Global disinflation is coming underway

Key Takeaways

- We believe global disinflation is coming underway, Signs of slowing inflation are already seen. Subdued economic performance is inevitable and has become global macro theme for 2023.
- Signs of global disinflation : 1) consensus forecasts expect lower output growth in 2023; 2) manufacturing activities in the major economies contracted in 4Q22; 3) lower oil price despite production cut; 4) subdued trade activity even after improving supply chain condition.
- Given the unfavorable macroeconomic condition recently, markets start to anticipate that end of rate hikes cycle to end anytime soon in 1H23F.

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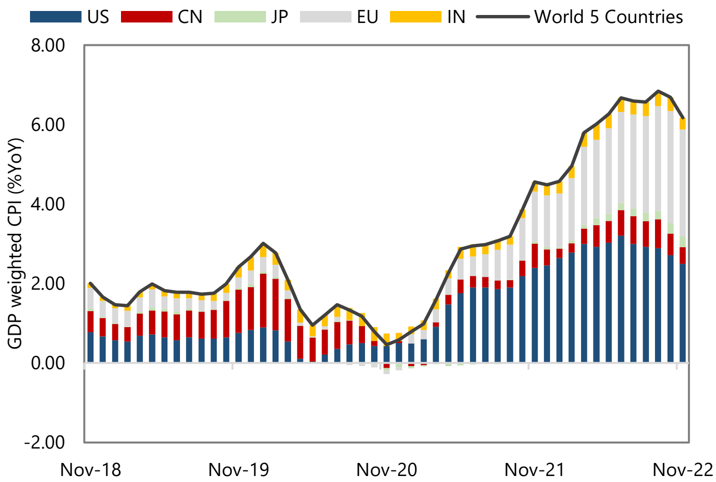
The impact of restrictive monetary policy has come to play. Aggressive rate hikes throughout 2022 has affected global aggregate demand that we believe could put the world economy to a disinflation environment. US annual inflation rate has decelerated in 2H22 after peaking at June with the pace of +9.1% YoY. Some other economies like China and India also experienced the same pattern of slowing inflation. A further disinflation is likely to continue going forward, in our view. Here, we share our perspective of how global disinflation is coming underway, driven by sluggish external demand.

- **Consensus forecasts expect lower output growth in 2023.** Global growth prospect is continuously revised down throughout 2022. The risk of recession is rising across the globe as inflation hit demand and central banks' aggressive monetary tightening put additional pressures on aggregate demand, despite the aim to cooling down more than 4 decades high of inflation.
- **Manufacturing activity contracted for the first time in 4Q22.** Our observation showed that manufacturing PMI in economies which account >60% of global output (US, China, Japan and EU) are consistently in a contraction zone in 4Q22. US and Japan factory activities slid in Nov-22, whereas China's manufacturing activities was more volatile on the back of zero Covid policy measures. On the other hand, EU energy crisis also triggered a contraction since 2H22.
- **Lower oil price despite production cuts.** OPEC+ agreed upon ~2% of output reduction started from Nov-22 foreseeing the risk of recession that could hit energy demand. However, since 2H22, global oil balance has consistently recorded a surplus of ~0.96mbpd averagely pushing down the oil price by -30.5% from the peak in Feb-22. Lower oil price is likely to provide a further disinflation environment to the world's economy.
- **Subdued trade activity even after improving supply chain disruption.** Albeit still managing year-on-year positive growth of trade activities, some major economies like US and China's import declined on a quarterly basis in 3Q22. In addition, quarterly exports performance from Japan & Korea fell in 3Q22, whereas, India's quarterly exports and imports both contracted at the same time. Global merchandise trade volume continued to slowdown since early 2022, even with the improvement in supply chain disruption. Such condition reflects a sluggish external demand on the back of strong USD and higher price of goods and services.

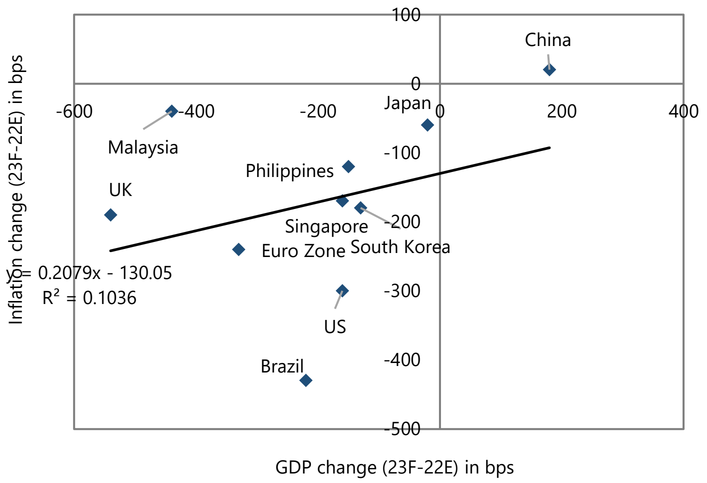
Given the unfavorable macroeconomic condition recently, markets start to anticipate that end of rate hikes cycle to end anytime soon in 1H23F. The short-term yield on 3-M UST is indeed still rising reflecting a further FFR hike, yet yield on 2-Yr & 10-Yr UST are consistently declining.

Exhibit 1. Inflation development in several economies



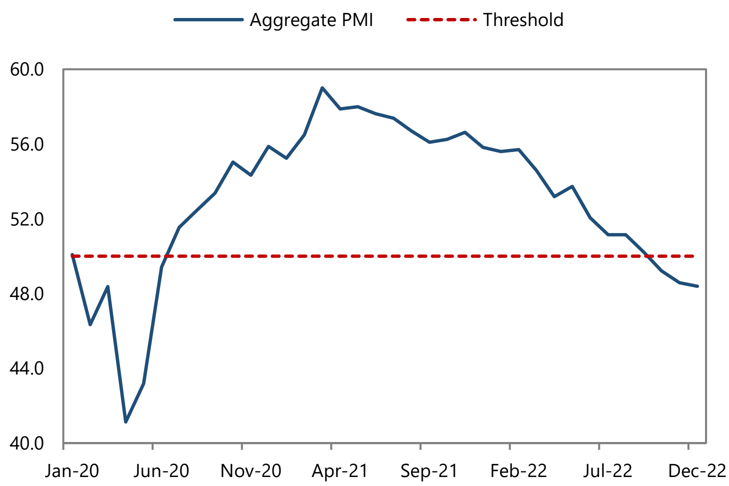
Sources : Bloomberg, MNCS Research

Exhibit 2. Growth & inflation forecasts for FY23F



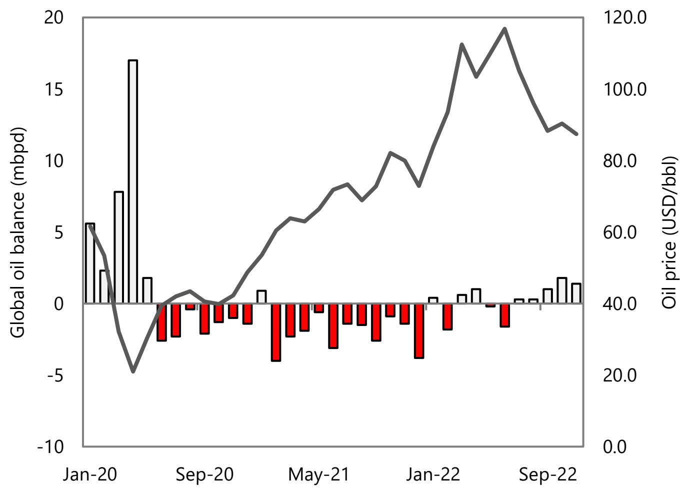
Sources : Bloomberg, MNCS Research

Exhibit 3. Manufacturing activities in several economies



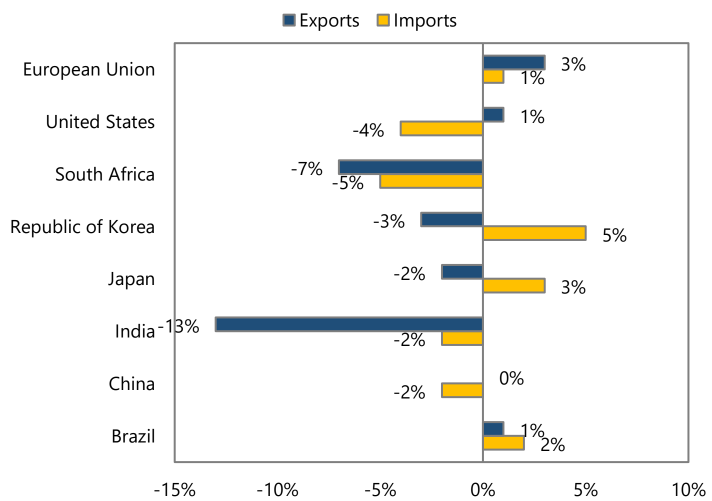
Sources : Bloomberg, MNCS Research

Exhibit 4. Oil price vs global balance



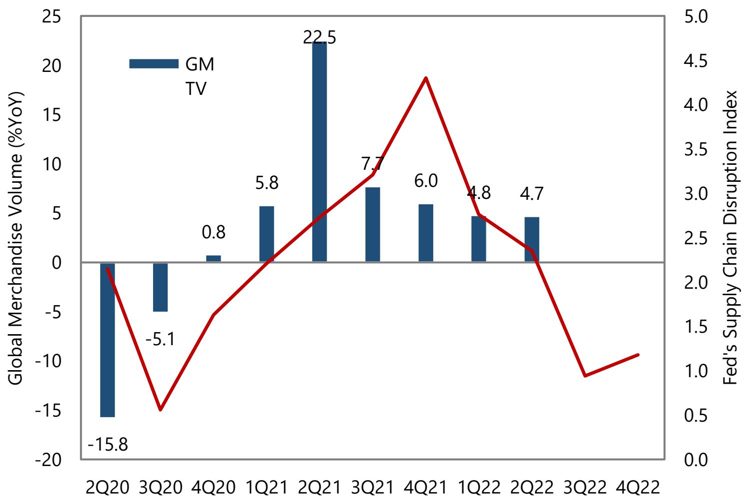
Sources : IEA, McKinsey, World Bank, MNCS Research

Exhibit 5. Quarterly trade performance in 3Q22



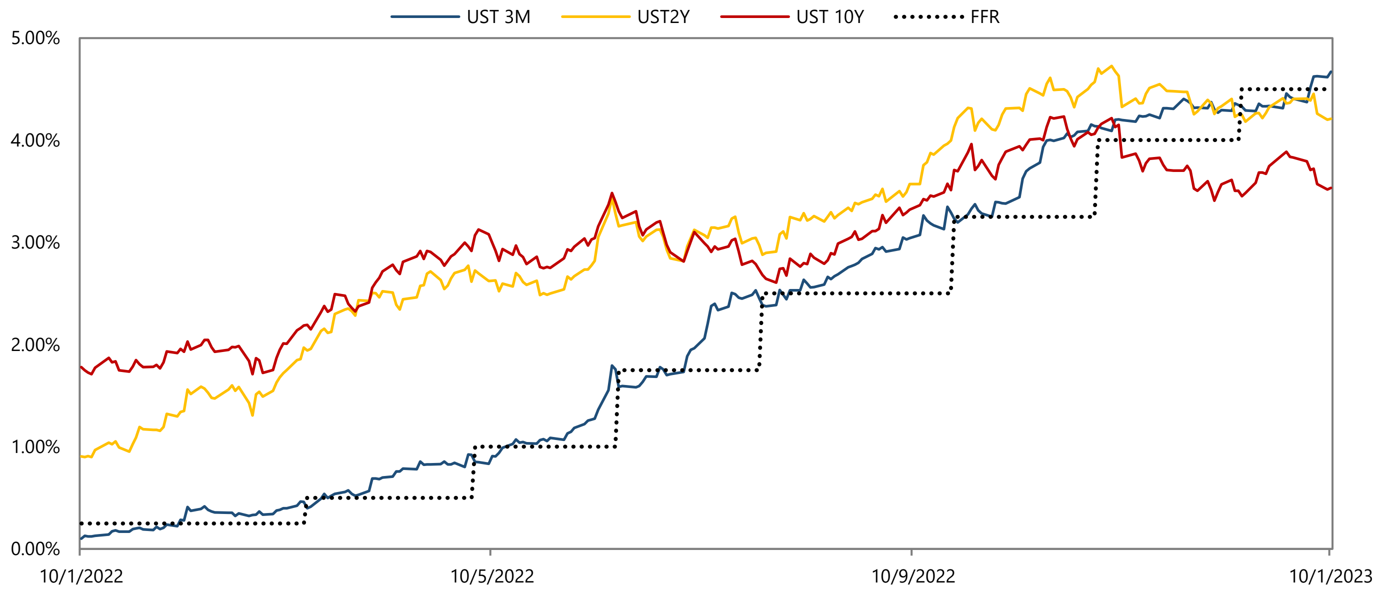
Sources : UNCTAD, MNCS Research

Exhibit 6. Global trade and supply chain disruption



Sources : WTO, Fed St Louis, MNCS Research

Exhibit 7. FFR and UST yield



Sources : Bloomberg, MNCS Research

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

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BUY : Share price may exceed 10% over the next 12 months

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