

25 January 2021

Periodical

Global Macro Jottings

Recovery focus

This week's focus is on the World Economic Forum (WEF) meetings and the IMF's latest update of its 'World Economic Outlook'. The FOMC concludes its regular policy meeting on Wednesday, as equity market investors react favorably to President Joe Biden's USD 1.9tn package, and the US GDP data for the fourth quarter of last year is published on Thursday.

Global equities are at record highs and the week has started with a risk-on theme out of Asia, with investors focusing on Asian tech stocks and upcoming IPOs. EM Economies saw more than USD 100bn of local currency outflows after the onset of the COVID pandemic last year, but then recovered quite significantly. The *FT* reports this morning that [EM portfolio inflows](#) into EM economies in the first three weeks of this month remained firm, at USD 17bn (USD 360bn in the last nine months of 2020). The BoA Fund Managers Survey found a record 62% of fund managers were overweight EM equities in the month.

The Chinese economy grew 2.3% last year, the only major economy to register positive GDP growth in 2020. Recent economic indicators remain positive and the latest reading on Chinese industrial profits growth features strong cyclical readings. President Xi Jinping speaks at the WEF this morning and might reflect on US-China trade tensions under the Donald Trump presidency, hoping for improved relations under President Biden. President Xi has his own economic challenges, which remain how to deleverage China's burgeoning debt, especially in the corporate sector, where rising bond defaults have been a key issue recently.

Balancing the challenge of debt deleveraging against securing sustainable economic growth is going to be difficult. However, the Chinese authorities appear to want some moderation in the credit cycle, as well as less stimulus from monetary policy. It is also worth noting that the appreciation in CNY has stalled, and the PBoC might want to see a period of exchange rate stability.

In its previous assessment of the global economy, published last October, the IMF warned of a "long, uneven and uncertain ascent" in establishing a meaningful economic recovery. Back then, the IMF forecast global GDP growth of 5.2% for this year, with China accounting for a third of that. Advanced economies were forecast to expand 3.9%, with EM economies showing GDP growth of 6.0%. The World Bank's recent [Global Economic Prospects](#) takes a more circumspect view of the global economic recovery and predicts just a 4% increase in global GDP for this year, which is still 5% (USD 4.7tn) below pre-pandemic projections. EM ex-China GDP growth is forecast by the World Bank at 3.4%.

Neil MacKinnon, Economist
+44 20 3334 8865 // neil.mackinnon@vtbcapital.com

This document is intended for institutional investors and is not subject to all of the independence and disclosure standards set forth in Rule 2242 of the U.S. Financial Industry Regulatory Authority (FINRA) applicable to debt research reports prepared for retail investors. This report may not be independent of VTB Capital's proprietary interests. VTB Capital trades the securities and financial instruments referenced in this report for its own account and on a discretionary basis on behalf of certain clients. Such trading interests may be contrary to recommendation(s) offered in VTB Capital research reports. Prices cited in the body of this report are as of the last close before, or the close on, 25 Jan 2021 (except where indicated otherwise). VTB Capital analysts update their recommendations periodically as required. This research report was prepared by the analyst(s) named above who is (are) associated with VTB Capital plc and is distributed by JSC VTB Capital and VTB Capital plc and their non-U.S. affiliates outside the United States. This VTB Capital research report is distributed to investors located within United States by Xtellus Capital Partners, Inc. ("Xtellus") as a "third-party research report" as defined in FINRA Rule 2242(a)(17). Please refer to the Disclosures section of this report for other important disclosures, including the analyst certification and information as required by regulation

The World Bank noted the impact of the pandemic on investment and human capital in eroding EM growth prospects. More generally, the World Bank thinks that once the pandemic has subsided, the global economic landscape is unlikely to return to its previous state. The pandemic will leave lasting scars on productivity, including through its effect on the accumulation of physical and human capital in exacerbating the downward trend in potential GDP growth.

After this year's recovery in global GDP, the IMF expected global GDP growth to slow gradually to 3.5% over the medium term. The IMF projected cumulative output losses relative to pre-crisis levels of USD 11tn, climbing to USD 28tn over 2020-25. The IMF observed that EM economies were having to manage the crisis with fewer resources, as many are constrained by elevated debt and borrowing costs. The [World Health Organization](#) (WHO), in a report published today, warns that advanced economies will face a significant hit to their economies of up to USD 2.4tn in output losses (3.5% of their annual GDP) if the vaccine roll-out does not speed up.

