 30	Previous Letter	Current View
Share Indices				
UK (FT 100)	5943	5577	8172	7669
US (S&P 500)	3409	3270	4165	3996
Germany (DAX 30)	12828	11556	21449	19322
Japan (Tokyo New)	1637	1579	2017	1946
Bond Yields (government)				
UK	0.29	0.23	2.50	2.50
US	0.78	0.86	2.80	2.80
Germany	–0.51	–0.64	–0.20	–0.20
Japan	0.04	0.05	0.00	0.00
UK Index Linked	–2.26	–2.33	1.00	1.00
Exchange Rates				
UK ($ per £)	1.30	1.29	1.32	1.32
UK (trade weighted)	77.43	77.69	78.0	78.0
US (trade weighted)	104.50	102.35	102.5	102.5
Euro per $	0.85	0.86	0.85	0.85
Euro per £	1.10	1.11	1.12	1.12
Japan (Yen per $)	105.65	104.54	112.5	112.5
Short Term Interest Rates				
UK	0.83	0.83	2.00	2.00
US	0.23	0.23	1.80	1.80
Euro	–0.50	–0.51	–0.30	–0.30
Japan	–0.05	–0.20	0.10	0.10

Table 2: Prospective Yields [1]

Equities: Contribution to £ yield of:

	Dividend Yield	Real Growth	Inflation	Changing Dividend Yield	Currency	Total
UK	3.60	2.5	2.0	33.00		41.10
US	1.99	2.3	2.0	17.90	–2.09	22.10
Germany	3.30	1.7	1.5	64.00	–1.08	69.42
Japan	1.90	0.7	0.5	22.00	–9.86	15.24
UK indexed[2]	–2.31		2.0	8.00		7.68
Hong Kong[3]	2.60	4.0	2.0	–25.00	–2.09	–18.49
Malaysia	3.30	2.0	2.0	21.00	–2.09	26.21
Singapore	3.50	1.0	2.0	–1.00	–2.09	3.41
India	1.40	5.0	2.0	–1.00	–2.09	5.31
Korea	1.10	0.8	2.0	–36.00	–2.09	–34.19
Indonesia	2.20	3.0	2.0	8.00	–2.09	13.11
Taiwan	2.80	1.0	2.0	4.00	–2.09	7.71
Thailand	3.20	1.5	2.0	10.00	–2.09	14.61

Bonds: Contribution to £ yield of: –

	Redemption Yield	Changing Nominal Rates	Currency	Total
UK	0.23	–22.68		–22.45
US	0.86	–19.38	–2.09	–20.61
Germany	–0.64	–4.36	–1.08	–6.07
Japan	0.05	0.48	–9.86	–9.33

Deposits: Contribution to £ yield of:

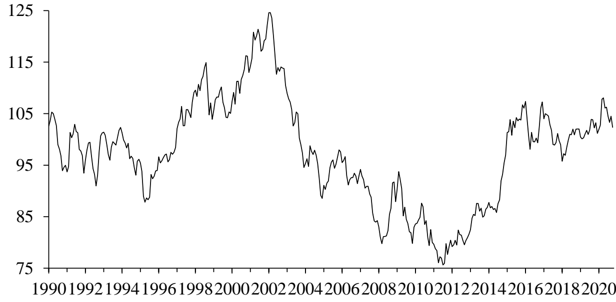
	Deposit Yield	Currency	Total
UK	0.83		0.83
US	0.23	–2.09	–1.86
Euro	–0.51	–1.08	–1.59
Japan	–0.20	–9.86	–10.06

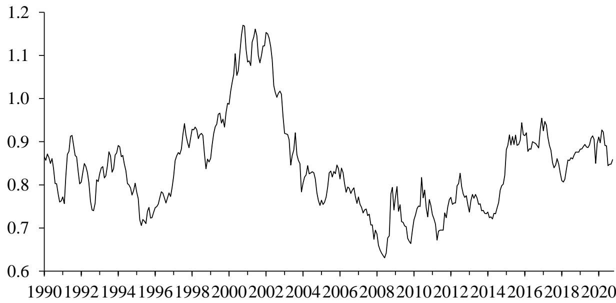
[1] Yields in terms of €s or $s can be computed by adjusting the £-based yields for the expected currency change.
[2] UK index linked bonds All Stocks
[3] Output based on China.

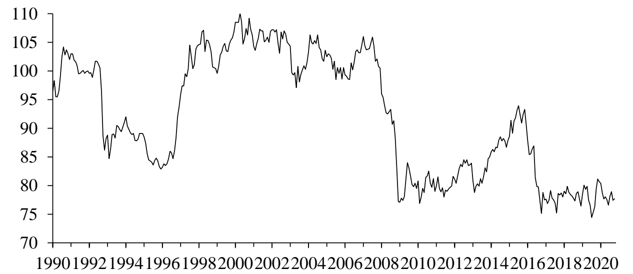
Table 3: Portfolio(%)

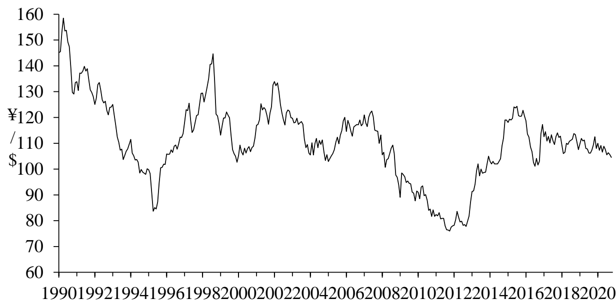
	Sterling Based Investor		Dollar Based Investor		Euro Based Investor	
	October Letter	Current View	October Letter	Current View	October Letter	Current View
UK Deposits (Cash)	5	5	5	5	1	1
US Deposits	-	-	-	-	-	-
Euro Deposits	-	-	-	-	-	-
Japanese Deposits	-	-	-	-	-	-
UK Bonds	-	-	-	-	-	-
US Bonds	-	-	-	-	-	-
German Bonds	-	-	-	-	-	-
Japanese Bonds	-	-	-	-	-	-
UK Shares	19	19	14	14	17	17
US Shares	14	14	19	19	16	16
German Shares	14	14	14	14	21	21
Japanese Shares	9	9	9	9	11	11
Hong Kong/Chinese Shares	4	4	4	4	4	4
Singaporean Shares	4	4	4	4	4	4
Indian Shares	4	4	4	4	4	4
Thai Shares	3	3	3	3	3	3
South Korean Shares	4	4	4	4	4	4
Taiwanese Shares	4	4	4	4	3	3
Brazilian Shares	4	4	4	4	3	3
Chilean Shares	4	4	4	4	3	3
Mexican Shares	4	4	4	4	3	3
Peruvian shares	4	4	4	4	3	3
Other:						
Index-linked bonds (UK)	-	-	-	-	-	-

