

# Week Ahead Economic Preview

## Fed minutes accompanied by UK GDP and US, China inflation updates

The week ahead brings a busy economic calendar with **inflation data** due from the US and China plus GDP and labour market updates from the UK. **Trade data** from China and the UK, plus US retail sales, are also issued. **Monetary policy meetings** in South Korea and Singapore are in the calendar, though for central bank watchers the focus will be on the **FOMC minutes**.

September's Fed FOMC meeting alluded to the Fed's intention to taper 'soon'. While largely expected, the meeting leaned on the hawkish end and further details from the meeting minutes will be scrutinised to assess lift-off criteria. At the same time, US inflation figures will also be eyed warily amid ongoing market jitters with regard to elevated prices. [Global manufacturing prices](#) notably accelerated in September amid supply shortages and steeper shipping costs, with the US being one of the developed economies that continued to experience severely elevated price pressures.

China's factory gate inflation is likewise expected to stay aloft as inflationary pressures picked up in September amid material shortages, according to the Caixin China General Manufacturing PMI. Retail sales will also be in focus after COVID-19 outbreaks receded.

In the UK, supply issues continued to snowball in the post-Brexit reality and official GDP data for August will provide an update to the extent to which growth has been hampered. As far as the IHS Markit/CIPS UK indicated, output growth had slowed sharply in the month, hit by the constraints. The UK's labour market data will also be eyed for signs of rising wage pressures.

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### Global inflation

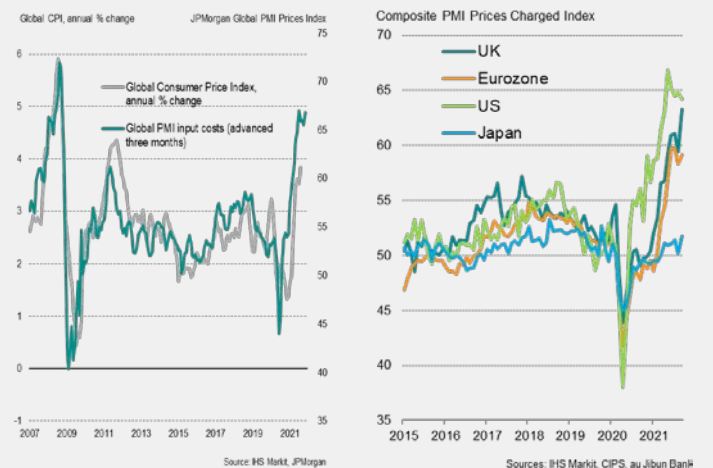
Global input cost inflation across both manufacturing and services reaccelerated in September to the second highest in 13 years, running just shy of May's recent peak, according to the latest PMI surveys.

Over the past 14 years, the PMI input cost series has exhibited a 79% correlation with global consumer price inflation, with the PMI acting with a lead of three months. As such, the index hints at inflation remaining elevated in coming months, at least through to the end of the year. The latest official data showed consumer prices rising globally at an annual rate of 3.8%, its highest since late-2011.

While manufacturers continued to report the steepest cost pressures, and subsequent feed through of those costs to selling prices, inflation remained widespread in the service sector globally in September. Services costs rose on average at the second-sharpest rate since September 2008, linked in part to accelerating wage rates in many countries. Service sector selling prices also increased at a quicker rate.

While the US has seen the steepest rise in selling price inflation for goods and services since the recovery from the initial pandemic lockdowns began, the gap has closed notably with the UK, where average price inflation for goods and services greatly exceeded anything seen before in the 21-year data history. In contrast, US selling price inflation eased further from May's recent peak, and the rate of price increase in the eurozone remained below the two-decade highs seen in June and July, albeit creeping higher. Prices in Japan meanwhile rose far more modestly, though nevertheless posted the largest increase since October 2019.

### Global PMIs and inflation



## Key diary events

### Monday 11 Oct

US, Canada, South Korea, Taiwan Market Holiday  
China (Mainland) M2, New Yuan Loans, Loan Growth (Sep)

### Tuesday 12 Oct

South Korea Bank of Korea Base Rate (Oct)  
Malaysia Industrial Output (Aug)  
United Kingdom labour market statistics, incl. vacancies, wages and unemployment rate (Aug)  
Germany ZEW Economic Sentiment (Oct)  
India CPI (Sep)  
India Industrial Output (Aug)  
United States JOLTS Job Openings (Aug)

### Wednesday 13 Oct

Thailand Market Holiday  
Japan Machinery Orders (Aug)  
Germany HICP (Sep, final)  
United Kingdom Monthly GDP, incl. Manufacturing, Services and Construction Output (Aug)  
United Kingdom Goods Trade Balance (Aug)  
Eurozone Industrial Production (Aug)  
United States CPI (Sep)  
China (Mainland) Trade (Sep)  
US Fed FOMC Meeting Minutes (Sep)

### Thursday 14 Oct

Hong Kong Market Holiday  
Thailand BOT Meeting Minutes (Sep)  
Singapore MAS Monetary Policy Decision (Oct)  
United Kingdom RICS Housing Survey (Sep)  
Singapore GDP (Q3, flash)  
Australia Employment (Sep)  
China (Mainland) PPI, CPI (Sep)  
India WPI Inflation (Sep)  
United States Initial Jobless Claims  
United States PPI (Sep)  
Canada Manufacturing Sales (Aug)

### Friday 15 Oct

India Market Holiday  
New Zealand Manufacturing PMI (Sep)  
South Korea Export and Import Growth (Sep)  
Indonesia Trade Balance (Sep)  
Eurozone Reserve Assets Total (Sep)  
United States Retail Sales (Sep)  
Canada Wholesale Trade (Aug)  
United States Business Inventories (Aug)  
United States UoM Sentiment (Oct, prelim)

\* Press releases of indices produced by IHS Markit and relevant sponsors can be found [here](#).

## What to watch

### ■ Fed FOMC meeting minutes

The Fed FOMC September meeting minutes will be released next Wednesday in the US. Following a hawkish meeting whereby the tapering of bond buying was said to be 'soon' approaching, the minutes will be studied for hints on the exact timing that the Fed may go about withdrawing stimulus and, to a smaller extent, lean towards that first rate hike potentially in 2022. IHS Markit continue to forecast the first hike in the Fed funds target rate to occur in the second half of 2023.

### ■ US inflation, retail sales data

US September CPI and PPI are due over the course of next week alongside retail sales data. Consensus expectations currently point to core CPI picking up slightly to 0.2% from 0.1% in August and headline CPI rate of increase to hold at 0.3% month-on-month. The latest [IHS Markit US Composite PMI](#) signalled that inflationary pressures remained historically high, although month-on-month inflation pressures eased in September amid a slower rise in service sector prices.

Meanwhile retail sales are expected to fall by 0.2% in September from a 0.7% gain in August. [IHS Markit US Sector PMI](#) data showed that output in the consumer goods sector saw slower growth in September, inked in part to shortages and the Delta wave.

### ■ China trade and inflation data

China's trade and inflation data will be out on Wednesday and Thursday respectively. [Caixin China General Manufacturing PMI](#) sub-indices indicated inflationary pressures picking up amid supply shortages that could keep the PPI elevated. Exports meanwhile continued to decline in the manufacturing sector.

### ■ UK data watch

August GDP for the UK, alongside labour market and trade data, will be eagerly assessed by policymakers as the BoE seeks to reduce its asset buying. UK growth had slowed in August, according to data compiled by IHS Markit and CIPS, with shortages of staff and raw materials hampering the economy [further into September, with Brexit adding to export headwinds](#).

### ■ BOK, MAS policy decisions

Monetary policy committee in South Korea and Singapore updates monetary policy decision next week. Singapore will also provide an early indication on growth with advance Q3 GDP release on Thursday.

