GF Macro Views

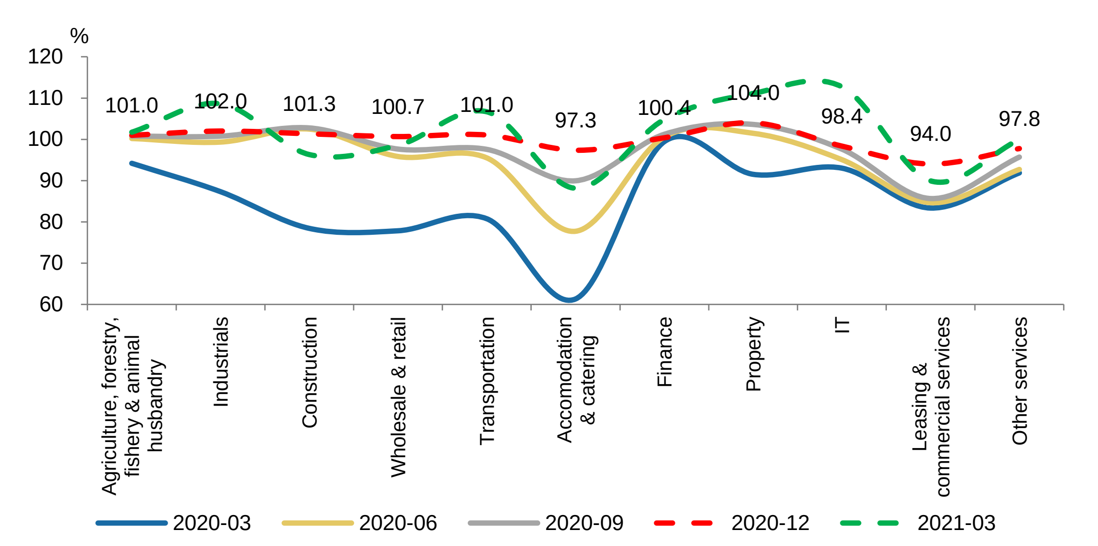
Weekly views from GF Securities' macro research team

Post-COVID recovery: progress and outlook

Recent asset performance directly related to how quickly the "COVID gap" narrowed; future investment opportunities lie in industries that are yet to fully recover We have constructed a "COVID gap" indicator based on industry added value and revenue growth to quantify how different sectors were impacted by the pandemic and how much they have recovered. As of the end of last year, tertiary industries such as accommodation & catering, IT, leasing & commercial services and other services were still seeing "COVID gaps", while upstream mining and raw material processing sectors, downstream consumer goods manufacturing and public utilities are yet to fully recover. We estimate that the recovery will continue to be concentrated in midstream sectors in 1H21 and spread to upstream and downstream sectors from 3Q21. For asset pricing, the market is less sensitive to the absolute value of the "COVID gap", and more sensitive to how quickly the gap narrows. Future closing of the gap is likely to focus on the service sector and a number of industrial sectors, but this indicator should be looked at together with other data.

Guo Lei, Wang Dan, April 27, 2021

Sector recoveries calculated through the GDP production approach



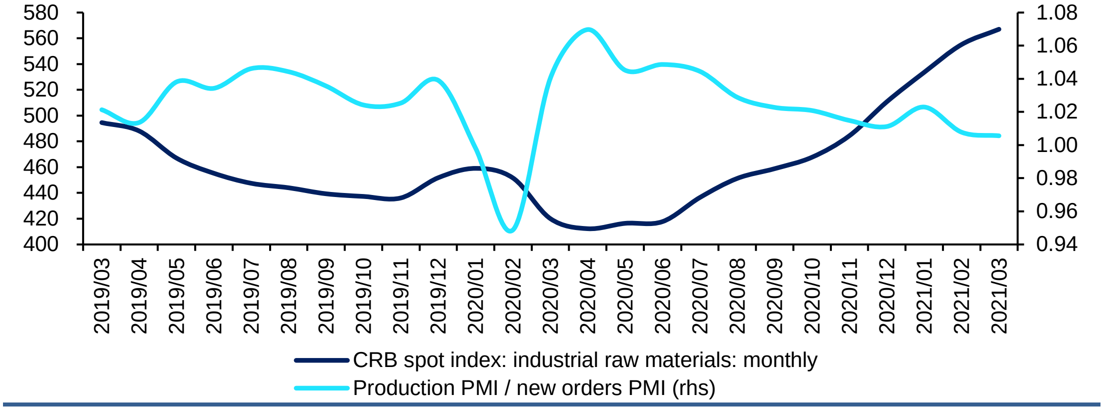
Source: Wind, GF Securities Development & Research Center
Note: 1Q21 figures are the combined growth for two years

What is driving this round of price hikes?

Demand recovery, disrupted supply and high leverage ratio in the non-financial sector all driving this round of price hikes; we suggest paying attention to how policymakers will rein in price hikes The recent surge in commodity and industrial raw material prices is related to demand, supply and monetary conditions. On the demand side, the global post-pandemic economic recovery, restocking in the manufacturing sector and the property booms in both China and the US have bolstered demand; on the supply side, natural elimination of capacity, uncertainties surrounding the pandemic in resource-rich countries, as well as China's carbon neutrality drive and the US' clean energy plan have constrained supply expansion globally. In addition, loose monetary supply and rising leverage ratios in the non-financial sector worldwide are also pushing up prices. We believe price hikes are likely to continue, and suggest paying attention to how policymakers address the situation.

Guo Lei, He Xiaoshu, May 3, 2021

CRB index and PMI supply-demand gap



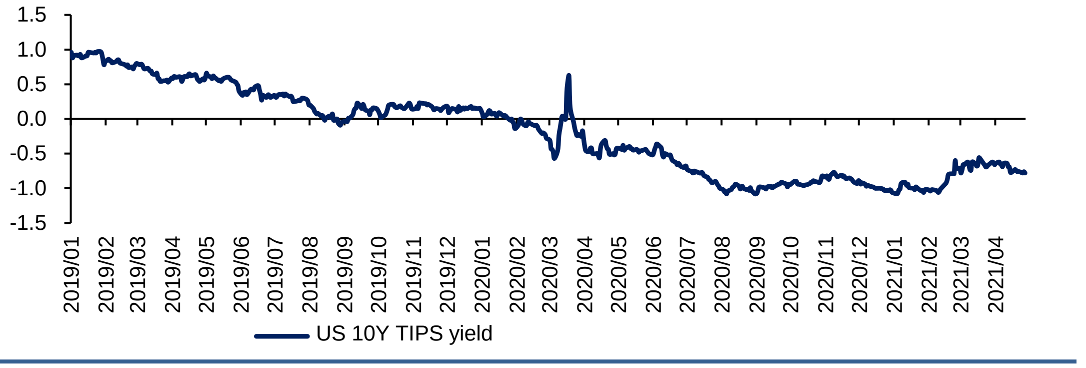
Source: Wind, GF Securities Development & Research Center

US ten-year Treasury yield may see M-shaped movement in 2021

The Fed may consider cutting QE in 3Q21 and guide interest rate hike expectations in 2H22; ten-year Treasury yield may see an M-shaped curve this year At the April FOMC meeting, the Fed decided to keep its benchmark interest rate and bond purchases unchanged. Although it was more optimistic on the US economic outlook, it has no plan to cut QE or guide an interest rate hike, as unemployment is still high and inflation only reflects transitory factors. We expect the US to achieve herd immunity in 3Q21, after which a substantial improvement in employment should make a QE cut more likely. If the US achieves full employment and its inflation target next year, the Fed may guide interest rate hikes in 2H22. US Treasury yields may move in an M-shaped curve this year due to the combined effects of QE tapering, expansion in bond issuance, achieving herd immunity and US stock corrections.

Zhang Jingjing, April 29, 2021

US ten-year Treasury Inflation Protected Securities (TIPS) yield (%)



Source: Wind, GF Securities Development & Research Center

Compiled and summarized by: Cai Juntao (email: caijuntao@gf.com.cn)