INDICATORS AND MARKET ANALYSIS
FOREIGN EXCHANGE MARKETS





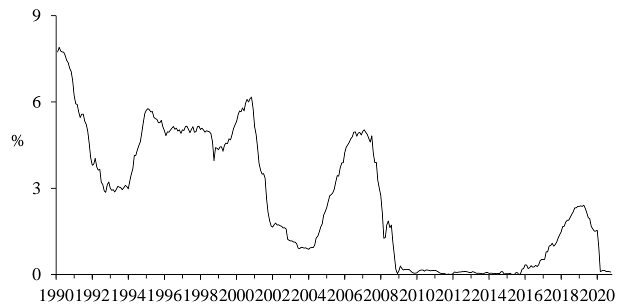




GOVERNMENT BOND MARKETS

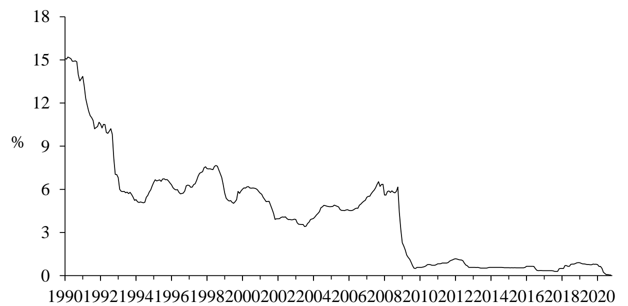
U.S.: Yield on Long-Term Government Bonds

U.S. : 3-Month Treasury Bill

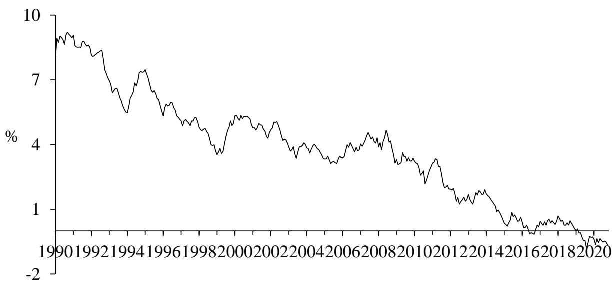


U.K.: Yield on Long-Term Government Bonds

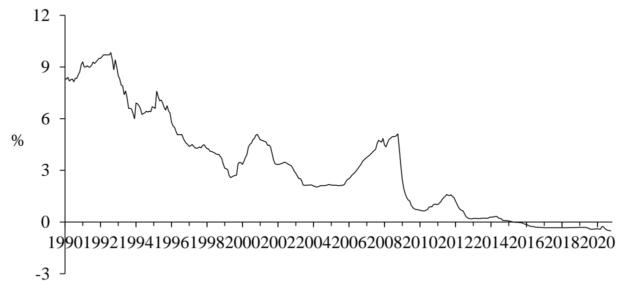
U.K. : 3-Month Certificate LIBOR Rate



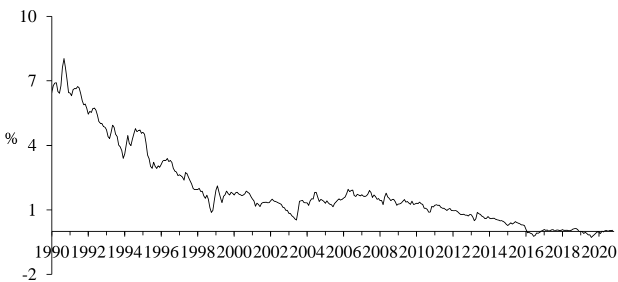
Germany: Yield on Public Authority Bonds



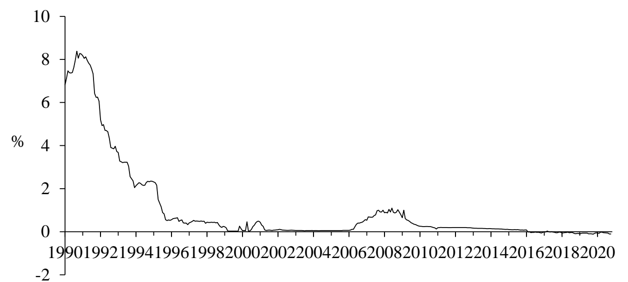
Germany : 3-Month Interbank Deposit Rate



Japan: Yield on Long-Term Government Bonds

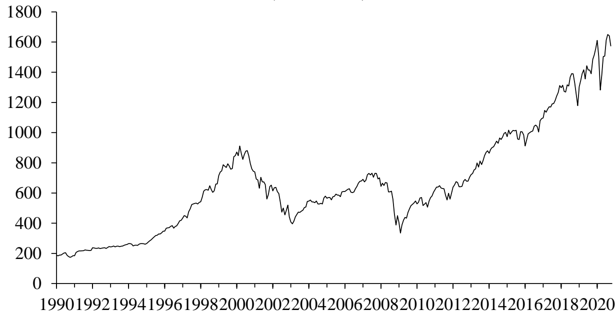


Japan : 3-Month Money Market Rate

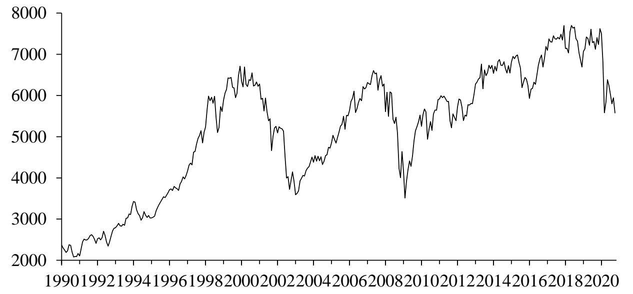


MAJOR EQUITY MARKETS

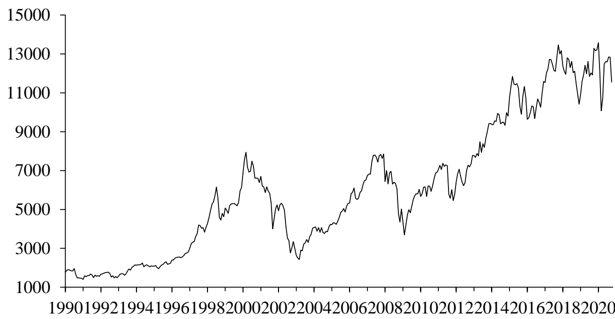
U.S. : S & P 400 Industrial
(1985=100)



