



R&R Weekly Column
By Brunello Rosa



The IMF's Latest Economic Outlook Highlights Stagflation Risks And Uncertainty Ahead

Last week, the International Monetary Fund and the World Bank held their annual meetings, once again in virtual formats given the recurrence of the Covid-19 pandemic given the rise of the delta variant. The IMF released its [latest edition of the World Economic Outlook](#) (WEO), titled "Recovery During a Pandemic. Health Concerns, Supply Disruptions, and Price Pressures." The heading summarises the content by saying: "Global recovery continues, but the momentum has weakened and uncertainty has increased."

In fact, the Outlook has revised the forecast for global growth in 2021 downwards, from 6.0% to 5.9%, as US growth was revised down by 1% from 7.0% to 6.0%. Growth has been revised down in other major advanced economies as well, including in Germany, UK, Japan, and Canada, but by a smaller extent. China's growth was also revised marginally down by 0.1%, to 8.0%. At the same time, inflation projections in 2021 and 2022 have been revised upwards in advanced economies (by 0.4% to 2.8% and by 0.2% to 2.3%, respectively) and in emerging markets (by 0.1% to 5.5% and by 0.2% to 4.9%, respectively).


These changes in forecasts chime with our own view, which is that there may be stagflation risks in the short and medium term, as we discussed [in a recent column](#). In the *short run*, economic activity is endangered by disruptions in global supply chains, and by new restrictions deriving from the recrudescence of the pandemic, given the uneven distribution of the vaccines across the globe and their reduced efficacy a few months after injection. Short-term economic activity may also be endangered by diminished consumption as a result of higher energy prices. Inflation meanwhile is subject to upward pressures deriving from higher energy prices (in particular gas prices), base effects, the re-opening of specific sectors of the economy that were hit particularly bad by the pandemic (e.g. tourism and hospitality) and disruptions in global value and supply chains.

In the *medium term*, stagflation risks emerge as inflation is subject to upward pressure from ongoing phenomena such as de-globalisation, a less unequal distribution of income between labour and capital (epitomised, for example, by an increase in minimum wages), balkanization of supply chains, debt monetisation and ecological transition processes; while growth in economic activity is endangered by prospective fiscal consolidation processes, monetary policy normalisation, disruption in global supply chains, and the economic impacts of ecological transition.

The WEO also highlights the rise in uncertainty going forward, mostly due to policy actions. In the midst of the crisis the policy response was one-directional: easier monetary and fiscal stances emerged across the globe, in developed and developing economies. But in a recovery phase, the policy responses become more mixed, depending as they will on the idiosyncratic circumstances of each country. We have certainly noted a tendency toward [tighter monetary policies in both DMs and EMs](#), but the degree of reduced accommodation varies greatly across the globe.

All this is reflected in financial markets, which have experienced higher volatility in recent weeks, in equities, bonds, and currencies.

Our Recent Publications

 [Kuwait: To Create Jobs For Nationals, Reduce Dependence On Public Sector Employment And Low-Wage Foreign Labor](#), by Alessandro Magnoli Bocchi, Fawaz Sulaiman Al Mughrabi, Carmen Pages Serra and Zafiris Tzannatos, 13 October 2021

 [GEOPOLITICAL CORNER: The EU's Suez Moment: The Stunning AUKUS Alliance Makes It Clear The Anglosphere Is Rising, As Europe Falls](#), by John C. Hulsman, 5 October 2021



Looking Ahead

The Week Ahead: PMIs To Fall In US And EZ; Stable Business Activity In Japan

In **US**, PMIs are expected to fall as: i) manufacturing PMI stumbles (c: 60.3; p: 60.7); and ii) services PMI drops (c: 55.1; p: 55.9).

In the **EZ**, activity is projected to slows as: i) manufacturing PMI falls (c: 57.0; p: 58.6); and iii) services PMI decreases (c: 55.4; p: 56.4).

In **Japan**, business activity is seen to remain stable as: i) manufacturing falls slightly (c: 51.3; p: 51.5); while ii) services PMIs rises (c: 49.0; p: 47.4).

The Quarter Ahead: Risks To Global Economy Rise; Congested Ports Due To Demand Rebound; China Counters Energy Crisis; Hawkish CBs

IMF slashes US growth forecast and warns of rising risks to the global economy. The IMF slashed its 2021 growth forecast for the US by one full ppt to 6% – the biggest reduction suffered by any G7 economy in its latest WEO. The cut reflects disruptions to supply chains and softening consumption in Q3. The IMF now expects the global economy to grow 5.9% in 2021, 0.1 ppt lower than the July forecast. The outlook for 2022 remained unchanged. Despite the modest revision, the IMF said that economic risks have increased.