The IMF also advised that the global easing of monetary policy should be complemented with measures to prevent a build-up in financial risks over the medium term (the IMF did not specify just what these measures might be). In other words, epic and unprecedented policy easing can come with a cost of potential financial instability. The IMF noted that global sovereign debt levels are at a record 100% of global GDP, but since last October, the debt-GDP ratios have increased further. While debt servicing costs are extremely low, this cannot be relied on to last, should inflation unexpectedly increase, causing government bond yields to increase. The World Bank notes that, while banking systems are generally well-capitalised, a wave of bankruptcies could erode bank buffers, putting some countries at increased risk of a financial crisis.

The World Bank says that EM government debt is to increase by 9% points of GDP in 2020, the largest increase since the 1980s, when EM economies experienced a series of debt crises. A new wave of global debt accumulation started in 2010 for the broadest-based debt increase in five decades. The World Bank highlights that previous waves of debt have ended with widespread financial crises, such as the Latin American debt crisis of the 1980's and the East Asia financial crisis in the late 1990s. These debt waves share similar characteristics of low interest rates and financialisation, accompanied by weak investment and slower growth. Over time, debt increases seem to be inversely correlated with economic growth i.e. the higher the debt, the slower economic growth.

The FOMC meeting this week is expected to keep US monetary policy on hold. More recently there has been some investor concern that the Fed might start to 'taper' the size of its balance sheet i.e. start to 'quantitatively tighten'. Investors will recall that the last time the Fed tried to 'taper', there was a sharp sell-off in US equities (December 2018) which compelled the Fed to resume loosening policy. Fed Chair Jerome Powell has pushed back against the notion of an early tightening of monetary policy, but investors are alert to signs of a pick-up in inflation, that is evident in service sector prices. Commodity prices are also generally firmer. Market-based measures of inflation expectations have been rising. Many Wall Street US GDP forecasts look for annualised GDP growth of 5-10% for the first and second quarters of this year in response to another round of fiscal reflation.

In addition, US financial conditions are ultra-loose and US equity markets are at record highs, with historically elevated valuations and margin debt. The Fed is in a trap of its own making. If it stops providing liquidity via QE, then equity markets face a stiff correction or crash, which could push any economic recovery back into recession. However, more monetary reflation on top of even more fiscal reflation puts financial stability at risk and leaves any prospect of 'policy normalisation' somewhat distant.

Disclosures

Production and Distribution of VTB Capital Research Reports outside the United States

The information and opinions contained within VTB Capital research reports are prepared by research analysts associated with JSC VTB Capital, VTB Capital plc and their non-U.S. affiliates (each such entity, a **“VTB Group entity”**, and all such entities collectively, the **“VTB Group”**), as indicated on the front page of this VTB Capital research report. Research reports produced by VTB Group entities are distributed under the VTB Capital logo (each such research report, a **“VTB Capital research report”**). This VTB Capital research report is distributed outside the United States by VTB Group entities.

Distribution of VTB Capital Research Reports to Investors within the United States

This VTB Capital research report is distributed to investors located within the United States by Xtellus Capital Partners Inc. (**“Xtellus”**), a broker-dealer registered with the U.S. Securities and Exchange Commission (the **“SEC”**) and a member of the Financial Industry Regulatory Authority (**“FINRA”**). Xtellus had no involvement in the preparation of this VTB Capital research report, and is distributing this VTB Capital research report to investors located within the United States as a **“third-party research report”** as defined in Rule 2242(a)(17). Xtellus has accepted responsibility for the content of this VTB Capital research report to the extent required by SEC guidance under Rule 15a-6.6 under the U.S. Securities Exchange Act of 1934 (the **“Exchange Act”**). Transactions in securities discussed in this VTB Capital research report must be effected by VTB Group entities with U.S. investors through Xtellus in accordance with Rule 15a-6. If you are an investor located within the United States, you should contact Xtellus if you wish to communicate with the VTB Capital research analysts who wrote this report, or you wish to conduct any transactions in securities described in this report.