U.K. : FTSE-100 Index
(10 April 1962=100)



Germany : DAX 30



Japan : Tokyo S.E. New
(1985=100)

EMERGING MARKETS

Anupam Rastogi

India

With India's coronavirus situation now improving and mobility returning to pre-pandemic levels, the focus has shifted to pacing up economic recovery. India's relative performance against other emerging economies will depend on its ability to sustain domestic demand, as well as the gains made against the virus, even after the festive season has passed by. In numbers, India had the confirmed cases risen to nearly 8.22mn by the end of October but only 0.56mn active case now. As many as 7.54mn cases recovered and only 0.12mn died.

India's economy picked up speed in September as a revival in demand and business activity helped drive the South Asian nation toward recovery from the pandemic-induced slump. The high-frequency indicators including exports are indicating that the economy has turned around. Emboldened by fewer Covid 19 cases in most parts of the country, the government has decided to introduce Unlock-5. More and more activities are opening up as we move into Unlock-5. Restaurants and bars are open now.

Activity in India's dominant services sector continued to recover, with the main index rising to 49.8 in September from 41.8 in August. A number below 50 suggests it's still in contraction territory and will probably be a drag on overall growth in the July–September quarter.

Manufacturing activity was a bright spot, with the purchasing manager's index rising to 58.9 in October — the highest reading since January 2012 — on the back of a sharp expansion in new work orders.

The rise in exports lifted India's manufacturing PMI, which had already returned to the expansion path in August. The reading improved further to 56.8 in September, the highest since early 2012.

Other real activity data, too, such as automobile sales and railway freight loading, point towards recovering economic activity in India. These improvements have likely been driven by further easing of localized pandemic-related restrictions, slower spread of the coronavirus, and the onset of the festive season in India.

This has encouraged the finance minister to announce that GDP growth in 2020 will be near zero in the current fiscal year. We remain cautious and continue to maintain our GDP forecast of a contraction of 6% in 2020–21 and rebound in GDP growth rate to 5% in 2022–23.

India's consumer price index-based inflation rate, which breached the central bank's upper limit of 6% in April, rose

India: BSE Sensitive

to 7.3% in September. Inflation could start softening after December with a decline in vegetable prices, easing of supply chain disruptions, weak demand and a favourable base effect.

The central bank is expected to continue to focus on liquidity infusion and effective monetary transmission to support growth for now, while keeping policy rates unchanged amidst an elevated inflation trajectory.

India's merchandise trade deficit contracted to a three-month low of US$2.7bn in September from US$6.8bn in August which was led by a strong rebound in exports and a sustained double-digit decline in imports.

India's stock market will see a net inflow of about $2.5 billion from the next round of changes to MSCI Inc.'s indices, according to Morgan Stanley.

Existing members of the MSCI India Index will gain $1.93 billion in new passive funds after the implementation of new foreign ownership limits on certain stocks. India's weight in the MSCI Emerging Markets Index will rise to as much as 8.8% from the current level of 8.1%. The inflows are likely to burnish India's position as the only stock market in emerging Asia excluding China that has seen a net foreign inflow this year. Overseas investors have pumped $6.35 billion into Indian stocks year-to-date even as the nation grapples with the world's second-largest coronavirus caseload and a historic economic contraction.

India, a member of the informal four-nation Quad grouping along with America, Japan and Australia, is in talks to de-escalate military tensions with Beijing. The U.S. has been increasingly concerned about China expanding its influence in the region through infrastructure and security investments in smaller neighbours. Beijing committed $126 billion in Central and South Asia between 2000–2017, of which $120 billion was for infrastructure.

In recent months, India has held separate naval exercises with the U.S., Japan and Australia. An indication of the closeness of four-nation coordination is further cemented as India invited Australia to the annual Malabar naval drills to be held with the U.S. and Japan later this year.

	18–19	19–20	20–21	21–22	22–23
GDP (%p.a.)	6.8	4.2	-6.0	5.0	5.5
WPI (%p.a.)	3.9	3.6	5.5	5.0	5.0
Current A/c(US$ bill.)	-70.0	-20.0	0.6	2.0	-10.0
Rs./$(nom.)	79.5	73.0	75.0	76.0	77.0

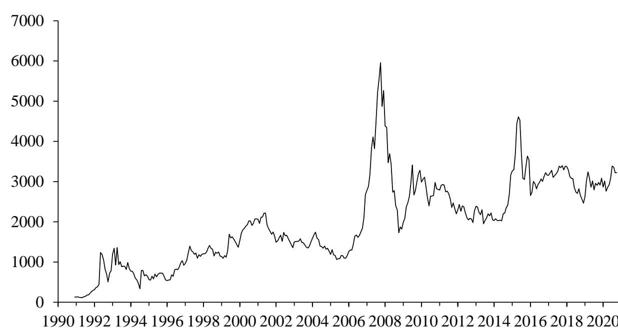
China

In the first three quarters, China's GDP expanded 0.7% year-on-year, returning to growth after the 1.6% contraction in the first half of the year and the 6.8% slump in Q1, the data showed. The economy responded to the government's sweeping efforts to stimulate demand and consumption. After the COVID-19 shock, the Chinese government has rolled out a raft of measures, including more fiscal spending, tax relief, and cuts in lending rates and banks' reserve requirements to stabilize growth and employment. Growth is projected to pick up to 8.4% in 2021, as the global economy is set to recover from the health crisis. We are conservative in our forecast for 2021. We maintain our forecast of GDP growth of 2% year-on-year in 2020 and 5.5% in 2021 as Beijing's ties with the West rapidly deteriorate. Households are spending less because China's unemployment insurance and welfare programs have cushioned those working in government and medium- to large-scale enterprises, but tens of millions of migrant workers, who lack formal protection, have been forced to return to their home provinces to find temporary employment.

China's consumer price index (CPI) in 2020 will likely rise 2% from the previous year, slowing from a 2.9% rise in 2019. China's consumer inflation slowed in September by a moderation in food price gains. The producer price index continued to decline. It contracted 2.1%, after a 2% drop in August.

China's imports grew at their fastest pace this year in September, while exports extended strong gains as more trading partners lifted coronavirus restrictions. This gave a boost to the Chinese economy. China's imports surged 13.2% in U.S. dollar terms, according to official customs data.

Exports in September rose 9.9% from a year earlier. Shipments of medical and work-from-home gear have been the main contributor to China's upside surprises. China continued to benefit from coronavirus-fuelled demand for medical equipment and work-from-home electronic products.



The People's Bank of China has suspended the so-called countercyclical factor of its daily fix of the yuan, a tweak which helps it prop up the currency when desired. It has also lowered reserve requirements on currency forwards. China is giving investors more power in setting the value of the yuan, a move analysts said was likely intended to boost the currency's international appeal rather than to drive it lower.

The yuan is appreciating against dollar since mid-May 2020. It is hovering around 6.68 a dollar.

The steps are taken to loosen its grip on the yuan in an attempt to internationalize the yuan. The changes are introduced without significantly weakening the yuan or destabilizing global financial markets. The result has been a steady Chinese currency that remains near a two-year high. This has emboldened officials to push ahead with yuan reform. Higher-yielding Chinese assets continue to attract foreign capital into mainland bond and equity markets.

Chinese investors have already decided what they think the outcome of the US Presidential election will be: the continued decoupling of the world's two largest economies. A victory for Democratic candidate Joe Biden would likely result in a toning down of anti-China rhetoric from the White House, but it wouldn't change the now-bipartisan view in Washington of Beijing as a strategic rival. The tech war should ease off under Biden — there will likely be more transparency in supply chain access. A Biden administration would pursue reciprocity and give Beijing some time to open up before imposing new sanctions.

On the conclusion of the Fifth Plenary Session of the 19th CPC Central Committee in Beijing from October 26 to 29, the Party released two documents. First a five year plan and another one is 15-year economic blueprint.

The Communist Party's Central Committee stressed the need for sustainable growth and also pledged to develop a robust domestic market. The communique implied an

aggressive path of economic expansion without mentioning the pace of gross domestic product growth explicitly. The previous five-year plan in 2015 had outlined a goal for medium-to-high growth.

The plan emphasizes quality growth over speed and the need to make China technologically self-sufficient and strong. Given the growing confrontation between Washington and Beijing over everything from trade to tech, these are not surprising objectives. However, the specifics of the plans are not released.

The new plan elevated China's self-reliance in technology into a national strategic pillar, a move signalled by officials from President Xi Jinping down in the lead up to the meeting. Central to that endeavour is self-reliance in chips, the building blocks for innovations from artificial intelligence to fifth-generation networking and autonomous vehicles. Beijing's efforts are gaining urgency as the U.S. seeks to contain the rise of its geopolitical rival. The U.S. has pressured allies to shun equipment from Huawei Technologies Co., barred dozens of China's largest tech companies from buying American parts, and even slapped bans on ByteDance Ltd.'s TikTok and Tencent Holdings Ltd.'s WeChat, "complicated international situation," a phrase that has become party shorthand for the "America First" policies of U.S. President Donald Trump. Along with the heightened U.S. tensions, a virus-battered world economy has prompted officials in Beijing to chart a course that draws on domestic resources and consumption to guarantee growth. While that strategy — known as "dual circulation" — was mentioned twice in the communique, there wasn't any specific explanation or details of what it entails. The nation needs to "smooth the domestic circulation, facilitate dual circulation at home and abroad, comprehensively promote consumption and expand room for investment," according to the statement.

	18	19	20	21	22
GDP (%p.a.)	6.6	6.1	2.0	5.5	5.5
Inflation (%p.a.)	2.2	2.9	2.0	2.0	1.8
Trade Balance(US$ bill.)	50.0	40.0	20.0	40.0	40.0
Rmb/$(nom.)	6.8	7.1	7.3	7.2	7.2

South Korea

South Korea's GDP bounced back in the third quarter of 2020 to positive sequential growth at a seasonally adjusted 1.9% quarter-on-quarter. However, the economy will register a contraction of -1.5% in 2020 due to a contraction in private consumption. In the third quarter, GDP was supported by capital investment, government spending and net exports. The large fiscal response included the 4th supplementary budget (KRW7.8 trillion) that was passed in late-September. The four supplementary budgets introduced since March have totalled KRW66.8 trillion (3.4% of GDP), on top of the financial support package and jobs programs. Worries over a fresh round of the pandemic outbreak will continue to hamper the private consumption recovery. The recovery will continue to be slow given the pandemic threat

Korea: Composite Index

and that major economies in Europe and the US are having second waves of the COVID-19 outbreak. We maintain our GDP growth forecast of 2% in 2021 as the COVID-19 pandemic comes under control leading to resumption in exports.

South Korea's inflation accelerated at a faster-than-expected pace to hit a six-month high in September. The benchmark consumer-price index gained 1.0% from a year earlier after rising 0.7% in August. The stronger-than-expected inflation was led by higher fresh food prices ahead of the Korean thanksgiving holidays. This was driven largely by the impact of the record-long rainy season, which caused prices of agricultural, livestock and fisheries goods to rise at the steepest rate in almost a decade. The Bank of Korea expects the country's inflation to average 0.4% this year — well below its 2% annual target. Accelerating inflation may give the Bank of Korea less room to ease its monetary policy.

In the third quarter, South Korea's net exports jumped 15.6% from the previous quarter and contributed 0.4% percentage point to its overall GDP. South Korea is in something of a sweet spot for the Covid-19 era. Neighbouring China, its biggest trading partner, is driving the global rebound and the world increasingly wants the technology that Korea sells. Memory chips and electronics have benefited from a shift to work-and study-from-home during the pandemic. Other things shipped by Korea, like chemicals and metal products, haven't done so well.

The better-than-expected GDP result has helped limit the decline of the South Korean won against the dollar. Once the risk event of the U.S. presidential election is out of the way, the Korean won would be one of the biggest beneficiaries of foreign-investor flows return to Asia as the real interest rate is still positive.

