



ECONOMIC SITUATION AND STRATEGY

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Asian growth region: Strong momentum not only, but mainly in China

The International Monetary Fund (IMF) has recently upgraded its global growth forecast for 2021 from 5.5% to 6.0%. It expects the upswing to continue next year with somewhat less momentum, at a growth rate of 4.4%. That is still well above the 3.3% average rate of world economic growth from 2009 to 2019. The expansionary fiscal policy of advanced countries, led by the United States, is the main reason for the upgrade. But the rapid pace of vaccination and related expectation that economic lockdowns due to covid-19 might soon be behind us have prompted the IMF to raise its growth forecasts for advanced countries from 4.3% to 5.1% in 2021 and from 3.1% to 3.6% in 2022. In contrast, it has only slightly revised the growth estimate for emerging markets this year from 6.3% to 6.7%, while keeping its forecast for 2022 unchanged at 5.0%. However, there are significant differences among regions. Asia is expected to show the strongest growth by far (2021: 8.6%, 2022: 6.0%), while similar growth rates of about 4% are forecast for Latin America, Eastern Europe, the Middle East, and Africa in each of the two years.

The global trend going forward will be shaped largely by two countries. Advanced economies will be influenced by the United States, and emerging markets by China, although whether China still qualifies as emerging is questionable given the size its economy has attained. However, despite strong growth in the past years (2000: USD 950, 2010: USD 4,500), per capita income is still much lower in China (USD 10,000) than in Germany (USD 46,000) or the United States (USD 63,000).

Table 1.1. Overview of the *World Economic Outlook Projections*
(Percent change, unless noted otherwise)

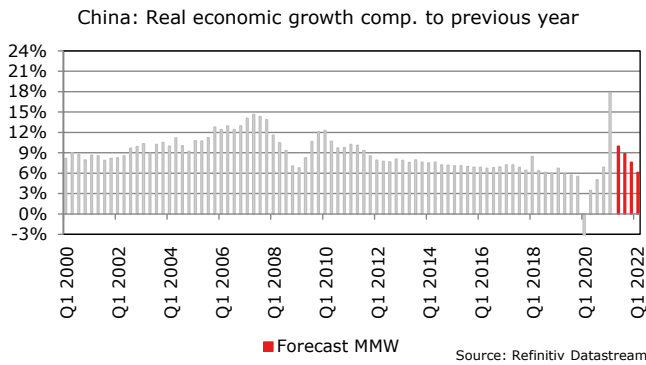
	2020	Projections		Difference from January 2021 WEO Update ¹	
		2021	2022	2021	2022
World Output	-3.3	6.0	4.4	0.5	0.2
Advanced Economies	-4.7	5.1	3.6	0.8	0.5
United States	-3.5	6.4	3.5	1.3	1.0
Euro Area	-6.6	4.4	3.8	0.2	0.2
Germany	-4.9	3.6	3.4	0.1	0.3
France	-8.2	5.8	4.2	0.3	0.1
Italy	-8.9	4.2	3.6	1.2	0.0
Spain	-11.0	6.4	4.7	0.5	0.0
Japan	-4.8	3.3	2.5	0.2	0.1
United Kingdom	-9.9	5.3	5.1	0.8	0.1
Canada	-5.4	5.0	4.7	1.4	0.6
Other Advanced Economies ²	-2.1	4.4	3.4	0.8	0.3
Emerging Market and Developing Economies	-2.2	6.7	5.0	0.4	0.0
Emerging and Developing Asia	-1.0	8.6	6.0	0.3	0.1
China	2.3	8.4	5.6	0.3	0.0
India ³	-8.0	12.5	6.9	1.0	0.1
ASEAN-5 ⁴	-3.4	4.9	6.1	-0.3	0.1
Emerging and Developing Europe	-2.0	4.4	3.9	0.4	0.0
Russia	-3.1	3.8	3.8	0.8	-0.1
Latin America and the Caribbean	-7.0	4.6	3.1	0.5	0.2
Brazil	-4.1	3.7	2.6	0.1	0.0
Mexico	-8.2	5.0	3.0	0.7	0.5
Middle East and Central Asia	-2.9	3.7	3.8	0.7	-0.4
Saudi Arabia	-4.1	2.9	4.0	0.3	0.0
Sub-Saharan Africa	-1.9	3.4	4.0	0.2	0.1
Nigeria	-1.8	2.5	2.3	1.0	-0.2
South Africa	-7.0	3.1	2.0	0.3	0.6

