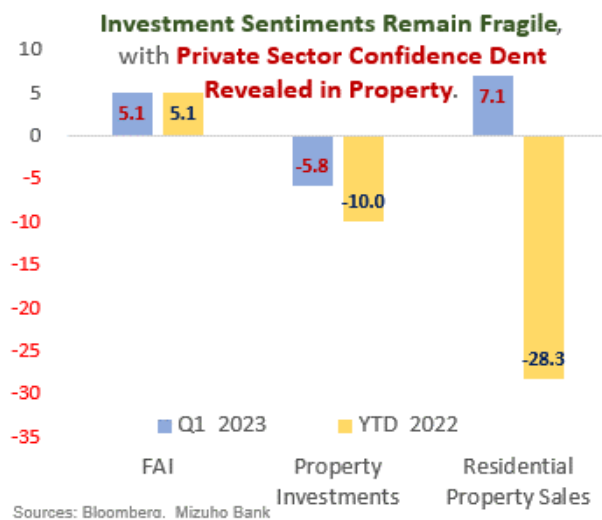
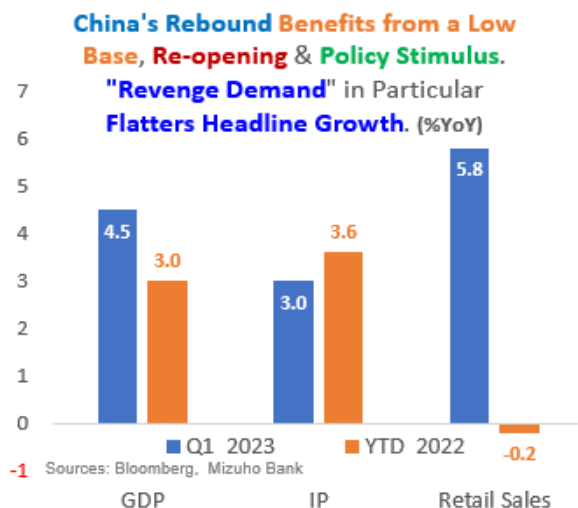
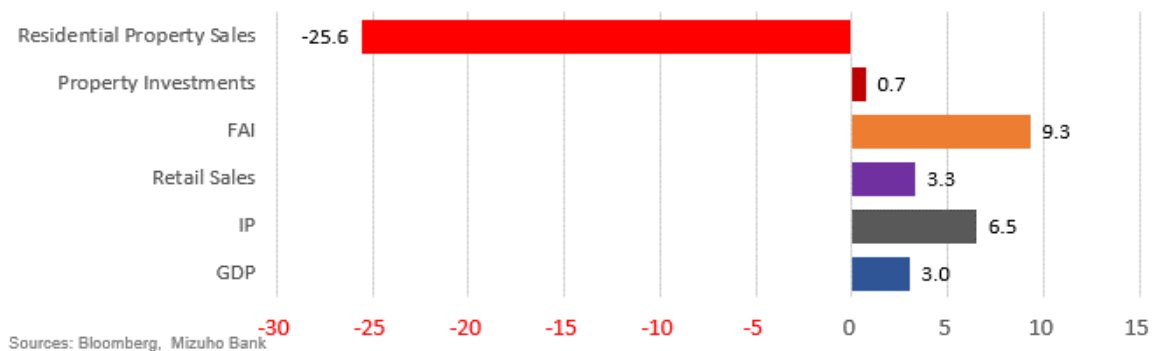


## Flattered Growth & Flustered Commodity Bulls



**Annualized Growth Rate (% YoY) vs. Q1 2021: Benchmarking to Pre-'Common Prosperity' (Q1 2021) Base Reveals the Extent of Hit to the Property, Confidence & Flattery of Low Base/'Revenge Consumption'**



*"You may have noticed that I'm not all there myself" – Cheshire Cat, Alice in Wonderland*