	18	19	20	21	22
GDP (%p.a.)	2.7	1.8	-1.5	2.0	2.2
Inflation (%p.a.)	1.5	0.4	0.5	1.0	1.2
Current A/c(US$ bill.)	86.0	60.0	38.0	40.0	40.0
Won/$(nom.)	1130	1200	1180	1200	1240

Taiwan

GDP grew 3.33% in the July–September period from a year earlier, according to the statistics agency. In the second quarter, the economy had contracted 0.58%. We continue to keep our year-on-year GDP growth of 1.6% in 2020 and a rebound of 3.2% in 2021. It will be one of the few major economies in the world to expand this year. Taiwan is rolling out a stimulus package worth T$1.05 trillion ($36.73 billion) to reduce the impact of strict border closures which has badly hit its services sector and tourism. Inflation remained subdued and will end up with some contraction.

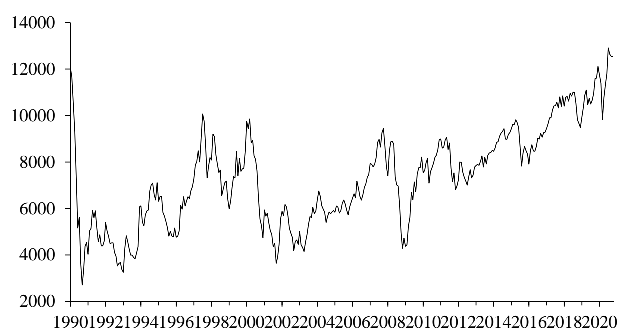
Exports grew 3.5% from a year earlier in real terms, compared with a contraction of 3.5% in the second quarter, driven by global demand for semiconductors and other technologies, according to the statistics bureau. Taiwan's export orders were helped by demand for the island's tech products such as laptops.

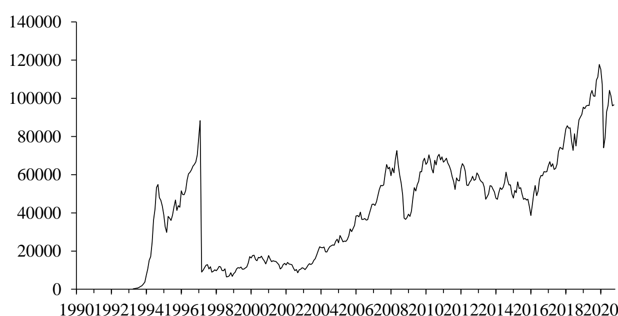
The exchange rate for the New Taiwan dollar surged past the NT$29 mark to reach its highest value since Central Bank Governor Yang Chin-long took office more than two years ago. Taiwan would like to see it below NT$29 to maintain its competitiveness but lower inflation rate compared to its competitors and US dollar depreciation are unlikely to hold it below NT$29 per USD mark.

Taiwan, forever living in the shadow of attack from the mainland China, seems to have changed its defence strategy. It seems to favour a 'hedgehog' strategy. The idea is to arm Taiwan with arms that can inflict maximum pain instead of taking on an invading force head-on. To do this, Taiwan has purchased missiles instead of buying tanks and warplanes. The Five Year Plan of China has called for the "reunification of the motherland," whereas a similar document five years ago emphasized economic cooperation and benefits for Taiwanese residents and companies.

Taiwan has reported just 553 reported cases and only seven deaths. In the last week of October, it reached 200 days without a local infection. It's never had to enforce a lockdown, limiting the damage to domestic consumption.

	18	19	20	21	22
GDP (%p.a.)	2.6	2.0	1.6	3.2	2.2
Inflation (%p.a.)	1.2	1.0	-1.0	1.0	1.0
Current A/c(US$ bill.)	68.0	70.0	71.0	70.0	60.0
NT$/$(nom.)	29.8	31.0	29.0	28.5	31.0





Brazil

The economic outlook is looking brighter as a massive fiscal injection is showing up in job creation. We remain a little cautious and keep our forecast of GDP shrinking 5.5% in 2020 and recovering to 2% in 2021. A recent survey suggested that contraction might be close to the government's forecast for a 4.7% contraction.

Brazil's economy created 313,564 net formal jobs in September as massive government spending sustained output and demand. The formal labour market was underpinned by a government job protection program, and it is seen in all sectors of the formal economy.

Annual inflation accelerated to 3.5%, just below the central bank's 4% target for this year. A recent spike in food prices continues to intensify short-term inflation pressures. A range of staples became more expensive, including rice with an 18.48% spike, tomatoes with a 14.25% jump and meat with a 4.83% increase. The monetary authority aims for inflation of 4% this year and 3.75% in 2021. Brazil intends to hold its benchmark interest rate at a record low for the foreseeable future. For the time being, the central bank has downplayed inflation risks that led to depreciation of the currency. As expected, the central bank kept the Selic steady at 2%. In their forward guidance, it continues to hold a dovish stance and have kept the door open for a small rate cut.

This has led to heightened inflation expectations in coming years. This may force the central bank to lift its key rate by early next year.

Brazil will go into next year with a record debt and deficit around 95% and 12% of GDP, respectively, due to huge emergency expenditure this year to tackle the COVID-19 pandemic.

The government is spending this year about $57 billion on monthly stipends that, while keeping vulnerable Brazilians afloat during the pandemic, have pushed the country's finances to the brink of a crisis. President of the Central Bank Campos Neto and Economy Minister Paulo Guedes have called for a return to belt-tightening measures as public debt nears 100% of gross domestic product. The IMF has also

cautioned Brazil that growing levels of public debt represented a risk to the country.

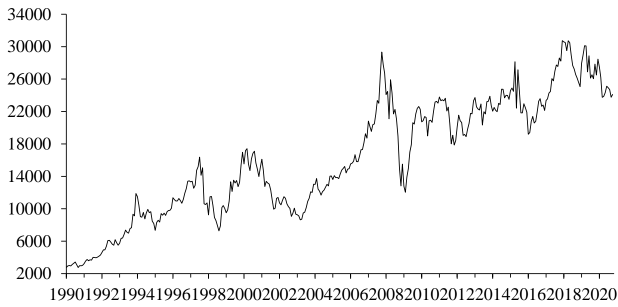
Brazil's currency is among the worst performing emerging market units this year, falling 30%, as fears remained about the government overshooting its spending ceiling to fund the fiscal package

The real trading around 5.8 per dollar just below the level reached in May 2020.