**Special report:** [Australia's Exports Surge Despite China's Trade War](#) Rajiv Biswas | [page 4](#)

## Recent PMI and economic analysis from IHS Markit

Global	<a href="#">Global auto makers suffer record underperformance amid supply chain delays</a>	7-Oct	Chris Williamson
	<a href="#">Global manufacturing prices spike higher amid supply constraints, but demand pressures show signs of easing</a>	4-Oct	Chris Williamson
	<a href="#">Global manufacturing subdued by supply constraints, but pressures from Delta wave show signs of easing</a>	1-Oct	Chris Williamson
	<a href="#">Developed world economies hit by slower growth and rising prices</a>	24-Sep	Chris Williamson
	<a href="#">Understanding ... headline PMI vs. subindices: how signals can be lost by focusing exclusively on the headline PMI</a>	21-Sep	Chris Williamson
	<a href="#">Hints of stagflation cause fresh headaches for central banks</a>	10-Sep	Chris Williamson
	<a href="#">Monthly PMI Bulletin: September 2021</a>	8-Sep	Chris Williamson, Jingyi Pan
US	<a href="#">Delta wave hits hospitality, autos, tech and construction, boosts healthcare</a>	7-Sep	Chris Williamson
	<a href="#">US sector data show economic growth slowing across consumer, tech and financial sectors</a>	5-Oct	Jingyi Pan
Europe	<a href="#">US equity investor sentiment slides to lowest for a year amid COVID-19 and policy concerns</a>	15-Sep	Chris Williamson
	<a href="#">UK Flash PMI sends stagflation warning as growth wanes but prices rise at record rate</a>	23-Sep	Chris Williamson
APAC	<a href="#">Eurozone flash PMI at five-month low as economy hit by bottlenecks and soaring prices</a>	23-Sep	Chris Williamson
	<a href="#">UK economy slows as demand rebound fades and supply constraints bite</a>	13-Sep	Chris Williamson
	<a href="#">UK construction activity hit by unprecedented shortages and cost pressures</a>	7-Sep	Chris Williamson
	<a href="#">Vietnam economy slump persists into September amid worsening supply constraints</a>	1-Oct	Jingyi Pan
Commodities	<a href="#">Rising COVID-19 cases and supply chain disruptions overshadow Olympic Games boost</a>	20-Sep	Usamah Bhatti
	<a href="#">Thailand: COVID-19 Delta Wave Disrupts Economic Recovery</a>	16-Sep	Rajiv Biswas
	<a href="#">APAC Electronics Industry Hit by Escalating Supply Chain Disruptions</a>	10-Sep	Rajiv Biswas
	<a href="#">Asia economic downturn spreads as supply constraints hit more sectors</a>	8-Sep	Jingyi Pan
	<a href="#">Weekly Pricing Pulse: Soaring energy prices send commodities higher</a>	6-Oct	Michael Dall

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# Special Focus

## Australia's Exports Surge Despite China's Trade War

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*South Australian merchandise exports have surged during the first eight months of 2021, rising by 25.6% compared to the same period a year ago. The strong export performance has been boosted by high international prices for several of Australia's most important commodity exports, notably iron ore and coal. Consequently, Australia's trade surplus reached a record monthly high of AUD 15.1 billion in August 2021.*

*Despite a wide array of trade measures by China against many key Australian exports, Australian merchandise exports to mainland China have soared, rising by 34.8% year-on-year in the first eight months of 2021.*

*Meanwhile some Australian exports are diversifying towards other major export markets in Asia. Notably, the combined GDP of India and the ASEAN region amounts to around USD 6 trillion, or around four times the size of Australia's economy, and will be fast-growing export markets.*

### The escalation of trade tensions between China and Australia

China-Australia trade tensions have escalated significantly in 2020-21, with Australian exports of goods having been impacted by an increasing array of trade policy actions by China. China applied trade measures during 2020 to a large number of major Australian exports, including coal, wine, seafood and barley. Meanwhile key Australian services exports to China, notably international education and tourism, have also been disrupted as a result of Australia's hard border closure due to the COVID-19 pandemic.

Prior to the China-Australia trade war, there had been mounting concerns in recent years about Australia's vulnerability to disruptions in bilateral trade with mainland China. Since 2000, mainland China has

rapidly become the largest export market for Australia. These developments have resulted in mounting concerns about the economic implications to the Australian economy from a protracted disruption of Australian exports to China.

Mainland China has become by far the largest export market for Australia, accounting for a third of Australia's total goods and services exports by 2019, according to the Australian Bureau of Statistics. The importance of mainland China as an export market for Australia has increased dramatically over the past two decades, with Australian exports to mainland China having grown from just AUD 8.8 billion in the 2000-01 financial year to AUD 168 billion in the 2019-20 financial year.

Consequently, Australia has become increasingly vulnerable to trade sanctions by China on its exports. Due to escalating frictions on a wide range of issues, bilateral trade tensions have increased significantly during 2020-21. As former Australian Prime Minister Kevin Rudd rather colourfully remarked recently, "Australia has been on the rough end of the pineapple in the relationship with China".