Source: IMF, World Economic Outlook, April 2021

China will be the most important engine for the world economy this year. Its economic data were extremely strong in the first quarter, even though the 18% growth rate compared with the year-earlier period is not as significant as it looks due to the economic slump at the beginning of 2020. The National Bureau of Statistics called the released GDP figures "disappointing" because the quarter-over-quarter increase was smaller than expected. However, that is primarily the result of there being different sets of data in China that enable the government to depict the situation as it sees fit. Perhaps it does not consider the present an opportune time to show how strong the economy really is. After all, it is the object of broad and severe criticism internationally for having triggered the worst economic slump of the past hundred years. That the Chinese economy has been able to shake off the covid slump very quickly while most other countries are still struggling with the pandemic's consequences probably would not be received well. However, the data that we

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have evaluated for the Chinese economy shows that growth in the first quarter of 2021 improved again over the already positively developing preceding quarters. Even assuming quarterly growth will slow in the rest of the year at only pre-covid rates, we regard this year's good start as reason to raise our Chinese GDP forecast from 10% to 11%, which means we continue to be significantly more optimistic than the IMF and most other economists.



But since it is by no means certain that the economic trend will slow, even our current forecast might be exceeded. While Chinese manufacturing has been largely responsible for the strong growth of the past months, it now looks as if service providers and consumers are also regaining their former strength. The economic catch-up process therefore need not run out of steam so soon. However, investors should keep an eye on the economy's liquidity supply. Clearer signs that the brakes are being applied there would be a signal that growth will slow in the medium term.

At our forecast growth rate of 11%, China will leave almost all other Asian economies in the dust. Only India gets a stronger IMF projection for this year. Base effects likewise play a major role in its growth rate of 12.5%. After all, real Indian GDP decreased by 8% last year.

Nevertheless, we doubt whether India can achieve such a growth rate in 2021. That is because India has not brought its incidence of new covid cases under control. In fact, it recently set a tragic world record with 300,000 new cases per day. In contrast, new covid cases are very low in other Asian countries, although infections there have recently increased somewhat. Since most Asians are very disciplined, however, and comply more fully than others with government regulations, the risk of future, more severe economic restrictions to stem the spread of the virus is low – unlike in Brazil and Turkey, for example, which are struggling like India with a steep rise of new cases.

Of course, however, the strong economic growth not only in China but also in nearly the entire Asian region is only related to the pandemic response to a small extent. The long-term economic momentum there is mainly attributable to demographics. At present, about 60% of the world's population lives in Asia, and almost 20% in China and India alone. In addition to productivity, availability of labor is crucial to an economy's growth potential, and population development therefore clearly has an influence on an economy and its outlook. According to United Nations forecasts, Asia's population will grow from 4.6 billion persons now to 5.3 billion 2050 and then shrink back to 4.7 billion in 2100. This means that Asia will remain a dynamically growing region in the coming 30 years. We believe China is capable of continuing high growth rates in the coming 10 years and is likely to overtake the United States in that time as the world greatest economic power. But then, if not sooner, more attention will also focus on other countries thanks to their population growth, including not only India, but also the Philippines, Cambodia, Malaysia, Indonesia, and Vietnam as well as – depending on political developments – Pakistan, Iran, and maybe Bangladesh.

Market Data

Stock marketes	As of	Change versus				
	23.04.2021 16:04	15.04.2021 -1 week	19.03.2021 -1 month	21.01.2021 -3 months	21.04.2020 -1 year	31.12.2020 YTD
Dow Jones	33874	-0,5%	3,8%	8,7%	47,2%	10,7%
S&P 500	4145	-0,6%	5,9%	7,6%	51,5%	10,3%
Nasdaq	13883	-1,1%	5,1%	2,6%	68,0%	7,7%
DAX	15220	-0,2%	4,1%	9,4%	48,5%	10,9%
MDAX	32706	-0,9%	3,4%	3,0%	49,0%	6,2%
TecDAX	3513	-0,1%	4,2%	4,0%	24,1%	9,4%
EuroStoxx 50	3990	-0,1%	4,0%	10,3%	42,9%	12,3%
Stoxx 50	3379	-0,2%	3,1%	5,7%	22,6%	8,7%
SMI (Swiss Market Index)	11157	-0,4%	1,7%	2,2%	16,9%	4,2%
Nikkei 225	29021	-2,1%	-2,6%	0,9%	50,5%	5,7%
Brasilien BOVESPA	120715	0,0%	3,9%	2,0%	52,9%	1,4%
Russland RTS	1510	2,4%	2,4%	3,1%	49,2%	8,8%
Indien BSE 30	47878	-1,9%	-4,0%	-3,5%	56,3%	0,3%
China Shanghai Composite	3474	2,2%	2,0%	-4,1%	22,9%	0,0%
MSCI Welt (in €)	2924	-1,3%	3,1%	6,6%	36,0%	10,6%
MSCI Emerging Markets (in €)	1341	-0,7%	-1,1%	-3,8%	37,3%	5,7%
Bond markets						
Bund-Future	170,94	-39	-28	-586	-197	-670
Bobl-Future	134,91	-17	-22	-10	-37	-27
Schatz-Future	112,10	-1	-2	-15	-6	-17
3 Monats Euribor	-0,54	3	3	2	-31	4
3M Euribor Future, Dec 2017	-0,54	0	0	1	-19	0
3 Monats \$ Libor	0,17	-2	-2	-4	-87	-7
Fed Funds Future, Dec 2017	0,09	0	1	2	0	0
10 year US Treasuries	1,57	4	-16	46	100	66
10 year Bunds	-0,26	8	8	27	23	32
10 year JGB	0,07	-1	-4	5	6	5
10 year Swiss Government	-0,26	-2	-1	17	18	23
US Treas 10Y Performance	682,89	-0,3%	2,1%	-2,9%	-6,8%	-4,6%
Bund 10Y Performance	666,28	-0,3%	-0,3%	-2,2%	-1,8%	-2,7%
REX Performance Index	493,26	-0,1%	-0,3%	-1,1%	-0,5%	-1,2%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	0,22	1	1	16	-50	20
IBOXX BBB, €	0,65	1	-5	11	-135	10
ML US High Yield	4,77	4	-25	-5	-366	-20
Convertible Bonds, Exane 25	8361	0,7%	2,4%	-0,5%	15,7%	0,4%
Commodities						
MG Base Metal Index	408,70	1,0%	3,6%	11,5%	65,6%	15,2%
Crude oil Brent	65,45	-2,3%	1,0%	16,5%	296,7%	26,1%
Gold	1778,08	0,7%	2,2%	-4,6%	5,8%	-6,3%
Silver	26,48	2,0%	0,9%	2,8%	78,3%	0,4%
Aluminium	2366,49	1,9%	5,9%	18,6%	63,1%	19,9%
Copper	9459,50	1,7%	4,3%	18,0%	89,2%	22,1%
Iron ore	176,35	1,9%	5,0%	3,7%	110,1%	13,2%
Freight rates Baltic Dry Index	2750	18,4%	20,6%	49,7%	277,7%	101,3%
Currencies						
EUR/ USD	1,2060	0,8%	1,4%	-0,8%	11,3%	-1,7%
EUR/ GBP	0,8698	0,2%	1,3%	-1,7%	-1,7%	-2,8%
EUR/ JPY	130,03	-0,1%	0,4%	3,4%	11,7%	2,8%
EUR/ CHF	1,1047	0,0%	-0,2%	2,5%	5,0%	2,3%
USD/ CNY	6,4910	-0,5%	-0,3%	0,4%	-8,4%	-0,6%
USD/ JPY	108,07	-0,6%	-0,8%	4,4%	0,3%	4,7%
USD/ GBP	0,72	-0,5%	0,1%	-1,0%	-11,5%	-1,4%

Source: Refinitiv Datastream

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