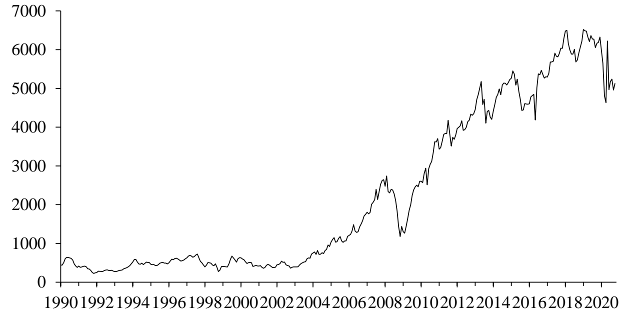
	18	**19**	**20**	**21**	**22**
GDP (%p.a.)	1.1	0.8	-5.5	2.0	2.5
Inflation (%p.a.)	3.8	4.3	3.6	4.0	4.0
Current A/c(US$ bill.)	-14.6	-36.0	-40.0	-40.0	-36.0
Real/$(nom.)	3.8	4.2	5.5	5.7	5.8

Other Emerging Markets

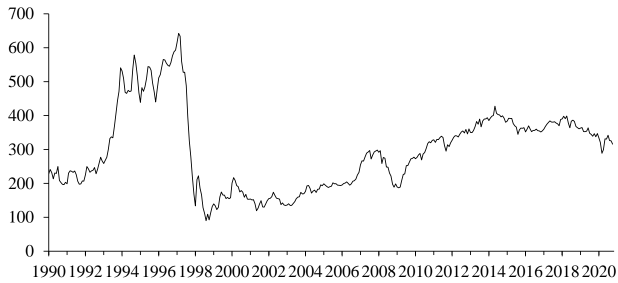
Hong Kong: FT-Actuaries



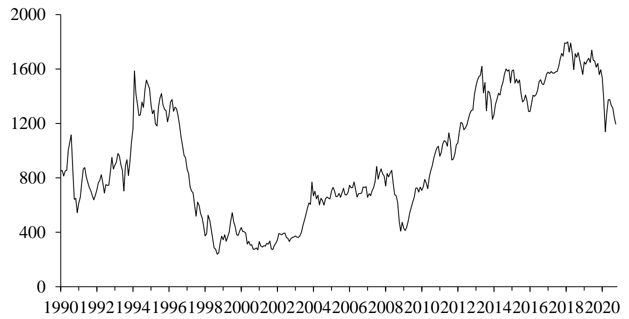
Indonesia: Jakarta Composite



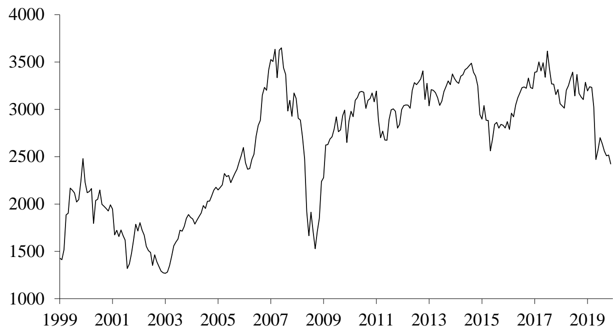
Malaysia: FT-Actuaries
(US$ Index)



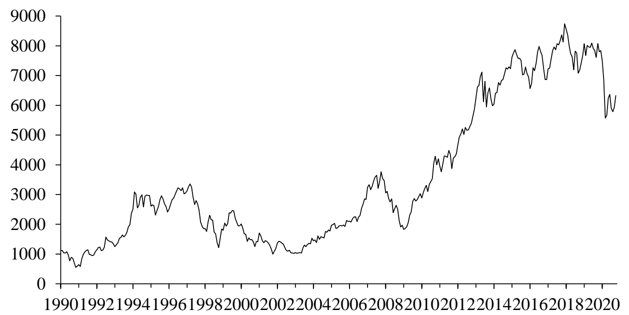
Thailand: Composite Index



Singapore: Straits Times Index

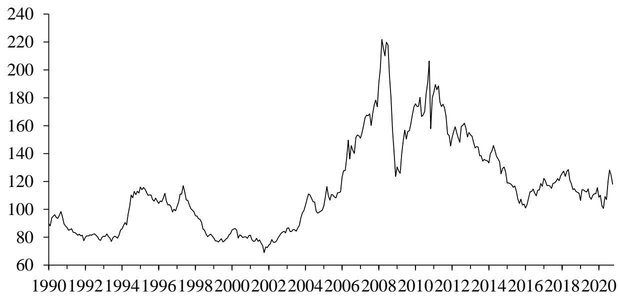


Philippines: Manila Composite

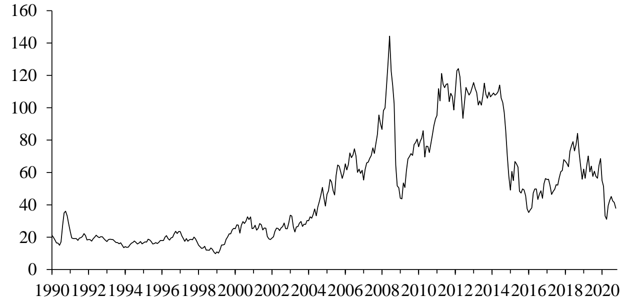


COMMODITY MARKETS

Commodity Price Index (Dollar)
(Economist, 2015 = 100)

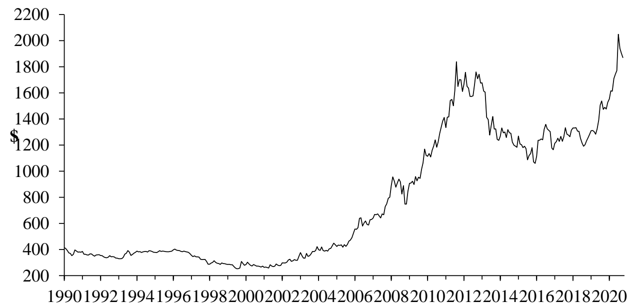


Oil Price: North Sea Brent (in Dollars)