### In a Nutshell:

- 1) **China's Q1 GDP was flattered by "revenge" consumption surge**, whereas industrial output is far more restrained and investments still languish. Simply put, the rebound is *"not all there" in the details*.
- 2) This suggests that headline optimism is overstated as are linear projections and growth multipliers; amid clear downside risks/constraints from; i) propensity for a fizzle in *"revenge consumption"*; ii) underlying confidence deficit and; iii) mounting headwinds to industrial demand.
- 3) The risk with China's flattered re-opening consumption rebound is; that commodity bulls, inebriated on euphoria about China's re-opening demand, end up inadvertently flustered; industrials being most sensitive, although any buffer in energy likely to be temporary and/or overstated.

### Flattered Growth

The flashier Q1 GDP headline of sharper-than-expected acceleration to 4.5% (vs consensus at 4.0%) is flattered by "revenge" consumption surge; whereas industrial output is considerably more restrained in the extent of recovery (3.0% YTD vs. 3.5% consensus).

**Crucially, investments continue to languish** - both in aggregate (YTD FAI slipping to 5.1% vs 5.5%) and more woefully in property (YTD property investments at -5.8% vs. -4.7% expectations) **suggesting that the underlying confidence has yet to convincingly recover** in tandem with growth stimulus. *Certainly not in line with the outburst of pent-up consumption unleashed.*

### Unreliable Linear Projections

And the **risk is that** the latter (**revenge consumption**), which is notoriously slippery beyond the initial euphoria, is **unreliable for linear projections of durable demand recovery**. Especially as (COVID) **savings are run-down** in the context of lingering weakness economic sentiments/jobs/asset prices dampen durable increase in the propensity to consume.

### Resultant Overstated Prospects

Consequently, **headline cheer about growth rebound prospects are overstated**. Whereas, the **mechanics under the hood suggest subdued growth multipliers**, *bound by greater credit/stimulus intensity*.

### Requiring Downward Calibrations

In turn, any **realistic assessment would require** that the currently (overly-)optimistic expectations premised to be are calibrated lower; in particular (although not exclusively), for three key factors.

Revenge Consumption Fizzle: Most obviously *consumption demand rebound expectations need to be discounted to cater for some inevitable fizzle* (amid savings drawdown and gathering economic headwinds) **in "revenge" consumption**. *Especially as more emphatic resumption of outbound travel results in domestic demand leakages vis-a-vis the initial intensity of onshore "revenge spending"*.

Incomplete Confidence Restoration: More contentious, but critical, is the unobservable confidence factor. Pointedly, *consumption spurt is neither synonymous with, nor a guarantee of future confidence restoration* (consistent with the pre-"Common Prosperity" economy); *inadvertently stifling investment multipliers*.

Incomplete Confidence Restoration: Finally, post-COVID global consumption re-balancing to services colliding with global demand headwinds, warn of *industrial output recovery falling short*, not imminently catching up.

### Flustered Commodity Bulls

The **risk with China's flattered re-opening consumption rebound** (that ultimately fails to hold up to detailed scrutiny and the tyre-kicking over time) is; that **commodity bulls, inebriated on euphoria about China's re-opening demand, end up inadvertently flustered, if not, hung-over**.

Industrial Bulls Most Vulnerable: The **forces behind China's economic flattery in particular accentuate risks of over-estimating bullish motivation for industrial metals**. More so, when a conspiracy of; i) post-COVID adjustment of consumption away from goods; ii) outbound China tourists, and; iii) suppressant impact of higher global rates on capital-heavy commitments are accounted for.

Energy Tensions: Admittedly, *energy may face more tensions as two-way distortions* abound; between demand disappointments (amplified by global policy headwinds) on one hand; and expectations of revived Chinese travel (boosting fuel demand) and OPEC+ resistance to price reductions on the other. But risks to downside disappointments continue to grow as greater hopes hinge on China re-opening.

### Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

### Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

**Singapore:** Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

**Japan:** Mizuho is authorised and regulated by the Financial Services Agency of Japan.

**United Kingdom / European Economic Area:** In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

**United States:** This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd