

# Monthly Economic Report

November 19, 2021

Mizuho Research & Technologies, Ltd.

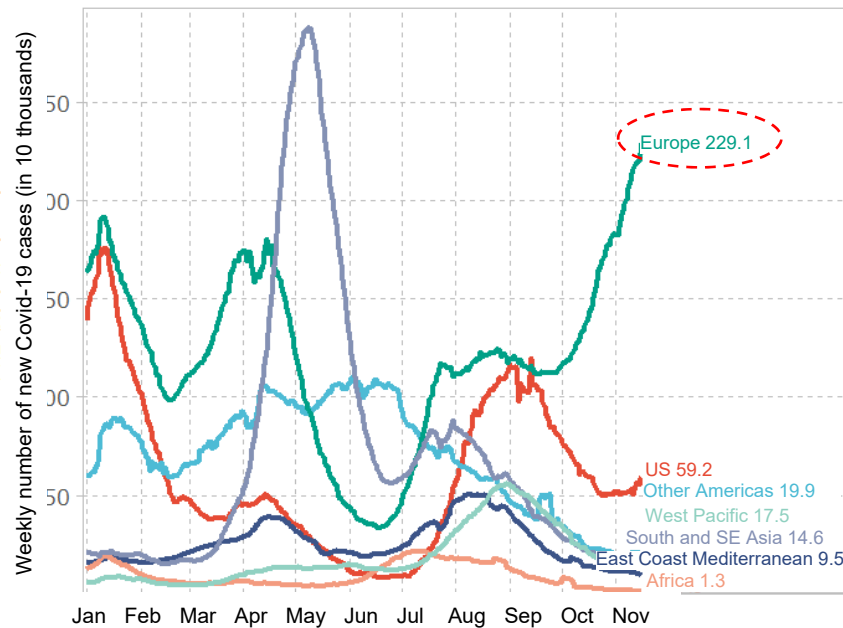
**MIZUHO**

The Mizuho logo consists of the word "MIZUHO" in a bold, white, sans-serif font, positioned above a thin, white, curved line that resembles a stylized wave or a bridge.

# Global Covid-19 infection trends: infections in Europe are spreading further

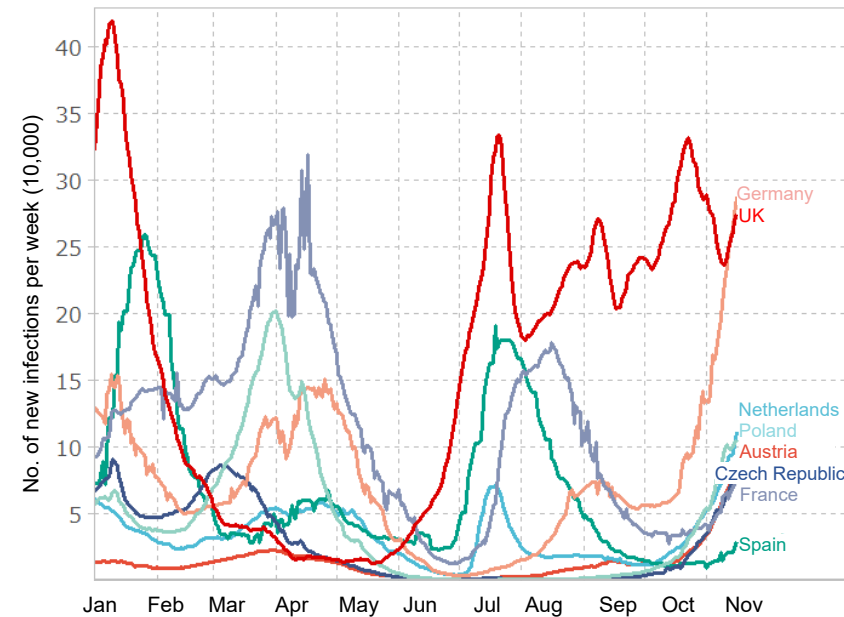
- The number of Covid-19 cases worldwide (cumulative) reached 254.38 million as of the morning of November 18.
- The weekly number of new Covid-19 cases around the world stood at 3.51 million (previous week 3.27 million), continuing its increasing trend.
  - In Europe, the weekly number of new cases was 2.39 million, far exceeding the peak level of 2.12 million in November 2020.
  - The increase in cases in Germany was particularly striking, with the number of new cases marking more than four times that of a month ago. Additionally, infections have spread across a wide range of regions in Eastern, Western, and Southern Europe. The number of infections in the UK, which appeared to have peaked out, is resurging.
  - In addition, infections are currently resurging also in the US. There are risks that infections will spread further due to various events during the holiday season.

**Weekly number of new Covid-19 cases reported worldwide**



Note: Figures represent number of cases tallied as of November 18 (latest data as of November 16).  
Regional classification based upon WHO.  
Source: Made by MHRT based upon Johns Hopkins University and WHO.

**Weekly number of new Covid-19 cases in European countries**

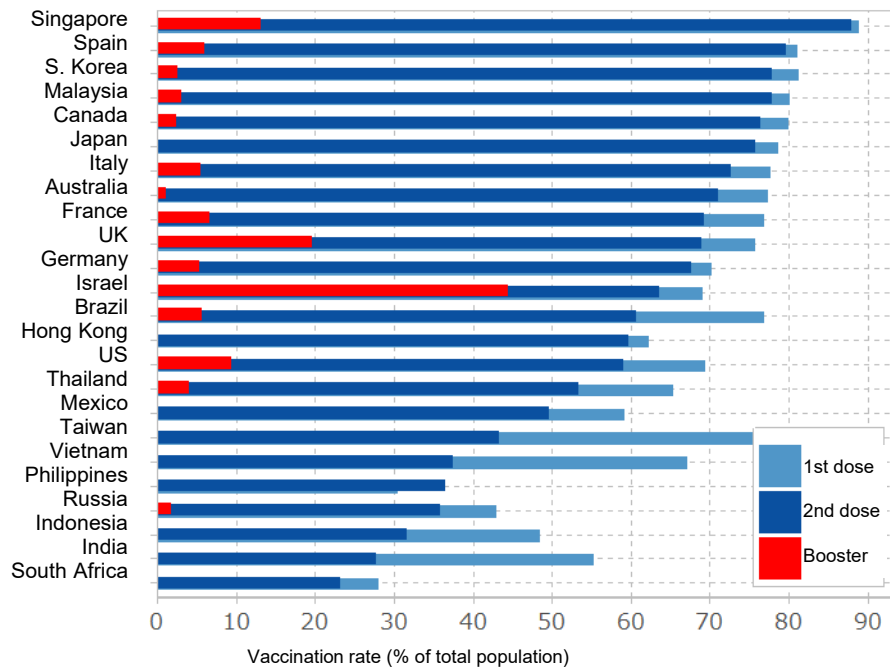


Note: Figures represent number of cases tallied as of November 18 (latest data as of November 16).  
Source: Made by MHRT based upon Johns Hopkins University.

# Global vaccination trends: booster vaccinations progressing in the UK and US

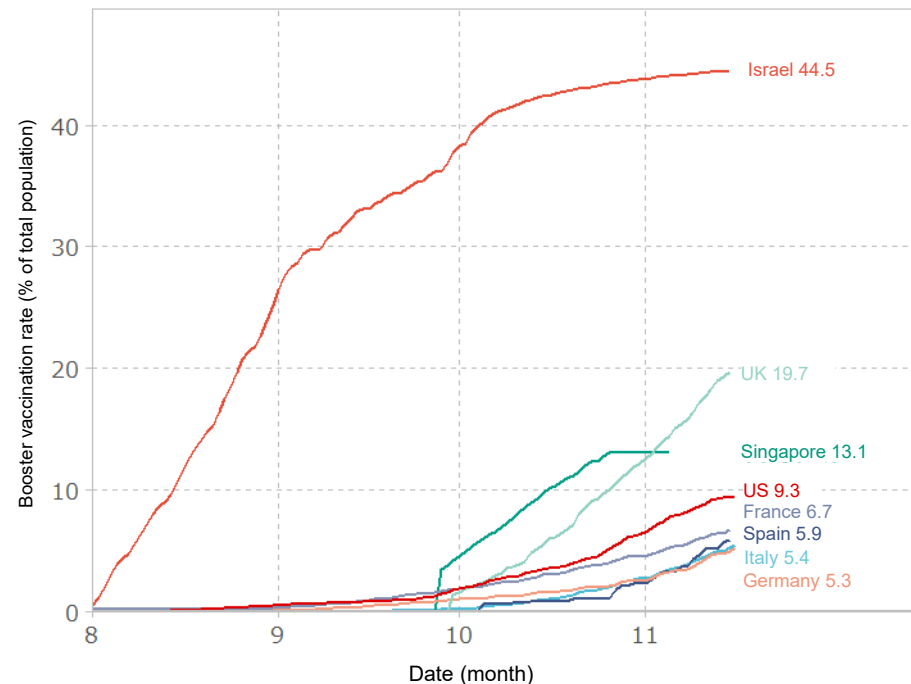
- In the UK, the booster vaccination rate (relative to the total population) rose to around 20%.
  - In the US as well, the booster vaccination rate has risen to just under 10%. Although there is a discontinuity in Singapore's data, there is a possibility that its current booster vaccination rate is rising at the same rate as in the UK.
  - In continental European countries, such as Germany, the pace of increase of the booster vaccination rate is slow at about 5% to 6%. Rates are expected to rise after the beginning of 2022, when the number of people eligible for booster vaccinations will increase.

**Vaccination rate in major countries (percentage of the total population)**



Note: Figures represent data tallied as of November 18 (latest data is from November 16)  
 Source: Made by MHRT based upon *Our World in Data*

**Trends in booster vaccination rates (percentage of the total population)**

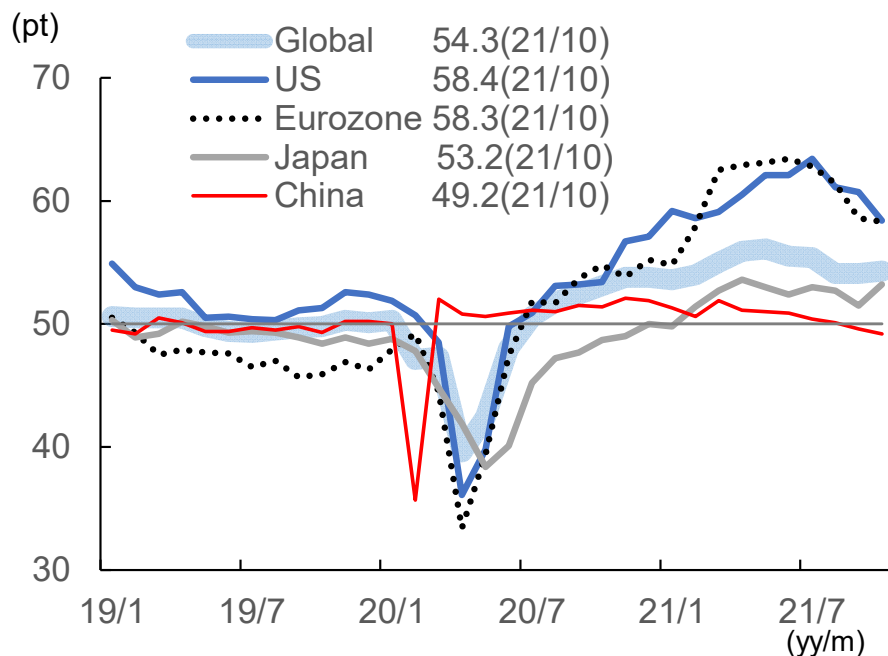


Note: Figures represent data tallied as of November 18 (latest data is from November 16)  
 Singapore discontinued to reveal data.  
 Source: Made by MHRT based upon *Our World in Data*

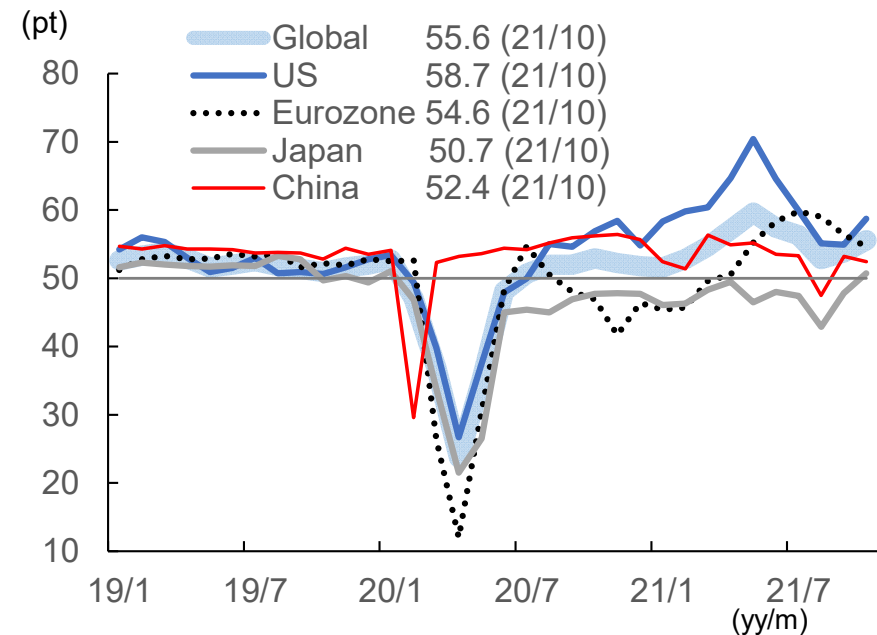
# Current state of the global economy: manufacturing PMIs in Japan and the US rise amid fears of economic slowdown

- In the US, where the number of new Covid-19 cases fell, the nonmanufacturing PMI rose.
  - Likewise in Japan, the nonmanufacturing PMI improved following the lifting of the declaration of a state of emergency in October.
  - However, in the Eurozone, where the number of new Covid-19 cases is rising again, the nonmanufacturing PMI fell.
- On the other hand, manufacturing PMI fell in the US and Europe. Supply constraints, such as motor vehicle production adjustments due to semiconductor shortages, served as a drag.
  - In China, the October manufacturing PMI fell below 50 for the second consecutive month due to the impact of electric power shortages.

## Manufacturing PMI



## Nonmanufacturing PMI



Note: The Purchasing Managers' Index (PMI) is an index calculated by weighting indexes such as new orders, output, order backlogs, prices, employment, and quantity of purchases. The reading of 50 in the PMI is the "expansion-contraction" threshold.

Source: Made by MHRT based upon IHS Markit, the National Bureau of Statistics of China.

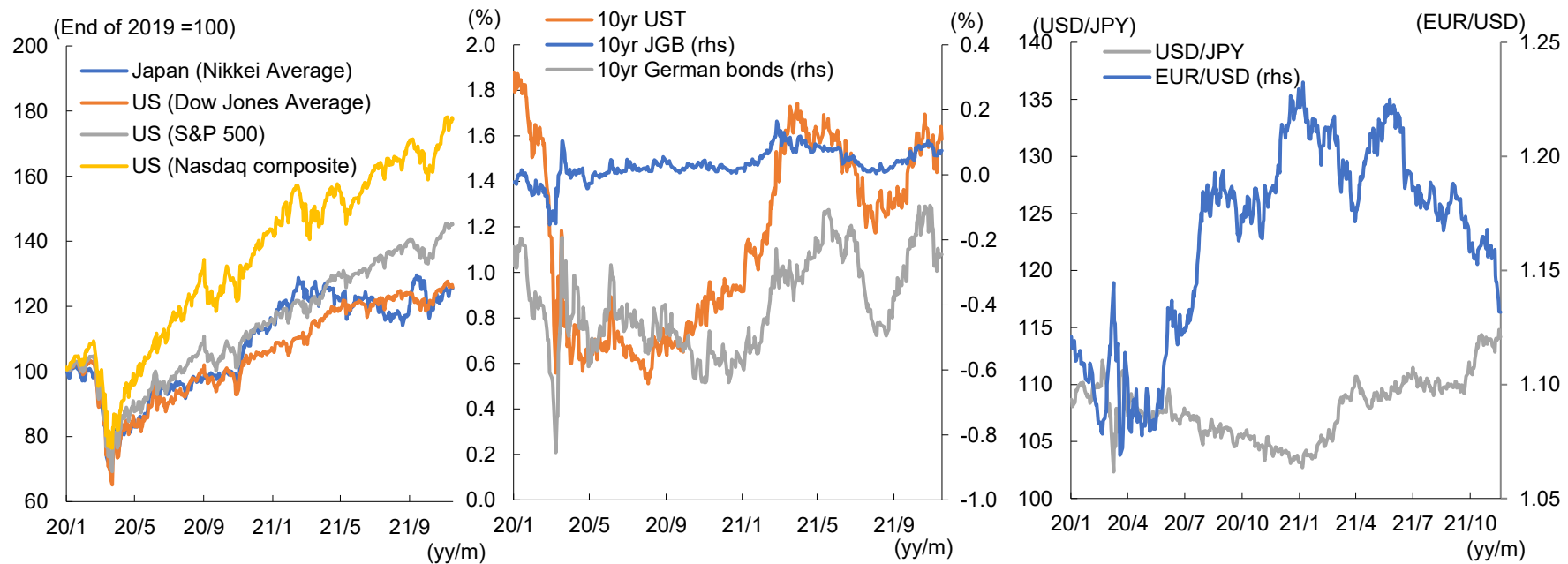
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Source: Made by MHRT based upon IHS Markit, the National Bureau of Statistics of China.