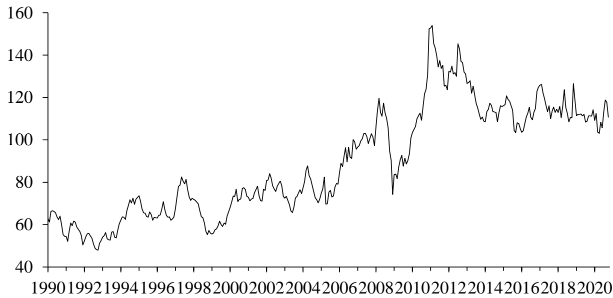


Commodity Price Index (Sterling)
(Economist, 2015 = 100)

Gold Price (in Dollars)



Commodity Price Index (Euro)
(Economist, 2015 = 100)



UK FORECAST DETAIL

Prices, Wages, Interest Rates and Exchange Rate Forecast (Seasonally Adjusted)

	Inflation %[1] (CPI)	Short Dated (5 Year) Interest Rates	3 Month Int. Rates	Nominal Exchange Rate (2005=100)[2]	Real Exchange Rate[3]	Real 3 Month Int. Rates %[4]	Inflation (RPIX)	Real Short Dated Rate of Interest[5]
2018	2.4	1.0	0.7	78.6	76.9	-1.4	3.3	-1.0
2019	1.8	0.6	0.8	78.1	75.9	-0.9	2.5	-1.1
2020	1.7	0.4	0.4	78.9	77.0	-1.8	2.2	-1.2
2021	2.0	2.6	1.9	77.9	76.3	-1.0	2.8	1.0
2022	2.0	5.0	4.5	77.7	76.6	2.2	2.8	3.0
2023	2.0	5.0	5.0	77.6	76.8	2.9	2.7	3.0
2019:1	1.8	0.9	0.9	78.8	77.4	-0.5	2.4	-0.9
2019:2	2.0	0.7	0.8	78.4	76.0	-0.5	3.0	-1.1
2019:3	1.8	0.4	0.8	75.8	72.7	-1.4	3.0	-1.4
2019:4	1.4	0.5	0.8	79.5	77.7	-1.3	1.7	-1.2
2020:1	1.7	0.4	0.7	79.2	77.5	-1.4	2.2	-1.4
2020:2	1.5	0.3	0.4	79.0	76.9	-1.8	1.8	-1.6
2020:3	1.7	0.3	0.3	78.7	76.8	-1.8	2.2	-1.7
2020:4	1.8	0.5	0.3	78.6	76.8	-2.4	2.4	-1.5
2021:1	2.0	1.8	1.5	77.6	76.0	-1.1	2.7	-0.2
2021:2	2.0	2.0	1.7	78.2	76.5	-1.1	2.8	0.0
2021:3	2.0	2.5	2.0	78.0	76.5	-1.2	2.8	0.5
2021:4	2.1	4.0	2.5	77.7	76.3	-0.5	3.0	2.0

[1] Consumer's Expenditure Deflator
[2] Sterling Effective Exchange Rate Bank of England
[3] Ratio of UK to other OECD consumer prices adjusted for nominal exchange rate
[4] Treasury Bill Rate less one year forecast of inflation
[5] Short Dated 5 Year Interest Rate less average of predicted 5 year ahead inflation rate

Labour Market and Supply Factors (Seasonally Adjusted)

	Average Earnings (1990=100)[1]	Wage Growth[2]	Unemployment (New Basis) Percent[3]	Millions	Real Wage Rate[4] (1990=100)
2018	266.6	3.0	4.2	1.1	142.8
2019	275.0	3.5	4.1	1.1	145.3
2020	283.3	3.0	7.2	2.3	147.2
2021	292.3	3.2	5.6	1.7	148.9
2022	301.4	3.1	3.5	1.0	150.5
2023	311.3	3.3	2.8	0.7	152.4
2019:1	273.4	3.4	3.9	1.0	144.9
2019:2	273.5	4.0	4.0	1.1	144.4
2019:3	275.5	3.7	4.2	1.2	146.0
2019:4	277.6	2.7	4.3	1.2	145.9
2020:1	280.8	2.7	4.4	1.2	146.4
2020:2	282.0	3.1	9.4	3.1	146.7
2020:3	283.8	3.0	7.8	2.5	147.8
2020:4	286.7	3.3	7.3	2.4	148.0
2021:1	289.4	3.1	6.6	2.1	147.9
2021:2	290.8	3.1	5.8	1.8	148.3
2021:3	292.9	3.2	5.3	1.6	149.6
2021:4	296.1	3.3	4.7	1.4	149.8

[1] Whole Economy
[2] Average Earnings
[3] Wholly unemployed excluding school leavers as a percentage of employed and unemployed, self employed and HM Forces
[4] Wage rate deflated by CPI

Estimates and Projections of the Gross Domestic Product[1] (£ Million 1990 Prices)

	Expenditure Index	£ Million '90 prices	Non-Durable Consumption[2]	Private Sector Gross Investment Expenditure[3]	Public Authority Expenditure[4]	Net Exports[5]	AFC
2018	165.5	792330.9	445721.1	307723.0	201029.6	-41308.9	120833.9
2019	167.8	803514.4	450773.6	292071.6	205398.3	-40522.1	104207.0
2020	156.8	750778.9	422139.3	240438.5	206633.2	-38602.0	79830.1
2021	166.0	794785.5	447070.2	256907.5	207875.4	-32873.3	84194.3
2022	170.7	817684.4	453552.8	270703.1	209119.3	-29141.1	86549.7
2023	176.0	842924.6	460358.0	287932.7	210372.2	-26815.4	88922.9
2018/17	1.3		1.0	2.3	0.2		-4.6
2019/18	1.4		1.1	-4.7	2.2		-12.4
2020/19	-6.6		-6.3	-15.3	0.6		-4.1
2021/20	6.2		6.1	8.3	0.6		6.1
2022/21	2.9		1.4	5.4	0.6		2.7
2023/22	3.1		1.5	6.4	0.6		3.0
2019:1	167.5	200481.1	112289.5	83278.3	52683.0	-18452.8	29316.9
2019:2	167.1	200009.6	112720.4	81082.1	50775.9	-13738.5	30830.3
2019:3	168.3	201443.7	113162.0	72473.6	51076.1	-12057.3	23210.7
2019:4	168.4	201579.9	112601.6	55237.5	50863.3	3726.5	20849.0
2020:1	164.9	197481.6	111026.5	70478.2	52999.1	-16221.6	20800.6
2020:2	145.3	173993.2	99094.4	48913.3	51084.8	-6531.1	18568.2
2020:3	151.8	181697.2	101536.5	58727.3	51380.8	-10262.3	19685.1
2020:4	165.1	197607.0	110482.0	62319.7	51168.6	-5587.1	20776.2
2021:1	165.8	198469.1	112273.3	69471.6	53317.1	-15598.6	20994.3
2021:2	165.9	198582.2	111099.5	62447.0	51391.3	-5280.0	21075.6
2021:3	166.0	198749.7	111236.0	64731.7	51690.8	-7856.1	21052.7
2021:4	166.2	198984.5	112461.4	60257.2	51476.2	-4138.6	21071.7

1 GDP at factor cost. Expenditure measure; seasonally adjusted
2 Consumers expenditure less expenditure on durables and housing
3 Private gross domestic capital formation plus household expenditure on durables and clothing plus private sector stock building
4 General government current and capital expenditure including stock building
5 Exports of goods and services less imports of goods and services

Financial Forecast

	PSBR/GDP %[1]	GDP[1] (£bn)	PSBR (£bn) Financial Year	Debt Interest (£bn)	Current Account (£ bn)
2018	1.9	2092.5	39.3	22.4	-82.9
2019	2.0	2127.5	43.2	24.0	-83.8
2020	12.4	2030.1	239.1	25.0	-64.3
2021	4.7	2203.2	101.9	27.4	-54.1
2022	2.2	2316.3	51.0	31.0	-45.5
2023	0.4	2436.6	7.6	33.8	-40.3
2019:1	-2.8	520.1	-14.7	6.1	-34.5
2019:2	4.5	532.3	23.8	6.0	-27.3
2019:3	1.8	531.3	9.4	6.0	-15.6
2019:4	4.0	536.5	21.3	6.0	-6.3
2020:1	-2.1	527.5	-11.2	6.0	-29.6
2020:2	28.6	467.1	133.6	6.1	-12.2
2020:3	14.3	487.2	69.9	6.2	-11.1
2020:4	8.0	534.4	42.6	6.3	-11.4
2021:1	-1.3	541.4	-7.0	6.3	-29.2
2021:2	8.0	541.9	43.2	6.5	-10.3
2021:3	3.6	544.7	19.6	6.7	-6.0
2021:4	8.3	549.2	45.4	7.0	-8.5

1 GDP at market prices (Financial Year)

WORLD FORECAST DETAIL

Growth Of Real GNP

	2017	2018	2019	2020	2021	2022
U.S.A.	2.2	2.9	2.3	–6.5	6.0	2.5
U.K.	1.8	1.4	1.4	–6.4	6.0	2.9
Japan	2.2	0.3	1.0	–6.0	2.3	1.0
Germany	2.5	1.5	0.5	–6.5	5.8	2.0
France	2.4	1.7	1.3	–8.1	2.1	2.0
Italy	1.7	0.8	0.2	–9.9	6.4	1.9

Growth Of Consumer Prices

	2017	2018	2019	2020	2021	2022
U.S.A.	2.1	2.4	1.8	2.0	2.0	2.0
U.K.	2.6	2.4	1.8	1.7	2.0	2.0
Japan	0.5	1.0	0.6	0.7	0.5	0.5
Germany	1.5	1.8	1.4	1.4	1.5	1.7
France	1.0	1.9	1.2	1.2	1.3	1.5
Italy	1.2	1.2	0.7	0.9	1.0	1.3

Real Short-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	–1.5	0.1	0.1	–0.3	0.0	0.0
U.K.	–1.7	–1.4	–0.9	–1.8	–1.0	2.2
Japan	–1.0	–0.7	–0.8	–0.5	–0.4	–0.4
Germany	–2.1	–1.7	–1.8	–1.9	–2.0	–2.0
France	–2.2	–1.5	–1.7	–1.7	–1.8	–1.9
Italy	–1.5	–1.0	–1.4	–1.4	–1.6	–1.7

Nominal Short-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	0.9	1.9	2.1	1.7	2.0	2.0
U.K.	0.4	0.7	0.8	0.4	1.9	4.5
Japan	0.0	–0.1	–0.1	0.0	0.1	0.1
Germany	–0.3	–0.3	–0.4	–0.4	–0.3	–0.1
France	–0.3	–0.3	–0.5	–0.4	–0.3	–0.1
Italy	–0.3	–0.3	–0.5	–0.4	–0.3	–0.1

Real Long-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	0.4	0.9	0.1	0.3	0.8	1.0
U.K.	–1.5	–1.0	–1.1	–1.2	1.0	3.0
Japan	–0.6	–0.5	–0.6	–0.6	–0.5	–0.4
Germany	–1.3	–1.1	–1.9	–2.1	–1.9	–1.7
France	–0.6	–0.5	–1.2	–1.5	–1.4	–1.3
Italy	1.1	1.6	0.9	0.1	0.1	0.2

Nominal Long-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	2.4	2.9	2.1	2.3	2.8	3.0
U.K.	0.6	1.0	0.6	0.4	2.6	5.0
Japan	0.1	0.1	–0.1	–0.1	0.0	0.1
Germany	0.3	0.4	–0.3	–0.4	–0.2	0.0
France	0.8	0.8	0.2	0.0	0.1	0.2
Italy	2.1	2.6	2.1	1.3	1.4	1.5

Index Of Real Exchange Rate(2000=100)[1]

	2017	2018	2019	2020	2021	2022
U.S.A.	94.5	93.5	96.3	96.2	95.5	94.9
U.K.	75.5	76.9	75.9	77.0	76.3	76.6
Japan	58.3	57.8	56.3	54.2	51.4	48.0
Germany	94.3	96.5	95.6	94.1	92.2	90.0
France	95.3	97.4	96.3	94.5	92.1	89.4
Italy	101.2	102.8	104.5	105.2	103.8	101.7

[1] The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation in the real exchange rate.

Nominal Exchange Rate (Number of Units of Local Currency To $1)

	2017	2018	2019	2020	2021	2022
U.S.A.[1]	101.68	10.96	104.31	106.53	105.84	104.43
U.K.	1.29	1.34	1.28	1.26	1.28	1.30
Japan	112.10	110.40	109.02	108.90	109.50	109.30
Eurozone	0.89	0.85	0.89	0.92	0.91	0.90

[1] The series for the USA is a trade weighted index (1990=100); the series for the UK is $ per £

* Forecasts based on the Liverpool World Model