Around the world, ports are congested as a result of the rapid rebound in demand for commodities and goods as much of the global economy has recovered from the pandemic. The US government is stepping up its efforts to relieve the supply chain crisis that has led to: i) shortages of some goods; ii) higher prices for consumers; which iii) threatens to slow the economic recovery. The US government will work with companies and ports on a "90-day sprint" to alleviate bottlenecks, according to a senior administration official.

EU and China to hold summit after rift over Xinjiang. The EU and China agreed to convene a summit, EC chief Charles Michel said after speaking with Chinese President Xi Jinping, as the two sides aim to repair relations after a deep rift over alleged human rights abuses in Xinjiang. Michel didn't announce a date, but said in a tweet that China and the EU need to keep talking because "despite differences, dialogue remains crucial."

China raises coal and gas imports to counter energy crisis. Chinese imports of coal and natural gas increased sharply in September, as Beijing raced to deal with a spiraling energy crisis that threatens economic growth. China imported 32.9m tons of coal in September, +76% y-o-y. Natural gas imports rose 23% y-o-y to 10.6m tons. Factories and businesses have been forced to ration power use and some households have experienced electricity outages after a power crunch hit more than 20 Chinese provinces.

CBs to start turning hawkish. The US Fed is considering pulling back asset purchases designed to shield the US economy from the worst effects of the pandemic as soon as next month, according to minutes breaking down the details of its September meeting. The Fed's policy setters agreed at last month's meeting that "provided that the economic recovery remained broadly on track, a gradual tapering process that concluded around the middle of next year would likely be appropriate."

Last Week's Review

Real Economy: Supply-Chain Constraints To Slow Business Activity, Raising Inflationary Pressures

In the **US**, September's retail sales rose 13.9% y-o-y (c: 9.0%; p: 15.4%), with biggest increases seen in sales at sporting goods, hobby, musical, and book stores.

In the **EZ**, October's economic sentiment fell for the fifth straight month to 21.0 (c: 37; p: 31.1), marking the lowest level since March 2020, dragged down by ongoing concerns over slowing growth, and persistent global supply-chain disruptions.

In the **US**, September's headline CPI inflation edged up to a 13-year high of 5.4% y-o-y (c: 5.3%; p: 5.3%), mainly on upward pressure from: i) cost of shelter (a: 3.2%; p: 2.8%); ii) food (a: 4.6%; p: 3.7%) the highest since December 2011; iii) new vehicles (a: 8.7%; p: 7.6%); and iv) energy (a: 24.8%; p: 25%). Core-CPI inflation remained unchanged at 4.0% y-o-y, in line with expectations.

Financial Markets: Global Stocks Gain; Bond Yields Fall; USD Weakens, As Oil Prices Near 85 USD/B

Market drivers: investors piled back into economically sensitive cyclical stocks after: i) more strong earnings reports; and ii) an upbeat surprise in US retail trade data.

Global equities rose w-o-w (MSCI ACWI, +2.2%, to 733). In the US, the S&P 500 gained (+2.2% w-o-w to 4,471), as the small real estate sector fared best, and consumer discretionary shares got a boost from Tesla. In the EZ, shares ended higher (Eurostoxx 50, +2.7% w-o-w, to 4,183), rallied on optimism about the continuing economic recovery, and strong corporate earnings. In EMs, equities advanced (MSCI EMs, +2.1%, to 1,284), as Chinese stocks fell (Shanghai Comp., -0.6%, to 3,572). Volatility fell below averages (VIX S&P 500, -2.5 pts to 16.3, 52w avg.: 20.8; 10y avg.: 17.2).

Fixed Income: w-o-w global bonds rose (BAML Global, +0.3% to 293.9), while UST yields fell (-4 bps, to 1.57%), as a rally in energy prices threatens the global economic recovery.

FX: w-o-w, the US Dollar Index fell (DXY, -0.1%, to 93.937; EUR/USD +0.3%, to 1.160). In EMs, currencies rose against the USD (MSCI EM Currency Index, +0.5% w-o-w, to 1,728).

Commodities: Oil prices rose (Brent, +3.0% w-o-w, to 84.9x USD/b), on the back of growing signs of market tightness, and as shortages of natural gas and coal in Europe and Asia boosted demand for oil. Gold gained (+0.6% w-o-w, to 1,767 USD/Oz), amid ongoing stagflation concerns, and the IMF lowered its global growth forecasts.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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