# Overview of financial markets: US long-term interest rates rose reflecting inflation concerns

- US long-term interest rates rose, reflecting rising inflation concerns. In the EUR/USD exchange rates, the euro weakened to the 1 EUR=1.13 USD level.
  - Although US stocks hit record highs on November 8 on the back of favorable corporate earnings, they fell slightly due to concerns regarding inflation after the release of the US CPI for October. Japanese stocks remained steady in the mid 29,000 yen range due to factors such as the expectations toward economic measures.
  - While the 10yr UST yield temporarily fell to the low 1.4% range reflecting the FRB's cautious stance on interest rate hikes and the Bank of England's decision forego rate hikes, concerns regarding inflation subsequently increased as the October US CPI exceeded market expectations, leading to the rise of the UST yield to the 1.6% range.
  - The US dollar strengthened due to the rise in US interest rates. The EUR/USD exchange rate reached the 1 EUR=1.13 USD level, the highest dollar level since July 2020 on a closing basis.

## Major market trends

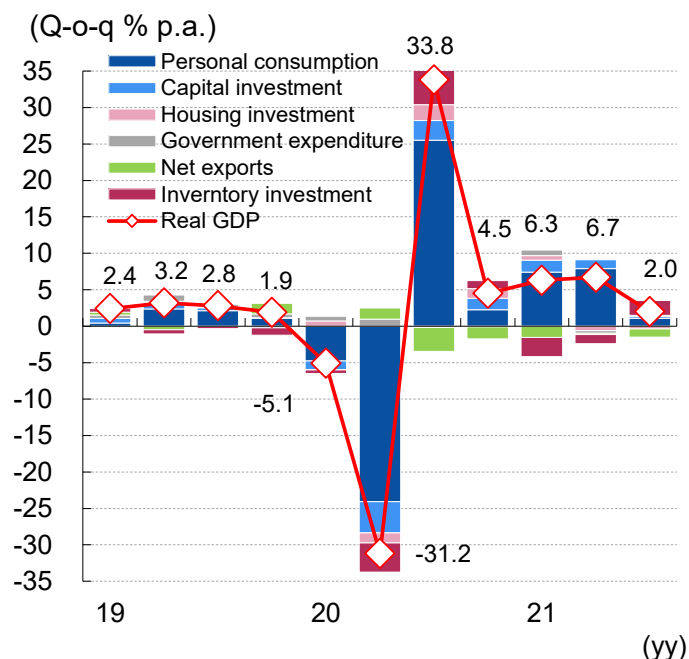


Note: All indexes show actual results up to November 17.  
 Source: Made by MHRT based upon Refinitiv.

# US Economy: Jul-Sep quarter GDP growth rate slowed sharply. The impact of supply constraints exceeds expectations

- The real GDP growth rate in the Jul-Sep quarter (first estimate) slowed sharply to +2.0% q-o-q p.a. The impact of supply constraints continues to strongly influence GDP, such as a large drop in motor vehicle-related components.
  - Due to semiconductor shortages, motor vehicle consumption (-53.4% q-o-q p.a.), motor vehicle investment (-27.8% q-o-q p.a.), and motor vehicle exports (-6.8% q-o-q p.a.) fell sharply. Housing investment (-7.7% q-o-q p.a.) declined due to materials and manpower shortages. Inventory investment (contribution rate +2.1% pt) turned positive, but was weaker than expectations.

## Real GDP growth



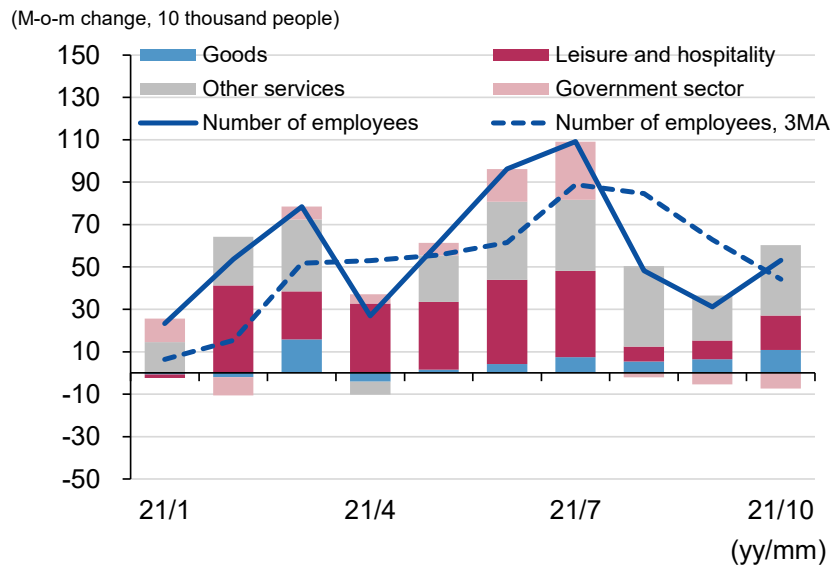
	21Q1	21Q2	21Q3	Key Points
<b>Real GDP</b>	+6.3	+6.7	+2.0	Growth slowed sharply in the Jul-Sep quarter
<b>Personal consumption</b>	+11.4	+12.0	+1.6	Goods consumption (-9.2% q-o-q p.a.) fell sharply (however, if you exclude motor vehicles it generally remains unchanged). Service consumption (+7.9% q-o-q p.a.) decelerated partly due to the fourth wave of Covid-19 infections.
<b>Housing investment</b>	+13.3	-11.7	-7.7	Deteriorated for the second consecutive quarter. Continued shortage of materials and manpower served as a drag on housing construction activities.
<b>Capital investment</b>	+12.9	+9.2	+1.8	Rapid slowdown. IT investment, which had been steady, showed signs of pausing, partly reflecting the impact of semiconductor shortages.
<b>Inventory investment (※)</b>	-2.6	-1.3	+2.1	The pace of inventory reduction eased, including for motor vehicle dealers, and turned the contribution rate positive. However, inventory recovery has not been achieved amid strong supply constraints.
<b>Government expenditure</b>	+4.2	-2.0	+0.8	The expiration of the financing program for small and medium-sized enterprises (Paycheck Protection Program, PPP) served as a drag, but increased investment by local governments became a support.
<b>Net exports (※)</b>	-1.6	-0.2	-1.1	The contribution of external demand was negative due to decreased exports and increased imports.
<b>Exports</b>	-2.9	+7.6	-2.5	Declined. In addition to motor vehicles, agricultural products (presumably due to Hurricane Ida and container shortages) served as a drag on overall exports.
<b>Imports</b>	+9.3	+7.1	+6.1	Steady growth. Goods imports were weak, but service imports, particularly travel and patent fees, increased substantially.

Source: Made by MHRT based upon US Department of Commerce.

# Employment is steadily expanding. Sluggish labor supply recovery and manpower shortages serve to accelerate wage growth

- Employment recovered in a wide range of industries (October: +531 thousand m-o-m, September: revised upward from +194 thousand m-o-m to +312 thousand m-o-m)
  - Employment of services requiring face-to-face interactions, such as restaurants, accommodation, and hospitality, recovered due to a pause in the spread of infections.
  - The hiring of temporary workers continued to grow on the back of labor shortages. Steady increase in logistics-related employment (truck driving, warehousing, etc.) is observed even though industry is still experiencing insufficiencies.
- The labor force participation rate did not recover (unchanged at 61.6%) and the unemployment rate fell further to 4.6% (September: 4.8%). Wage growth remained high (+0.4% m-o-m) due to continuing tight labor supply and demand.
  - The labor force participation rate of those aged 55 and over remained at rock-bottom levels due to mass retirements, while the recovery in the 25-54 age group has stalled since the summer (presumably due to childcare).

## Number of employees by industry



Source: Made by MHRT based upon US Department of Labor.

## Private sector hourly wages by industry

Wage growth: weak ← (blue) → (red) strong

(M-o-m, % ch)

	Apr	May	Jun	Jul	Aug	Sep	Oct
Private sector	0.7	0.5	0.4	0.4	0.4	0.6	0.4
Construction	1.0	0.5	0.3	0.3	0.4	0.5	0.4
Manufacturing	0.6	0.6	0.3	0.5	0.3	0.5	0.4
Wholesales	0.4	0.4	0.1	0.6	0.3	0.4	0.5
Retail sales	0.9	0.9	0.5	0.0	0.3	0.8	-0.8
Transport/w arehousing	1.6	0.2	1.9	0.6	-0.4	0.3	1.0
Public services	0.5	0.5	0.1	0.5	0.6	0.2	-0.1
Information services	1.0	-0.3	0.2	0.0	0.0	0.1	0.5
Finance	0.1	0.7	0.1	0.0	-0.2	0.5	0.7
Professional and business services	0.7	0.8	0.4	0.4	0.6	0.4	0.7
Education and healthcare	1.2	-0.1	0.6	0.5	0.7	1.1	0.2
Leisure and hospitality	1.4	1.2	2.0	0.9	1.1	0.4	1.0

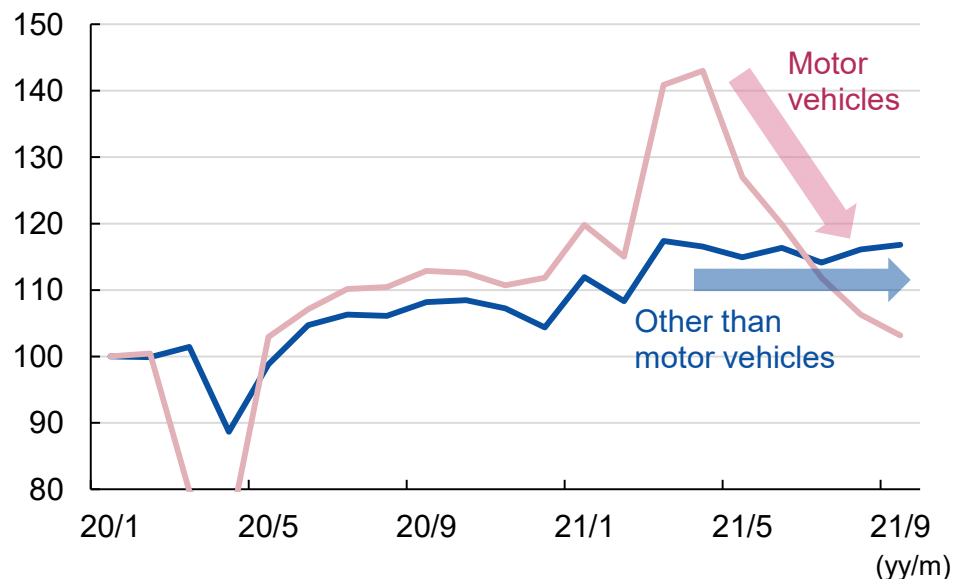
Source: Made by MHRT based upon US Department of Labor.

# Turning to September personal consumption, goods consumption steady except for motor vehicles, while accommodation services remain on a recovery trend

- In September, consumption in real terms rose +0.3% m-o-m. In goods consumption, even though motor vehicles continued to decline due to inventory shortages, overall goods consumption remained at a high level (+0.1% m-o-m). Service consumption (+0.4% m-o-m) is recovering as a whole, especially in services requiring face-to-face interactions, with accommodation services continuing to recover (however the last two months reflect the reopening of dormitories following the reopening of schools).
- The year-end bargain sales season is expected to be favorable. The recovery of services requiring face-to-face interactions consumption is also expected to continue, with the decrease in Covid-19 cases serving as a tailwind.
  - The National Retail Federation (NRF) is forecasting stable growth in year-end bargain sales of +8.5% to 10.5% y-o-y (2020: +8.2% y-o-y). Restaurant bookings through to late October (until October 24) expected to pick up from September.

## PCE (goods)

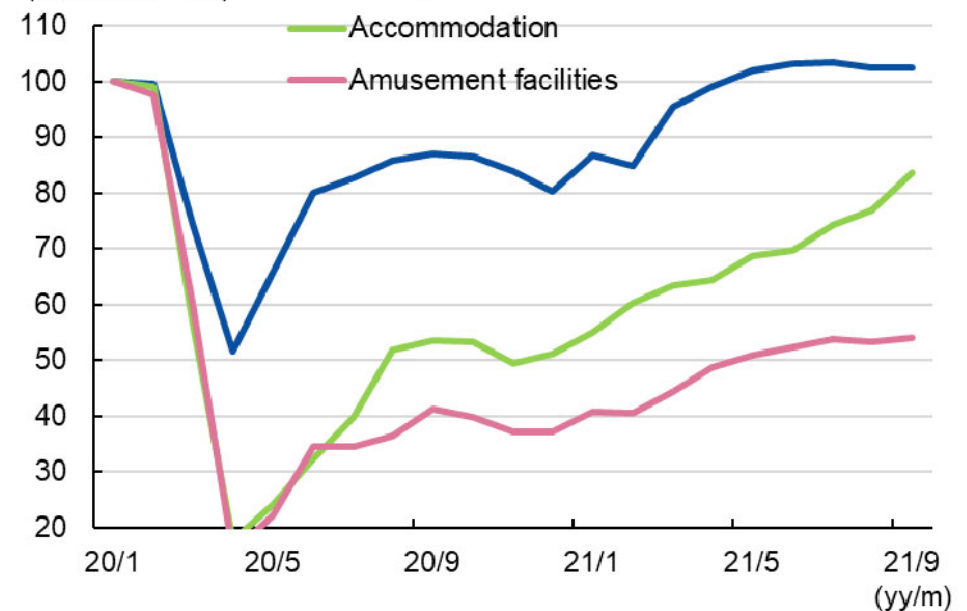
(Jan 2020 =100)



Source: Made by MHRT based upon US Department of Commerce.

## PCE (hospitality-related services)

(Jan 2020 =100)



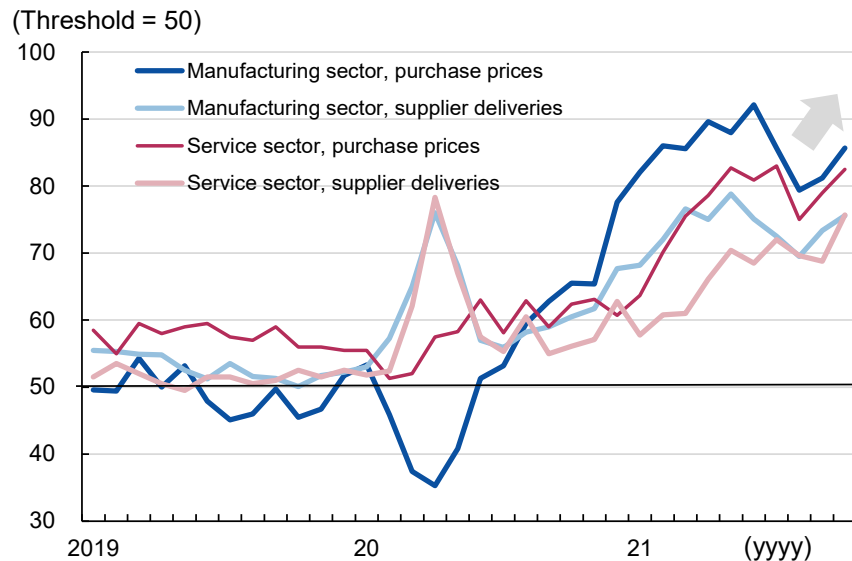
Source: Made by MHRT based upon US Department of Commerce.



# Business sentiment is favorable, but supply constraints have not eased. Corporations remain cautious regarding the timing of abatement of supply constraints.

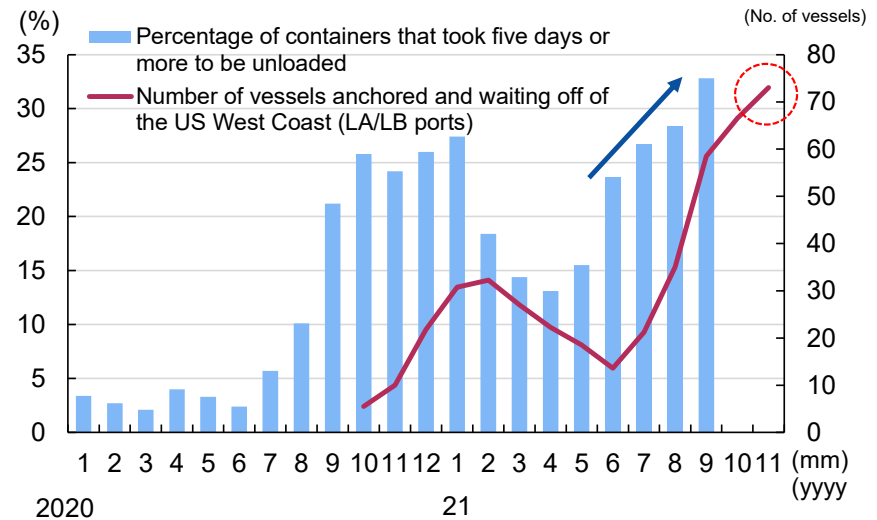
- The new orders index for both the manufacturing and service sectors remained at a high level of over 60, while the purchase price and supplier deliveries indices worsened slightly. As serious materials and manpower shortages, and disruptions in logistics networks continue, corporations are unable to meet strong demand.
  - The average lead time for materials was 96 days, increasing from the previous month (September average: 92 days). The number of containers waiting to be unloaded and vessels anchored and waiting offshore continues to increase.
- Corporations continue to be cautious about the early abatement of supply constraints. Pursuing further automated capabilities in anticipation of prolonged supply constraints may lead to alleviating said constraints.
  - In the October FRB survey, corporations' sentiment for supplier deliveries and purchase prices (six months ahead) failed to indicate improvement.
  - According to the Federal Reserve Bank of Kansas City's special survey, the number of respondents who said that they had invested in automation as a response measure increased from the July survey.