Relationship between VTB and Xtellus

Xtellus is the successor entity of VTB Capital Inc, which was an SEC-registered broker dealer and affiliate of the VTB Group. The VTB Group sold its interest in VTB Capital Inc. with effect from August 31st 2018 to a newly formed holding company, Khepri Capital, LLC, an entity established and owned by certain VTB Capital Inc. personnel. In connection with the sale, VTB Capital Inc. was re-named Xtellus. While the VTB Group no longer has any ownership interest in Xtellus, Xtellus continues to provide certain services to VTB Group entities. Specifically, Xtellus (i) acts as agent for VTB Group entities pursuant to Rule 15a-6 under the Exchange Act in connection with securities transactions effected by VTB Group entities with U.S. investors, and (ii) is the exclusive distributor of VTB Capital research reports into the United States. Xtellus receives fees for research and Rule 15a-6 intermediation services it provides to VTB Capital Group entities, including fees for the right to distribute Xtellus research reports outside the United States. While the VTB Group no longer has any ownership interest in Xtellus, in light of the research and Rule 15a-6 service arrangements between the VTB Group and Xtellus, this VTB Capital research report includes disclosures pursuant to FINRA Rule 2241(h)(4) and FINRA Rule 2242(g)(3) applicable to VTB Group entities as if such VTB Group entities were affiliates of Xtellus. The inclusion of these affiliate disclosures should not be construed as implying that any VTB Group entity is affiliated with Xtellus for any other purpose.

Conflict of Interest Disclosures

This document is intended for institutional investors and is not subject to all of the independence and disclosure standards set forth in FINRA Rule 2242 applicable to debt research reports prepared for retail investors.

VTB Group entities do and seek to do business with issuers referenced in their research reports. This report may not be independent of VTB Capital's proprietary interests. VTB Capital trades the securities and financial instruments referenced in this report for its own account and on a discretionary basis on behalf of certain clients. Such trading interests may be contrary to the recommendation(s) offered in VTB Capital reports. Thus, investors should be aware that the VTB Group may have a conflict of interest that could affect the objectivity of research reports. Investors should consider this research report as only a single factor in making their investment decision. Where a VTB Capital Fixed Income or Macroeconomic research report includes an investment recommendation in relation to a particular security or financial instrument, the disclosures required pursuant to Regulation (EU) No 596/2014 and other applicable rules and regulations, each as amended, can be located by accessing the following webpages:

Research disclosures webpage - <http://research.vtbcapital.com/ServicePages/Disclosures.aspx>.

Investment Recommendations disclosures webpage – <https://www.vtbcapital.com/about/information-disclosure/investment-recommendations/>

Information concerning the previous investment recommendations made on the securities or financial instruments referenced in this report can be found by downloading the Fixed Income Research Investment Recommendations table and filtering the column 'Issuer'. Information concerning the investment recommendations made on the equity securities of the issuers referenced in this report can be found on the Investment Recommendations (excluding Fixed Income Research) disclosures table.

Where an issuer referenced in a VTB Capital Fixed Income or Macroeconomic research report is not included in the disclosure information on the above pages and tables, no investment recommendation, as defined in Regulation (EU) No 596/2014 and other applicable rules and regulations, each as amended, has been provided in relation to a security by that issuer.

Additional disclosures on the issuers referenced in this report can be obtained by writing to the offices listed on the back page. In order to receive (i) a summary of any basis of the valuation or methodology and the underlying assumptions used to either evaluate a financial instrument or an issuer, as well as an indication and a summary of any changes in the valuation, methodology or underlying assumptions; (ii) detailed information about the valuation or methodology and the underlying assumptions in any non-proprietary models; or (iii) material information about the proprietary models used, please consult the VTB Capital Research website at <https://research.vtbcapital.com> or contact the authors of this document.

Issuer Specific Disclosures

Important disclosures and equity rating histories regarding the company (companies) that is (are) the subject of this report can be found at <https://research.vtbcapital.com/ServicePages/Disclosures.aspx>

Analysts Certification

The research analysts whose names appear on the cover of this VTB Capital research report certify pursuant to SEC Regulation AC that: i) all of the views expressed in this research report accurately reflect their personal views about the subject security or issuer, and ii) no part of the research analysts' compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analysts in VTB Capital research reports.

The research analysts whose names appear on VTB Capital research reports received compensation that is based upon various factors including VTB Capital Group's total revenues, a portion of which are generated by VTB Capital Group's investment banking activities.

VTB Capital Fixed Income Research Recommendations Distribution

Investment Rating Distribution		
Outperform	6	54.55%
Neutral	4	36.36%
Underperform	1	9.09%
Long	0	0.00%
Short	0	0.00%
Under Review	0	0.00%
	11	

Source: VTB Capital Research as at 31 December 2020

Ratings Distribution for Investment Banking Relationships		
Outperform	3	54.55%
Neutral	1	36.36%
Underperform	0	9.09%
Long	0	0.00%
Short	0	0.00%
Under Review	0	0.00%
	4	

The Fixed Income Recommendations Distribution tables account for the recommendations on all instruments, rather than at issuer level. In instances where we provide a recommendation for more than one security of the issuer, these are counted separately.

Conflicts Management Arrangements

VTB Capital Research has been published in accordance with our conflict management arrangements, which are available at <http://research.vtbcapital.com/ServicePages/Files/Col+Arrangements+Research.pdf>.

VTB Capital Research

Moscow Research

Phone: +7 495 660 4253
research@vtbcapital.com

London Research

Phone: +44 (0) 20 3334 8557
research@vtbcapital.com

VTB Capital Offices

JSC VTB Capital

Federation Tower West
 12, Presnenskaya emb.
 Moscow, 123100, Russia
 Phone: +7 495 960 9999
www.vtbcapital.com

VTB Capital plc

14 Cornhill
 London EC3V 3ND
 Phone: +44 (0) 20 3334 8000
 Fax: +44 (0) 20 3334 8900
www.vtbcapital.com

VTB Capital plc

9 Battery Road #27-01
 Straits Trading Building
 Singapore 049910
 Phone: +65 6220 9422
 Fax: +65 6225 0140
www.vtbcapital.com

VTB Capital Hong Kong Limited

Unit 2301, 23/F
 Cheung Kong Center
 2 Queen's Road Central
 Hong Kong
 Phone: +852 3195 3688
 Fax: +852 3195 3699
www.vtbcapital.com

Xtellus Capital Partners Inc. (Sales and Research queries for US clients)

Xtellus Capital Partners Inc. Sales

535 Madison Avenue, 5th Floor
 New York, NY 10022
 Phone: +1646 527 6400
Sales@XtellusCapital.com
www.xtelluscapital.com

VTB Group entities do and seek to do business with companies covered in their research reports. Thus, investors should be aware that the VTB Group may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this research report as only a single factor in making their investment decision.

VTB Capital is not providing either investment advice or individual investment recommendations to the recipients or any other persons either under Federal Law On Securities Market of 22.04.1996 No. 39-FZ (or related rules and regulations, each as amended) or otherwise.

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by VTB Group from publicly available information and sources that VTB Group believes to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of the VTB Group gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of the VTB Group has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of the VTB Group. This research report may not be relied upon by any retail customers or persons to whom this research report may not be provided by law. Unauthorised use or disclosure of this research report is strictly prohibited. Members of the VTB Group and/or their respective principals, directors, officers and employees (including, but not limited to, persons involved with the preparation or issuance of this research report) may own, have positions or effect transactions in the securities or financial instruments referred to herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report accurately reflect the personal views of the authors of this research report about the subject investments, securities and financial instruments and issuers and do not necessarily reflect the views of any member of the VTB Group. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations. This material is not intended for the use of private investors.

In **Russia**, this report is approved and/or communicated by JSC VTB Capital, a professional securities market participant regulated by the Central Bank of Russia.

This report is distributed in the **European Economic Area (EEA)** by VTB Bank (Europe) SE, registered with the number HRB 12169 at the register of companies in Frankfurt am Main and authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main to provide banking transactions and financial services. This report is intended for those persons that would be classified as Eligible Counterparties or Professional Clients pursuant to Directive 2014/65/EU.

In the **United Kingdom** this report is approved and/or communicated by VTB Capital plc London, a member of the London Stock Exchange and authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is intended for those persons that would be classified as Eligible Counterparties or Professional Clients under the Financial Conduct Authority's Conduct of Business rules."

This research report is distributed in **Singapore** by VTB Capital plc to accredited investors, expert investors or institutional investors only (as defined in the applicable Singapore laws and regulations and is not intended to be distributed directly or indirectly to any other class of person). Recipients of this report in Singapore are to contact VTB Capital plc, Singapore branch in respect of any matters arising from, or in connection with, this report. VTB Capital plc, Singapore branch is regulated by the Monetary Authority of Singapore.

This research report is distributed in **Hong Kong** by VTB Capital Hong Kong Limited, a licensed corporation (CE Ref: AXF967) licensed by the Hong Kong Securities and Futures Commission to "professional investors" (as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation) only.

For important disclosures and equity rating histories regarding companies that are the subject of this report, please see the VTB Capital Research Website: <http://research.vtbcapital.com/ServicePages/Disclosures.aspx>, or contact your research representative.

Copyright © 2021 by VTB Capital. All rights reserved. Please cite source when quoting.