With key Australian exports of services such as international education and tourism to mainland China already having come to a halt due to the COVID-19 pandemic and the hard border closures, the focus of China's trade policy actions has been on Australian exports of goods.

Even during 2019, there had been some temporary disruptions of Australian coal shipments to certain Chinese ports, with long delays in permission to unload Australian coal cargoes at Chinese ports. These disruptions became much more severe during the second half of 2020. The situation deteriorated further in 2021, with Chinese imports of Australian coal coming to a complete halt during the first three quarters.

In May 2020, the Chinese government also imposed punitive tariffs on Australian exports of barley to China, amounting to a combined 80.5% tariff on Australian barley. China's General Administration of Customs said barley shipments from Australia would be halted after they stated that pests were found on multiple occasions.

There has been a more intense escalation in trade measures by China in relation to Australian products since early November 2020. These measures, which include unofficial guidelines to Chinese importers as well as other non-tariff measures such as customs procedures, have created considerable concern amongst Australian exporters of a wide range of products. The scope of the Chinese policy measures



included beef, lobster and wine, three product categories for which mainland China is Australia's largest end market.

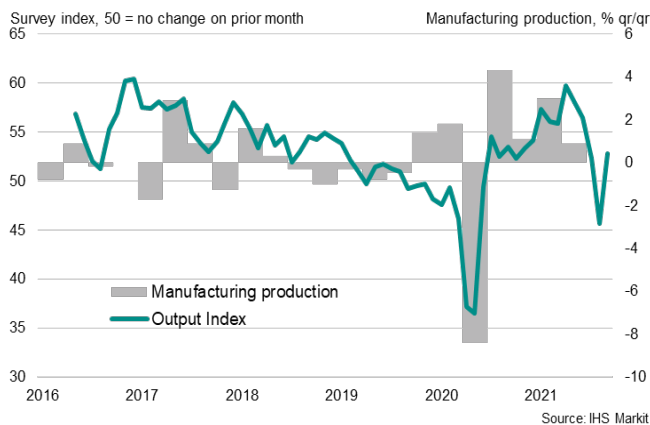
## Australia's export boom will mitigate domestic slowdown

The Australian economy had rebounded strongly during the first half of 2021, but growth momentum has been hit during the third quarter of 2021 due to the new COVID-19 Delta wave outbreak. As Reserve Bank of Australia (RBA) Governor Philip Lowe stated on 5th October 2021 in his speech on the RBA's Monetary Policy Decision:

*"The Delta outbreak has interrupted the recovery of the Australian economy and GDP is expected to have declined materially in the September quarter. The outbreak is affecting many parts of the economy, but the impact is uneven, with some areas facing very difficult conditions while others are continuing to grow strongly."*

Consequently, in the third quarter, the strong performance of exports will help to mitigate the negative impact to GDP growth from weak domestic demand.

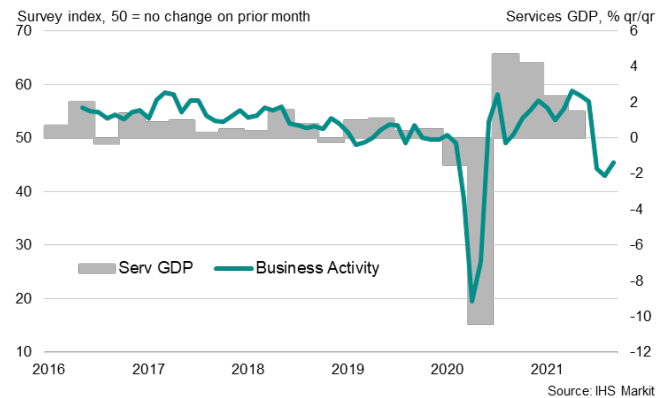
### IHS Markit Australia Manufacturing PMI



In September, growth of the Australian manufacturing sector accelerated once again after having slowed in August. The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index (PMI) posted 56.8 in September, up from 52.0 in August, to signal a sixteenth consecutive month of expansion and faster rate of improvement. Production and new orders showed expansion, although suppliers' delivery times continued to worsen sharply, contributing to severe price pressures for the manufacturing sector.

Reflecting the impact of renewed lockdowns in Sydney and Melbourne, as well as other regional lockdowns, the services sector has experienced contractionary conditions during the third quarter of 2021. The seasonally adjusted IHS Markit Services PMI Business Activity Index was at 45.5 in September, still signalling contractionary conditions, albeit up from 42.9 in August.

### IHS Markit Australia Services PMI Business Activity Index



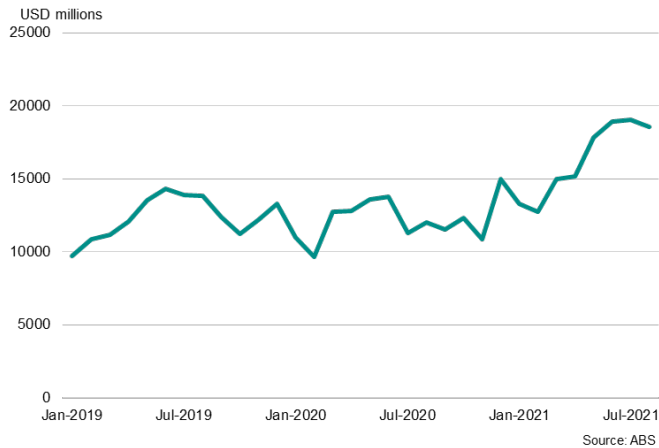
## Australia's export surge in 2021

Despite China's trade measures against Australian exports during 2020-21, total Australian merchandise exports during 2020-21, total Australian merchandise exports were up by 25.6% y/y in the first eight months of 2021. Rising exports to mainland China were a key driver for the overall surge in Australian merchandise exports, contributing about 55% of the total increase in exports during this period.

The surge in Australian exports of goods to mainland China in the first eight months of 2021 was heavily driven by exports of iron ore. This reflects the strong rebound in Chinese industrial output during the first half of 2021, which helped to boost steel demand and imports of iron ore. Furthermore, high international iron ore prices during the first eight months of 2021 buoyed iron ore export values, with supply side disruptions to iron ore production in other key producers, notably Brazil.

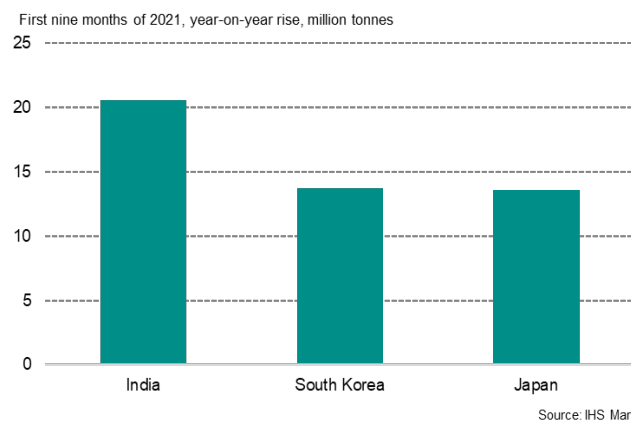
In recent years, China has also been a key market for Australian coal exports, although this has been heavily impacted by China's trade measures in 2020-21. During the second half of 2020, Australian coal shipments to China faced severe disruptions, with many shipments delayed at Chinese ports.

### Australian Exports of Goods to China



The situation for Australian coal exports to China deteriorated further during 2021. According to IHS Markit's Commodities at Sea Insight (Coal) Australia report of 15<sup>th</sup> September 2021, mainland China did not import any Australian coal in the first three quarters of 2021. This is compared with a total of 71 million tonnes of Australian coal shipped to mainland China in 2020. However, despite the collapse in Australian coal exports to mainland China in 2021, Australian coal exports worldwide in the first eight months of 2021 were estimated at 245 million tonnes, almost the same volume as in the same period a year ago.

### Growth Markets for Australian Coal Exports



Although Australian coal exports to mainland China have ceased during the first three quarters of 2021, the collapse in Chinese import demand has been largely offset by substantial increases in Australian coal exports to Japan, India, South Korea and Taiwan. In value terms,

Australian coal exports have also been buoyed by strong global traded thermal coal prices. Australian Newcastle thermal coal export prices have surged from around USD 50 per ton in September 2020 to USD 203 per ton by 1<sup>st</sup> October 2021, according to the IHS Markit Australian Coal Report (6<sup>th</sup> October 2021). Meanwhile China has faced an escalating energy crisis during late 2021, resulting in power shortages going into the winter season. This has reflected a number of factors, On the demand side, Chinese electricity demand has risen sharply during 2021 as a result of the nation's strong economic rebound, with thermal power generation having risen by 14% year-on-year in the first eight months of 2021. However, this has resulted in pressure by China's National Development and Reform Commission on a number of provincial governments for failing to meet energy emission targets as part of China's national strategy to reduce carbon emissions.

Surging international coal and natural gas prices have added to the challenges facing China's power sector. As a result of the worsening energy crisis, China decided to release one million tonnes of Australian coal that had been stored in bonded warehouses in Chinese ports as a result of the bilateral trade war.

In contrast to coal, mainland China's imports of Australian LNG have reached record levels. In the 2020-21 financial year, Australian LNG exports to mainland China reached 30.7 million tonnes, up 7.3% y/y. This has made China the largest LNG export market for Australia. Surging Asian natural gas prices heading into the winter season are also boosting Australian LNG export values, with the spot price having spiked to a record high of USD 56 per million British thermal units (mmBtu) in the first week of October.

### Australian export outlook

Over the past decade, many Australian export industries had become increasingly vulnerable to potential disruptions of market access to mainland China due to rising concentration risk to that single market. This had become well recognized as a key risk by Australian policymakers and industry leaders in recent years although little concrete policy action was taken by companies to reduce their vulnerability to such trade concentration risk.

While Australia is unlikely to embark on any kind of tit-for-tat retaliatory trade measures, particularly given the very asymmetric bilateral trade relationship with China, the policy implications for Australia are that most Australian export industries with significant exports to

mainland China will be urgently and rather belatedly looking at diversification strategies to reduce their vulnerability to future Chinese trade policy measures. It seems clear that any hopes of a return to “business as usual” have become a rapidly receding mirage.

However, the Australian government had lodged a formal complaint at the World Trade Organization in June 2021 in regard to China’s anti-dumping duties applied to Australian wine. After unsuccessful consultations were held with China in August 2021, the Australian Government requested that the WTO set up a dispute resolution panel to examine the matter.

Australia had also lodged a complaint at the WTO in 2020 in relation to China’s anti-dumping duties on Australian barley, and the WTO has agreed in May 2021 to establish a dispute resolution panel on this matter.

In the near-term, the overall negative shock to Australian exports from a macroeconomic perspective has been mitigated by the strong growth in iron ore export values as well as diversification of coal exports to other key markets in Asia. Indeed, Australian exports of goods actually showed a strong positive growth rate in the first eight months of 2021 compared to the same period a year ago.

However, the process of trade diversification for the wider cross-section of industries with high exposure to China is likely to be gradual, over a protracted period of time, as different industries look to diversify into a wider range of export markets.

Moreover, there has been a significant easing of world iron ore prices in the third quarter of 2021, as recovering Brazilian production and some softening in steel demand dampened high world price levels. While this will lower the value of Australian iron ore exports, the overall impact is being mitigated in the near-term by surging traded thermal and metallurgical coal prices as well as rising Asian LNG prices.

Australia’s membership of the CPTPP and RCEP regional free trade agreements is likely to help this process of export market diversification over the next five to ten years. The RCEP trade deal, which was signed in November 2020, includes the ten ASEAN member nations as well as Japan and South Korea. The CPTPP free trade agreement, which has already been implemented, includes Japan, Canada and Mexico. The UK has also applied for accession to CPTPP, with South Korea have also signalled potential interest, which would further deepen the importance of CPTPP as a key multilateral trade deal.

Meanwhile China’s application to join the CPTPP lodged in September 2021 would require the approval of all the CPTPP members in order for accession talks to commence.

Furthermore, Australia also has a growing network of free trade agreements with key trade partners. One important recent FTA is the bilateral free trade agreement with Indonesia, the Indonesia-Australia Comprehensive Economic Partnership Agreement, which is expected to significantly improve market access for Australian exports to this nation, which is one of the world’s largest emerging markets.

Despite the tremendous challenges of significantly diversifying its export markets, Australia will benefit from its proximity to many large consumer markets across the Asia-Pacific region. India is already the world’s sixth largest economy, with GDP amounting to around USD 3 trillion, with its consumer market forecast to grow strongly over the next decade. The ASEAN region has also become a very large consumer market with a total regional GDP of USD 3 trillion, with a population of around 660 million. Consequently, ASEAN and India, with a combined GDP of USD 6 trillion, or around four times larger than Australia’s GDP, are likely to be high priorities for Australia’s export diversification strategy over the decade ahead.