## ISM manufacturing / service sector indices



Source: Made by MHRT based upon Institute for Supply Management.

## Percentage of containers waiting to be unloaded for more than five days at LA/LB ports, and number of container ships anchored and waiting offshore



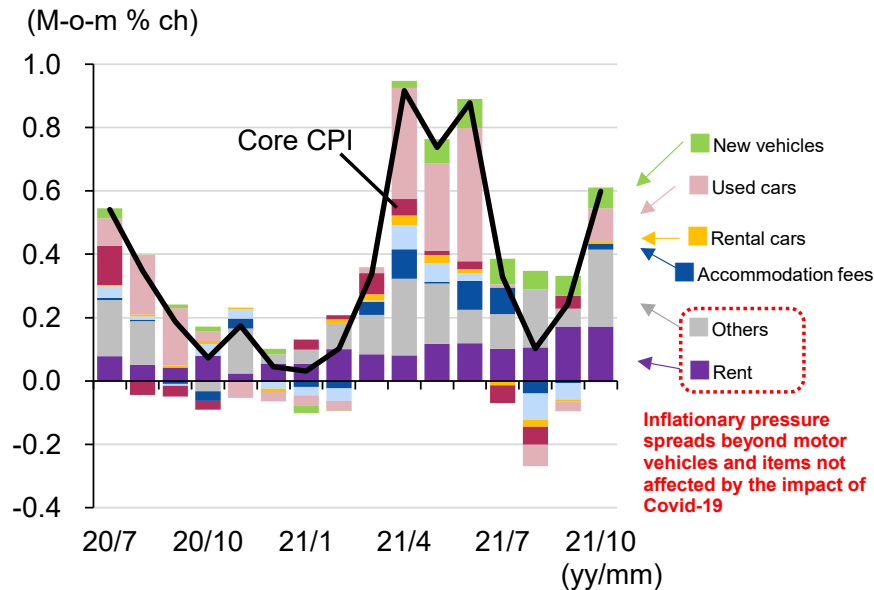
Note: Percentage of import containers waiting to be unloaded for more than five days at the US West Coast ports of Los Angeles and Long Beach. Empty containers are excluded.

Source: Made by MHRT based upon Port of Los Angeles.

# Inflation continues to accelerate. Inflationary pressures are increasing as the supply-demand balance among goods remains tight

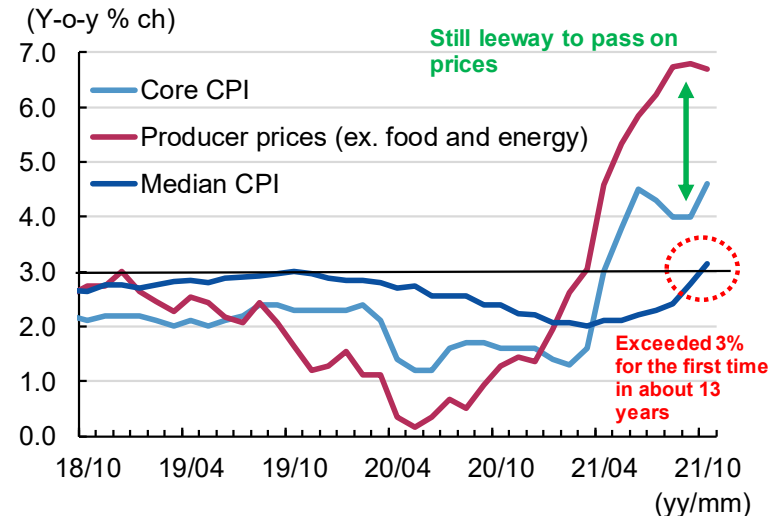
- In October, the core CPI accelerated by +0.6% m-o-m (September: +0.2% m-o-m). A pause in the spread of Covid-19 infections and tight supply-demand balance among goods put upward pressure on prices.
  - The motor vehicle-related sector, where inventories continue to be insufficient, lifted the entire CPI, and accommodation fees and other areas also pushed prices up due to the alleviation of concerns regarding Covid-19 infections.
  - Rents with a heavy weighting continued to be a factor lifting overall prices. The contribution level from "Other factors" is expanding, indicating an expansion of inflationary pressures.
    - ◆ The rise of the median CPI also accelerated from the previous month. On a year-on-year basis, it exceeded the post-financial crisis record of +3.0%.
- Based on the latest results, the October core PCE deflator is expected to accelerate to +4.0% y-o-y (September: +3.7% y-o-y).
  - Against the backdrop of supply constraints, producer prices are also expected to continue to rise at a high rate. Pressures to pass on costs to prices on the side of consumers could increase.

## Breakdown of Core CPI (m-o-m % ch)



Source: Made by MHRT based upon US Department of Labor.

## Median CPI and Producers Price Index



Note: The median CPI is the median value of the CPI for various items published by the US Department of Labor. Above are calculated values by the Federal Reserve Bank of Cleveland. The calculation removes the impact of volatile items and makes it possible to observe underlying inflation trends.  
 Source: Made by MHRT based upon US Department of Labor and the Federal Reserve Bank of Cleveland

# November FOMC decides upon tapering. Chair Jerome Powell prepares for risks while dismissing speculation on rate hike

- The statement mentioned for the first time the issues of high inflation due to "supply and demand imbalances related to the pandemic and the resumption of the economy." In addition to the widespread use of vaccinations, an outlook was presented mentioning "supply chain bottlenecks will abate and job growth will move back up. And as that happens, inflation will decline."
  - "It remains the case that the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic." (Press conference)
- In addition to the fact that "the risk... appears to be skewed toward higher inflation," the Committee seems also wary of the risk that the Pandemic will alter the labor market and that conventional knowledge about maximum employment will become invalid (the possibility that the "employment situation in February 2020 was not in a maximum employment situation," and risk of earlier-than expected rate hikes).

## Key points of the November FOMC

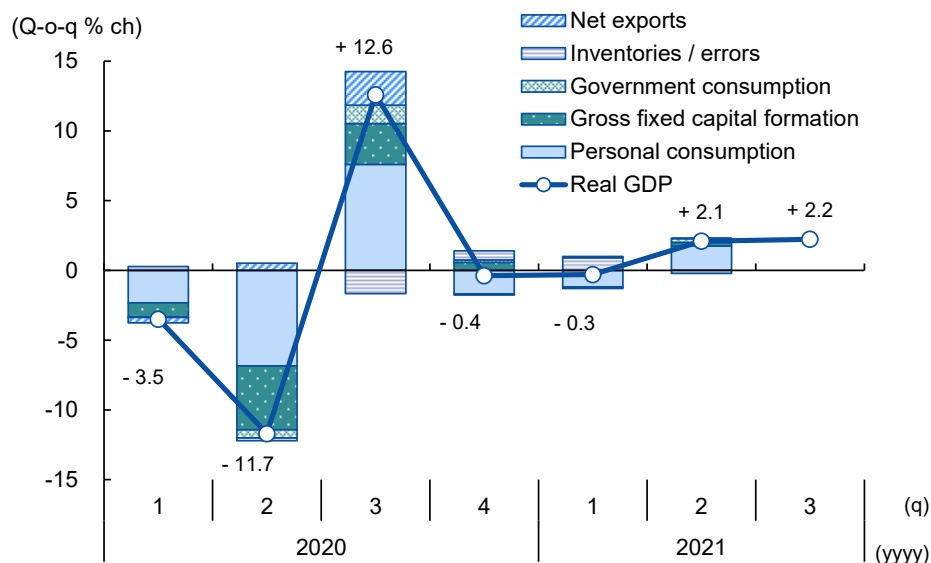
Points of discussion	Press conference
Supply constraints and inflation outlook	<ul style="list-style-type: none"> <li>● Supply bottlenecks and shortages will persist well into next year, and elevated inflation as well. As the pandemic subsides, supply chain bottlenecks will abate, job growth will move back up and inflation will decline. The timing of that is highly uncertain, but certainly <b>we should see inflation moving down by the second or third quarter next year.</b></li> <li>● The inflation that we're seeing is really not due to a tight labor market. It's due to bottlenecks, and its due to shortages. So, I think it's <b>not the classical situation where you have that precise tradeoff between inflation and unemployment.</b></li> </ul>
Rate hike conditions	<ul style="list-style-type: none"> <li>● In the FOMC's judgment, <b>it's very possible that the inflation test will already be met.</b></li> <li>● (Regarding maximum employment conditions) If you look at the progress made last year, if that pace were to continue, then <b>it's possible or likely to be achieved by the second half of next year.</b></li> <li>● <b>We have to be modest about whether the conventional knowledge about maximum employment obtained under low inflation is valid.</b></li> </ul>
Wage-price spiral	<ul style="list-style-type: none"> <li>● Wages increase rates have been moving up very strongly, but they've been running a little bit below inflation and close to back to zero in terms of the real increase. <b>We don't have evidence of a wage-price spiral.</b></li> </ul>
Risk management	<ul style="list-style-type: none"> <li>● We are prepared to speed up or slow down the pace of asset purchases.</li> <li>● We see higher inflation persisting, and we have to be in position to address that risk should it create a threat of more persistent, longer-term inflation. We are in <b>a position to be able to address the various potential outcomes.</b></li> </ul>

Source: Made by MHRT based upon FRB.

# The Eurozone economy: Eurozone Jul-Sep quarter GDP grew for the second consecutive quarter. Going forward, a slowdown is expected

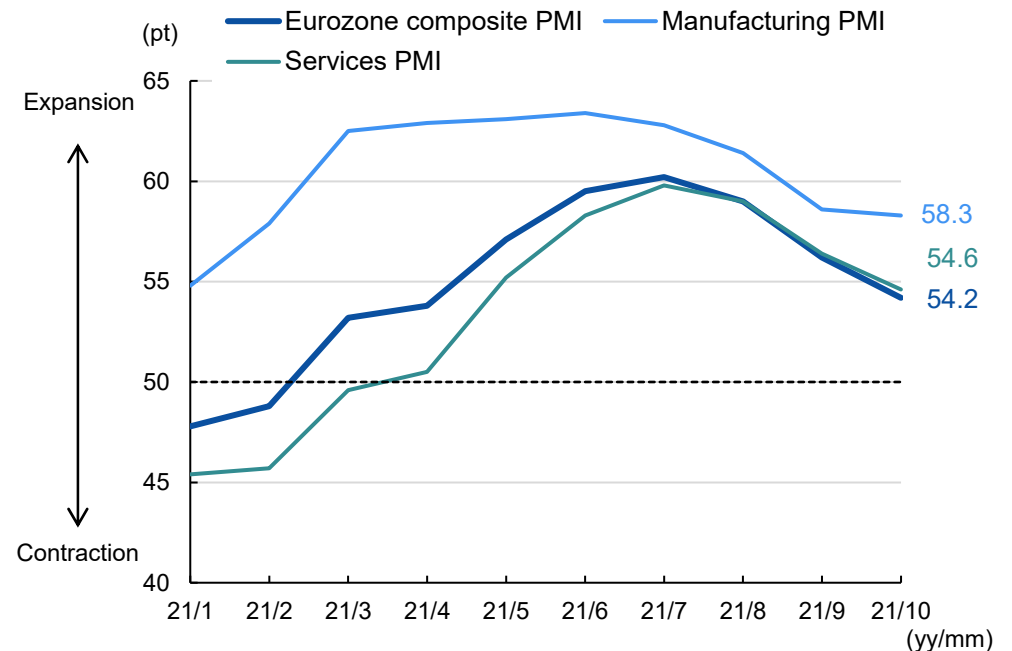
- Eurozone real GDP grew +2.2% q-o-q in the Jul-Sep quarter, recording the second consecutive quarter of positive growth. Among the background factors was the sharp recovery in consumption in the summer, reflecting the easing of Covid-19 infection control measures.
  - For France, the release of the breakdown of GDP growth (+3.0% q-o-q), revealed that consumer spending (+5.0% q-o-q) served as the driver of overall growth.
- The Eurozone PMI fell for the third consecutive month in October, indicating that the pace of economic recovery is slowing down after peaking in the summer. Oct-Dec quarter GDP is expected to be limited to a slight increase.

## Eurozone: real GDP growth rate



Note: Real GDP q-o-q growth and the degree of contribution by the components of demand.  
Source: Made by MHRT based upon Eurostat.

## Eurozone: PMI

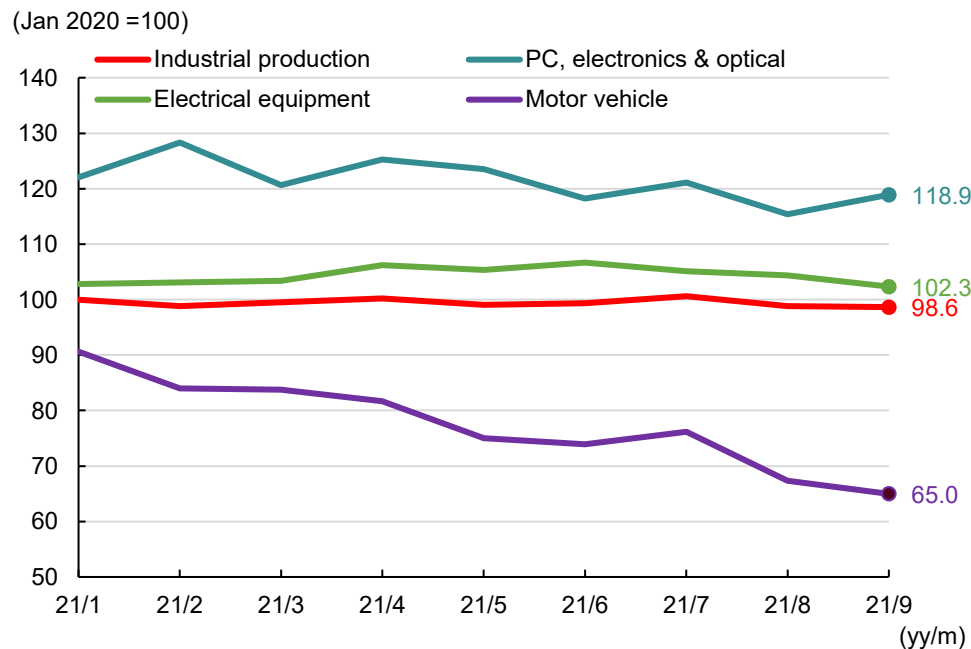


Note: The reading of 50 is the "expansion-contraction" threshold.  
Source: Made by MHRT based upon Refinitiv and IHS Markit

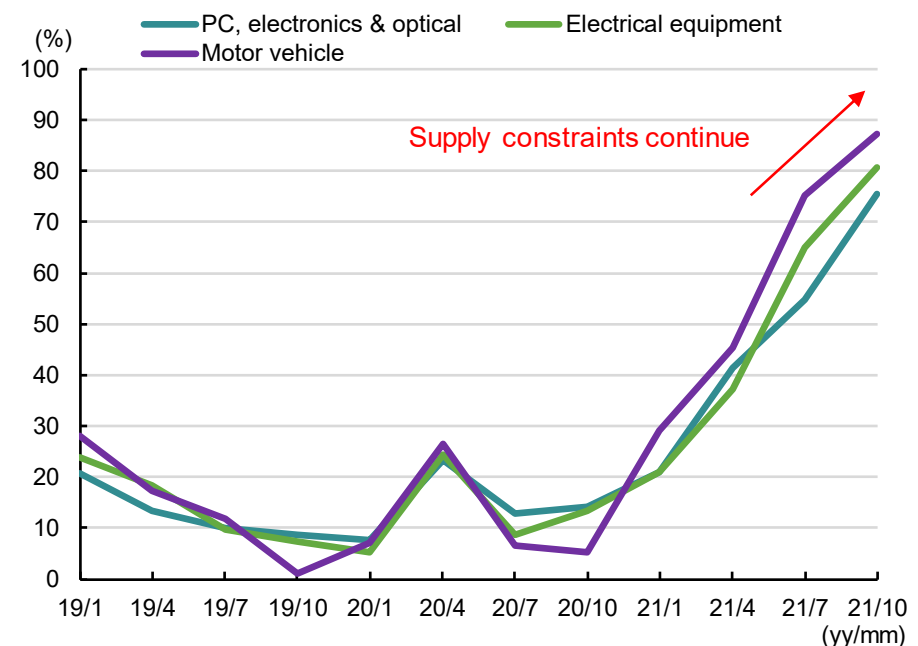
# Eurozone industrial production fell in September. IP is expected to remain flat going forward due to prolonged supply constraints

- Eurozone industrial production fell in September (-0.2% m-o-m) for the second consecutive month, reflecting prolonged supply constraints.
  - Given supply constraints such as materials shortages and disruptions in the logistics network, production paused for electrical equipment as well as motor vehicles.
- Production in the Oct-Dec quarter is expected to remain flat due to prolonged supply constraints.
  - Around 80% of corporations in the motor vehicle production, electrical equipment, PC, electronics and optical industries, among others, cited "equipment and materials" shortages as a factor restricting production.
  - According to a business survey of German manufacturers (Ifo, October), supply constraints are expected to persist for about another eight months, and a full recovery in production as a result of alleviation of supply constraints is not expected until mid-2022.

## Eurozone: industrial production



## Eurozone: factors constraining production



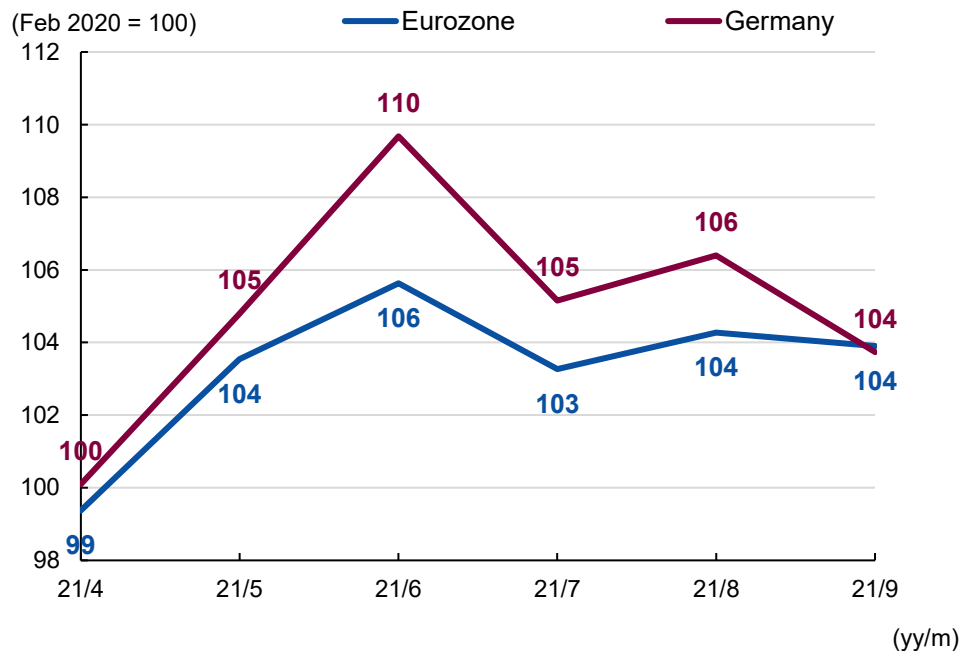
Source: Made by MHRT based upon Eurostat.

Note: The percentage of the number of responses that list each factor to the total number of responses. Survey allowed the citing of multiple factors.  
 Source: Made by MHRT based upon the European Commission

# Consumption recovery has paused. Consumption is expected to remain flat due to resurging Covid-19 infections and supply constraints.

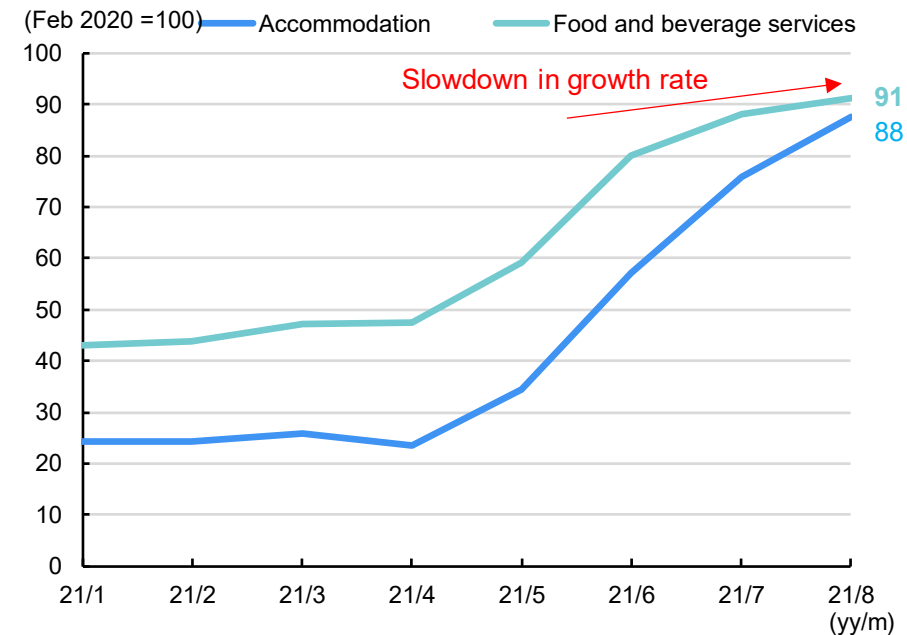
- Eurozone real retail sales (excluding motor vehicles) in September fell slightly (-0.3% m-o-m).
  - Retail sales in Germany fell (-2.5% m-o-m), serving as a drag on overall Eurozone sales, against a background of supply constraints creating shortages in areas such as home appliances and electrical products.
- Sales in Eurozone nominal accommodation, and food and beverage services in August rose (+7.2% m-o-m) on the back of a surge in demand for services due to the easing of Covid-19 infection control measures. However, growth slowed from the previous month, especially in food and beverage services.
- Consumption is expected to continue to remain flat due to the spread of Covid-19 infections in winter and continued supply constraints.
  - In response to the spread of Covid-19 infections, some countries are considering measures such as shortening the business hours of restaurants, which will serve as a drag on the recovery of consumption.

## Eurozone: real retail sales



Note: Excludes motor vehicles.  
Source: Made by MHRT based upon Eurostat.

## Eurozone: nominal accommodation, food and beverage service sales

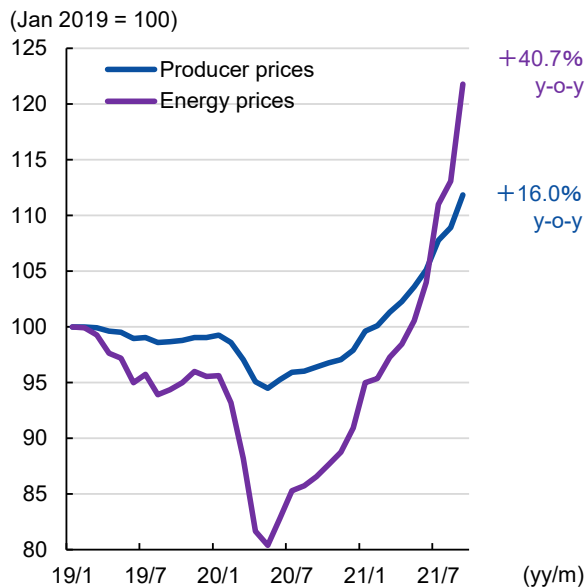


Source: Made by MHRT based upon Eurostat.

# Energy prices continue to soar. Government support and other measures are restraining prices being passed on to consumers

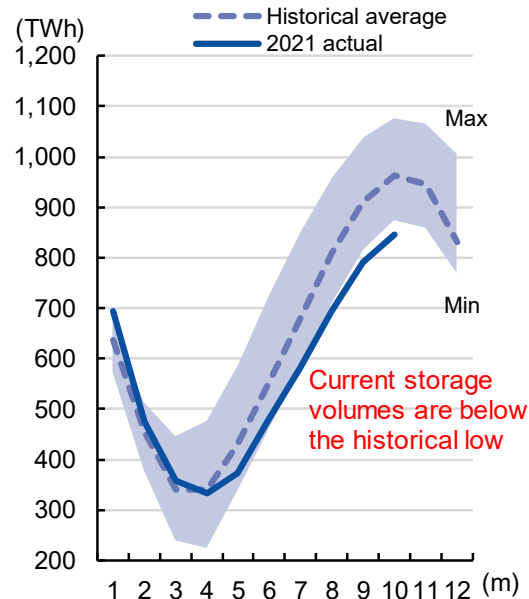
- In September, Eurozone producer prices (PPI) rose +16.0% y-o-y (August: +13.4% y-o-y), against the background of soaring energy prices (September: +40.7% y-o-y, contribution +10.7 pt), reflecting the surge of natural gas prices in Europe.
  - Gas storage volumes in the EU are at historical lows, and energy prices are expected to remain high throughout the year.
  - Looking at the composition of electricity prices, higher energy prices in Southern Europe are likely to lead to higher electricity prices.
- Energy prices are expected to settle down around April 2022. In order to prevent prices being passed on to consumers, Spain cut taxes on electricity prices, etc., and France is also planning tax cuts and other measures. As a result, the rise in CPI is expected to remain moderate compared to the rise in PPI.

## Eurozone: Producer Prices (PPI)



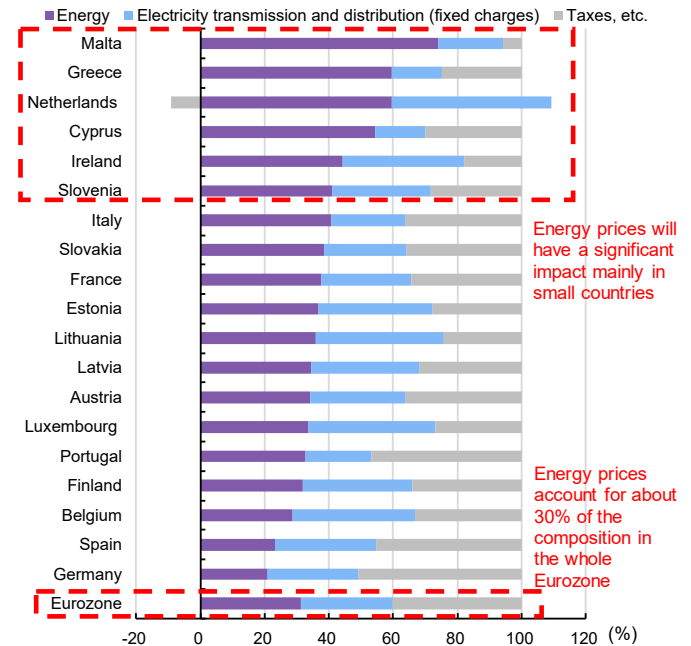
Source: Made by MHRT based upon Eurostat.

## EU+UK: gas storage volumes in the region



Note: Monthly average. Historical averages, max and min data are for the period from 2015 to 2019.  
 Source: Made by MHRT based upon AGSI+.

## Eurozone: composition of retail electricity prices



Note: Composition as of 2020.  
 Source: Made by MHRT based upon Eurostat..

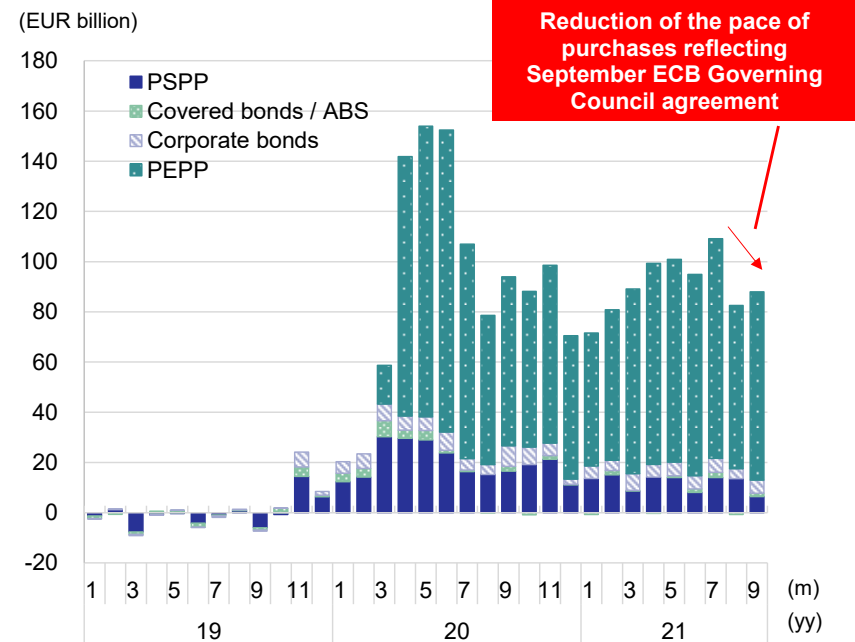
# The ECB maintains its assessment that inflation is transitory. The Bank will discuss post-PEPP policies at its next meeting

- At the Governing Council meeting in October, the ECB focused its discussion on inflation. The council members recognized that while inflation will last longer than originally expected, it is expected to decline in the course of 2022 due to easing of transitory factors (higher energy prices, recovery of demand exceeding supply, base effects of the end of the VAT cut in the previous year).
  - The economic recovery is assessed to be strong, despite a slight slowdown of the current pace of recovery. Council members expect the economy to return to pre-pandemic levels by the end of this year.
- ECB President Christine Lagarde expressed her view that the Pandemic Emergency Purchase Program (PEPP) will end at the March 2022 deadline. Measures to avoid a cliff-edge effect are expected to be discussed at the December Governing Council meeting.

## Key points of the ECB Governing Council meeting (October 28)

Economic Situation	The economy continued to grow strongly in the third quarter. The grip of the pandemic on the economy has weakened, which is supporting service consumption. <b>ECB still expects output to exceed its pre-pandemic level by the end of the year.</b> Supply bottlenecks are a risk to the pace of recovery.
Inflation	The current upswing in inflation largely reflects a combination of three factors: 1) rising energy prices; 2) recovering demand is outpacing supply; and 3) base effects related to the end of the VAT cut last year. ECB expects all are transitory, and <b>inflation will decline in 2022.</b>
6	The <b>PEPP is, in my (President Lagarde's) view, going to end at the end of March '22.</b> On <b>TLTRO III</b> , which will end in December, we <b>should do everything possible in order to avoid a cliff edge effect,</b> and this is a matter that we will be discussing at our next monetary policy meeting.

## ECB: outstanding asset purchases



Source: Made by MHRT based upon ECB.

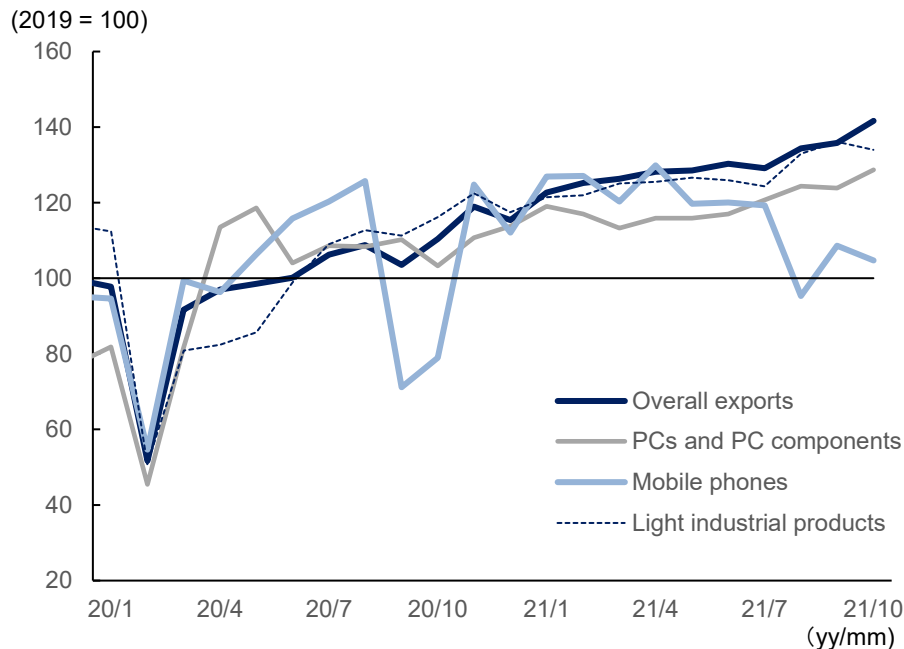
Source: Made by MHRT based upon ECB.



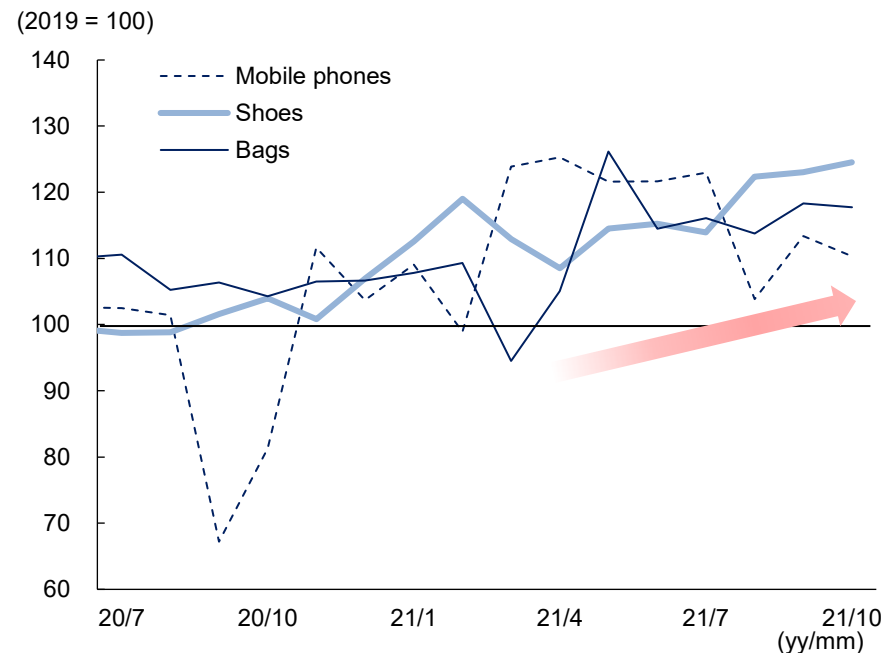
# Chinese economy: exports maintain high level

- In September 2021, China's exports rose +4.3% m-o-m (seasonally adjusted by MHRT, previous month: +1.1% m-o-m).
  - Light industrial products, which appears to be reflecting early shipments for the year-end bargain sales season, remained firm.
  - Export unit prices (estimated by MHRT) are following a gradual upward trend for certain items, and the pass-on of costs to prices of high raw material prices is serving as tailwinds for exports.
  - By major country/region, exports to the US grew +3.6% m-o-m, serving as the driver of overall exports.
- Given the peak-out of global demand for goods, exports are expected to follow a gradual slowdown going forward.

## Export value (by product, USD-based)



## Export unit price (by product, USD-based)



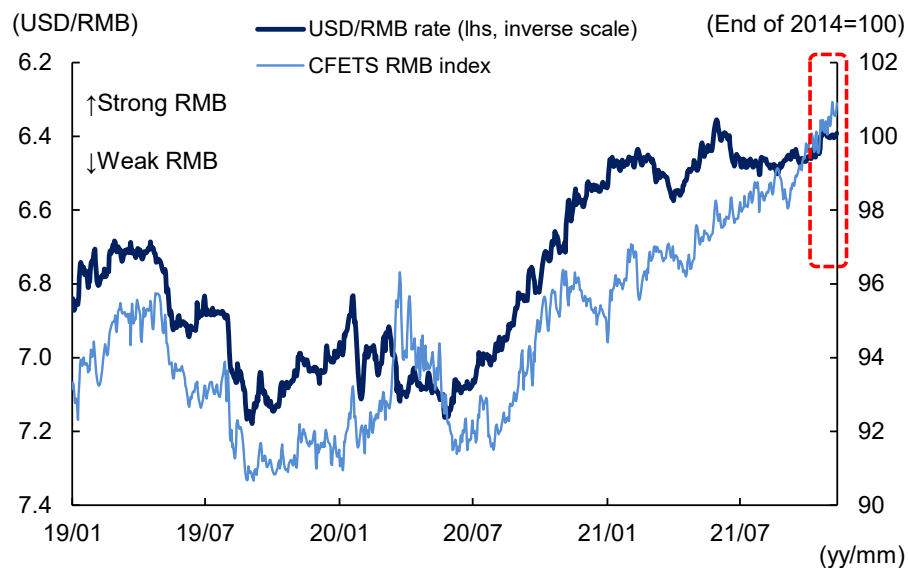
Note: Adjusted for seasonal factors by MHRT. Light industrial goods include clothing, shoes, bags, furniture, and toys.  
 Source: Made by MHRT based upon General Administration of Customs of China and CEIC data.

Note: Calculated based on factors seasonally adjusted by MHRT.  
 Source: Made by MHRT based upon General Administration of Customs of China and CEIC data.

# The RMB maintained a high level on the back of real demand. The PBOC established a monetary policy tool for reduction of emissions

- The yuan rose sharply against the US dollar from 1 USD=6.43 RMB to 1 USD=6.38 RMB on October 19, but has subsequently moved within a narrow range around 1 USD=6.4 RMB.
  - The CFETS RMB index, which measures the value of the RMB against a basket of currencies, surpassed 100 for the first time since January 2016.
  - Despite a number of factors potentially weakening the yuan, such as the economic slowdown, the debt problems of real estate developers, and the start of tapering by the US FRB, the yuan has continued to steadily appreciate, supported by strong real demand, including trade surpluses and inward bond investment.
- On November 8, the People's Bank of China (PBOC) established a monetary policy tool targeting major financial institutions that lend to emission reduction projects.
  - On November 4, PBOC released a taxonomy report on sustainable finance with the European Commission, indicating its active involvement in climate change measures.

## USD/RMB rate and CFETS RMB index



Note: The CFETS RMB Index are estimates by MHRT. Daily data. Latest readings are as of November 10, 2021.

Source: Made by MHRT based upon CFETS, CEIC data.

## Outline of the “Carbon Emission Reduction Facility (CERF)” by the People's Bank of China

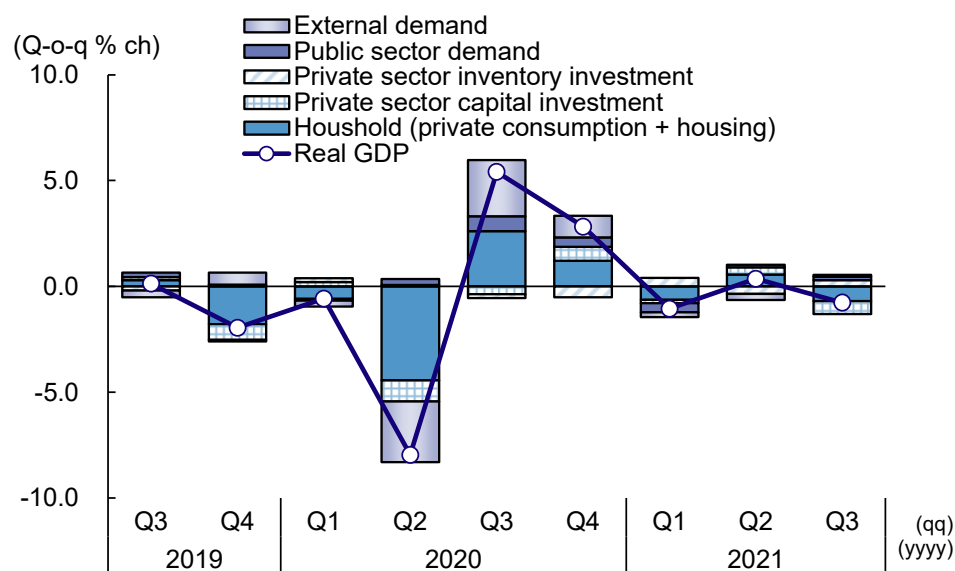
Points	Conditions
Eligible loans	<ul style="list-style-type: none"> <li>● Clean energy (solar, biomass, pumped storage hydropower, hydrogen energy, geothermal, ocean energy, heat pumps, high-efficiency energy storage, smart grids, emergency and off-peak energy sources, etc.)</li> <li>● Energy conservation (industrial sector energy efficiency improvement, new power system modification, etc.)</li> <li>● Carbon emission reduction technologies (CO2 capture and storage, etc.)</li> </ul>
Eligible Financial Institutions	Nationwide financial institutions (policy banks, large state-owned banks, and some equity-based commercial banks)
Loan lending rate by financial institutions	Loan Prime Rate (LPR) level *1-year LPR is 3.85% (as of Nov. 12)
Terms and Conditions of Lending by the PBOC to Financial Institutions	<ul style="list-style-type: none"> <li>● Upper limit: 60% of the project loan amount</li> <li>● Lending rate: 1.75%</li> <li>● Term: 1 year (can be rolled over twice)</li> </ul>

Source: Made by MHRT based upon People's Bank of China.

# The Japanese economy: Jul-Sep quarter growth turned negative. High growth is expected for the Oct-Dec quarter, driven by personal consumption

- According to the *First Preliminary Quarterly Estimates of GDP ("1st QE")*, Japan's real GDP growth in the Jul-Sep quarter recorded -0.8% q-o-q (-3.0% p.a.), a significant negative growth falling below expectations.
  - In addition to the softening of personal consumption reflecting the fading of teleworking and stay-at-home demand and the spread of the Delta variant, the sharp motor vehicle output cuts due to the shortage of semiconductors and decline of parts supplied from Southeast Asia served as a drag. Personal consumption, capital investment, and exports all decreased.
  - Japan's GDP is forecast to record high growth in the Oct-Dec quarter, (+6.8% p.a.), driven mainly by personal consumption. Consumption of services requiring face-to-face interactions will recovery strongly, along with the increase of people going out. The alleviation of motor vehicle output cuts along with the fading impact of the shortage of parts supplied from Southeast Asia, is also expected serve as a driver of growth.

## Jul-Sep quarter of 2021 (1st QE)



	2020		2021			
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Real GDP	5.4	2.8	-1.1	0.4	-0.8	1.7
(Q-o-q % change, p.a.)	23.5	11.8	-4.1	1.5	-3.0	6.8
(Y-o-y % change)	-5.5	-0.9	-1.3	7.6	1.4	0.2
Domestic demand	2.7	1.8	-0.8	0.7	-0.9	1.7
	(2.8)	(1.8)	(-0.8)	(0.7)	(-0.9)	(1.7)
Private sector demand	2.7	1.9	-0.5	0.8	-1.4	2.1
	(2.1)	(1.4)	(-0.4)	(0.6)	(-1.0)	(1.5)
Personal consumption	5.3	2.2	-1.3	0.9	-1.1	2.2
Housing investment	-5.7	-0.0	1.1	2.0	-2.6	-0.6
Capital investment	-2.2	4.3	-1.0	2.2	-3.8	3.0
Inventory investment	(-0.2)	(-0.5)	(0.4)	(-0.3)	(0.3)	(-0.1)
Public sector demand	2.5	1.6	-1.6	0.4	0.6	0.5
	(0.7)	(0.4)	(-0.4)	(0.1)	(0.2)	(0.1)
Government consumption	2.8	1.9	-1.7	1.1	1.1	0.3
Public investment	1.3	0.7	-1.4	-2.1	-1.5	1.2
External demand	(2.7)	(1.0)	(-0.2)	(-0.3)	(0.1)	(0.0)
Exports	7.4	11.7	2.4	3.2	-2.1	0.7
Imports	-8.2	4.8	4.0	5.3	-2.7	0.6
Nominal GDP	5.5	2.3	-1.1	-0.2	-0.6	0.7
GDP deflator (y-o-y change)	1.1	0.1	-0.2	-1.1	-1.1	-1.4

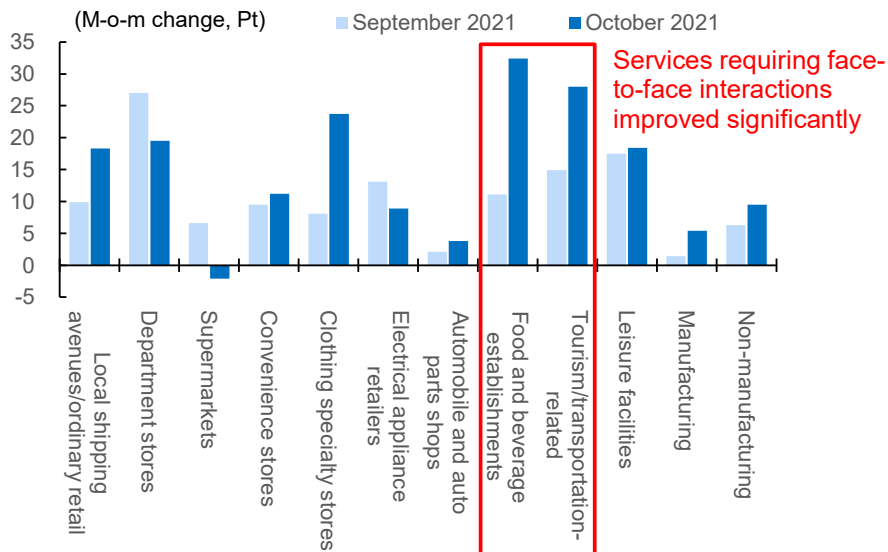
Note: Figures in the right-hand chart are on a q-o-q basis (in real terms) unless otherwise noted. The figures in parentheses represent the contribution to growth. Figures for the Oct-Dec quarter 2021 are forecasts.

Source: Made by MHRT based upon Cabinet Office, *Quarterly Estimates of GDP*.

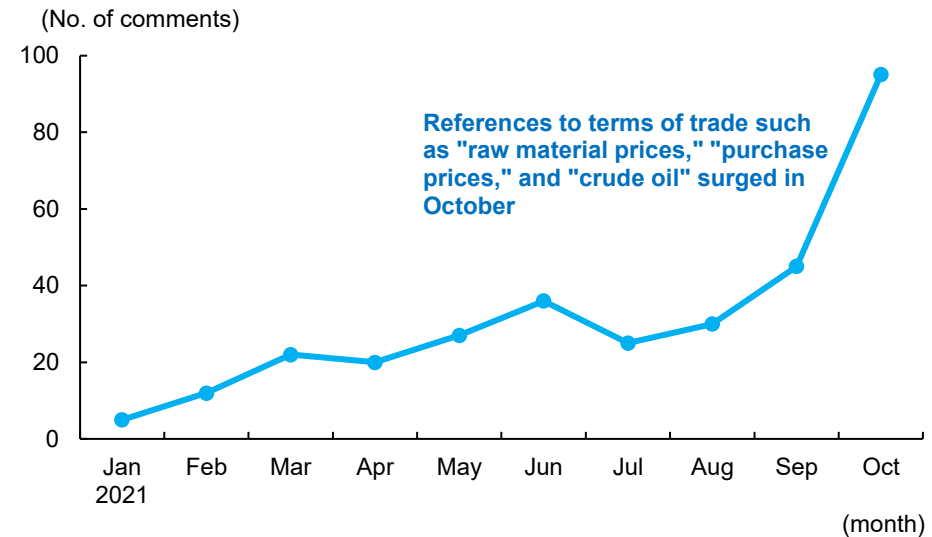
# Business sentiment improved significantly, driven by services requiring face-to-face interactions due to the lifting of the declaration of a state of emergency

- Business sentiment improved significantly in October, mainly in services requiring face-to-face interactions, as more people began going out following the lifting of the state of emergency declaration.
  - The DI for current economic conditions (direction) in October improved significantly (+13.4 pt m-o-m). On the other hand, the DI for supermarkets worsened slightly, indicating a contraction of stay-at-home consumption.
- Business sentiment is expected to continue to improve, but the deterioration of terms of trade will serve as a drag on the manufacturing sector.
  - The DI for future economic conditions rose for the second consecutive month (September:56.6 → October:57.5), maintaining a high level.
  - On the other hand, the DI for the manufacturing sector marked a slight negative. Heightened concerns about worsening terms of trade served as a drag on the recovery of earnings in the manufacturing sector.

**Economy Watchers Survey: DI for current economic conditions; by sector (not seasonally adjusted basis)**



**Future economic conditions: number of comments referring to terms of trade**



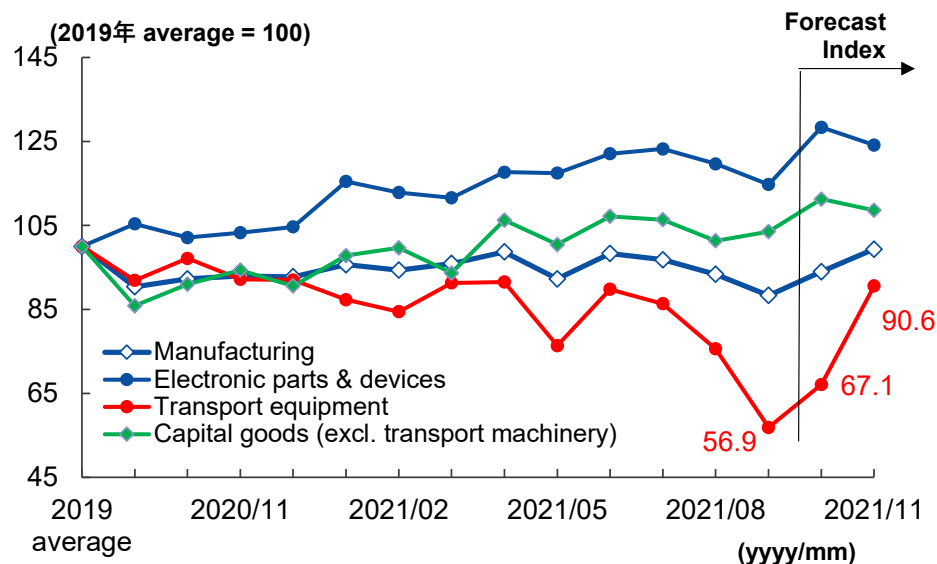
Source: Made by MHRT based upon Cabinet Office, *Economy Watchers Survey*

Note: The DI is the aggregated value of comments including the respective words related to the terms of trade, such as "raw material price," "purchase price," and "crude oil."  
 Source: Made by MHRT based upon Cabinet Office, *Economy Watchers Survey*.

# Motor vehicle output cuts will serve as a drag on overall production until October. Breadth of output cuts expected to narrow from November

- Industrial production fell sharply in September (-5.4% m-o-m) due to the impact of motor vehicle production cuts.
  - The impact of the output cuts on the motor vehicle manufacturing industry (-28.2% m-o-m) worsened significantly from August (-15.2% m-o-m).
- Motor vehicle production cuts are expected to be resolved from November. Overall production is also expected to bottom out in September.
  - Although the forecast index for transport machinery/production bottomed out in October, it was still only 67% of the pre-pandemic level. However, the index is expected to recover to 91% in November.
  - Media reports since the time of the survey (October 10) suggest that the breadth of output cuts will narrow from November onward. However, it will be necessary to monitor closely the ongoing semiconductor shortage.

## Actual production / production forecast index by industry (comparison to pre-Covid-19 levels)



Source: Made by MHRT based upon Ministry of Economy, Trade and Industry, *Indices of Industrial Production*.

## Media reports referring to motor vehicle output cuts

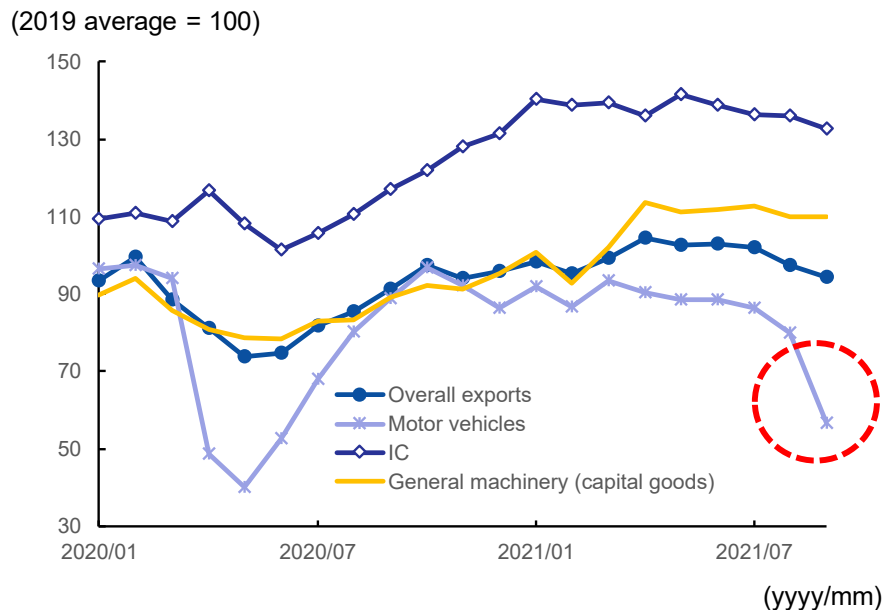
Date	Points
Oct. 16	<ul style="list-style-type: none"> <li>● Toyota announced that its <b>global output in November will drop by about 15% compared to the latest production plan</b>. (Oct. 15)</li> <li>● However, <b>the breadth of the output cut will narrow in November</b>. Toyota has not revised its global output plan for FY2021 (9 million units).</li> </ul>
Oct. 21	<ul style="list-style-type: none"> <li>● Nissan's revised output plan is <b>32% lower and 21% lower for October and November respectively</b>, compared to the previous year's actual results, revealing a <b>contraction of the breadth of output cuts</b>.</li> <li>● Although Toyota's output in November will be 15% lower than initially planned, it is expected to recover to the level in November 2020 (820 thousand units), a record high for the month of November.</li> <li>● Leaders in the motor vehicle manufacturing industry pointed out that <b>"the impact of the semiconductor shortages is improving steadily."</b></li> <li>● The motor vehicle manufacturers expect the shortage of parts to ease going forward. They are <b>preparing to boost output from December</b>.</li> </ul>

Source: Made by MHRT based upon various media reports.

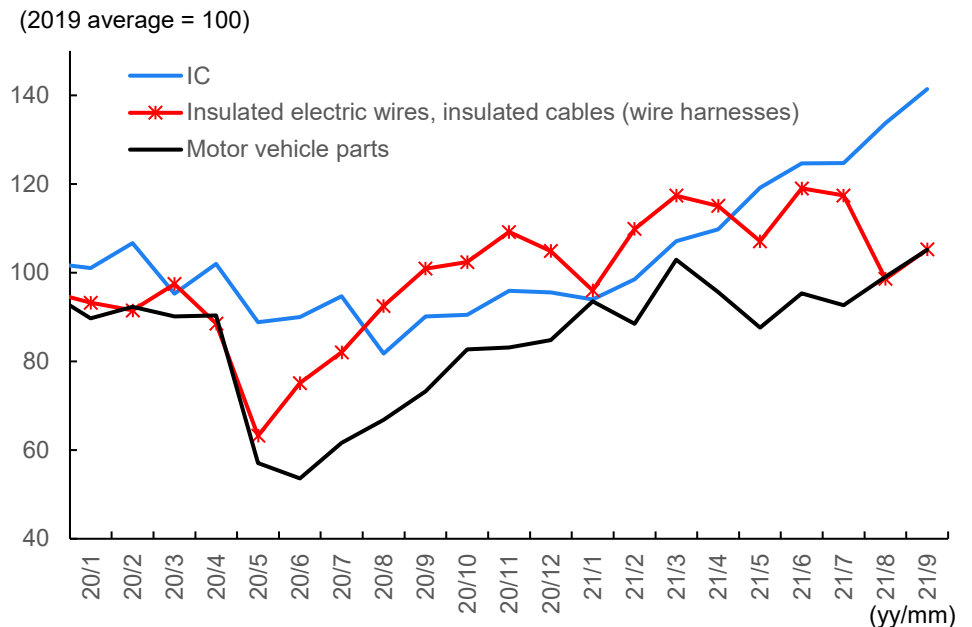
# Motor vehicle exports dropped sharply due to supply constraints.

- The export volume index fell by -3.3% m-o-m in September, declining for the third consecutive month. Against the backdrop of difficulties in procuring parts from Southeast Asia, motor vehicle exports fell sharply (-28.9% m-o-m), serving as a drag on overall exports. On the other hand, exports of capital goods and ICs remained at a high level.
- Wire harness imports from ASEAN countries rose slightly, but failed to recover the previous month's drop. Import levels of motor vehicle parts were also sluggish, continuing to serve as a drag on domestic motor vehicle production.
- Although exports going forward are expected to remain flat up to October due to significant motor vehicle output cuts, they are expected to pick up gradually from November onwards due to a gradual recovery in motor vehicle parts imports from Southeast Asia.

## Trends in exports by major items



## Imports from Southeast Asia



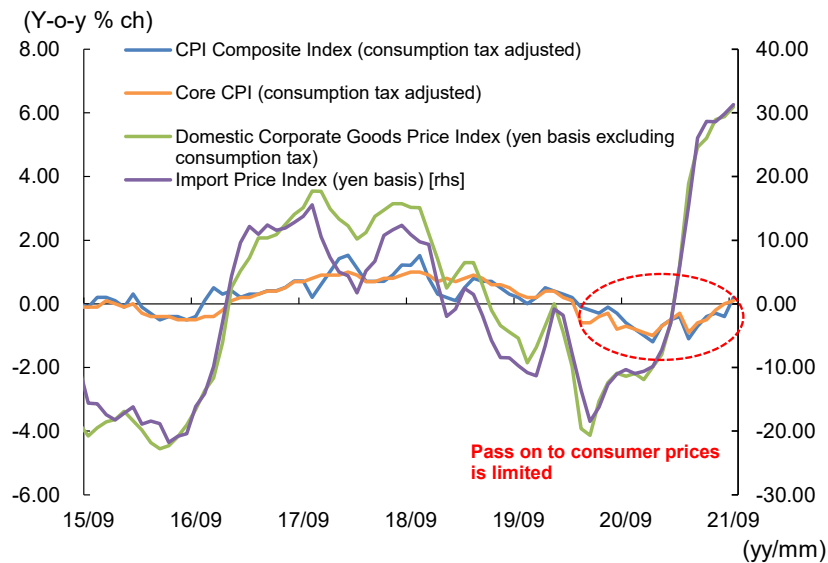
Note: Seasonally adjusted by MHRT.  
Source: Made by MHRT based upon Ministry of Finance, *Trade Statistics*.

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Source: Made by MHRT based upon Ministry of Finance, *Trade Statistics*.

# Core CPI turns positive as energy prices continue to rise

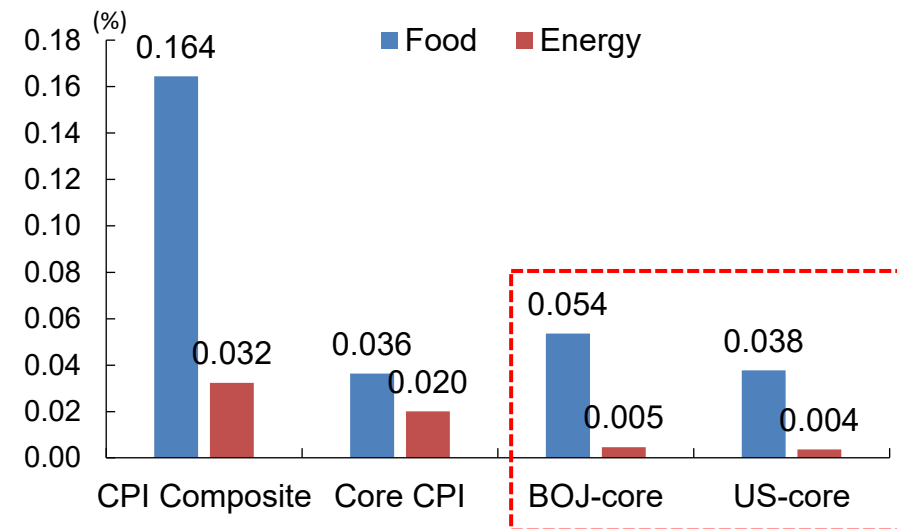
- In September, the consumer price index for Japan (all items, less fresh food) rose +0.1% y-o-y (August: ±0.0% y-o-y), turned positive for the first time in 18 months.
  - Energy prices rose +7.4% y-o-y in September (August: +5.5% y-o-y), serving as the main driver.
  - Despite the surge of corporate goods prices reflecting the higher commodity prices, the move to pass on prices is currently limited given the time lag they are reflected in the CPI.
- The impact of rising food and energy prices on underlying price trends is limited.
  - Estimating the sensitivity to the BOJ-style core CPI (excluding fresh food and energy) and the US-style core CPI (excluding food and energy), food prices will have a meaningful impact, but its elasticity is small at around 0.04. Additionally, energy prices are not acknowledged as being significantly affected.

## Trends of price indices



Source: Made by MHRT based upon the Ministry of Internal Affairs and Communications, *Consumer Price Index* and the Bank of Japan, *Corporate Goods Price Index*.

## Sensitivity to rising food and energy prices



Note: The figure shows the degree of response (coefficients  $\alpha$  and  $\beta$  in the following equation) when CPI food and energy rise by 1% y-o-y:  

$$CPI(t) = food(t-r)*\alpha + energy(t-r)*\beta + USD/JPY(t-r)*\gamma + CPI(t-1)*\delta + u$$
 where  $t$  is the point in time and lag  $r$  is the highest correlation coefficient marked by each item.  $u$  denotes variables not assumed in the model. The estimation period is from January 2000 to August 2021.

Source: Made by MHRT based upon the Ministry of Internal Affairs and Communications, *Consumer Price Index* and the Bank of Japan, *Foreign Exchange Market*



# Bank of Japan: the BOJ is expected to continue its current monetary easing framework over the long term

- At the October Monetary Policy Meeting (October 27 and 28), the Bank of Japan (BOJ) decided to maintain its current monetary policy stance.
  - The BOJ is expected to continue its current monetary easing framework for the time being.
- In the *Outlook for Economic Activity and Prices (Outlook Report)*, the projected growth rate and prices for FY2021 were revised down from the previous outlook in July.
  - The growth rate was revised downward due to the slowdown in exports and production caused by supply constraints and sluggish consumption. On the other hand, the forecast for FY2022 has been revised upward.
  - Prices for FY2021 (median) were revised downward to 0.0% from the previous outlook, mainly due to the impact of the reduction in mobile phone communication charges and the revision of the baseline. The 2.0% price stability target is not expected to be achieved even in FY2023.

## Outlook for Economic Activity and Prices: The bank's views (October 2021)

- The outlook for Japan's economy is that, for the time being, downward pressure is likely to remain on services consumption, and exports and production are expected to decelerate due to supply-side constraints.
- Thereafter, the economy is likely to recover, supported by an increase in external demand, accommodative financial conditions, and the government's economic measures. From the middle of the projection period, as a virtuous cycle from income to spending intensifies in the overall economy, Japan's economy is projected to continue growing at a pace above its potential growth rate.
- The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is likely to increase moderately in positive territory for the time being.
- Thereafter, albeit with fluctuations due to temporary factors, it is projected to increase gradually as a trend, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations.

## BOJ forecasts of the majority of the policy board members (October 2021)

	Real GDP	CPI (all items less fresh food)
Fiscal 2021	+3.0 to +3.6 [+3.4]	0.0 to +0.2 [0.0]
Forecasts made in July 2021	+3.5 to +4.0 [+3.8]	+0.3 to +0.6 [+0.6]
Fiscal 2022	+2.7 to +3.0 [+2.9]	+0.8 to +1.0 [+0.9]
Forecasts made in July 2021	+2.6 to +2.9 [+2.7]	+0.8 to +1.0 [+0.9]
Fiscal 2023	+1.2 to +1.4 [+1.3]	+0.9 to +1.2 [+1.0]
Forecasts made in July 2021	+1.2 to +1.4 [+1.3]	+0.9 to +1.1 [+1.0]

Note: Fiscal y-o-y comparisons. Figures in brackets indicate the medians of the Policy Board members' forecasts.

Source: Made by MHRT based upon the Bank of Japan

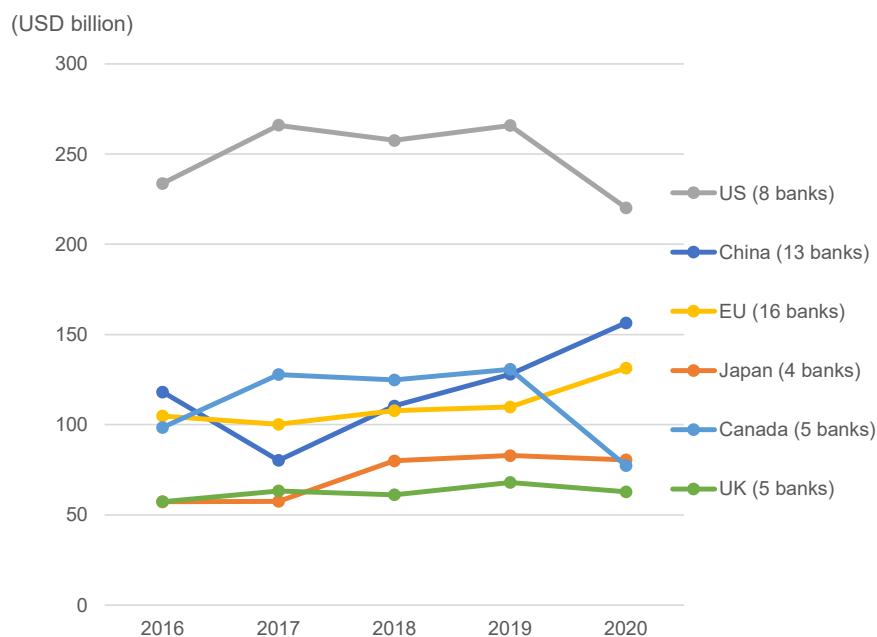
Source: Made by MHRT based upon the Bank of Japan



# Sustainability: voluntary coalition of financial institutions announces USD 100 trillion decarbonization financing policy

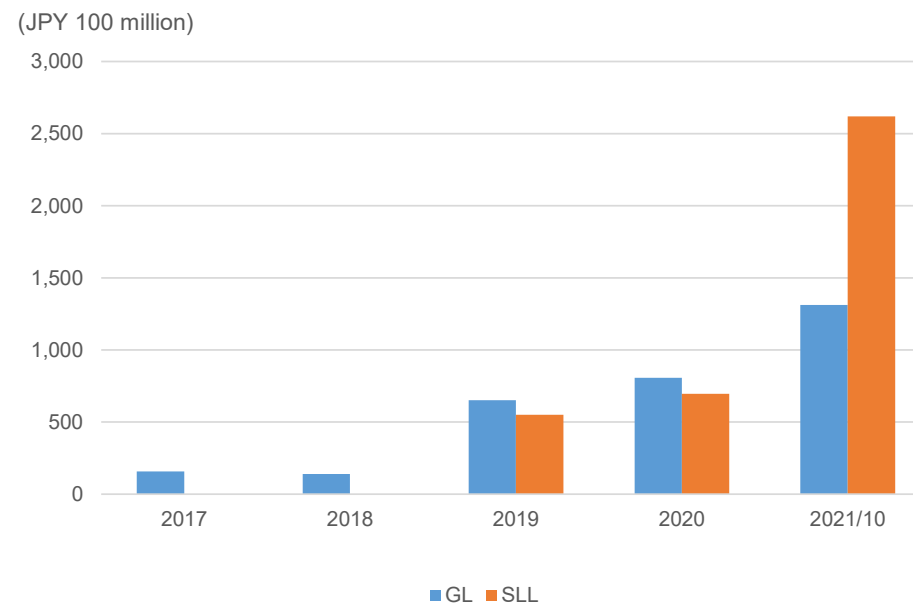
- The Glasgow Financial Alliance For Net Zero (GFANZ), a coalition of 450 financial institutions around the world, announced at the COP26 climate summit that it plans to invest USD 100 trillion (about a little over 10 quadrillion yen) in decarbonization financing by 2050. Its policy is to increase decarbonization financing.
  - Over the past five years (2016 to 2020), the total amount of fossil fuel financing by the world's 60 major financial institutions has remained at a high level of USD 3.8 trillion.
- 18 financial institutions from Japan are also participating. This will provide a tailwind to support climate change measures of investee companies.
  - The green loan (GL) and sustainability linked loan (SLL) markets are expected to grow going forward as means suitable for Japan, where indirect financing is the mainstream financing scheme.

## Fossil fuel financing of major global financial institutions



Source: Made by MHRT based upon *Banking on Climate Chaos 2021*

## Trends in the amount of green and sustainability linked loans in Japan



Source: Made by MHRT based upon the Ministry of Environment.

# Japan's green/sustainability linked loan market is in its early stages. Issues include the evaluation of greenness etc.

- In Japan, as of October 2021, the amount of green loans (GL) formulated grew by about 1.6x y-o-y to JPY 130 billion, and the amount of sustainability-linked loans (SLL) formulated grew a little less than 4x y-o-y to JPY 260 billion, both marking rapid growth.
  - The rapid growth was realized against the backdrop of the establishment of guidelines (2020) in consideration of consistency with the Green Loan Principles (2018) and Sustainability Linked Loan Principles (2019) of the Loan Market Association (LMA) and other organizations.
  - However, the GL and SLL markets are still in their early stages, with 5% and 2%, respectively of the global market share.
  - GL face issues such as evaluations of the project's greenness, while SLL face issues such as setting their goals and measuring sustainability performance targets (SPTs)

## Overview of Green Loans (GL) and Sustainability Linked Loans (SLL)

	Green Loans (GL)	Sustainability Linked Loans (SLL)
Purpose	<ul style="list-style-type: none"> <li>• Sophistication of corporate sustainability management</li> <li>• Contribute to the improvement of global-level environmental and social issues</li> </ul>	
Use of funds	<ul style="list-style-type: none"> <li>• Limited to green projects</li> </ul>	<ul style="list-style-type: none"> <li>• Overall sustainability objectives</li> </ul>
Evaluation and selection process	<ul style="list-style-type: none"> <li>• Environmental goals</li> <li>• Decision-making process</li> <li>• Eligibility criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Relationship with corporate social responsibility (CSR) strategy</li> <li>• Setting of sustainability goals</li> <li>• Measurement of SPTs</li> </ul>
Management of funds	<ul style="list-style-type: none"> <li>• Must be trackable, such as by dedicated accounts</li> </ul>	<ul style="list-style-type: none"> <li>• No stipulations</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>• Report project list, etc., at least once a year</li> </ul>	<ul style="list-style-type: none"> <li>• Report SPTs, etc., at least once a year</li> </ul>
Review	<ul style="list-style-type: none"> <li>• External evaluation recommended</li> </ul>	<ul style="list-style-type: none"> <li>• Based on agreement between borrower and lender</li> </ul>

## Features and issues of GL / SLL in Japan

GL	Features and issues (n=64)
Period / external evaluation	<ul style="list-style-type: none"> <li>• 10 years or more: 52%, external evaluation obtained: 95%</li> </ul>
Use of funds	<ul style="list-style-type: none"> <li>• Renewable energy-related: 41%</li> <li>• Green building-related: 38%</li> </ul>
Issues	<ul style="list-style-type: none"> <li>• Biased concerns toward specific fields due to greenness evaluation, etc.</li> </ul>
SLL	Features and issues (n=45)
Period	<ul style="list-style-type: none"> <li>• 10 years or more: 11%</li> <li>• 5 years or more and less than 10 years: 49%</li> </ul>
External evaluation	<ul style="list-style-type: none"> <li>• Obtainment of external evaluation: 89%</li> </ul>
Setting of KPIs and SPTs	<ul style="list-style-type: none"> <li>• Greenhouse gas/CO2 emission reduction-related: 42%</li> <li>• Renewable energy-related: 13%</li> <li>• Obtaining and maintaining a high ESG score: 7%</li> </ul>
Loan terms and conditions	<ul style="list-style-type: none"> <li>• Varying conditions depending on achievement of SPTs: 82%</li> </ul>
Issues	<ul style="list-style-type: none"> <li>• Goal setting and SPTs measurement are immature, etc.</li> </ul>

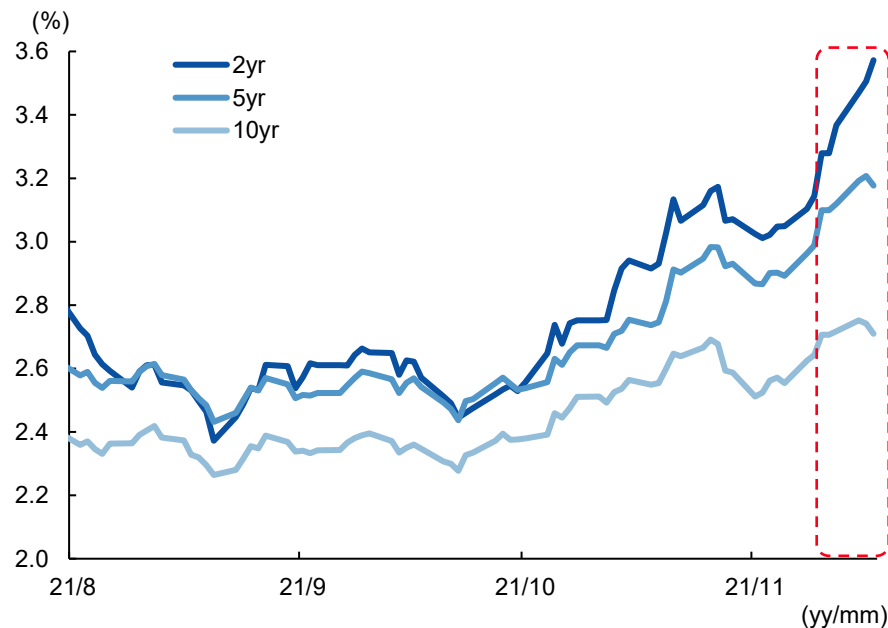
Source: Made by MHRT based upon various financing principles.

Source: Made by MHRT based upon the Ministry of Environment.

## US bond market: the 10yr UST yield is expected to move around 1.6% to 1.8%

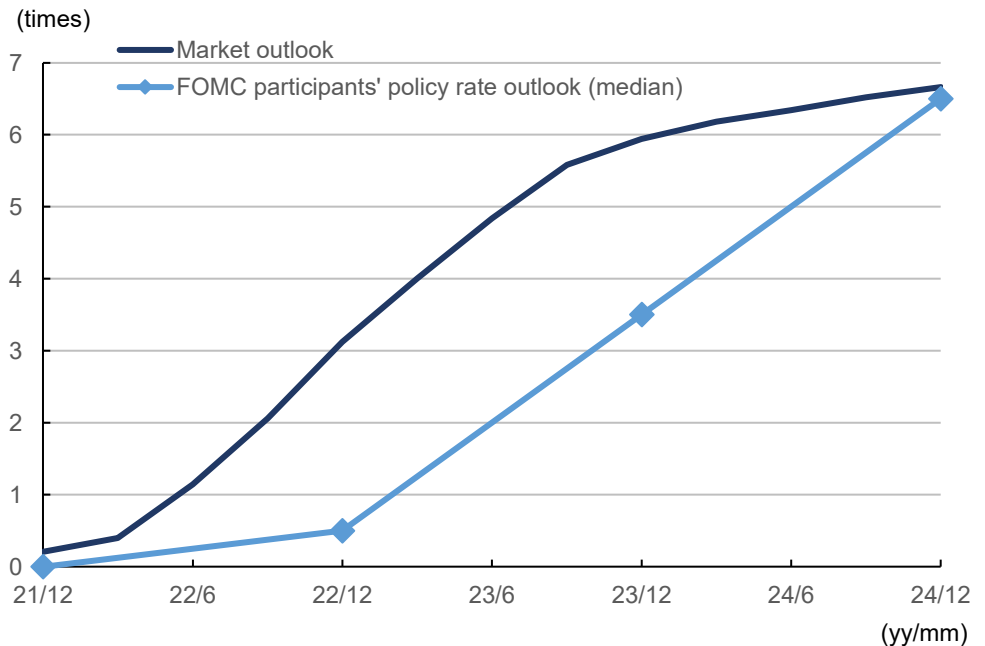
- The 10yr UST yield temporarily fell to the low 1.4% range due to the FRB's cautious stance on interest rate hikes and the Bank of England's decision to forego a rate hike. However, as the US CPI for October rose above market expectations, inflation concerns rose, and the yield rose to the 1.6% level.
  - Expected inflation rates rose sharply in response to the US CPI for October. Two-year expected inflation rate exceeded 3.5%.
  - The market is factoring in about three rate hikes by the end of 2022.
- The 10yr UST yield is expected to rise to around 1.6% to 1.8%, as rate hikes are continuing to be factored in.
  - Amid rising inflation concerns, the December FOMC participants' policy rate outlook may also imply a rate hike within 2022.

### Trend of expected inflation rates



Note: The expected inflation rates are break-even inflation rates.  
Source: Made by MHRT based upon Bloomberg.

### Market and FOMC participants' rate hike outlook

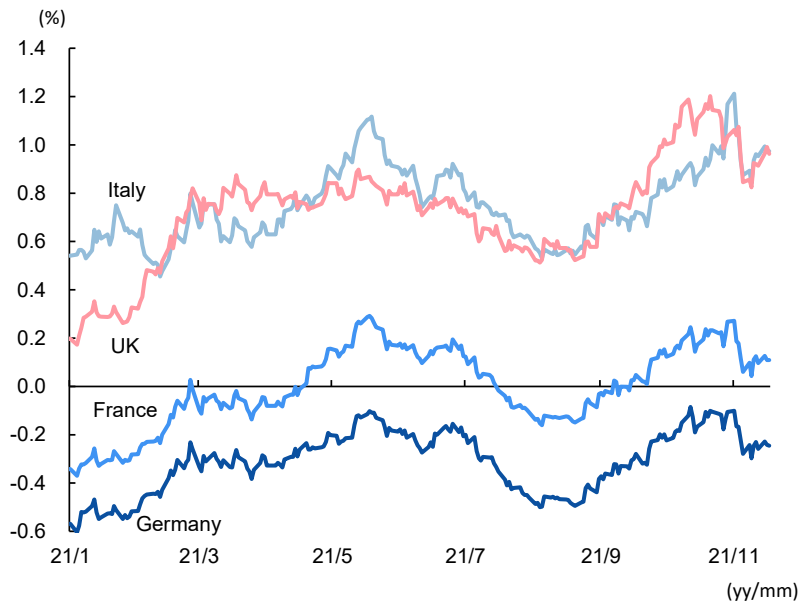


Note: Market's outlook is calculated from Eurodollar futures. FOMC participants' outlook is as of September.  
The rise in rates per one rate hike is assumed to be 0.25%.  
Source: Made by MHRT based upon FRB and Bloomberg.

# Eurozone bond market: German 10yr government bond yield expected to move around -0.25% to -0.05%

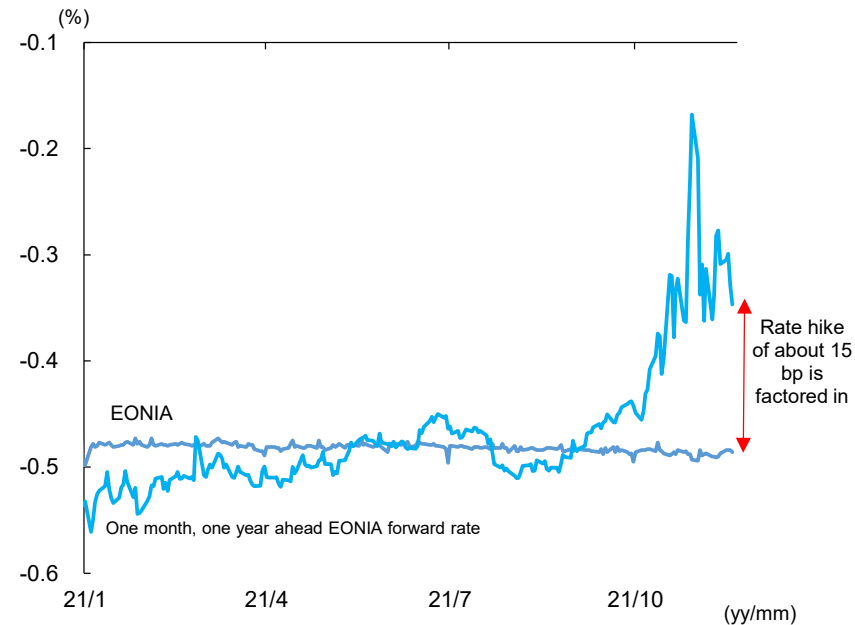
- The German 10yr government bond yield temporarily rose to -0.1% due to heightened expectations of a rate hike by the Bank of England and other central banks. However, the yield fell to the middle of the low -0.2% range after the Bank of England decided not to implement a rate hike, and as other major central banks in developed countries also took a cautious stance on rate hikes.
  - Market expectations for a rate hike heightened sharply at one point, but this paused due to a cautious stance on rate hikes taken by major central banks in developed countries, including the ECB.
  - ECB President Christine Lagarde said that it is unlikely that the conditions for a rate hike will be met in 2022 (November 3).
- The German 10yr government bond yield is expected to move between -0.25% and -0.05%, although it is likely that upward pressure will be put on interest rates.
  - While the ECB is expected to maintain a cautious stance on interest rate hikes, the market will factor in a rate hike of around 15bp one year ahead (in November 2022).

## Trends of long-term interest rates in Europe



Source: Made by MHRT based upon Bloomberg.

## The market's factoring in of interest rate hikes



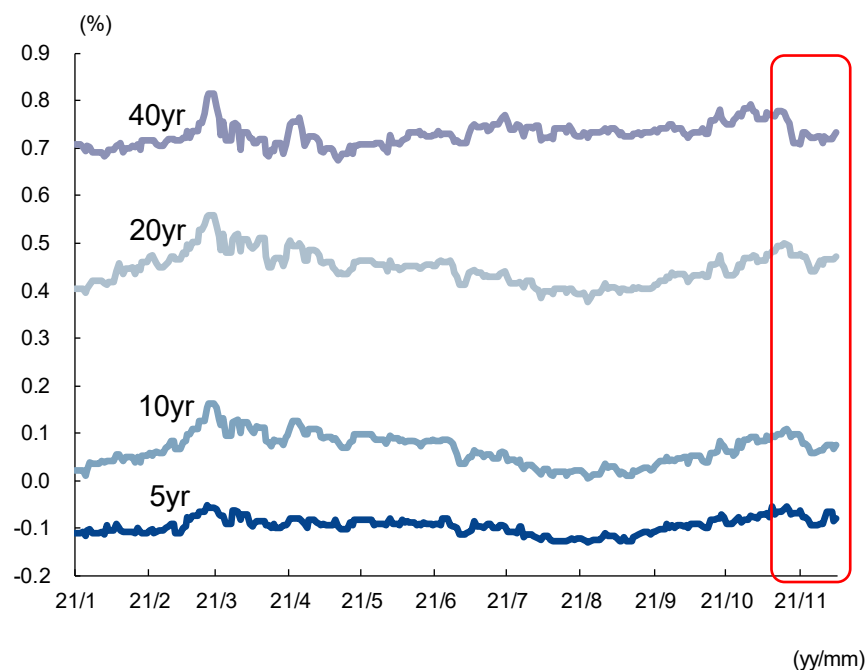
Note: The EONIA forward rate is the floating rate for interest rate swap transactions and refers to the EONIA, which is the short-term interest rate that the ECB is referencing. If the EONIA forward rate is higher than the EONIA, this may be viewed as an indication that expectations for future rate hikes are rising.

Source: Made by MHRT based upon Bloomberg.

## Japanese bond market: the 10yr JGB yield is projected to move in the high 0.0% range to around 0.1%

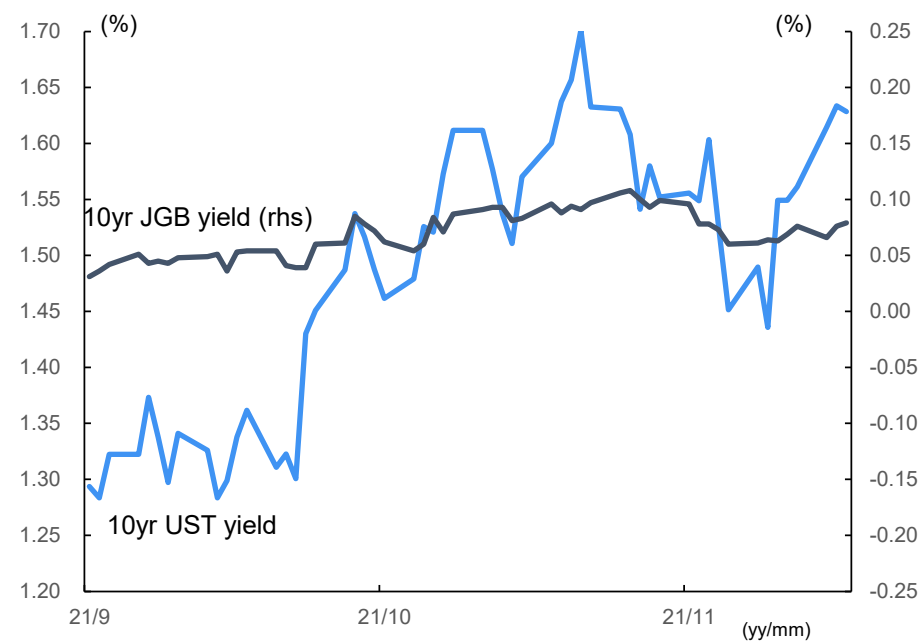
- The 10yr JGB yield temporarily rose to the 0.1% level in late October, due mainly to the rise of US long-term interest rates reflecting growing inflation concerns. Subsequently, it fell to 0.06% due to a drop in overseas interest rates, reflecting the cautious stance of major overseas central banks toward interest rate hikes.
- Amid a gradual rise in US long-term interest rates, the 10yr JGB yield is expected to trend around the upper half of the 0.0% range to around 0.1%.
  - The 10yr JGB yield is expected to rise moderately due to upward pressure from rising US long-term interest rates caused by inflation concerns and a sense of caution about issuing more JGBs along with economic measures.

### Trends in JGB yields



Source: Made by MHRT based upon Bloomberg.

### Trends in 10-year US and Japanese bond yields

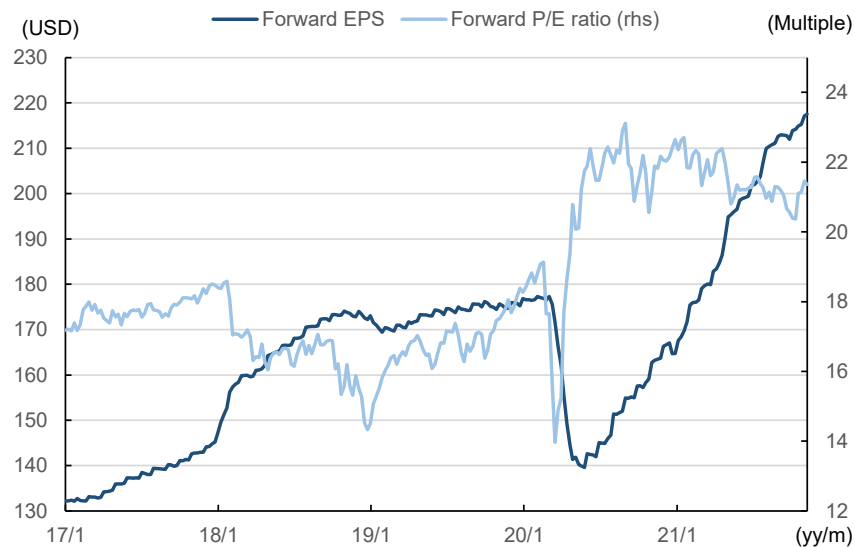


Source: Made by MHRT based upon Bloomberg.

# US stock market: steady performance on the back of favorable corporate earnings

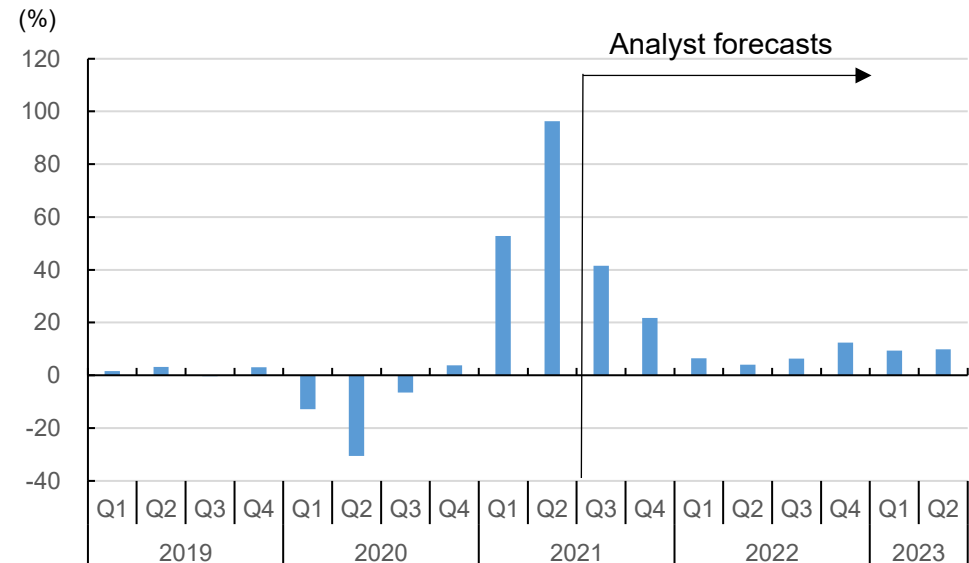
- The US stock market performed steadily on the back of favorable quarterly earnings. The three major indices, the Dow Jones Average, the S&P 500, and the Nasdaq Composite, reached record highs on November 8. However, the market softened at times due to inflation concerns and rising US long-term interest rates.
- The forward EPS remains on an expansionary trend, despite concerns regarding corporate earnings.
  - The P/E ratio remains slightly overvalued at 21.4x since the stock market performed steadily.
- In the US stock market, although EPS growth is expected to continue, there is still a sense that the market is overvalued, such as the P/E ratio remaining at a high level, and the market is likely to remain flat going forward.

## S&P 500 forward EPS and forward P/E ratio



Note: Forward EPS and forward P/E ratio are based on a 12-month forward forecast.  
Source: Made by MHRT based upon Refinitiv.

## Trends in quarterly EPS results and forecasts for S&P 500 companies

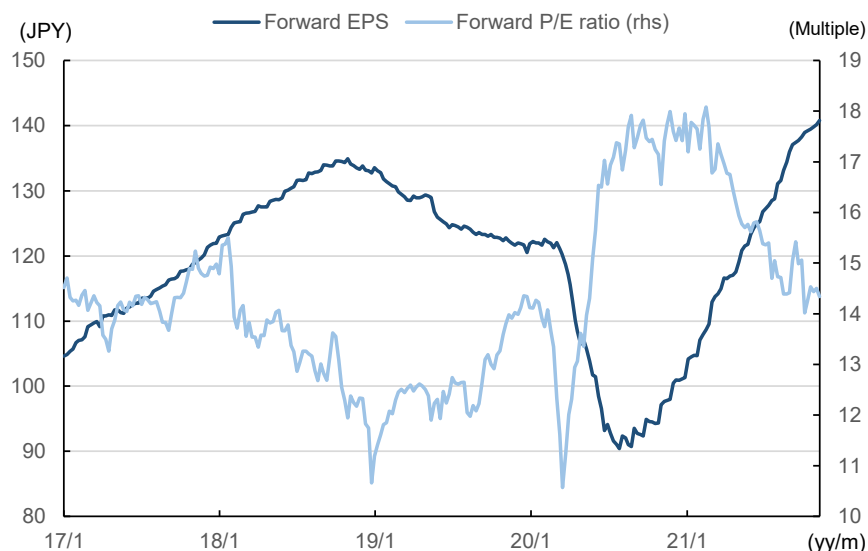


Source: Made by MHRT based upon Refinitiv.

## Japanese stock market: remained firm with expectations for economic measures

- The Japanese stock market remained firm due to such factors as the Liberal Democratic Party securing a stable majority after the House of Representatives election and expectations for economic measures by the Prime Minister Fumio Kishida's administration. The Nikkei Stock Average remained firm in the mid 29,000 yen range.
- The second quarter earnings results confirmed the recovery of corporate earnings. The 12-month forward EPS reached the highest level in the last five years.
  - On the other hand, the forward P/E ratio rose slightly to 14.3x, reflecting the firm stock market.
- Since a further decline in the forward P/E ratio is limited, a moderate rise is expected going forward.

### TOPIX forward EPS and forward P/E ratio



Note: Forward EPS and forward P/E ratio are based on a 12-month forward forecast.  
Source: Made by MHRT based upon Refinitiv.

### Q2 earnings results of TOPIX 500 companies (y-o-y, % ch)

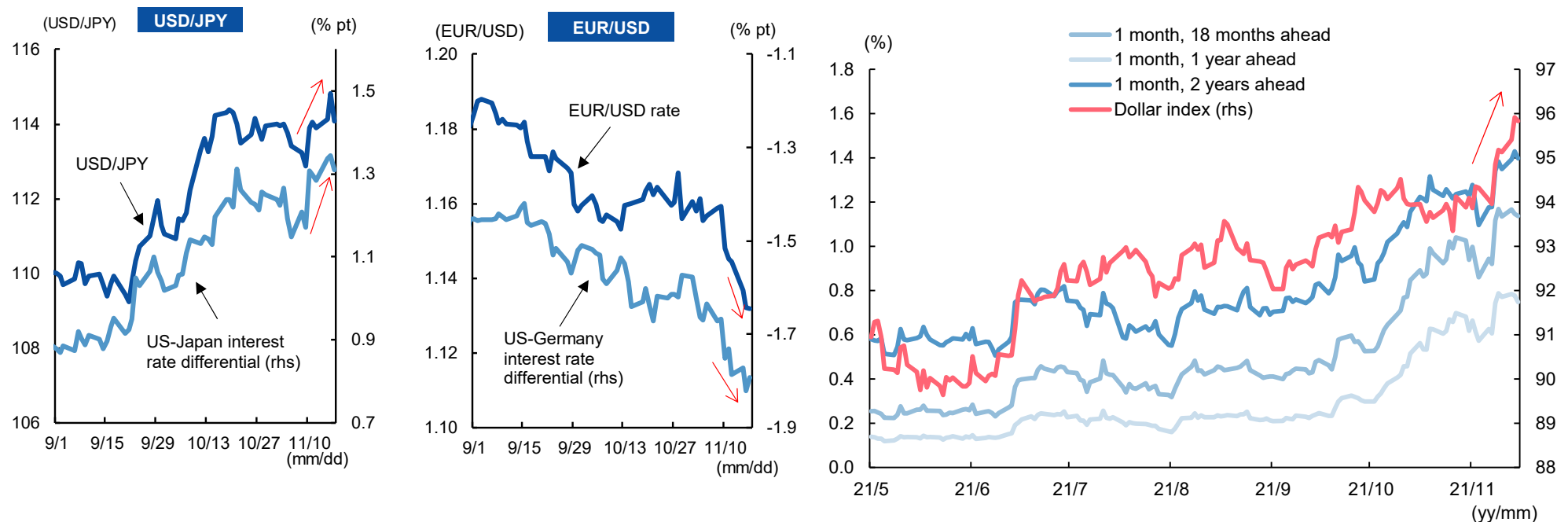
	FY2021 1Q	2Q	FY2021 1H
<b>Energy</b>	Returned to profitability	65.0	4,199.0
<b>Communication services</b>	-18.1	-68.2	-38.6
<b>Healthcare</b>	40.2	87.5	58.7
<b>General consumer goods</b>	Returned to profitability	3.3	281.5
<b>Finance</b>	58.3	30.6	43.9
<b>Utilities</b>	-39.6	-38.2	-38.7
<b>Capital goods</b>	4,303.4	338.9	650.1
<b>Information technologies</b>	115.9	54.1	78.1
<b>Consumer staples</b>	13.8	38.2	25.4
<b>Materials</b>	823.0	Returned to profitability	2,484.8
<b>Real estate</b>	27.8	56.3	41.8
<b>TOPIX 500</b>	164.9	43.2	90.5

Source: Made by MHRT based upon Bloomberg.

# Forex market: dollar-strengthening pressures expected against both the yen and the euro along with the focus of investor attention upon the possibility of an early rate hike

- The dollar strengthened against the yen and the euro due to the rise of US interest rates on the back of speculation on an early rate hike stemming from inflation concerns subsequent to the rise of the US CPI for October and other favorable US economic indicators.
  - For the USD/JPY rate, the dollar strengthened against the yen to the upper half of the JPY 114 range to the US dollar. The EUR/USD rate reached USD 1.13 range to the euro, a level not seen since July 2020 on a closing basis.
- The dollar index is rising sharply along with speculation on an early interest rate hike in the US. Looking ahead, if the FOMC takes a hawkish stance in December amid lingering inflation concerns, we expect US dollar strengthening pressures along with the focus of investor attention upon the possibility of an early rate hike.

## USD/JPY, EUR/USD rates and interest rate differentials Trends of OIS forward rates and the dollar index



Note: US-Japan interest rate differential = yield on 5yr US government bonds – yield on 5yr JGBs  
 US-German interest rate differential = yield on 5yr German government bonds – yield on 5yr US government bonds

Source: Made by MHRT based upon Bloomberg.

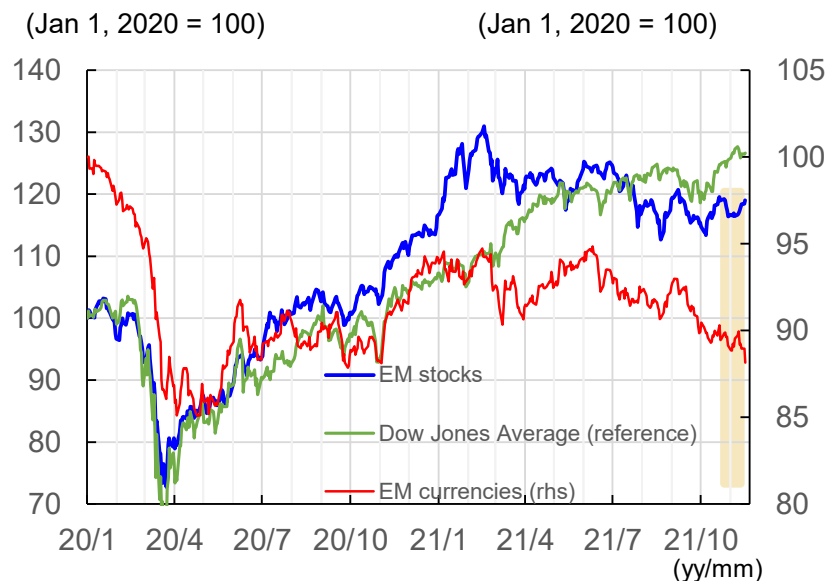
Source: Made by MHRT based upon Bloomberg.



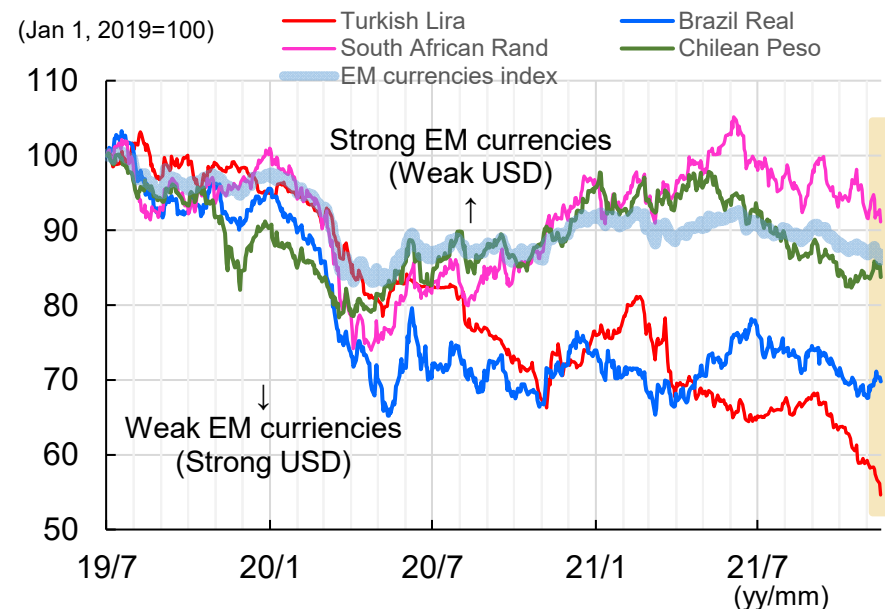
# EM financial markets: EM currencies are weakening against the backdrop of rising US interest rates

- EM stocks are generally continuing to face a heavy topside, and EM currencies continue to weaken.
  - Amid the global fall of new Covid-19 cases declines globally, there are signs of a rebound of EM stock indices.
  - However, future uncertainties, such as the rise of inflationary pressures and slowdown of the Chinese economy, are serving as a drag on stock prices.
  - Against the backdrop of rising US interest rates, EM currencies will be vulnerable to currency-weakening pressures against the US dollar.
    - ◆ Amid a spate of interest rate hikes among EM countries in a bid to protect their currencies from depreciation, Turkey is facing difficulties to stop its currency from weakening due to its accommodative monetary policy stance.

## EM stocks and Dow Jones Average



## Trend of EM currencies



Note: EM stocks and EM currencies are indicated by MSCI Emerging Markets and JP Morgan Emerging Markets FX Index respectively  
Source: Made by MHRT based upon Refinitiv.

Note: EM currencies index is indicated by JP Morgan Emerging Markets FX Index  
Source: Made by MHRT based upon Refinitiv.

## Outlook on the financial markets

		Nov 18, 2021	Oct-Dec	Jan-Mar	Apr-Jun
Japan	Interest rate on Policy-Rate balances (End of quarter, %)	-0.10	-0.10	-0.10	-0.10
	Newly-issued JGBs (10yr, %)	0.08	0.05 to 0.15	0.05 to 0.15	0.05 to 0.15
	Nikkei Stock Average (JPY)	29,599	28,400 to 29,400	28,900 to 29,900	29,000 to 30,000
US	Federal Funds Rate (End of quarter, %)	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25
	Long-term UST (10yr, %)	1.59	1.60 to 1.80	1.60 to 1.80	1.65 to 1.85
	Dow Jones Average (USD)	35,871	33,700 to 35,500	33,900 to 35,700	33,900 to 35,700
Eurozone	ECB deposit facility rate (End of quarter, %)	-0.50	-0.50	-0.50	-0.50
	Long-term government bond (Germany, 10yr, %)	-0.28	-0.25 to -0.05	-0.25 to -0.05	-0.25 to -0.05
Forex	USD/JPY rate (USD/JPY)	114.26	112 to 115	112 to 115	112 to 115
	EUR/USD rate (EUR/USD)	1.137	1.14 to 1.17	1.14 to 1.17	1.14 to 1.17

Note: 1. The foreign exchange rates (actual) are NY closing rates.

2. The projected policy interest rate indicated for the Jul-Sep, Oct-Dec, and Jan-Mar quarter is the end of quarter closing rate, while others indicate that the average value in the quarter will fall within the range indicated.

Source: Made by MHRT based Bloomberg

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