Outlook for the Japanese and Overseas Economies

ECONOMIC RESEARCH OFFICE

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MUFG Bank, Ltd.
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Contents

Executive Summary

In 2021, the global economy is expected to continue its recovery from the downturn triggered by COVID-19. On a quarterly basis, the pace of recovery will likely be moderate especially in developed economies as negative impacts from the pandemic linger and measures to curb infections will hamper the normalisation of economic activity (it is unlikely there will be another sharp rebound like the one seen last year after activity restrictions were eased after the first wave of infections subsided). On an annual basis, the year-over-year growth rate will likely be relatively high because the base year (2020) was marked by sharp economic declines due to the unexpected pandemic. Hopes about the effect of vaccines have risen as vaccine distribution is underway in many countries including Japan. Yet many things are still unclear, such as how quickly vaccines will be distributed, how long their effect will last, and whether they be effective against newer variants of the virus. Thus, a wide range of possibilities needs to be taken into account at this point. If an end to the pandemic comes into view for major economies thanks to their swift vaccine distribution and the effects of the vaccines become evident, the recovery pace could probably be faster than projected in this report.

- In 2020, the global economy contracted sharply as countries and regions placed utmost importance on containing COVID-19 infections in the first half of the year. Once public health measures were eased and economic activity resumed after the first wave subsided, there was a sharp rebound in economic activity in many countries and regions. Yet, the persistent downward pressure on the economy from the pandemic and the second and third waves that occurred in July-August and from October onwards meant the pace of recovery slowed in general during the October-December quarter last year. The global real GDP growth rate is estimated have declined by around 3.5% YoY in 2020.
- In 2021, the pace of recovery will likely be moderate with some twists and turns as countries and regions must continue to balance controlling infections and normalising economic activity. The extent of recovery from last year's slump will vary depending on factors such as the trend of infection, available medical care and economic relief measures or lack thereof, as well as their scale and the availability of vaccines.
- As for major developed economies, the Economic Research Office projects that real GDP will increase by 4.1% YoY in the US and by 3.6% in Eurozone in 2021, and by 3.6% YoY in Japan in fiscal 2021. Recovery in the level of economic activity would depend on how deep the decline was in the previous year. Real GDP level is expected to return to pre-pandemic level (2019 average) this year in the US, but in 2022 or later in Eurozone and Japan.
- China is the only major economy that registered positive real GDP growth in 2020 owing to swift containment of the infection and a speedy economic recovery. Its real GDP has already returned to pre-pandemic levels with the support of government policies. The Economic Research Office projects that China's real GDP will increase by 8.3% YoY in 2021 and will drive global economic growth. Other newly emerging economies will also support global growth on the whole owing to a rebound from 2020 and their higher potential growth rates compared with developed countries, although the pandemic situation varies widely from country to country. All in all, the Economic Research Office projects that the global real GDP will increase by 5.3% YoY this year.
- Areas of uncertainty going forward include: how the pandemic will unfold; the impact of vaccines and the speed of their distribution; how long economic policies will be in place in different countries and regions; and policies undertaken by the new US administration. Even the latest medical and epidemiological knowledge cannot provide a concrete prediction of how the pandemic will unfold and the effect of vaccines. Therefore, our main scenario for 2021 is that impacts from the COVID-19 pandemic will remain, but we will closely monitor if infections decrease due to vaccines or whether the pace of economic recovery will accelerate. Our assumption is that countries and regions will maintain their economic relief packages in 2021 for the most part while re-examining their scale and scope (the US will likely carry out a major economic relief package under the Biden administration), and that the US-China tension, which flared up during the Trump administration, will generally remain at high levels.

1. Overview

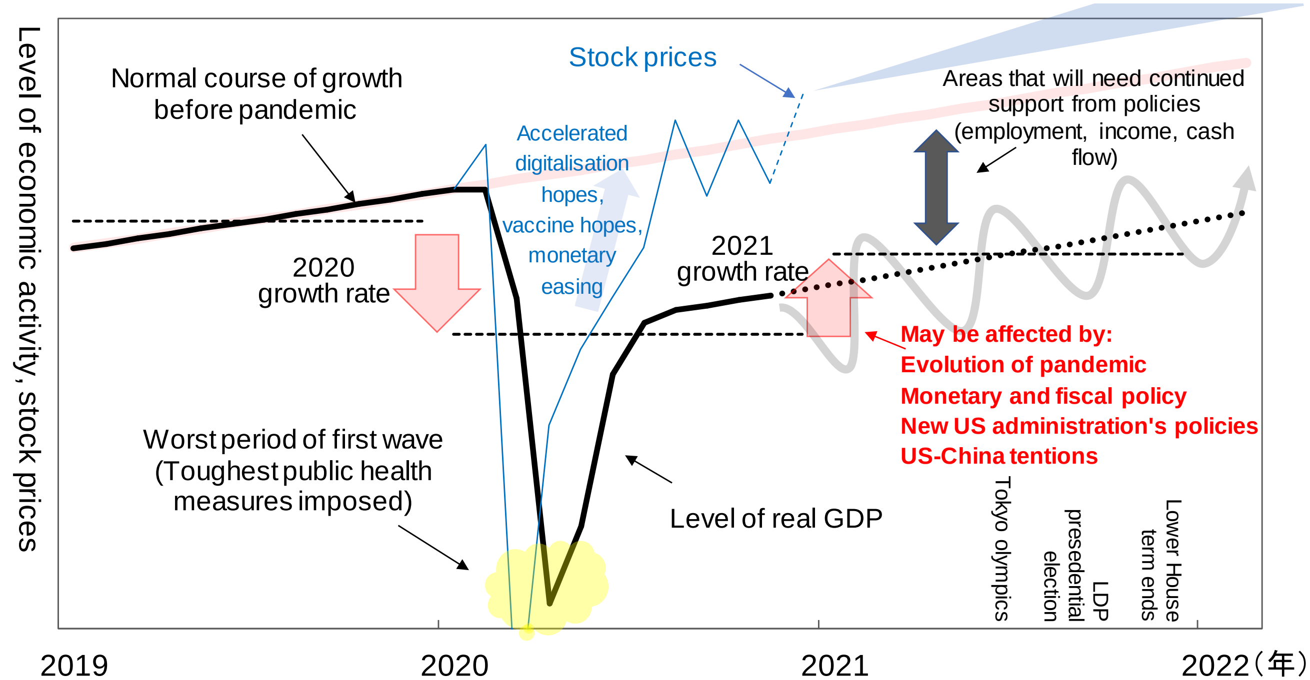
- In 2021, the global economy is expected to recover moderately as economic activity is balanced with efforts to curb infection following the historic decline from the prior year due to the COVID-19 pandemic.
- Developed economies will take some time to return to their pre-pandemic growth trends (see charts below for historical growth cycles for Japan and the US), but the global real GDP is expected to grow at a relatively high rate of 5.3% YoY in 2021 due to a rebound from 2020 and strong recovery in some newly emerging economies.

Assumptions

- ✓ **Pandemic** : Situation will gradually improve (even if it worsens temporarily, public-health measures will not be as extensive as they were during the first wave of infection).
- ✓ **Effect of vaccines and treatments**: Vaccine distribution will move forward, but the Economic Research Office has not forecast the quantitative impact of the vaccines or specified when the effects will manifest (see note below).
- ✓ **Policy response** : While avoiding drastic changes, countries and regions will maintain monetary and fiscal policy measures albeit on a reduced scale.

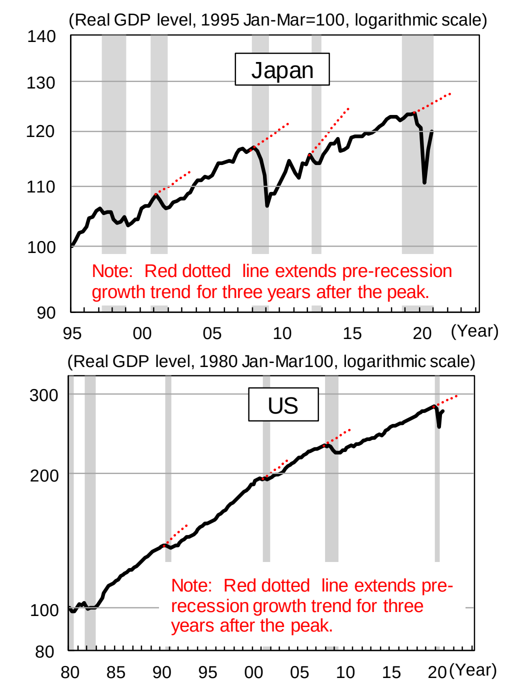
Note: Vaccine effects are being studied in countries were quick to roll them out, so these assumptions may be revised as the situation evolves.

Economy in Post-COVID-19 (concept for developed economies)



Note: Line chart is a concept illustration and not a precise depiction.
Source: Various statistics, MUFG Bank Economic Research Office

Japan, US Historical Economic Cycles



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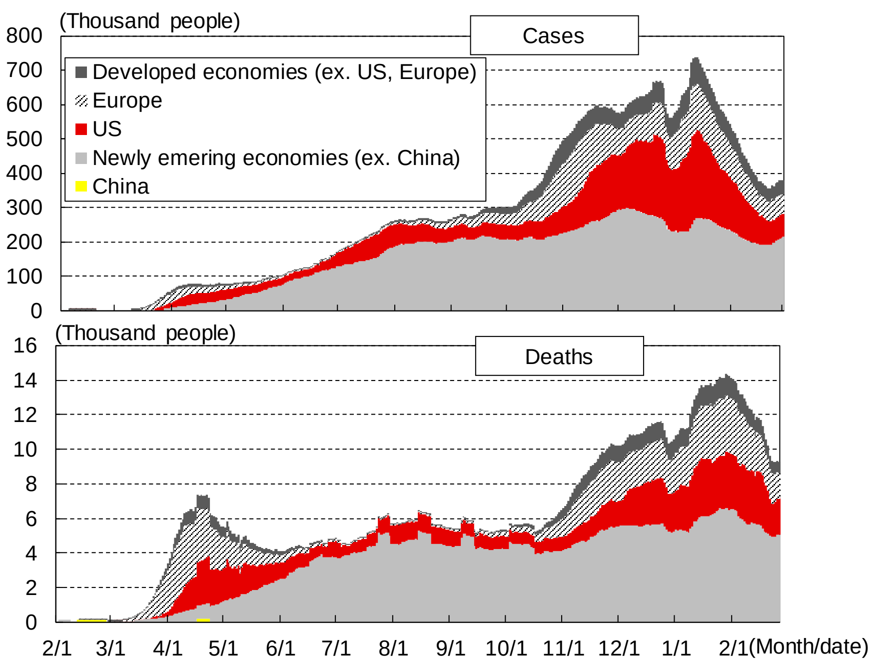
2. Forecasting the COVID-19 Pandemic: Number of Cases

- As of 25 February, cumulative cases totalled 112 million and deaths 2.49 million according to the World Health Organization (WHO).
- In the autumn-winter period, developed economies – mainly those in the Northern Hemisphere – had a resurgence of cases as variants of the virus emerged. Yet cases seem to have peaked out at this time, with the decrease in new cases probably related to public health measures rather than impact from vaccines. In newly emerging economies, new cases are decreasing but deaths remain at high levels.
- Multiple vaccines have been rolled out and are being administered in many countries, spearheaded by the UK and the US where the first shots were given at the end of 2020. Hopes have grown that vaccines will become a game changer (see note below).

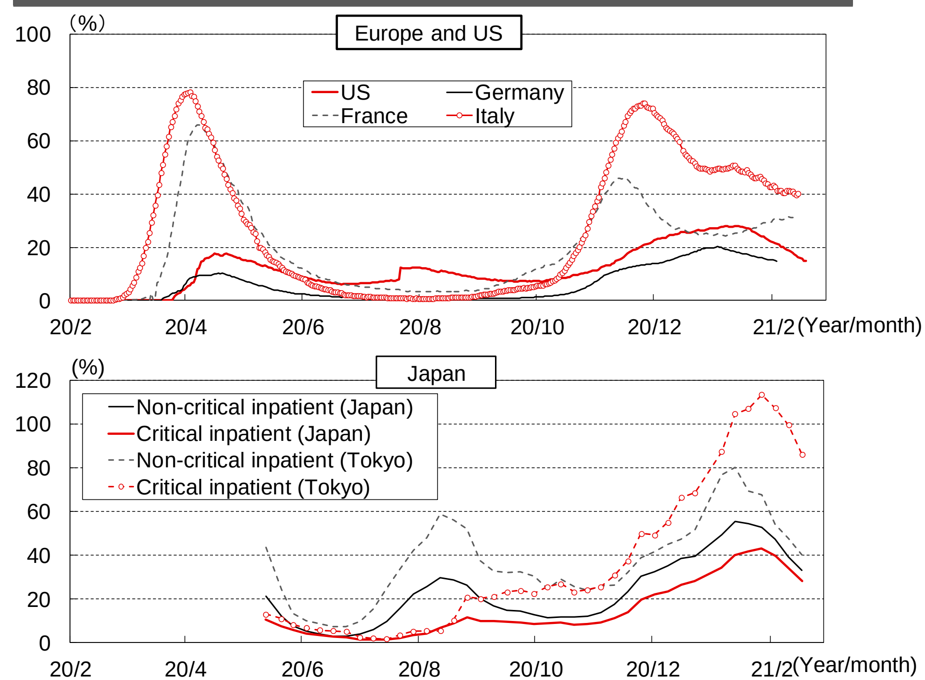
  Note: Vaccines are believed to be effective in achieving herd immunity. Another potential method of achieving herd immunity (through natural infection) is not supported by the WHO, which deems it scientifically problematic and unethical. Sweden has attempted to achieve herd immunity through natural infection but the government abandoned the effort at the end of 2020 as the number of deaths increased.
- The threshold for imposing restrictions on face-to-face activities (where public health measures restrict economic activity), appears to depend to some extent on the capacity of healthcare systems. ICU occupancy rates in the US and Europe and hospital bed occupancy rates in Japan show that the rise in cases that started in autumn has put a strain on healthcare systems, but that the strain has peaked.

New Cases and Deaths by Country and Region



Note: *Europe* includes UK, Germany, Italy, France, Spain
Source: WHO, MUFG Bank Economic Research Office

ICU, Hospital Bed Occupancy Rates (US, Europe, Japan)

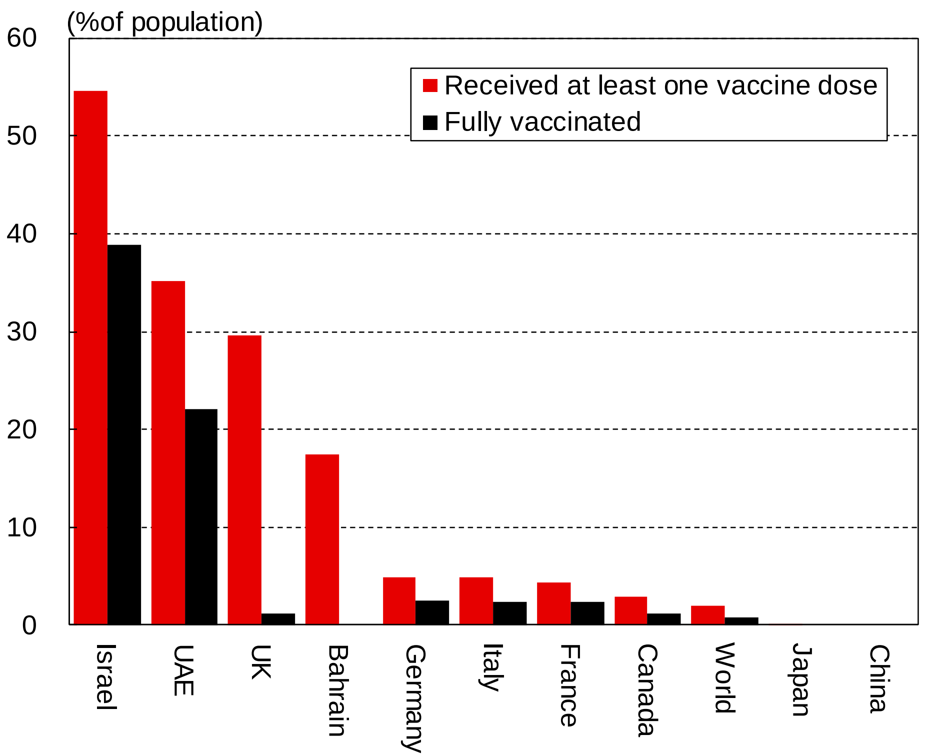


Note: Latest data for ICU patients is dated 18th Feb for US, 3rd Feb for Germany, and 14th Feb for France and Italy. Japan hospital bed occupancy rates start at 13th May. Compilation methods for critical patients and number of beds differ between Tokyo and all Japan data.
Source: OECD, *Our World in Data* website run by Oxford University, Ministry of Health, Labour and Welfare, MUFG Bank Economic Research Office

2. Forecasting the COVID-19 Pandemic: Vaccinations

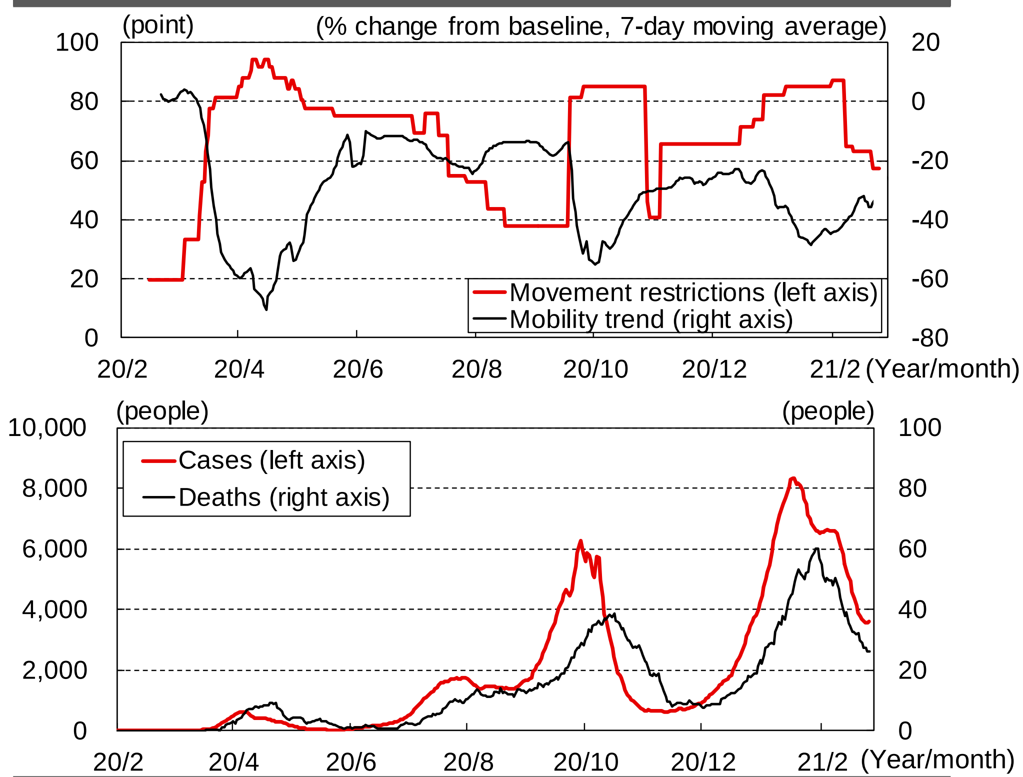
- Israel is leading the world in vaccination rates by a considerable margin. In other countries, such as the UK and US where vaccine administration first began, the percentage of the population that has been fully vaccinated remains low. Japan is particularly behind in this regard, with certain healthcare workers – the first eligible category – receiving vaccines starting on 17th February.
- In Israel, the percentage of the population that has received at least one dose is around 50%, and the percentage of fully vaccinated people is around 30%. New cases and deaths have peaked in the country which could be attributed to herd immunity from high vaccination rates along with reduced activity due to restrictions on movement (specialised analysis is still needed on this point).
- Given the current pace of vaccine administration, only a handful of countries will likely achieve herd immunity through widespread vaccine administration by the end of 2021. which is the period covered in this Outlook. These countries would be those with the capacity to produce and supply the approved vaccines, or those otherwise able to obtain vaccines for a high enough percentage of their populations.

COVID-19 Vaccination Status (as of 24 February)



Source: *Our World in Data* website run by University of Oxford, MUFG Bank Economic Research Office

Situation in Israel (Leader in COVID-19 Vaccinations)



Source: Bloomberg、IMF, MUFG Bank Economic Research Office

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2. Forecasting the COVID-19 Pandemic: Assumptions and Reasoning

- Assumptions about the pandemic and the rationale behind them are detailed below. The FRB chair and ECB president have expressed cautious views, whereas some international organisations have factored in a significant impact from vaccines to their baseline scenarios, as can be seen in the IMF's January outlook. That being said, the IMF acknowledges a wide range of possibilities with regards to medical advancements.

Assumptions	**The impact of the COVID-19 pandemic will continue on throughout 2021.** Cases of infection may rise and restrictions on economic activity may be reinstated in some regions or seasons. However, increases in cases will be curbed in the medium-to-long term owing to public-health measures that take into consideration economic activity as well as advances in knowledge about treatment and vaccines. Although vaccines are likely to have some impact, the Economic Research Office has not factored in specific quantitative impacts or the timing of said impacts into its forecast at this time.
Rationales	✓ The spread of infection differs by country and region but, in principle, the virus is highly contagious with a basic reproduction number between 2 and 4 (preliminary estimation by WHO). ✓ **Treatments**: Advances in treating symptoms is helping to reduce the number of deaths, particularly in developed economies (there is still no cure for the disease). ✓ **Vaccine effect**: The Economic Research Office has taken a conservative approach and has not explicitly factored in the following areas of uncertainty in its economic scenarios: speed of vaccine distribution in developed and newly emerging economies; vaccination rates; the impact of vaccinating hundreds of millions of people; the duration of efficacy; and efficacy against variants of the virus. However, with countries now at the stage of rolling out and distributing vaccines which are said to be highly effective, realistically, this is expected to be a decisive factor in the pandemic response. Therefore, it is important to keep an eye out for an optimistic scenario in the case of a notable impact from vaccines. ✓ **Probability of achieving herd immunity or a large percentage of population with antibodies through natural infections:** Rates of positive test results across various countries suggest populations are still some way off achieving herd immunity. Given the high rate of fatality among the elderly in particular, it would be difficult to allow an uninhibited spread of the virus from an ethical standpoint and in terms of maintaining healthcare services. Reports of cases of re-infection show further study into immune functions is necessary.

Expert Views on Bringing COVID-19 Pandemic Under Control	
WHO	■ Director of the WHO's immunisation department Dr O'Brien said the goal is for "each country to immunise 20% of their population by the end of 2021"(16 November 2020). This, and the comment from WHO Director-general of medical research council (see right), suggest the WHO expects the pandemic will be brought under control by achieving herd immunity through vaccination.
Information about vaccines	■ Clinical trials show mRNA vaccines to be highly effective in preventing *symptoms*. ■ No data indicates frequent occurrences of serious side effects. ■ Medical data cannot yet ascertain the effectiveness of vaccines in preventing *infections*, how long they will remain effective, and when herd immunity could be achieved. ■ Securing a supply of vaccines and raising immunisation rates are some of the challenges (this is especially true in Japan).

Source: Various news reports and other materials, MUFG Bank Economic Research Office

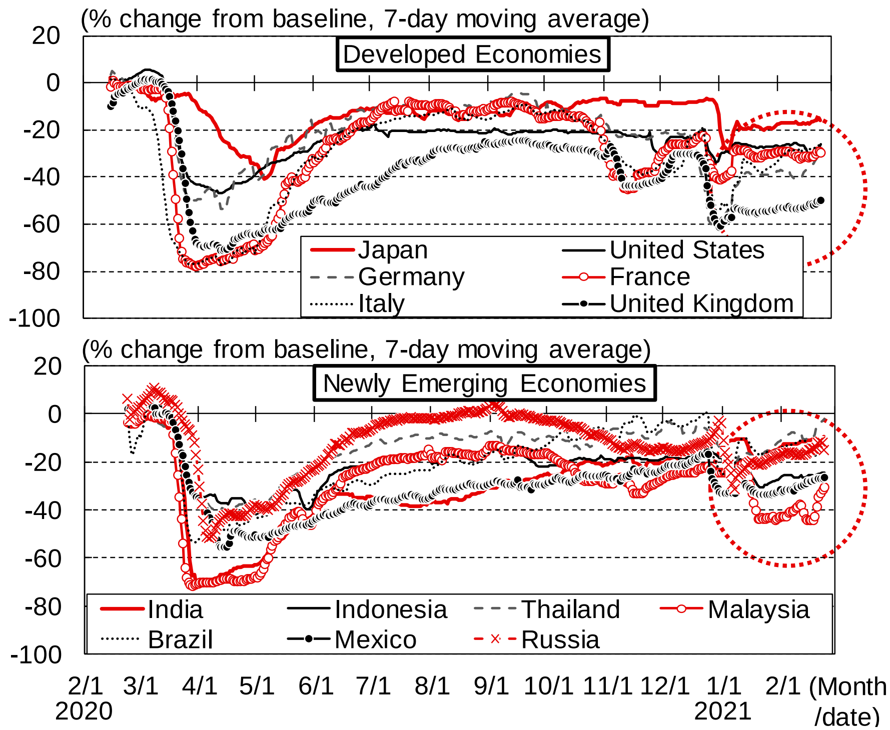
Herd Immunity	
Sweden	■ Purposefully avoided lockdowns to achieve herd immunity but practically gave up this effort when the government tightened restrictions on people's movement on increases in death toll and severe cases (8 December 2020).
WHO	■ Indicated that more than 70% of the world population would probably need to be vaccinated in order to reach herd immunity (7 January 2021) ■ WHO Chief Scientist Dr Swaminathan said it would be difficult to achieve herd immunity in 2021 (11 January 2021).
Universities	■ Oxford University in the UK said its vaccine co-developed with AstraZeneca may significantly curb *infections* themselves (percentage of positive PCR test results fell by 67% among those vaccinated) (2 February 2021)

Source: Various news reports and materials, MUFG Bank Economic Research Office

3. The Global Economy: Mobility and Economic Growth

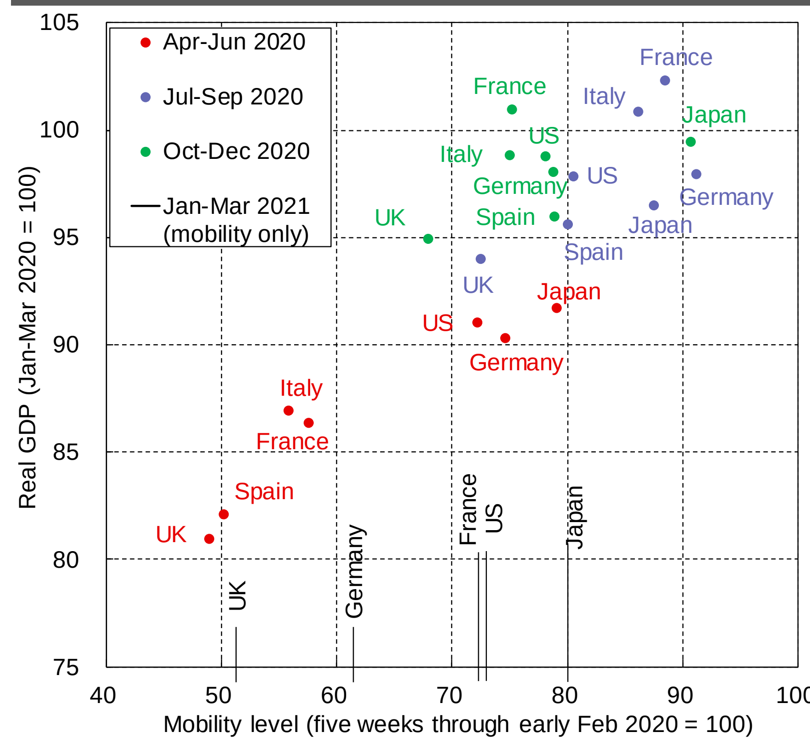
- During the pandemic, reduced activity (either voluntary or due to restrictions on movement) took a heavy toll on economic growth. High-frequency data such as mobility data (shown below) can serve to gauge the extent of the fall in activity (the data has short history so seasonal impacts on mobility should be kept in mind).
  - ✓ The sharp decline in economic activity in the April-June 2020 quarter and the rebound in the July-September 2020 quarter have a strong correlation with the decline and rebound in mobility data.
  - ✓ Mobility data shows that the economic rebound seen during the second half of the April-June quarter and in the July-September quarter has run its course. In Europe, mobility declined sharply around November as governments tightened movement restrictions in response to a resurgence of cases.
  - ✓ The level of mobility has not yet returned to pre-pandemic levels and is currently declining again in many countries. This is thought to be due to the restrictions placed on movement.
  - ✓ As people are adapting to a new lifestyle of reduced mobility due to the pandemic, there appears to be a shift upwards and to the left in the relationship between mobility and level of economic activity as seen in the chart below.

Mobility Trends in Developed and Newly Emerging Economies*



Note: Baseline is calculated based on data from 3rd Jan through 6th Feb 2020.
*Mobility covers retail and recreation, grocery and pharmacy, transit and workplaces
Source: Google, MUFG Bank Economic Research Office

Mobility and Real GDP Level in Major Economies



Note: Mobility data is quarterly average of median values for retail and recreation facilities, transit stations, and workplaces (January-March 2021 data ends at 21st February).
Source: Google, MUFG Bank Economic Research Office

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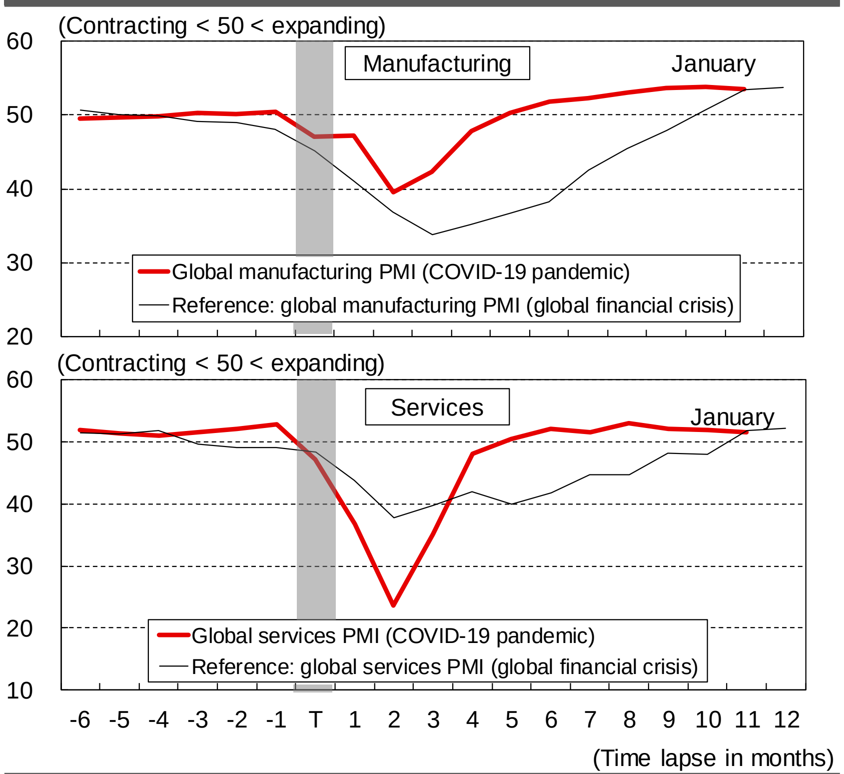
3. The Global Economy: Business Sentiment and Investment (Developed Economies)

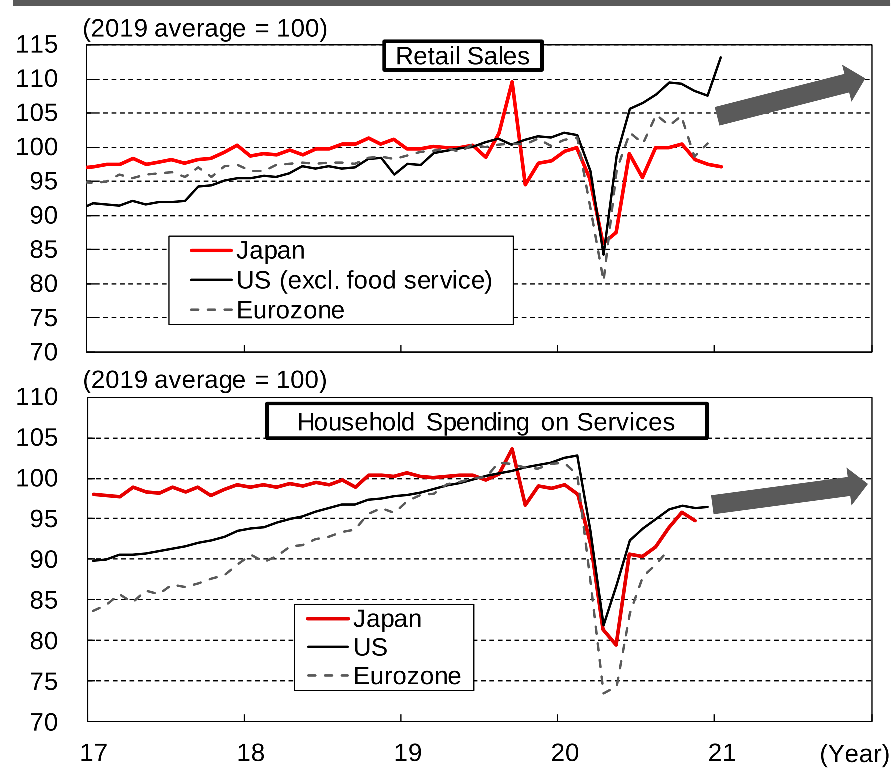
- Business sentiment – as measured by PMI – has rebounded sharply after hitting bottom in April 2020 (PMIs track the direction of month-to-month changes so their readings tend to be higher during a recovery phase). Although there was a sharp decline in service PMI brought about by a contraction in face-to-face service activity, the index has been above the contraction-expansion threshold of 50 in recent months.
- As for consumer spending in major developed economies, spending on goods has recovered relatively quickly but spending on services has been slow to recover, especially for face-to-face services, and has not returned to pre-pandemic levels (2019 average). Even for goods spending, the situation has not returned to normal as the extent of recovery varies widely depending on the type of business.

Manufacturing and Services PMI (Global)



Note: T for global financial crisis is September 2009 (collapse of Lehman Brothers) and T for COVID-19 pandemic is February 2020.
Source: IHS Markit, MUFG Bank Economic Research Office

Retail Sales and Service Spending in Major Developed Economies

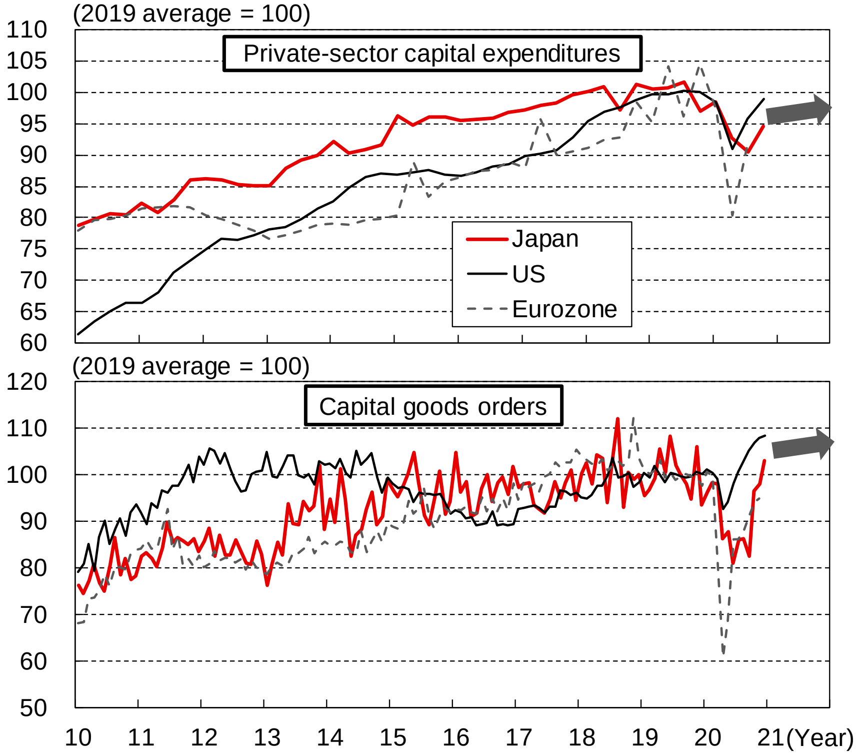


Source: Statistics of each country, MUFG Bank Economic Research Office

3. The Global Economy: Capital Expenditure and Exports (Developed Economies)

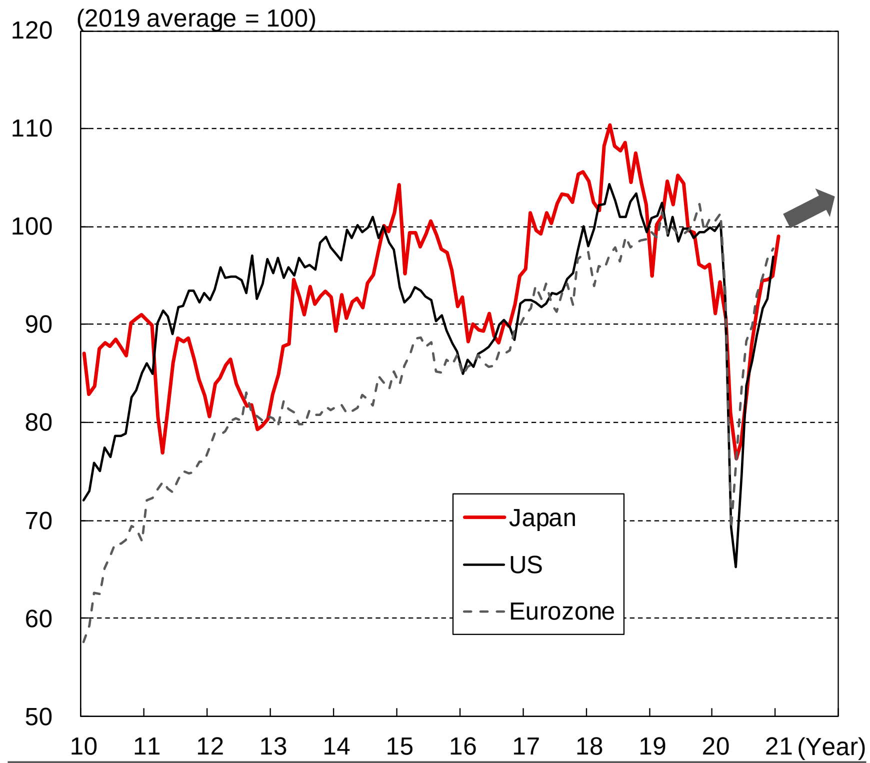
- Private capital expenditure in major developed economies declined sharply when the pandemic started. The leading indicator of capital expenditure has been rising steadily as business earnings improve of late, especially those of manufacturers. Capital expenditure will likely continue to be subdued in service industries where earnings have been slow to recover and there is a large amount of uncertainty about the future. However, a moderate recovery is expected with manufacturers driving growth.
- Exports of goods by major developed economies will probably grow at a steady pace as consumer spending continues to recover, particularly on goods. Exports will likely remain on an upward trend as domestic demand recovers gradually in many countries.

Capital Expenditure and Capital Goods Orders



Note: Capital goods orders for Japan are private-sector machinery orders excluding for ships and from power companies; for US are non-defense capital goods excluding aircraft; for Eurozone are manufacturing capital goods new orders.
Source: Japan Cabinet Office, US Department of Commerce, Eurostat, MUFG Bank Economic Research Office

Exports



Source: Ministry of Finance, Department of Commerce, Eurostat, MUFG Bank Economic Research Office

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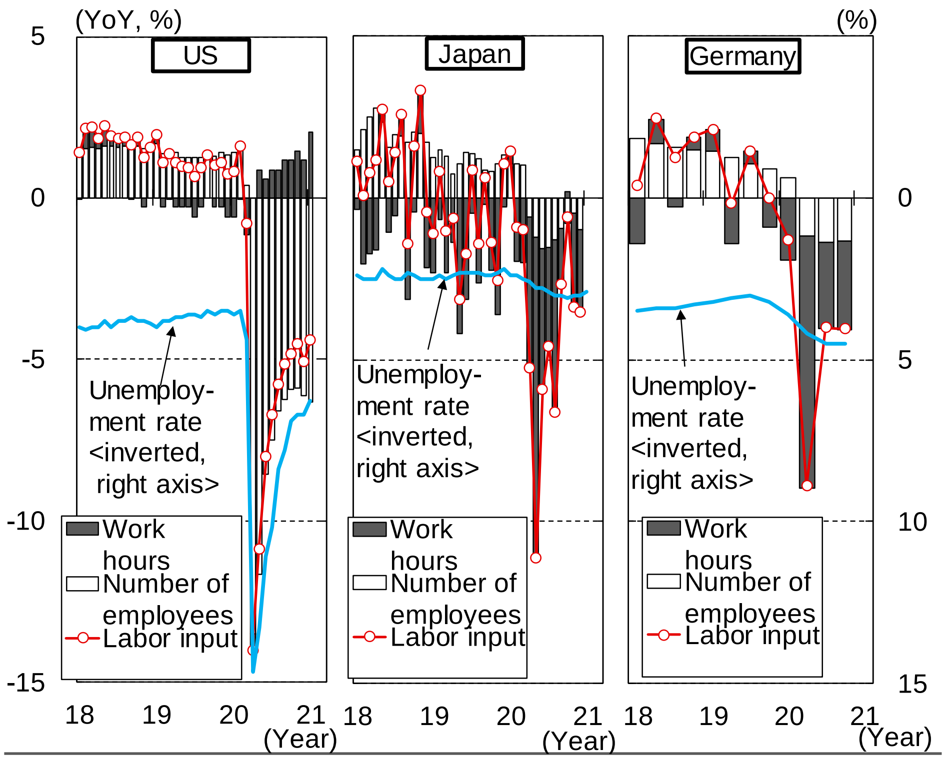
3. The Global Economy: Employment (Developed Economies)

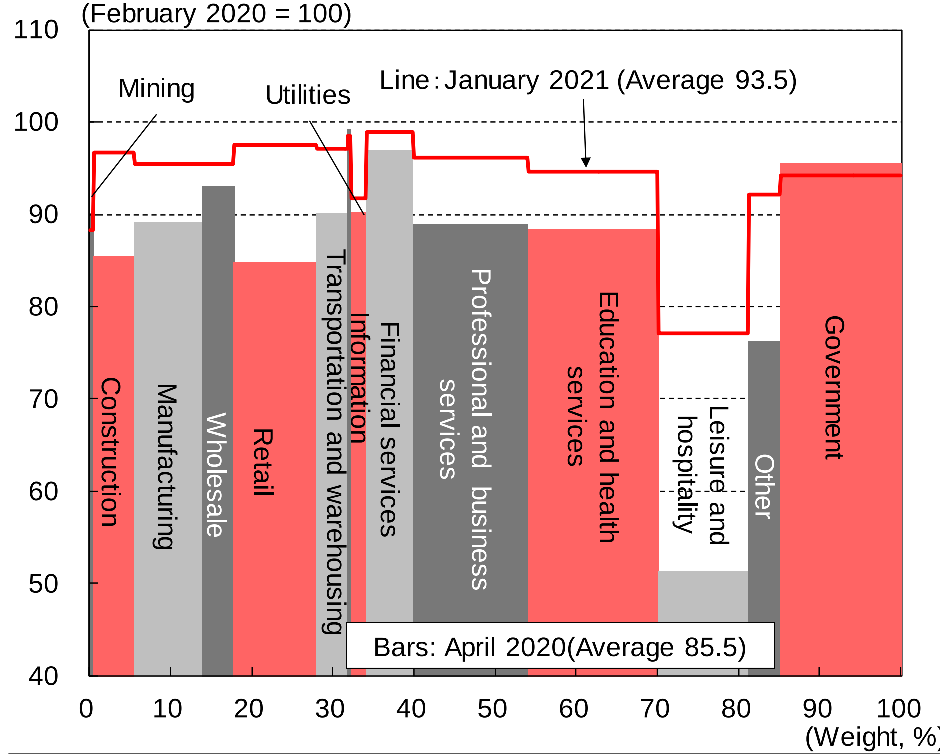
- The employment situation across major developed economies worsened in different manners by location. While the employee count decreased first in the US, working hours decreased first in Japan and Europe. Conditions have been improving since hitting bottom in the April-June quarter, but employment indicators have been slow to recover compared to other economic indicators (harsh business environment and the COVID-19 pandemic have prompted businesses to raise productivity.)
- Lately in the US, employment in leisure and hospitality is at around 80% of pre-pandemic levels. All the people who exited the labour market have not yet returned, which statistically lowers the unemployment rate.
- Difficult conditions will likely remain, particularly in the industries that took a big hit from the pandemic. Therefore, continued policy support or structural changes will be needed.

Labor Input in the US, Japan and Germany



Note 1: For Japan, work hours are from Monthly Labour Survey (establishment-based), employed persons are from the Labour Force Survey (household-based).
2: Germany's labour input and unemployment rate are quarterly readings.
Source: National statistics from each country, MUFG Bank Economic Research Office

US Non-farm Payroll by Industry



Source：Department of Labor, MUFG Bank Economic Research Office

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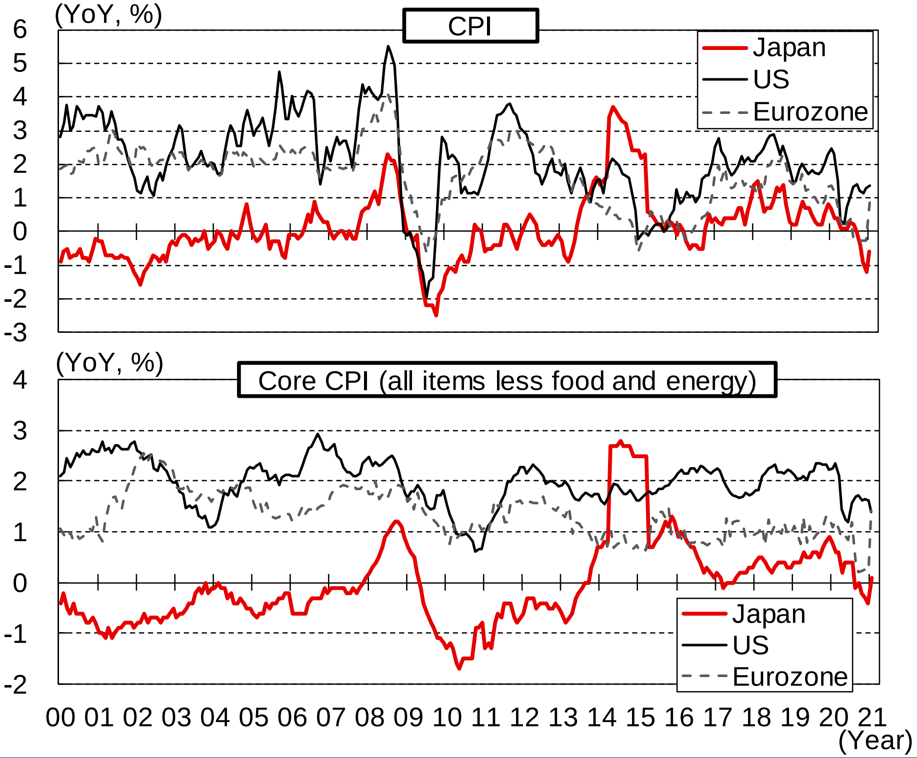
3. The Global Economy: Prices (Developed Economies)

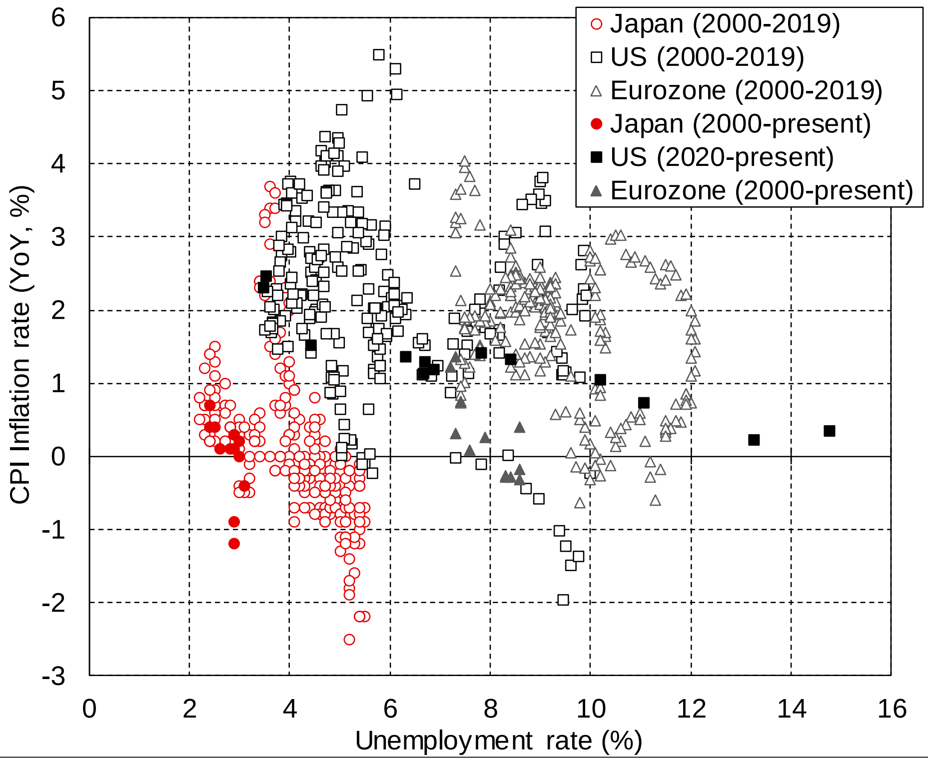
- The consumer price index (CPI) for major developed economies reveals Japan's low inflation rates declined further due to the pandemic, with its inflation rate for all items hovering in negative territory. The Eurozone's inflation rate has accelerated in 2021, but this is due to temporary factors such as the expiration of the value-added tax (VAT) rate reduction in Germany.
- Meanwhile in the US, the core CPI inflation rate has been relatively high, even during the pandemic. Since the first wave of COVID-19 infections in the spring of 2020, the inflation rate for all items has rebounded relatively quickly amid increases in energy and commodity prices.
- Still, past results for the unemployment rate and CPI in all three economies (Japan, the US and the Eurozone) suggests inflation tends to be lower when the supply and demand gap is large (unemployment rate is high). These gaps probably widened during the COVID-19 pandemic and will likely remain wide for several years, which means the increases in CPI will likely be limited.

CPI Inflation Rates in Japan, the US and Eurozone



Note: Core CPI for Japan excludes fresh food and energy.
Source: Japan Ministry of Internal Affairs and Communication, US Department of Labor, Eurostat, MUFG Bank Economic Research Office

CPI Inflation and Unemployment Rates in Japan, the US and Eurozone



Source: Japan Ministry of Internal Affairs and Communications, US Department of Labor, Eurostat, MUFG Bank Economic Research Office

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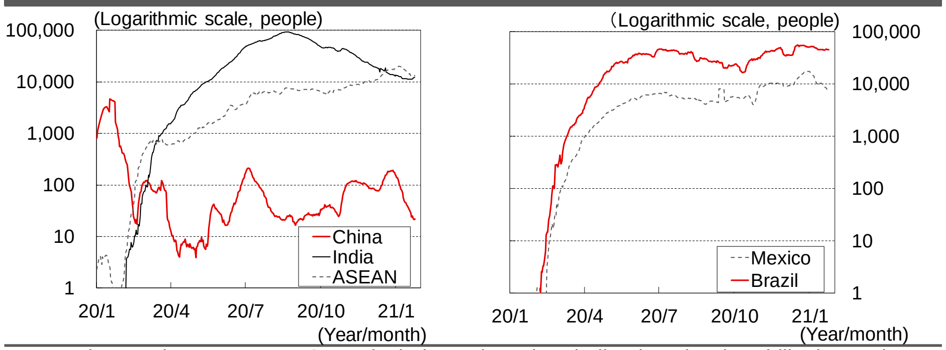
3. The Global Economy: Newly Emerging Economies

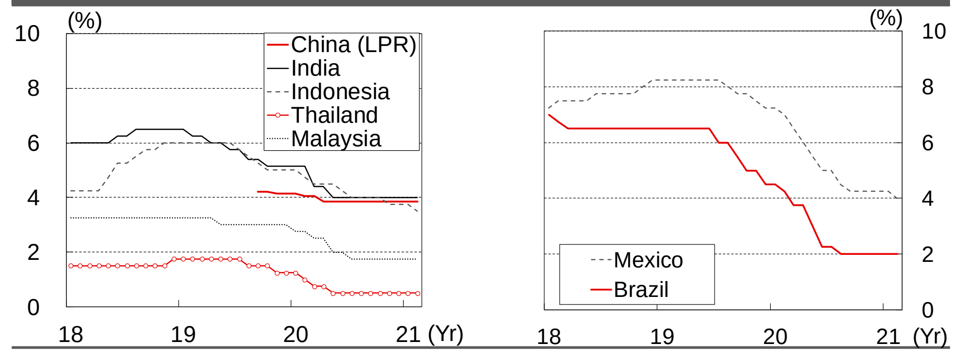
- Economic performance has varied widely among newly emerging economies. On the whole, the spread of infection has been curbed in China and other East Asian countries, and new cases have peaked in India. However, new cases remain high in ASEAN and in Central and Southern American economies. Vaccine administration is moving forward gradually, but with vaccination rates still low, restrictions on movement will be the main countermeasure against COVID-19 for the time being.
- The number of automobile sales – an indicator of consumer spending – has been recovering since hitting bottom in April 2020, but the pace of recovery varies from country to country. While auto sales have exceeded the levels recorded before the pandemic in 2019 in China and India, they are still significantly lower year-on-year in Mexico.
- Last year, a rate cut by the US meant monetary easing by newly emerging economies was possible and the lower interest rates helped to underpin economies. In response to a global increase in risk appetite, movements of foreign exchange rates have varied depending on the country's fiscal health (measured by fiscal balance and balance of payments). ASEAN currencies have strengthened in general, while the BRL has weakened.
- The Southern Hemisphere will enter its winter season in mid-2021 so it will be necessary to keep an eye out for a resurgence in cases (as was seen during winter in the Northern Hemisphere).

New Cases by Country



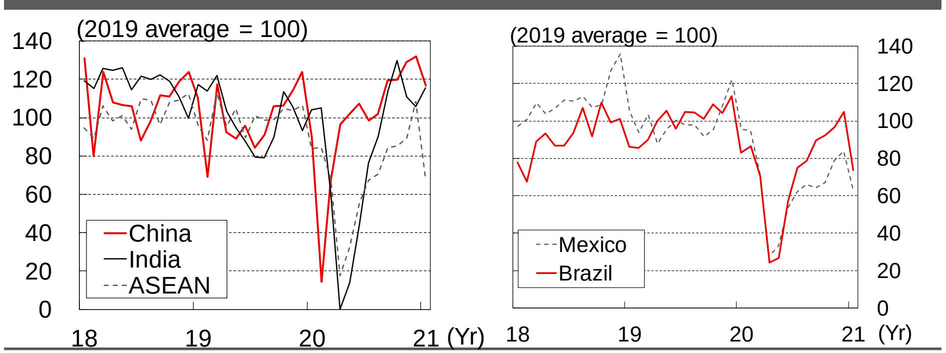
Note: 7-day moving average. ASEAN includes Indonesia, Thailand, Malaysia, Philippines, Vietnam.
Source: WHO, MUFG Bank Economic Research Office

Policy Rates by Country



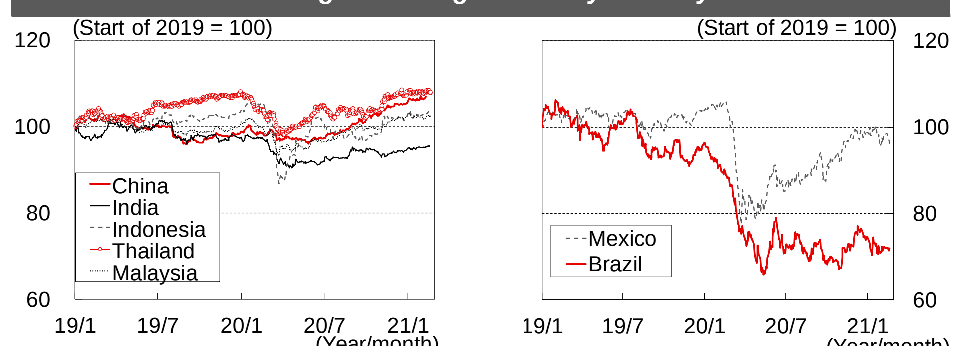
Source: Statistics from each country, MUFG Bank Economic Research Office

Number of Automobile Sales by Country



Note: 7-day moving average. ASEAN includes Indonesia, Thailand, Malaysia, Philippines, Vietnam.
Source: Statistics from each country, MUFG Bank Economic Research Office

Foreign Exchange Rates by Country

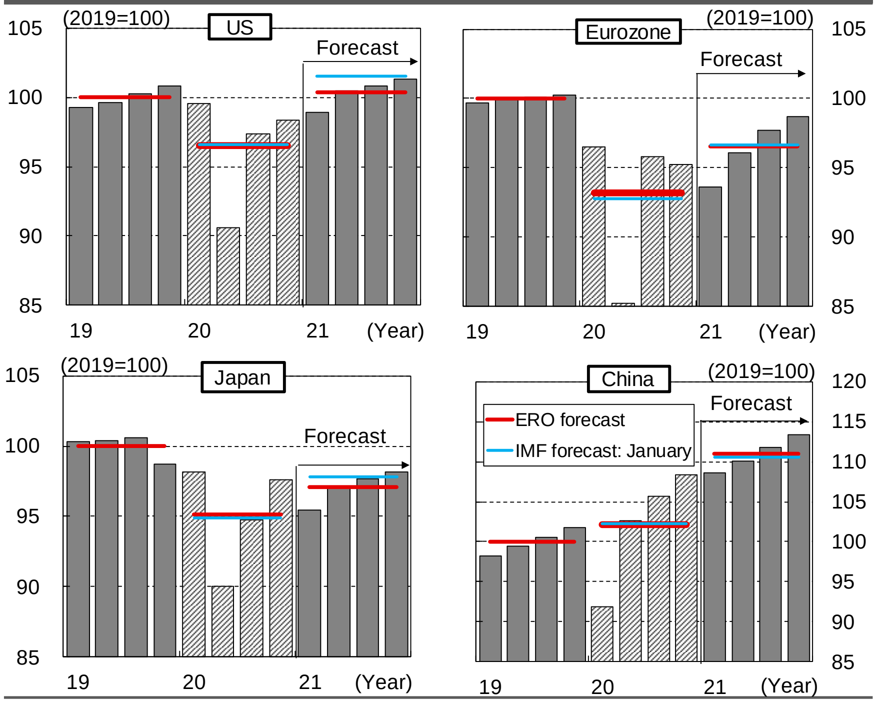


Source: Statistics from each country, MUFG Bank Economic Research Office

4-1. Overview

- In 2021, the pace of recovery is predicted to be gradual with some twists and turns as countries and regions are forced to attempt to balance the control of infections and normalisation of economic activities. However, the spread of infection, healthcare systems, the presence of support from economic policies and the scale of such policies, and the rollout of vaccines all differ depending on the country. This has resulted in a mixed picture when it comes to how far economies have recovered from the slumps they experienced last year due to the COVID-19 pandemic.
- The real GDP growth rate of major developed economies is forecast to rebound to fairly high levels from the previous year, with the US, Eurozone and Japan expected to achieve growth of 4.1% YoY, 3.6% YoY and 3.6% YoY respectively. However, the level of annual economic growth (real GDP) for these economies reveals that while the US will recover to its average level in 2019 before the pandemic, the Eurozone and Japan will not return to their 2019 levels until 2022 or later. China, which was quick to recover, is forecast to achieve strong growth of 8.3% YoY for 2021 and, with the support of government policies, its economy is on track to return to the same level it was at before the pandemic.
- Growth of the global economy will be supported this year by some of the newly emerging economies, such as China, owing to their rebound from last year and their high potential growth rates in comparison to developed economies. As a result, the global real GDP growth rate is forecast to be 5.3% YoY in 2021.

Real GDP Forecast for Major Countries and Regions



Source: National statistics of each country/region, MUFG Bank Economic Research Office

Forecast for the Global Economy (Major Countries and Regions)

■ Real GDP growth rate (%)	2019	MUFG outlook (Feb) 2020	MUFG outlook (Feb) 2021	IMF outlook (Jan) 2020	IMF outlook (Jan) 2021
World	2.7	- 3.5	5.3	- 3.5	5.5
US	2.2	- 3.5	4.1	- 3.4	5.1
Eurozone	1.3	- 6.8	3.6	- 7.2	4.2
UK	1.3	- 9.9	4.9	- 10.0	4.5
Japan (fiscal year)	- 0.3	- 5.0	3.6	-	-
Japan (calendar year)	0.3	- 4.8	2.0	- 5.1	3.1
Asia (11 countries)	5.0	- 1.2	6.8	-	-
China	6.1	2.3	8.3	2.3	8.1
ASEAN (5 countries)	4.9	- 3.5	5.1	- 3.7	5.2
Indonesia	5.0	- 2.1	4.8	- 1.9	4.8
Thailand	2.4	- 6.1	2.6	- 6.6	2.7
Malaysia	4.3	- 5.6	6.5	- 5.8	7.0
The Philippines	6.0	- 9.5	6.2	- 9.6	6.6
Vietnam	7.0	2.9	6.8	-	-

Note: Economic Research Office's outlook calculated as of 4th December

Source: IMF, MUFG Bank Economic Research Office

4-2. Financial Market Trends: Outlook for Monetary Policy and Interest Rates

- The US and Japan have eased their monetary policies in response to the COVID-19 pandemic. In March last year, the US reduced the lower bound of its target range for its federal funds rate to zero and set out a policy for purchasing Treasury securities and MBS. In September, it introduced forecast guidance that allows interest rates to moderately exceed 2% “for some time” and suggested long-term easing. In December, it clarified its plan that “increases in asset holdings would continue, with purchases of Treasury securities of at least $80 billion per month”. Meanwhile, Japan’s policy aims to stabilise 10-year government bonds at a low level around 0% by carrying out further active purchases of government bonds.

- Countries and regions are expected to maintain their current easy monetary policies throughout this year at the very least due to the downward pressure on economies (particularly on labour) from the COVID-19 pandemic. Policy rates are forecast to remain at their current low levels in the US and Japan, and the Bank of Japan (BoJ) is scheduled publish the results of a review of its monetary policy in March. While it is generally thought that its easy monetary policy will continue, there is a possibility that the BoJ will make some small adjustments to its framework (lowering its ETF purchases).

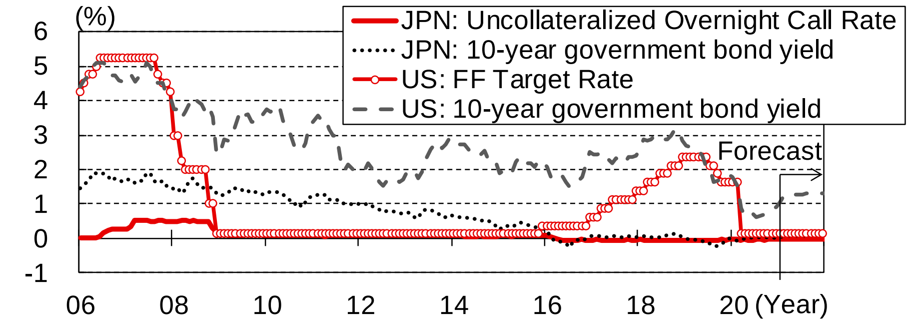
- Long-term interest rates are currently rising in the US and Japan driven by the rise in US interest rates. The rise in US interest rates generally follows the same path as the rise in the break-even inflation rate (BEI), but there is currently a notable diversion with interest rates rising alone. However, real interest rates based on inflation expectations calculated using BEI rates are still negative and the scope for further increases in real interest rates is limited given the US Federal Reserve Board’s stance of prolonged monetary easing.

Current and Future Japanese and US Monetary Policy

	FRB	BoJ
Current plans for policy rate management	FF rate target range: maintain at 0.0% to 0.25% until labour market conditions have reached levels consistent with maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.	Short-term: apply negative interest rate of -0.1% to the Policy Rate Balances in current accounts Long-term: purchase JGBs so that 10-year JGB yields will remain at around zero %
Bond purchasing plan	Increase holdings of Treasury securities by at least USD80bn per month and agency MBS by at least USD40bn per month	Purchase the necessary amount of JGBs without setting an upper limit
Comments regarding future of monetary policy	Emphasised maintaining easy policy: the economy recovery remains uneven and far from complete. of prices rising won't necessarily lead to persistently high inflation. It may take more than three years to reach the Fed’s inflation goals .(Chair Powell 24th Feb)	The Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary, and also it expects short- and long-term interest rates to remain at their present or lower levels. (Governor Kuroda 21 Jan)

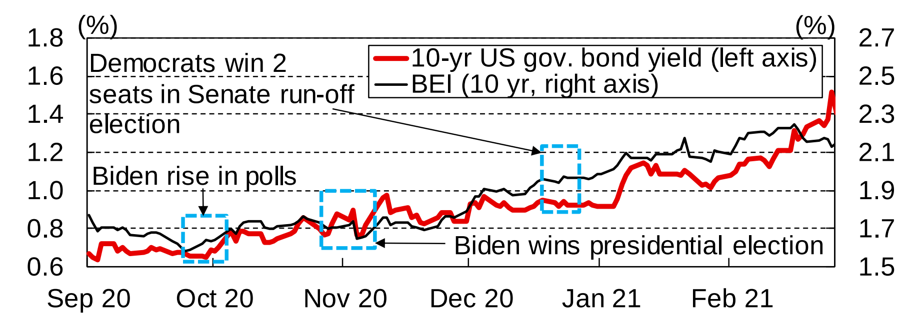
Source: Central banks of both countries, MUFG Bank Economic Research Office

US and Japanese Policy Rates and Long-Term Interest Rates



Source: Bloomberg, MUFG Bank Economic Research Office

US and Japanese Policy Rates and Long-Term Interest Rates



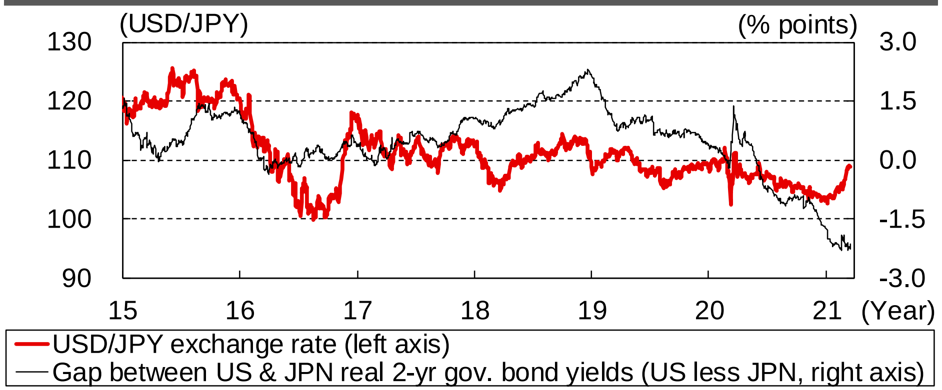
Source: Bloomberg, MUFG Bank Economic Research Office

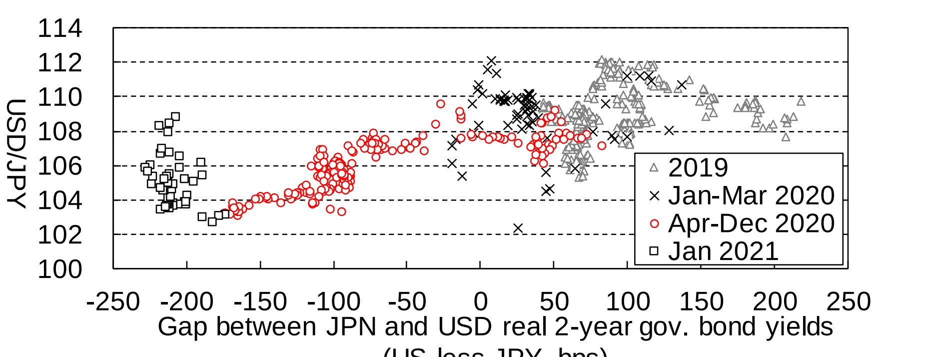
4-2. Financial Market Trends: Outlook for the USD/JPY Exchange Rate

- US real short-term interest rates fell due to the rise in inflation expectations which led to an increase in the difference between the fall in US and Japan's short-term interest rates (US less Japan). Meanwhile, the JPY depreciated to around JPY 106 against the USD at the start of February owing to expectations of an additional economic stimulus package in the US. However, there remains some correlation in the difference between US and Japan's short-term interest rates and the USD/JPY exchange rate and it appears monetary policy and prices will stay as they are for the time being in many countries. Therefore, it is unlikely there will be any sudden, large changes to the USD/JPY rate.

- While there may be temporary spikes and dips in the USD/JPY exchange rate in response to developments in the COVID-19 situation and the level of risk appetite among market participants, the overall trend is forecast to remain one of gradual JPY appreciation. The real effective exchange rate continues to rise from historically low levels and pressure from JPY appreciation will continue to put downward pressure on the gap in purchasing power parity between the US and Japan as well in the long term. However, the overall trend appears to be changing and flattening and it is unlikely the USD will consistently trade below JPY 100.

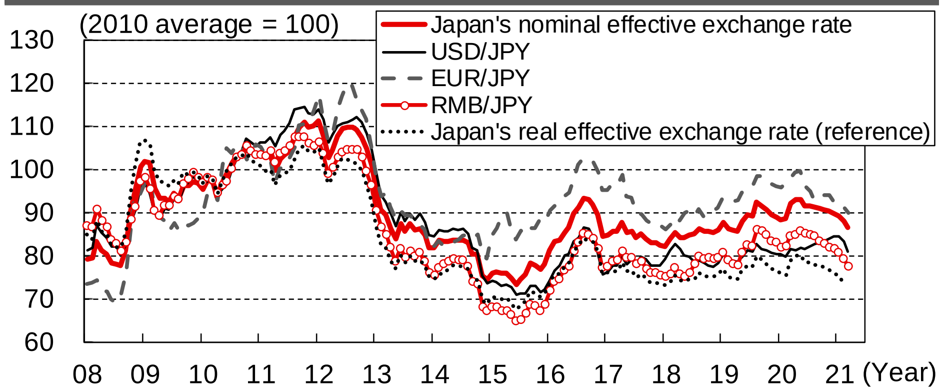
USD/JPY and Gap between US & JPN 2-Yr Real Gov. Bond Yields

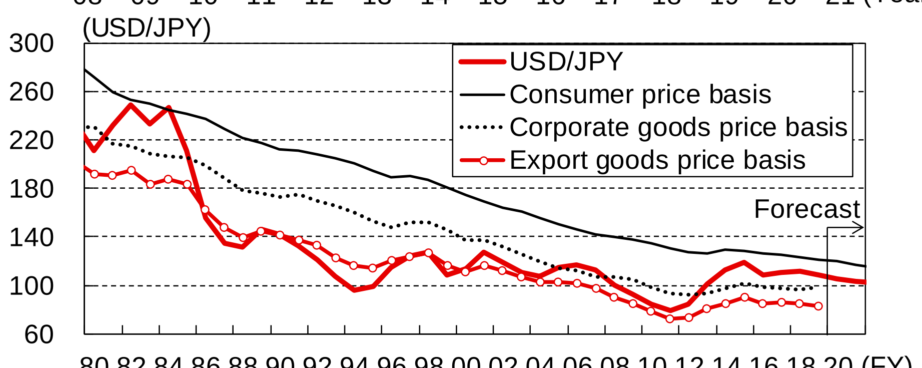




Source: Bloomberg, MUFG Bank Economic Research Office

USD/JPY by Purchasing Power Parity





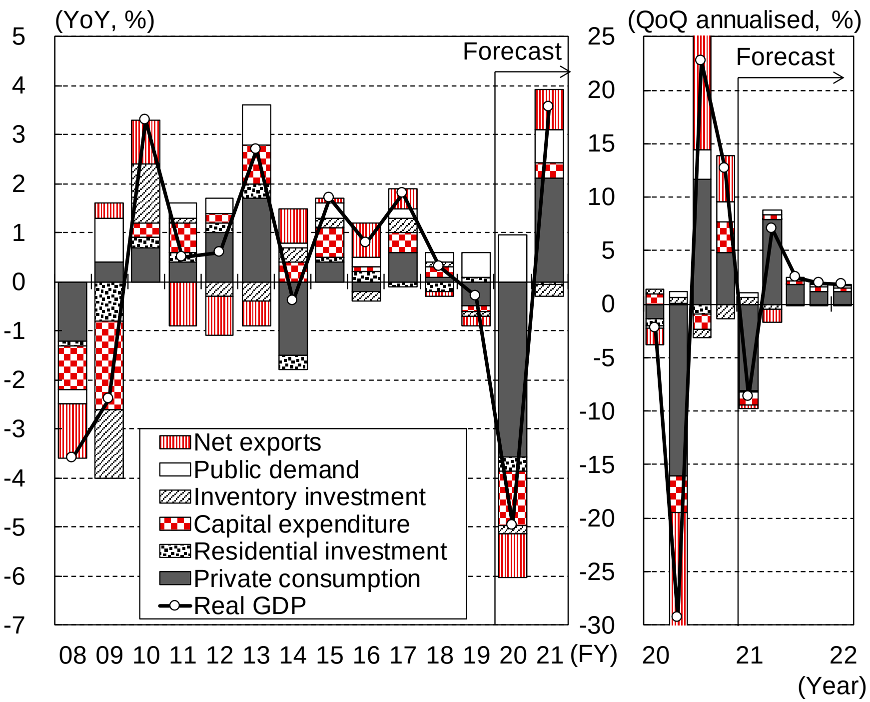
Note: 1. "Japan's real effective exchange rate" values are up to end Jan 2021. "Japan's nominal effective exchange rate" values are up to 23 Feb 2021. Other currency values are up until 25 Feb 2021. Values are all monthly averages.
2. "Purchasing power parity" is (Japan price index less US price index) X standard rate

Source: Bloomberg, BIS, MUFG Bank Economic Research Office

4-3. Japanese Economy: Overview

- The real GDP growth rate for last year's October-December quarter (first preliminary estimate) was 12.7% QoQ annualised – the second consecutive quarter of strong growth. Exports picked up by quite a bit due to the recovery of overseas economies which gave a significant boost to growth from net exports. Growth of private consumption remained firm and capital expenditure turned positive for the first time in three quarters.
- At the start of the year, a state of emergency was declared again in some regions and it is likely that the economy will experience downward pressure again for a time. Afterwards, the pace of recovery will inevitably be a gradual one due to lingering concerns about the spread of infection amongst businesses and households. It is likely to take some time before economic activities return to their pre-COVID-19 levels. However, if the current state of emergency is lifted, it is probable the economy will rebound to some extent and it should be kept in mind that investment by the corporate sector and exports are relatively robust. Nevertheless, rollout of the vaccine is forecast to be slower than in the UK and US.
- On a financial yearly basis, GDP dropped 5.0% YoY in 2020 and is expected to increase by 3.6% YoY in 2021. It appears the level of real GDP will not return to FY2019 levels during FY2021 on an annual average basis.

Japan Real GDP and Outlook (Fiscal Year, Quarterly)



Source: Cabinet Office, MUFG Bank Economic Research Office

Japan Real GDP and Outlook (Fiscal Year, QoQ Annualised)

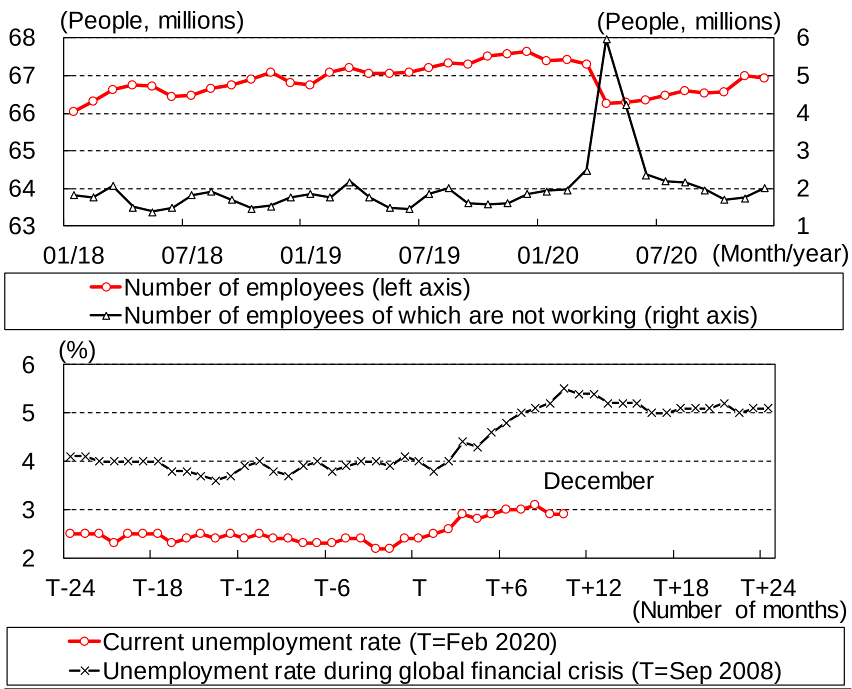
	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Outlook)	FY2021 (Outlook)
Real GDP	0.3	-0.3	-5.0	3.6
Private consumption	0.2	-1.0	-6.6	3.9
Residential investment	-4.9	2.5	-7.6	-1.8
Capital expenditure	1.0	-0.6	-6.9	2.0
Inventory investment (contribution)	0.1	-0.1	-0.2	-0.2
Public demand	0.9	2.0	3.8	2.5
Net exports (contribution)	-0.1	-0.2	-0.9	0.8
Exports	2.1	-2.6	-11.6	9.1
Imports	2.8	-1.3	-6.8	4.1
Nominal GDP	0.2	0.5	-4.4	2.3
GDP Deflator	-0.1	0.8	0.6	-1.2

Source: Cabinet Office, MUFG Bank Economic Research Office

4-3. Japanese Economy: The Labour Market and Wages

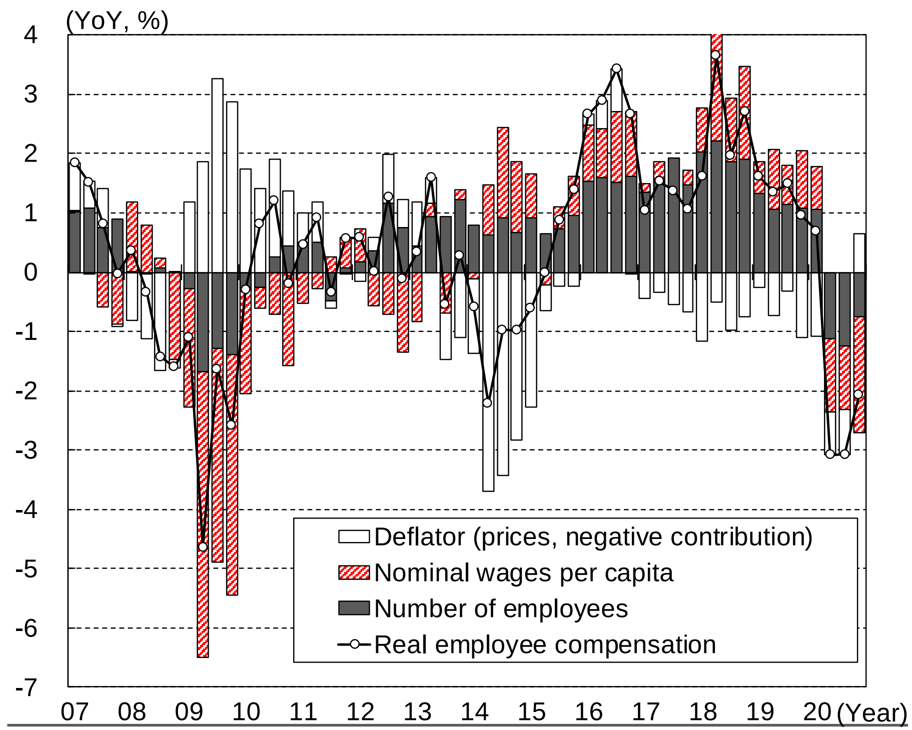
- In April, the number of employees (figure includes self-employed and part-time workers) has been on a gradual trend of recovery since April 2020 but it fell in December by 60,000 from the previous month as the third wave of infection hit in autumn last year. In addition, the deterioration of the unemployment rate has been limited compared with during the global financial crisis owing to the swift impact of policies. However, the impact of the pandemic remains and demand for labour in some sectors has not yet returned. Amid this situation, there is a possibility that the unemployment rate will remain higher for a while depending on the how long policies to support workers remain in place and the trend of job hunting by those who left the labour market temporarily.
- Real employee compensation remains below last year's levels for the third quarter in a row. The benefit of special cash payments ended in July for the most part and, in addition to the decrease in overtime pay, households are also being hit by the fall in winter bonuses or the absence of a bonus altogether. Looking ahead, while economic activities continue to recover at a gradual pace, it appears demand for labour will be slow to recover and a rise in wages across the board in spring looks unlikely. As a result, it is probable that the labour market and wages – which underpin private consumption – will remain weak.

The Number of Employees, Employees Not Working and the Unemployment Rate



Note: "Number of employees of which are not working" is unadjusted number
"Employees" includes self-employed and part-time workers etc.
Source: Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

Real Employee Compensation

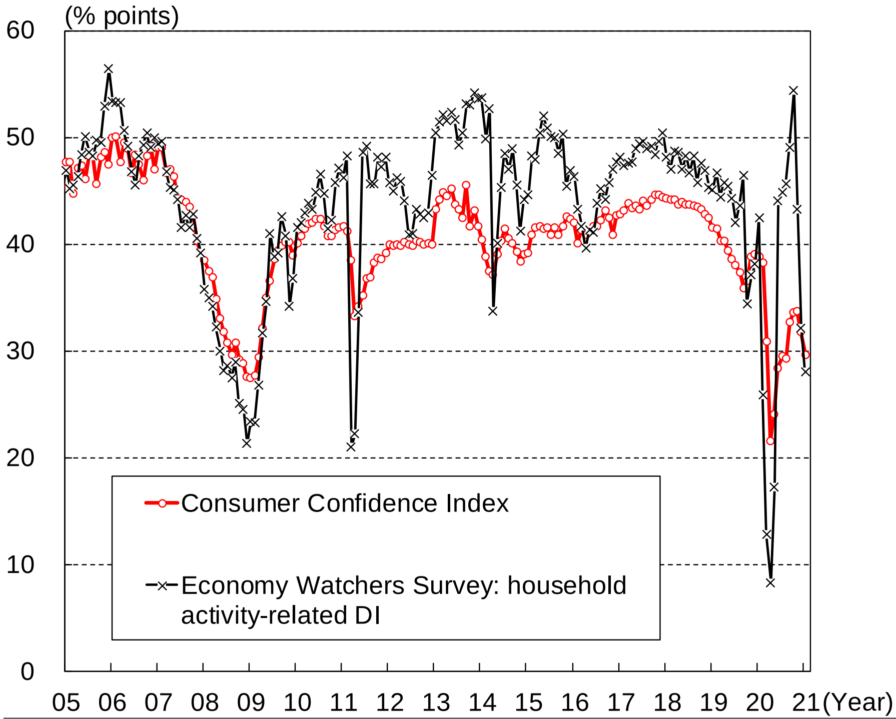


Source: Cabinet Office, Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

4-3. Japanese Economy: Private Consumption

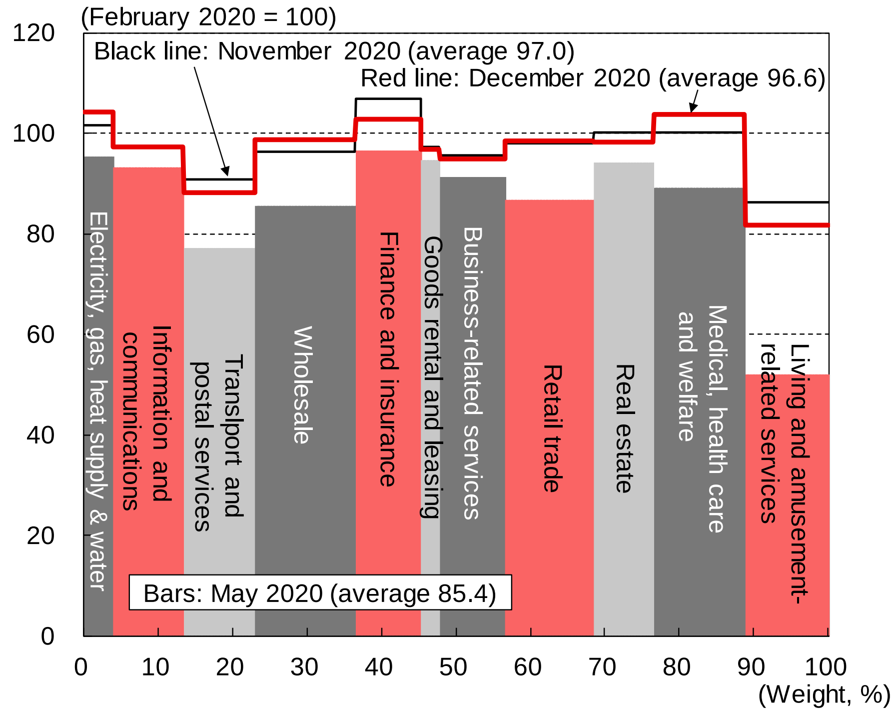
- While private consumption recovers at a slow pace from autumn last year due to the third wave of COVID-19 infections, another state of emergency was called at the start of the year. In the regions targeted by the policy, dining establishments were requested to reduce their opening hours and people asked not to go outside unless absolutely necessary. As such, consumer sentiment is worsening and mobility is decreasing, which is likely to result in another fall in private consumption in the January-March quarter.
- Analysis of the service sector by industry shows “retail trade” related to goods has recovered close to the level it was at in February 2020, whereas “transport and postal services” and “living and amusement-related services”, which are related to consumption of services, fell from the previous month as of December 2020 as people refrained from going outside. The government has decided to provide extra budget and to extend the deadline of its “Go To” campaign, which it was forced to stop temporarily, but the impact of the campaign will fade from the end of June when it comes to a close.
- Although it is thought consumption – particularly of goods – will return after the state of emergency is lifted, the sense of caution about going outside will not be dispelled until there is a change in the situation due to the rollout of a vaccine. Depending on the number of infections, the request for dining establishments to shorten their opening hours may remain in place in the future. Taking this and the fading of policy impacts into account, it is thought the downward pressure on consumption will remain, particularly consumption of face-to-face services, which account for just under 10% of private consumption.

Consumer Sentiment



Source: Cabinet Office, MUFG Bank Economic Research Office

Indices of Tertiary Industry Activity and Change Since February 2020



Note: Includes services for businesses

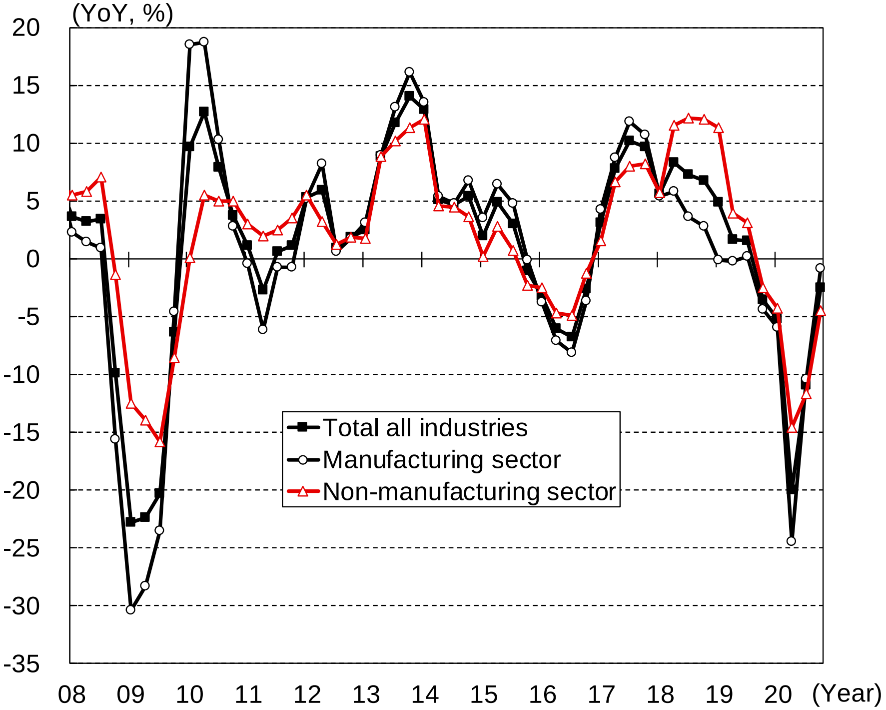
Source: Ministry of Economy, Trade and Industry, MUFG Bank Economic Research Office

MUFG

4-3. Japanese Economy: Business Results

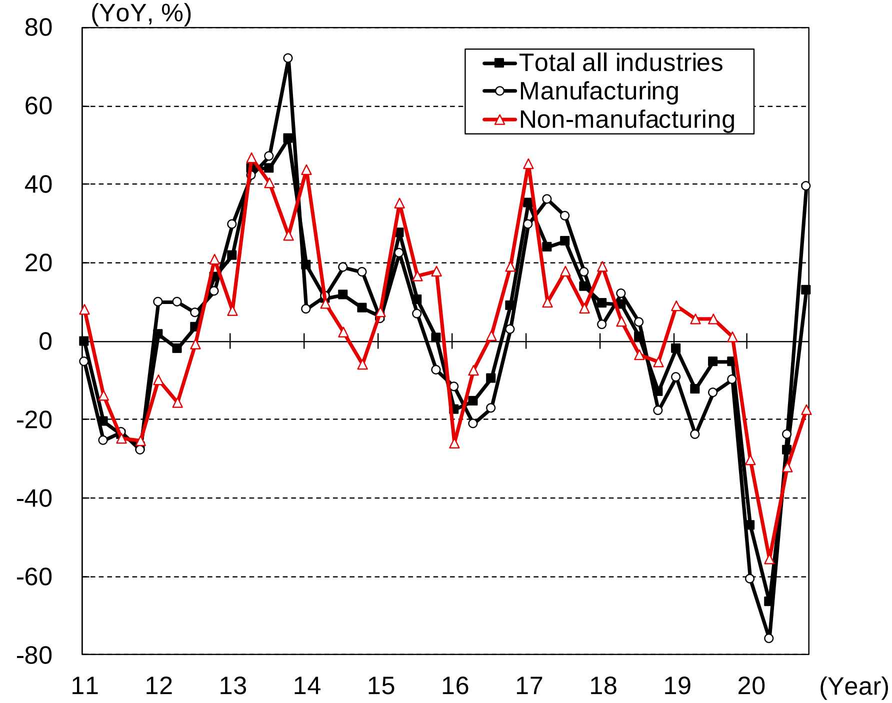
- Sales of corporations listed on the first section of the Tokyo Stock Exchange (excluding financial corporations) have been recovering since they fell in the April-June quarter last year in line with the pace of their slump during the global financial crisis. Looking at the results for the October-December quarter, sales remain below that of the previous year on the whole, yet close to half of sectors recorded an increase from the previous year. That being said, the downward pressure on some sectors from the COVID-19 pandemic is still strong; the situation remains severe for “air transportation”, which fell around 50% YoY, due to the impact of public health measures and a reluctance to travel both domestically and abroad.
- Meanwhile, there is a large disparity in ordinary profits between the manufacturing and non-manufacturing sectors. The manufacturing sector shows an increase in profits across the board and some industries recorded a rise from the previous year, such as “machinery”, “transportation machinery” and “electrical machinery”. On the other hand, although non-manufacturing recorded a surplus with the exception of “air transportation”, profits fell in almost 50% of sectors and the business environment will remain challenging, particularly for industries that are heavily affected by the COVID-19 pandemic.
- Looking ahead, it seems the manufacturing sector’s robust business results will continue as the domestic and overseas economies recover, whereas the non-manufacturing sector will continue to experience downward pressure in some industries, such as “air transportation”. On the whole, business results are forecast to recover at a gradual pace.

Sales of Non-Financial Corporations Listed on the First Section of Tokyo Stock Exchange



Note: “Sales” of 1,339 firms that have published their Oct-Dec 2020 results as of 26 Feb and have published data continually since FY2006.
Source: Bloomberg, MUFG Bank Economic Research Office

Ordinary Profits of Non-Financial Corporations Listed on the First Section of Tokyo Stock Exchange



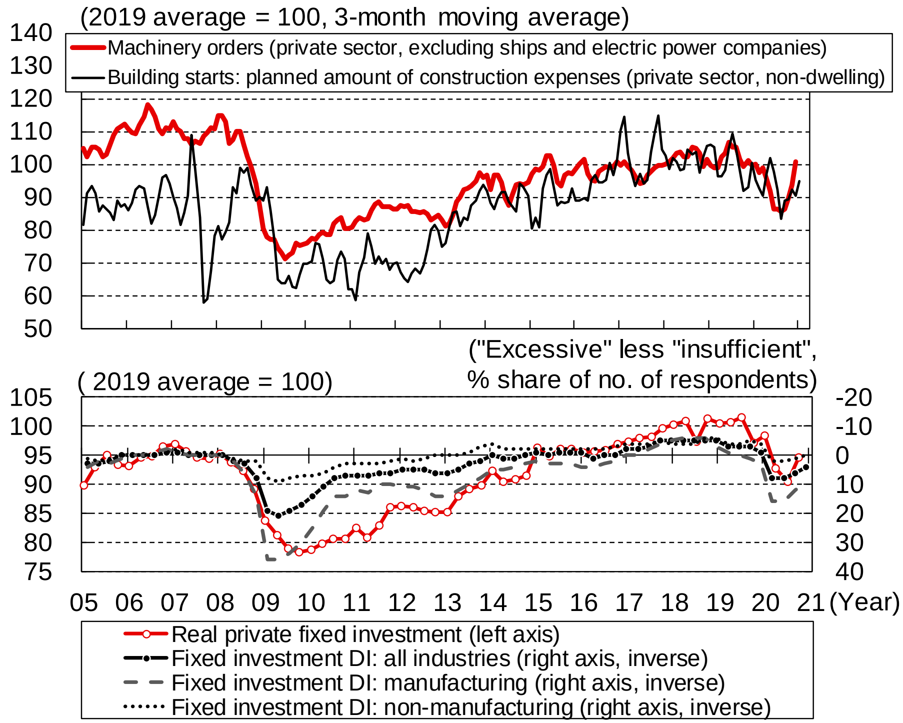
Note: "Ordinary profits" of 1,318 corporations that have published their Oct-Dec 2020 results as of 26 Feb and have published data continually since FY2006
Source: Bloomberg, MUFG Bank Economic Research Office

4-3. Japanese Economy: Capital Expenditure and Exports

- While the profits pick up, especially those in the manufacturing sector, there are signs that machinery orders (public sector) and the planned amount of construction expenses for public sector non-dwelling building starts has bottomed out and the feeling of overcapacity is slowly easing. In the non-manufacturing sector, where business results are slow to recover and there is a strong sense of uncertainty about the future, it appears weaknesses will continue into the future. However, it seems the manufacturing sector will maintain its gradual trend of recovery and will be the driver of capital expenditure.

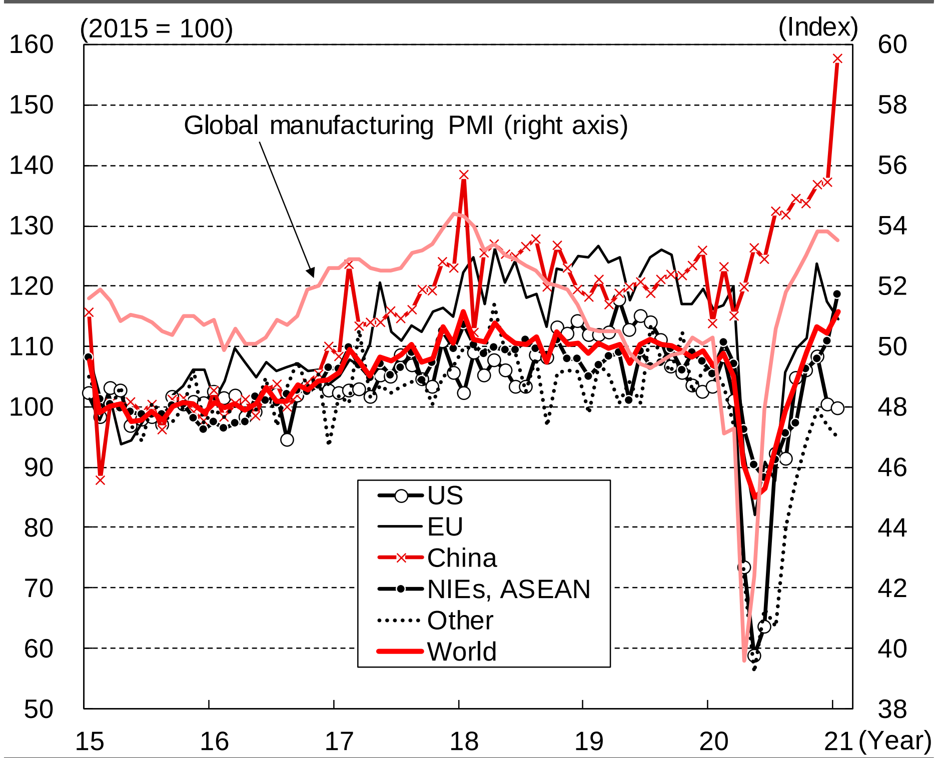
- According to GDP statistics, there was a significant recovery in real exports of goods in the October-December quarter last year: 68.1% QoQ annualised. On a monthly basis (published by the Bank of Japan), exports fell a little in December as various restrictions were tightened again, especially in developed economies, due to another rise in COVID-19 cases. However, in January, exports rose again. A breakdown by country and region shows exports to China are strong and that those to other Asian regions (excluding China) have maintained a continuous upward trend. Currently, Europe and the US have adopted strict restrictions on movement which means there is a possibility that the pace of recovery will stall for a while in the near future. Nevertheless, given there will be a firm recovery in domestic demand from export destinations, such as China and the US, Japan's exports are expected to recover gradually on the whole from now.

Real Fixed Investment and Machinery Orders, Construction Expenses for Private Sector Non-Dwelling Building Starts, Fixed Investment DI



Source: Cabinet Office, Ministry of Land, Infrastructure, Transport and Tourism, MUFG Bank Economic Research Office

Real Exports by Country and Region



Note: The UK is included in "Other" for the entire period
Source: Cabinet Office, MUFG Bank Economic Research Office

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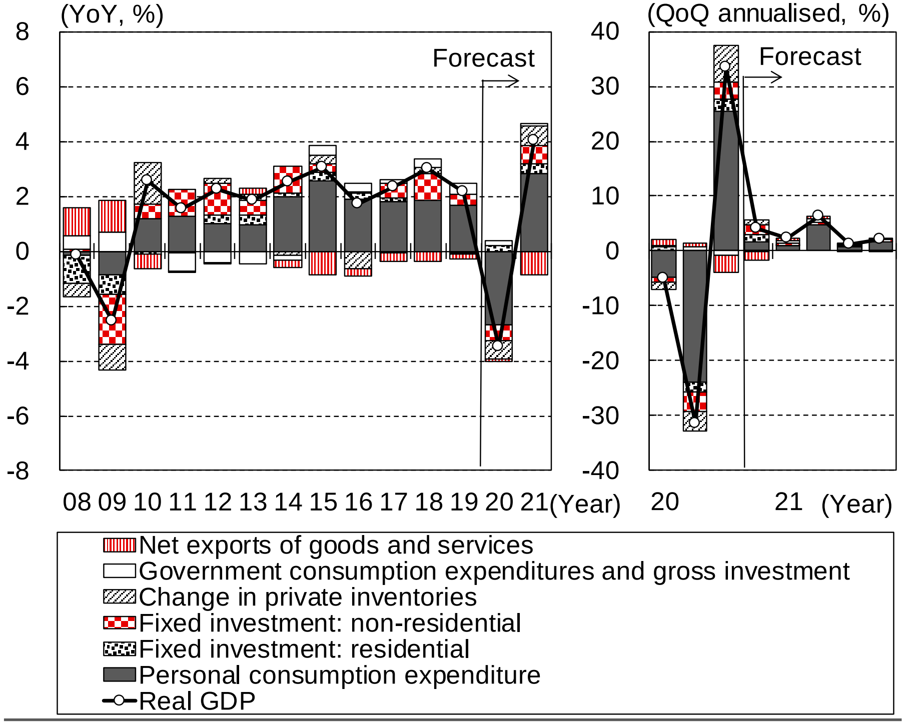
4-4. US Economy: Overview

- The US real GDP growth rate for the October-December quarter (first preliminary estimate) was 4.1% QoQ annualised, recording a second quarter of positive growth (33.4% QoQ annualised in the July-September quarter). Residential and non-residential fixed investment recorded strong growth of 35.8% and 14.0% QoQ annualised respectively, and personal consumption expenditure remained positive with growth of 2.4% QoQ annualised which all contributed to the overall result for the quarter. The pace of recovery slowed due to a re-tightening of restrictions on movement in response to the sharp increase in the number of new cases of COVID-19 infection in October last year. However, the number of cases is now falling and the economy shows signs of accelerating again.
- Assuming that the new administration will pass and implement its USD1.9 trillion COVID-19 economic relief package, economic activities are forecast to return to 2019's pre-COVID-19 levels and the real GDP growth rate for 2021 will be 4.1% YoY. It is also thought that the US' fast rollout of the vaccine compared with other developed countries will act as a tailwind (although the efficacy of the vaccine cannot be quantified).
- The Biden administration is expected to pass its additional economic package via reconciliation as part of the budget resolution; however, achieving other eye-catching policies which were part of President Biden's election manifesto, such as environment-related investment and tax reforms, will not be easy given the antagonistic stances adopted by the Democratic and Republican parties in the Senate.

Real GDP and Breakdown of Demand Components



Source: Department of Commerce, MUFG Bank Economic Research Office

Year-on-Year GDP Figures and Outlook

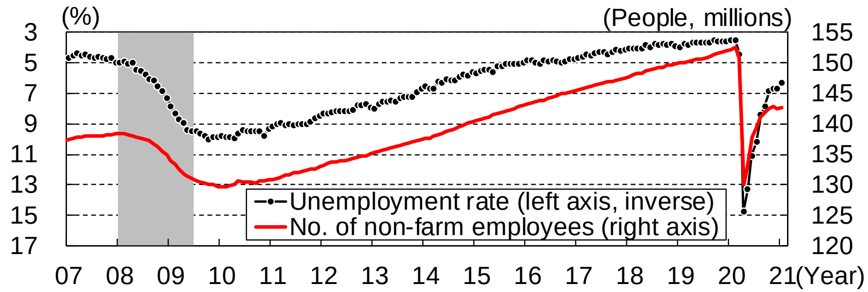
	2019 (actual)	2020 (actual)	2021 (outlook)
Real GDP	2.2	-3.5	4.1
Personal consumption	2.4	-3.9	4.1
Residential investment	-1.7	6.0	10.1
Non-residential investment	2.9	-4.0	4.7
Change in inventories (contribution)	-0.0	-0.7	0.7
Government consumption expenditure	2.3	1.1	0.6
Net exports (contribution)	-0.2	0.0	-0.8
Exports	-0.1	-13.0	9.0
Imports	1.1	-9.3	11.2
Nominal GDP	4.0	-2.3	5.8

Source: Department of Commerce, MUFG Bank Economic Research Office

4-4. US Economy: Labour and Personal Consumption Expenditure

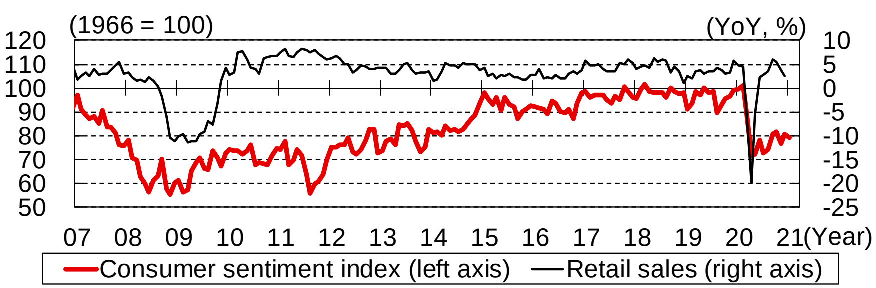
- The pace of recovery in labour and consumption-related indicators has slowed temporarily due to the effects of a third wave of infection. That being said, the number of new cases has been on a downward trend since the start of the year and the number of non-farm employees increased again from the previous month in January. Retail sales also recorded strong growth in the same month.
- Last year's slump and the subsequent recovery of personal consumption expenditure shows large disparities between goods, face-to-face services, and non-face-to-face services. Consumption of goods remains higher than before the pandemic thanks to pent-up demand, as well as strong demand for goods related to entertainment and working from home as an alternative to services. The re-tightening of restrictions on movement in reaction to the third wave of infection from autumn last year resulted in a decrease in consumption of both goods and services. However, taking into account the improvement in cases of infection, consumption is expected to recover sooner or later and personal consumption expenditure as a whole will continue to record positive growth for the January-March quarter.
- It appears the third wave of infection has peaked in the US and the economic package (see next page) will provide a tailwind for personal consumption expenditure, which is expected to recover to pre-COVID-19 levels in the April-June quarter. Many states can be seen slowly easing their restrictions on movement, leading to expectations that the increase in consumption that started in the July-September quarter will continue. Furthermore, there is also a possibility that the vaccine rollout and suppression of the virus will boost consumption.

US Labour Statistics



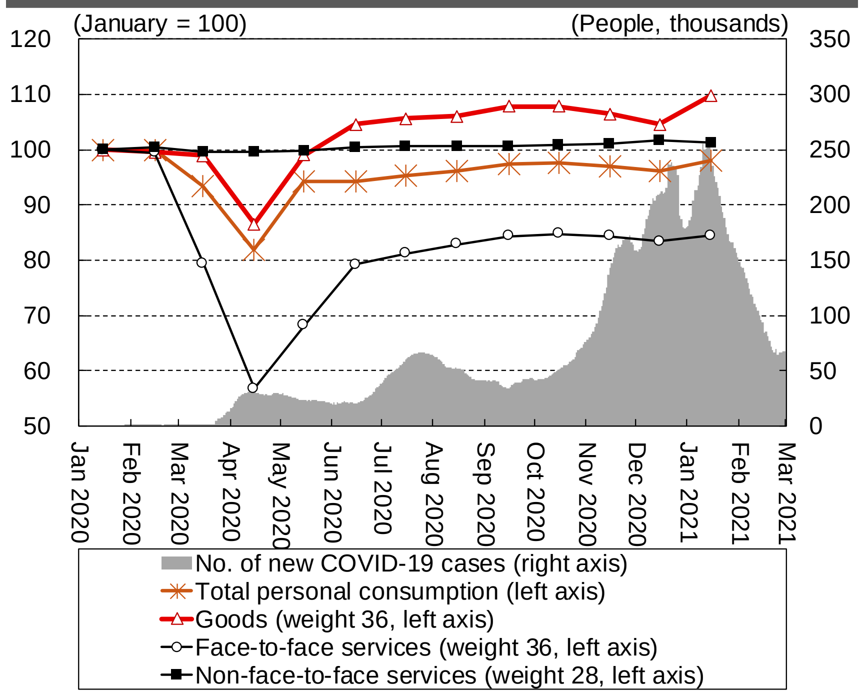
Source: Ministry of Finance, MUFG Bank Economic Research Office

US Retail Sales and Consumer Sentiment



Source: Department of Commerce, University of Michigan, MUFG Bank Economic Research Office

Personal Consumption and New Cases in the US



Note: "Face-to-face services" is transport, recreation, dining and accommodation. "Non-face-to-face services" is rent, finance and communication
Source: Department of Commerce, World Health Organization MUFG Bank Economic Research Office

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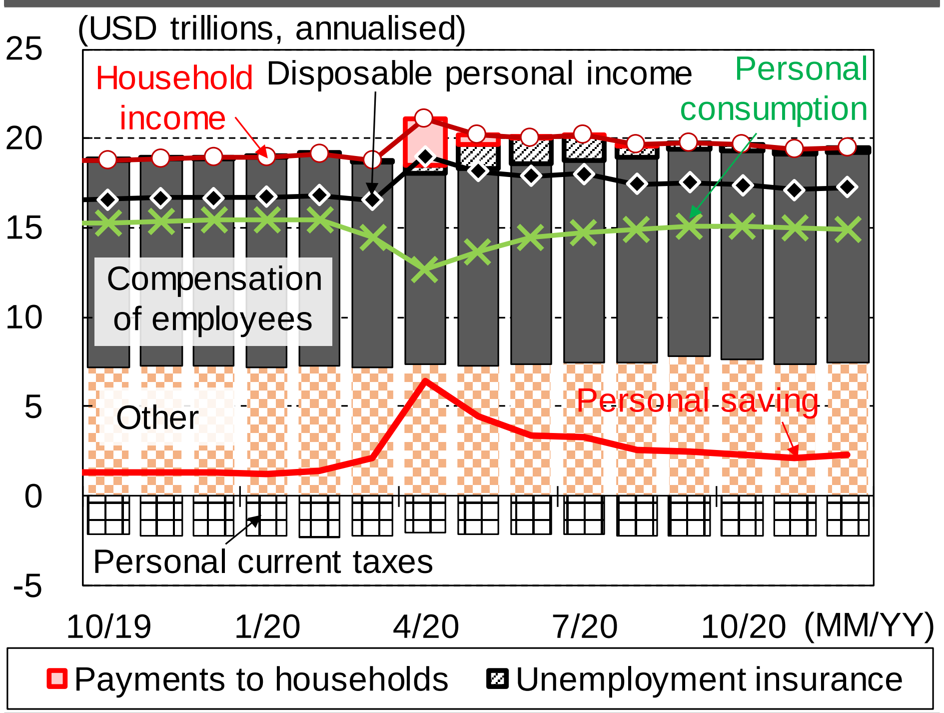
4-4. US Economy: Additional Economic Policies by the Government

- The US government passed economic policies totalling USD 2.8 trillion during March and April last year (passed in four bills and equivalent to 15% of GDP). Direct payments to households (USD 1,200 per adult) and additional unemployment insurance benefits (USD 600 per week) made a significant contribution to the increase in households' disposable income that occurred from April.
- An additional economic package of USD 1.9 trillion was approved at the end of December last year. A second draw of PPP is available for businesses that experienced a significant slump in their results and expanded unemployment insurance benefits have been extended until March, which means the US has avoided a much-feared "fiscal cliff".
- President Biden announced an economic stimulus package worth USD 1.9 trillion on 14th January in advance of his inauguration. It is highly likely the policy will be passed with a simple majority in the Senate using the budget reconciliation process. The expansion of unemployment insurance benefits and rent subsidies are expected to contribute to maintaining the income of those in need, and the total amount paid in direct payments to households (expected at USD 1,400 per adult centring on those in the middle and lower income brackets) is predicted to amount to 10~20% of expenditures for this year and will boost personal consumption expenditure. It is thought that the aid which will be given to local governments that are struggling financially will amount to around a 5% increase in government spending, and it is likely that the US economy will experience a tailwind, particularly in the April-June quarter, if the policy is enacted in March.

US Personal Income and Consumption



Note: "Other" is proprietors' income, personal income receipts on assets and personal current transfer receipts (less household benefits and unemployment insurance)
Source: US Department of Commerce, MUFG Bank Economic Research Office

The Biden Administration's Policies to Address the COVID-19 Pandemic

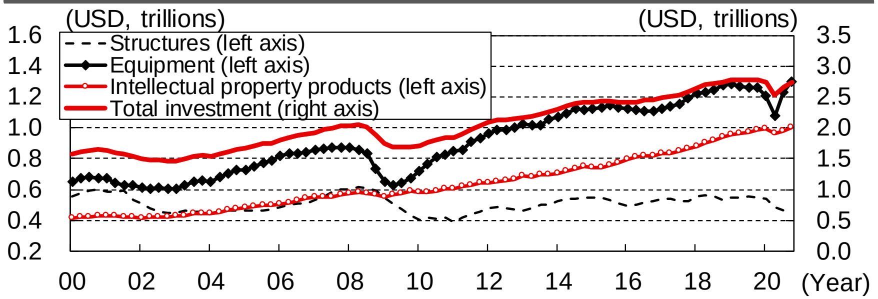
	Measures announced by President Biden		Additional package at end Dec 2020	
Provisions	Details	Amount (USD billions)	Details	Amount (USD billions)
Small and Medium-Sized Businesses	Support businesses exempt from PPP and those in specific regions	50	PPP second draw for businesses of fewer than 500 employees	325
Households	Provide direct payment of USD1,400 per person	465	Provide direct payment of USD600 per person	166
Local governments	Provide aid to state and local governments	350	-	-
Unemployment benefits	① Increase Unemployment Insurance benefits to USD 400 per week ② Extend PEUC and PUA until September	350	① Additional USD300 per week in benefits ② Extend PEUC and PUA for 11 weeks (until March)	120
Health Care	Funding for vaccine development and testing	160	Aid for testing, tracing, mitigation, research institutions and health providers	69
Education	Re-open schools and increase funding to educational institutions	170	Support for elementary, and secondary, higher education and governors emergency education relief funds	82
Families with children	Expand Child Tax Credits	120	-	-
Housing	Rent subsidies	30	Rent subsidies	25
Childcare	Provide support to childcare providers	250	-	-
Other		180		113
	Total	1,900	Total	900

Note: 1. PPP (Paycheck Protection Program) are subsidised loans to support employment
2. PEUC (Pandemic Emergency Unemployment Compensation) is a measure to extend regular unemployment benefits, PUA (Pandemic Unemployment Assistance) is a measure to expand those eligible for support, such as self-employed
Source: Committee for a Responsible Federal Budget, MUFG Bank Economic Research Office

4-4. US Economy: Capital Expenditure

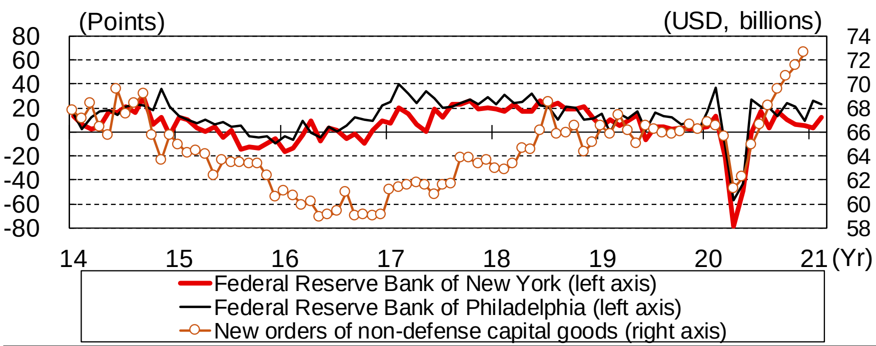
- The breakdown of non-residential fixed investment shows a huge recovery in investment in equipment; after taking a downturn in the April-June quarter last year, it returned to pre-COVID-19 levels in the October-December quarter. Investment in intellectual property products fell during the pandemic as it did during the period of economic recession which occurred during the global financial crisis. However, the extent to which it decreased this time round was smaller and it continues to rise at a firm pace in line with its previous trend.
- Non-defense capital goods (excluding aircraft) – a leading indicator of fixed investment – has been recovering since it bottomed out in April last year, and has significantly exceeded levels recorded before the pandemic since September.
- For the most part, industrial production has returned to around the same level as before the pandemic when oil-related production is excluded, and business sentiment remains generally stable. As a result, it is thought non-residential fixed investment will continue to increase gradually in the future.

US Non-Residential Fixed Investment



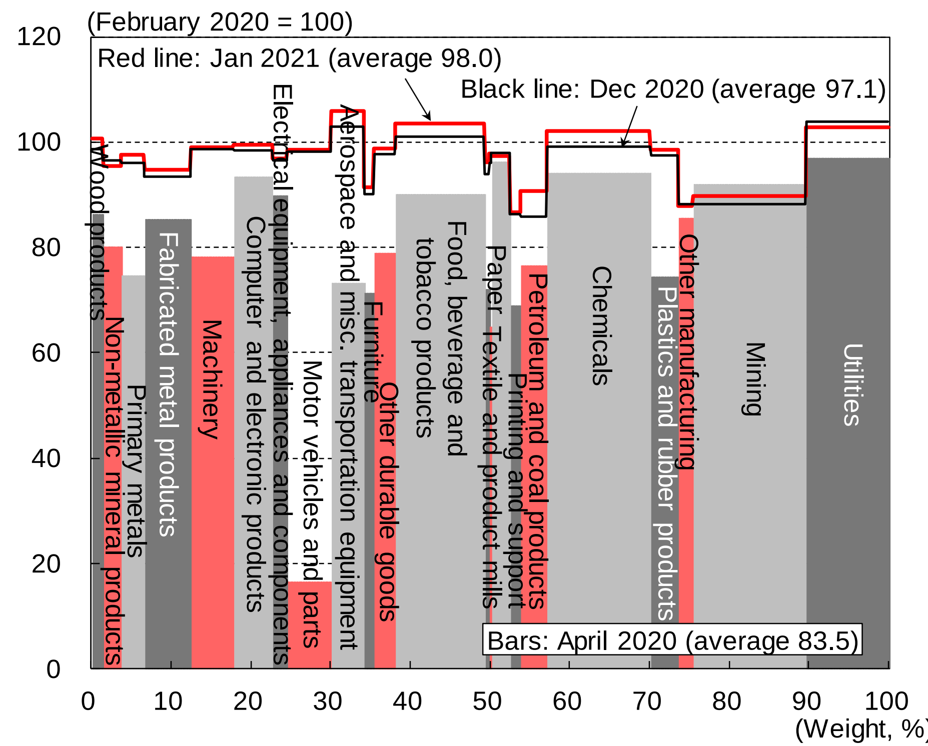
Source: Department of Commerce, MUFG Bank Economic Research Office

US FRB Manufacturing Indices and Non-Defense Capital Goods*



Note: Non-defense capital goods exclude aircraft
Source: Department of Commerce, each district Federal Reserve Bank, MUFG Bank Economic Research Office

US Industrial Production



Note: Result of each product indexed to Feb 2020 = 100. X axis shows weight of each product as of Feb 2020 used to calculate industrial production
Source: Federal Reserve Board, MUFG Bank Economic Research Office

4-4. US Economy: Domestic Political Situation and Policies

- The Biden presidency has started. The administration's priorities are tackling the COVID-19 pandemic, climate change, race equality, the economy, healthcare, immigration and recovering the US' international standing. With a very narrow margin in the balance of power in both the House and Senate, it appears attention has been turned to the mid-term elections in two years' time in the context of future policy making.
- Although President Biden emphasised "unity", some of his first policies since inauguration – aside from expanding measures to tackle the COVID-19 pandemic – have been to overturn policies enacted by the Trump administration (those on immigration and the environment). Although these actions formed part of his manifesto, there is a risk it will result in a further divide in public opinion in the future.
- The discussion in Congress around the USD 1.9 trillion additional COVID-19 economic relief package is progressing (using reconciliation). If the bill goes through, it will provide additional support to the economy.
- The future of green investment and tax reforms is still unclear, but Congressional policy holds the key. Reforms related to finance will depend on which policy issues are given priority.
- On the diplomatic front, the Biden administration seems to place importance on its allies and international cooperation. That being said, it will be important to keep an eye on how foreign policies will be carried out and if they will benefit domestic policies.

Change in Major US Domestic and Foreign Policies

Year	President	Senate	House	Politics	Social Policies	Economy	Environment	Trade	Foreign Relations
2008	Bush 2	民	民			Lehman Brothers bankruptcy → global financial crisis			
2009		民	民			American Recovery and Reinvestment Act			
2010	Obama 1	民	民		The Affordable Care Act ("Obamacare")	Dodd-Frank Wall Street Reform and Consumer Protection Act			
2011		民	共		(Occupy Wall Street movement)				(Arab Spring) / Withdrawal of US troops from Iraq
2012		民	共		Deferred Action for Childhood Arrivals (DACA)		(Shale Revolution)		
2013		民	共			Tapering			Syria crisis → US end role as "world's policeman"
2014	Obama 2	民	共						Annexation of Crimea by Russia → Sanctions against Russia Islamic State emerges → US re-enters Iraq
2015		共	共				Reject request for Keystone Pipeline construction Adopt Paris Agreement	Sign TPP	Iran nuclear deal
2016		共	共						
2017		共	共		Repeal Obamacare (abandoned) DACA repealed Restrict immigration from certain countries	Tax Cuts and Jobs Act (Trump tax cuts)	Approve request for Keystone Pipeline construction Annouce withdrawal from Paris Agreement	Withdrawl from TPP	
2018	Trump 1	共	共			Rollback some Dodd-Frank reforms		Steel and aluminium tariffs, tariffs against China	Move US Embassy to Jerusalem Withdraw from Iran nuclear deal US-North Korea summit
2019		共	民		Start construction of border wall			Sanctions against China	Withdraw US army from North Syria → Escalation of conflict US-China conflict escalates
2020		共	民	President impeachment/BLM	Formal notice of withdrawal from WHO	Coronavirus Aid, Relief, and Economic Security Act (CARES)		United States-Mexico-Canada Agreement	Assassination of Iranian general
2021	Biden 1	民	民	COVID-19	Halt withdrawal from WHO Halt border wall construction Preserve and fortify DACA Revoke restrictions on immigration	(Additional COVID-19 relief package of USD 1.9 trillion)	Announce return to Paris Agreement Revoke permit for Keystone Pipeline		
2022		民	民						
2023									
2024									

Note: Coloured text are policies over which there was significant conflict between political parties (there is a high probability of them being reversed) Red = Republican Party, Blue = Democratic Party
Source: Various news reports, MUFG Bank Economic Research Office

4-4. US Economy: Future of US-China Conflict

- The Biden administration has adopted a position of “cooperation with China in areas where this is possible”, yet it appears its stance towards China will be fairly hard line judging by statements made by the Cabinet.
  - ✓ In contrast with the Trump administration, the Biden administration advocates cooperation with other democratic nations and also emphasises human rights issues.
  - ✓ Comments were made warning about China at a Senate confirmation hearing (Secretary of State Blinken: “China poses the most significant challenge to the US”; Defense Secretary Austin: “China is our most significant challenge”; Treasury Secretary Yellen: “we need to take on China's abusive, unfair and illegal practices”).
  - ✓ The previous administration rushed into imposing hard line policies before diplomacy. This has narrowed the new administration’s policy options concerning China (there is little scope to harden their stance further. Meanwhile, it is possible that responding to requests to ease or abolish hard line policies against China will be considered as taking a weak stance domestically.
  - ✓ It is assumed the conflict between the US and China will continue to escalate (including decoupling of economies and technology) and in cases where the outcome of talks is difficult to predict, the Biden administration may decide to maintain the status quo when it comes to relations with China in order to preserve political capital for domestic affairs.

Timeline of US-China Conflict

	US	China
2020 May	・Tightens restrictions on Huawei imports ・Congress passes Uyghur Human Rights Policy Act	・China's Ministry of Foreign Affairs strongly opposes US actions as interference in internal affairs
Jun		・China approves and passes Law of the People's Republic of China on Safeguarding National Security in the Hong Kong
Jul	・Secretary of State Pompeo rejects China's claims to South China Sea ・Congress passes Hong Kong Human Rights and Democracy Act which includes financial sanctions ・Orders China to close consulate in Houston	・China annouces strong opposition to statement by Secretary of State Pompeo ・Announces it will take measures against US inviduals and groups in retaliation ・Closes US consulate in Chengdu
Aug	・Enacts sanctions against 11 individuals including Hong Kong Chief Executive Carrie Lam ・US Health Secretary visits Taiwan	・Imposes sanctions on 11 US individuals, including senators ・Announces strong opposition to US Health Secretary's visit to Taiwan
Sep	・Announces it will revoke visas of more than 1000 Chinese people ・Under Secretary of State visits Taiwan, meets with President Tsai Ing-wen	・Announces strong opposition to US Secretary of State's visit to Taiwan
Oct	・US State Department approves sale of arms to Taiwan	・Passes Export Control Law (takes effect 1st December) ・Announces plan to enact santions against companies and individuals involved in US arms sales to Taiwan
Nov	・Announces presidential directive banning US investment in Chinese companies thought to receive support from China's military	・Ministry of Foreign Affairs announces strong opposition to US repression
Dec	・Imposes restrictions on visas for Chinese officials connected to human rights abuses. ・President Trump signs bill which increases surveillance on Chinese companies listed on US stock exchanges	・Foreign Minister Wang urges US to stop arbitrary suppression of Chinese companies after US Department of Commerce adding several Chinese companies to its Entity List
2021 Jan	・President Trump signs executive order banning transactions with Chinese apps ・Eases self-imposed restrictions on contact with Taiwan officials ・President Trump signs executive order banning US investors from investing in companies connected with the Chinese military	・President Xi says a trade war will hurt all countries' interests in a warning to the US at an online meeting held by a Swiss thinktank
Feb	・President Biden raises concerns with President Xi at US-China summit	

Source: Various news reports, MUFG Bank Economic Research Office

Statements by President Biden and the Cabinet about China

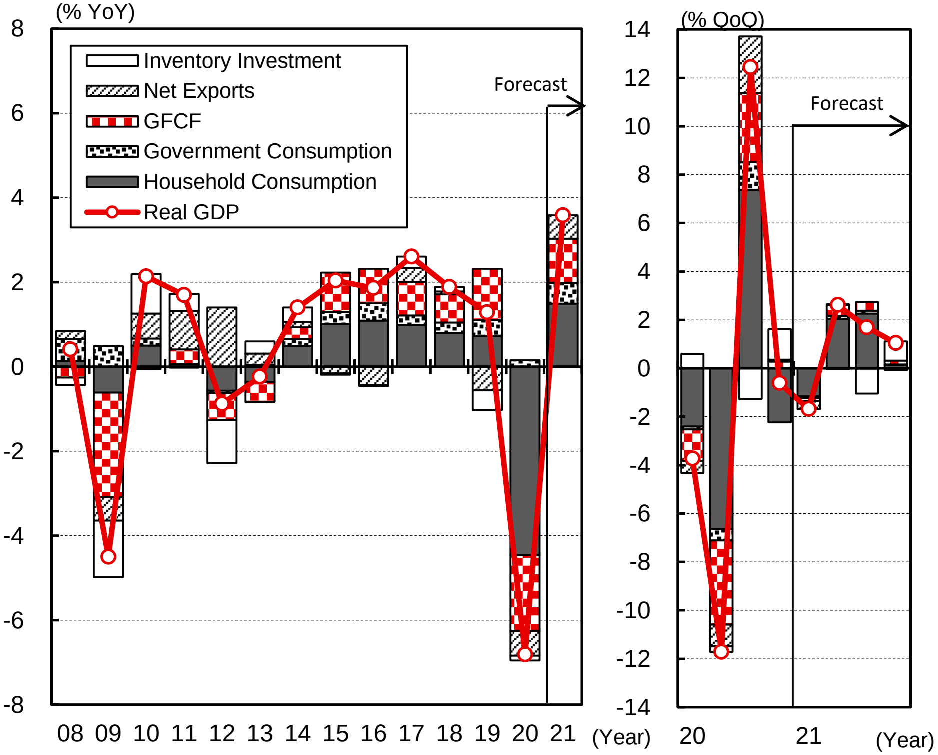
Member	Date	Details
President Biden	10th Feb	"Underscored his fundamental concerns about Beijing’s coercive and unfair economic practices, crackdown in Hong Kong, human rights abuses in Xinjiang, and increasingly assertive actions in the region, including toward Taiwan"
	16th Feb	"Will work with the international community to get China to protect human rights"
Secretary of State Blinken	26th Jan	(About China) "the most significant challenge of any nation-state to the United States". "We can win the competition with China"
Defense Secretary Austin	19th Feb	China remains the US Department of Defense's "primary pacing challenge"
Treasury Secretary Yellen	19th Feb	"We're in the process of evaluating what our approach should be toward China, but there are a range of issues where we see unfair practices"
Special Presidential Envoy for Climate Kerry	27th Jan	"The issues of theft of intellectual property and access to markets, South China Sea. Run the list. We all know them. Those issues will never be traded for anything that has to do with climate. That's not going to happen"
Commerce Secretary Raimondo	26th Jan	"The US must take “aggressive” steps to combat China’s “unfair” trade practices"

Source: Various news reports, MUFG Bank Economic Research Office

4-5. European Economies: Eurozone - Overview

- Eurozone real GDP in Q4 2020 fell by 0.6% QoQ. Although gross fixed capital formation (GFCF) and net exports are expected to have shown quarterly expansion, private consumption is expected to have fallen due to the re-introduction of restrictions in response to the pandemic's second wave in countries.
- Recent data show that the infection rate is slowing, but the number of daily cases is still increasing faster than most governments had targeted. With problems facing vaccination supply and the necessity to provide vaccines equally across all member countries, the vaccine distribution has been slower compared to other economically advanced nations such as the US and UK.
- A second consecutive quarter of negative real GDP growth looks probable in Q1 2021. The relatively slow vaccine distribution compared to the US and UK makes it likely that existing restrictions will have to be relaxed gradually. We expect that real GDP will expand by 3.6% YoY in 2021, remaining below its 2019 pre-pandemic levels during the year.

Eurozone Real GDP Forecast



Note: 2020 and Q4 breakdown data is a MUFG Bank prediction.
Source: Eurostat, MUFG Bank Economic Research Office

Table of Real GDP Forecast of Major European Countries

(% QoQ) (% YoY)

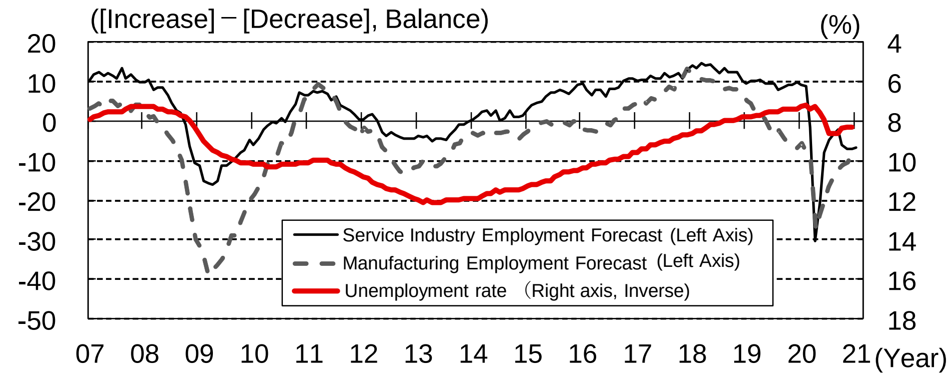
	2019	2020				2019	2020	2021
	Q4	Q1	Q2	Q3	Q4	(Actual)		Forecast
Eurozone	0.0	-3.7	-11.7	12.4	-0.6	1.3	-6.8	3.6
Germany	0.0	-1.9	-9.8	8.2	0.1	0.6	-5.0	3.4
France	-0.2	-5.9	-13.7	18.2	-1.3	1.5	-8.3	4.9
Italy	-0.2	-5.5	-13.0	16.1	-2.0	0.3	-8.9	4.4
UK	0.0	-2.9	-19.0	16.1	1.0	1.4	-9.9	4.9

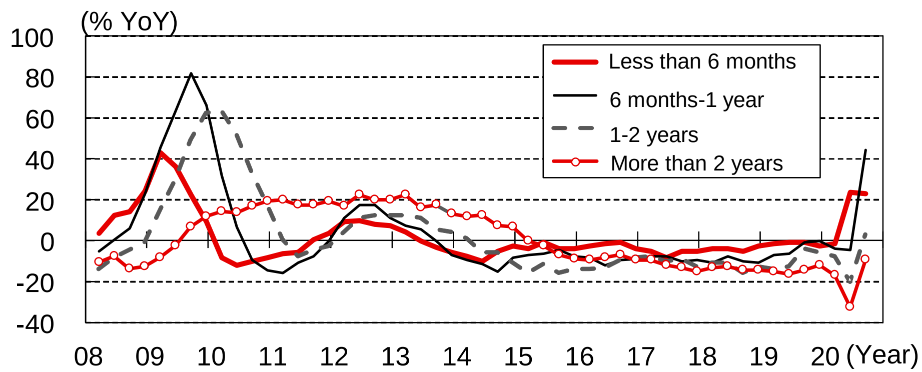
Source: Eurostat, Office of National Statistics, MUFG Bank Economic Research Office

4-5. European Economies: Eurozone - Labour Market and Private Consumption

- While the unemployment rate in December last year remained flat at 8.3%, short-time work schemes have prevented the headline rate from rising as it did during past economic crises and have supported household income. However, corporate hiring forecasts have continually pointed to contraction so an eventual rise in the unemployment rate does look likely. Also, taking in account the variations in the recovery speed for different industries and the increase in longer-term unemployment due to long-term restrictions, we need to pay attention to the possibility that the unemployment rate will reduce sluggishly despite the economy returning to a positive trajectory.
- Each major country has reintroduced restrictions such as shop closures since the pandemic's second wave in October last year. Even though some restrictions have now been loosened, household consumption is highly likely to decrease for a second consecutive quarter in Q1 this year. We expect that the pace of the subsequent recovery in consumer spending will be slow as restrictions are gradually eased.

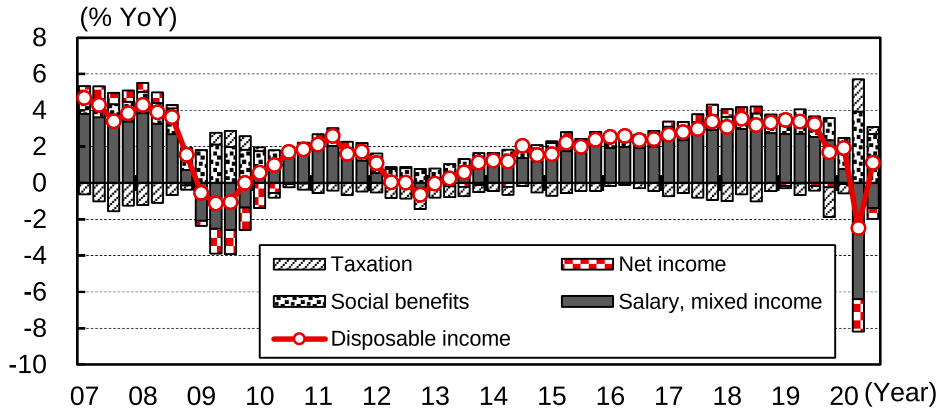
Eurozone Industrial Employment Forecast and Unemployment Rate

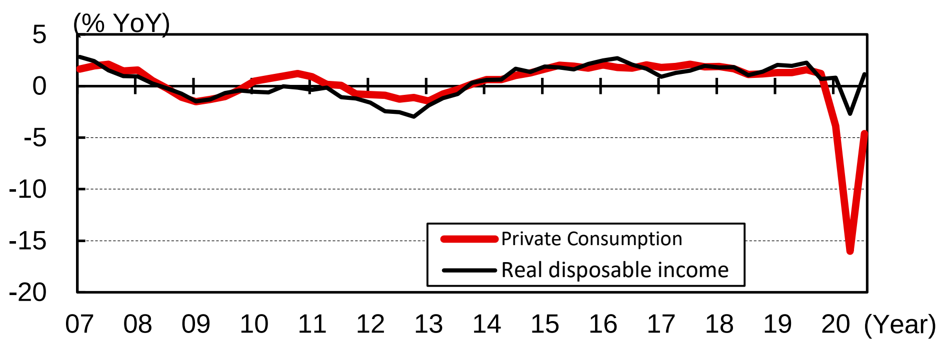




Source: Eurostat, European Commission, MUFG Bank Economic Research Office

Eurozone Disposable Household Income and Private Consumption





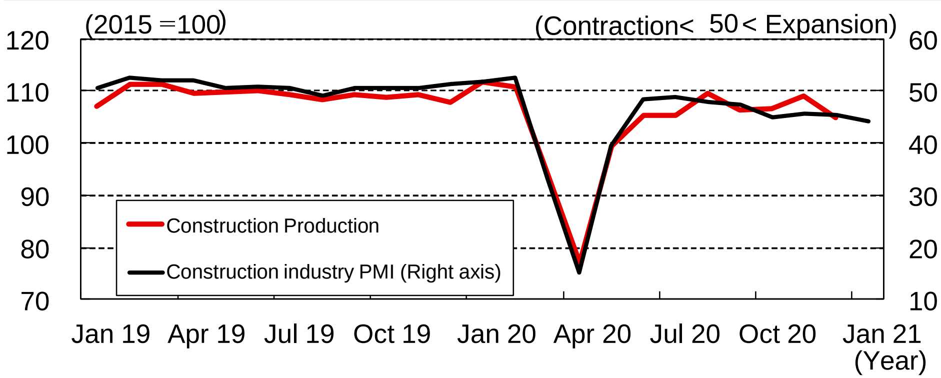
Note: Real disposable income is a calculation that removed CPI from nominal disposable income.

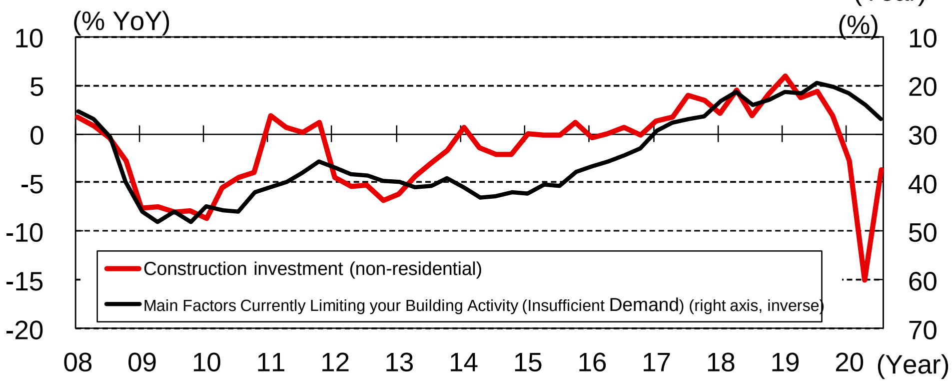
Source: Eurostat, MUFG Bank Economic Research Office

4-5. European Economies: Eurozone – Capital Expenditure

- Eurozone construction output fell by 3.7% MoM in December last year. Similarly, construction PMI, which has constantly been below 50, fell further in January. It is possible that construction investment in Q1 as a whole will fall relative to Q4 2020. That said, the ratio of corporations that cite insufficient demand as a factor limiting building activity is low compared to the pre-pandemic economic crisis. We predict that construction investment will recover as restrictions are eased.
- Capacity utilisation in manufacturing is below its 2019 pre-pandemic levels, but it improved to 77.6% (1.3% points QoQ) in Q1 (January survey). The degree of excessive production capacity is currently easing . We expect a recovery in machinery investment together with the gradual reduction in uncertainty following the pandemic.

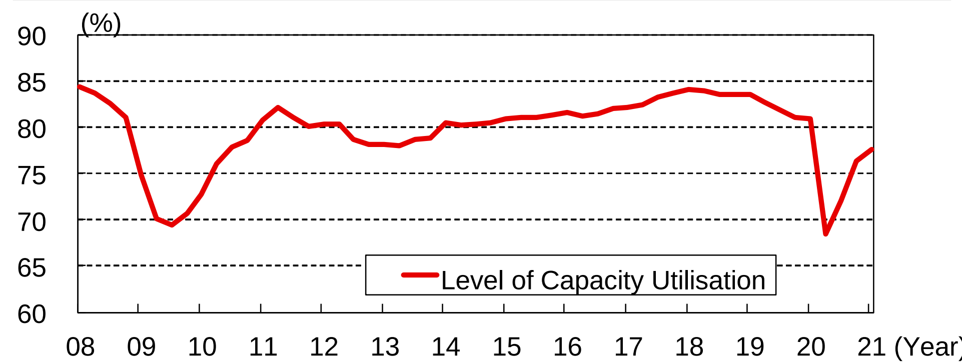
Eurozone Construction Production and Investment

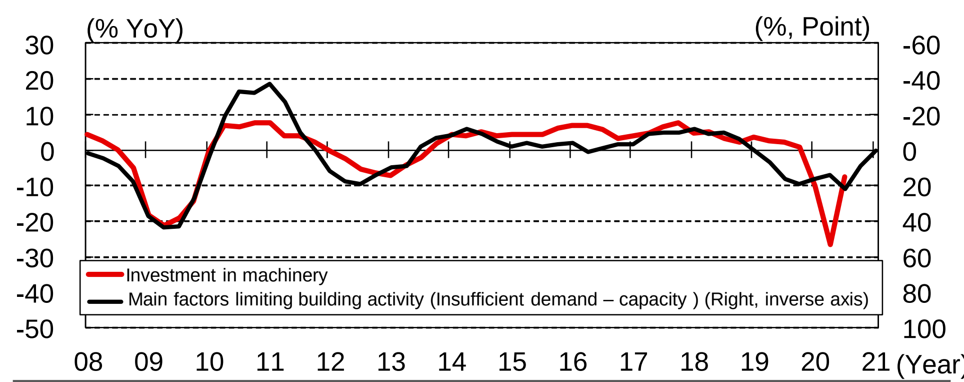




Source: Eurostat, IHS Markit, European Commission, MUFG Bank Economic Research Office

Eurozone Capacity Utilisation and Machinery Investment





Source: European Commission, Eurostat, MUFG Bank Economic Research Office

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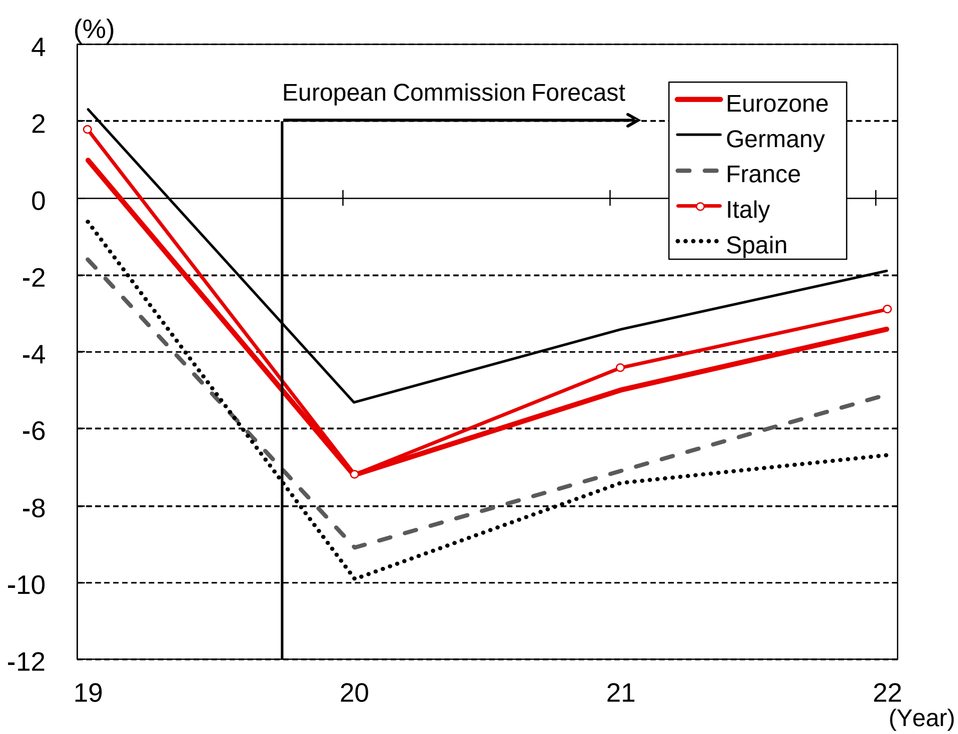
4-5. European Economies: Eurozone – Policy Response

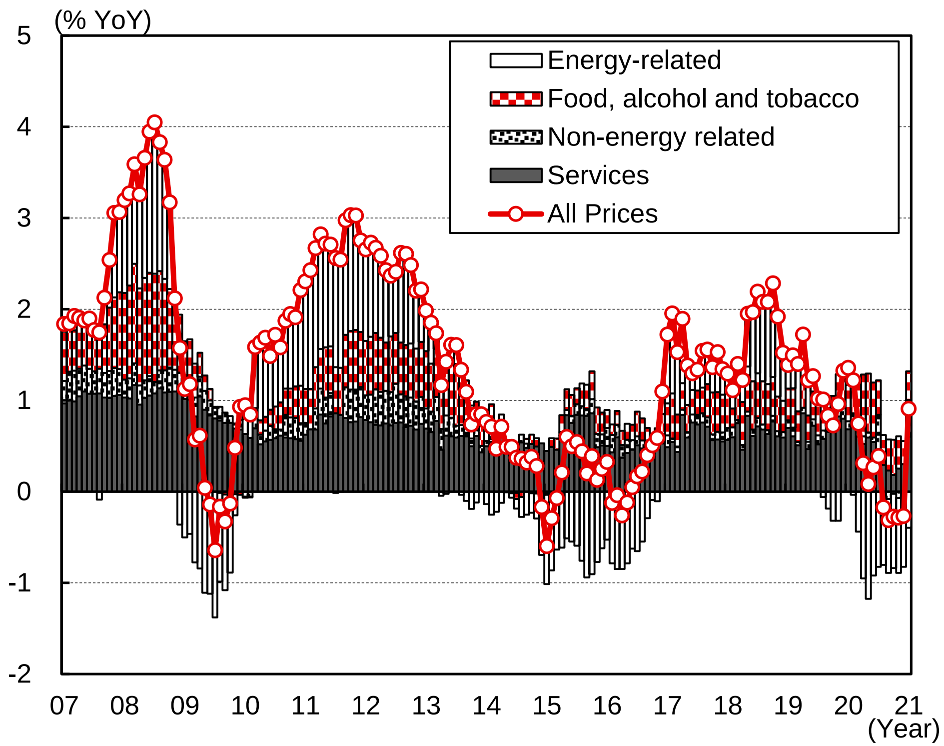
- The Eurozone's 2021 budget deficit is predicted to be smaller compared to 2020, which is a result of the reduced pandemic response in line with economic recovery. However, the European Commission expects the expansionary fiscal stance will be maintained through tax reductions and an expansion of environmental policy-related spending.
- The ECB decided to further bolster its comprehensive monetary policy easing measures in December last year. The envelope of its pandemic emergency purchase programme (PEPP) was further expanded and the borrowing conditions for the targeted longer-term refinancing operations (TLTRO-III) were relaxed. At the January ECB Governing Council meeting, President Christine Lagarde stated that the December projection is still valid in predicting the continuation of lockdown measures in Q1 and the ECB will continue to maintain its current monetary policy.
- In terms of PEPP, the idea that the purchase envelope may not be used in full or that additional easing in line with inflation may be implemented were both expressed as possibilities. As an increase in underlying inflationary pressures has not been observed and future economic conditions are still uncertain, we expect that the ECB will preserve favourable financing conditions and the low interest rate will be maintained.

Eurozone Primary Balance (Percentage of Nominal GDP)



Source: European Commission, MUFG Bank Economic Research Office

Eurozone Consumer Prices

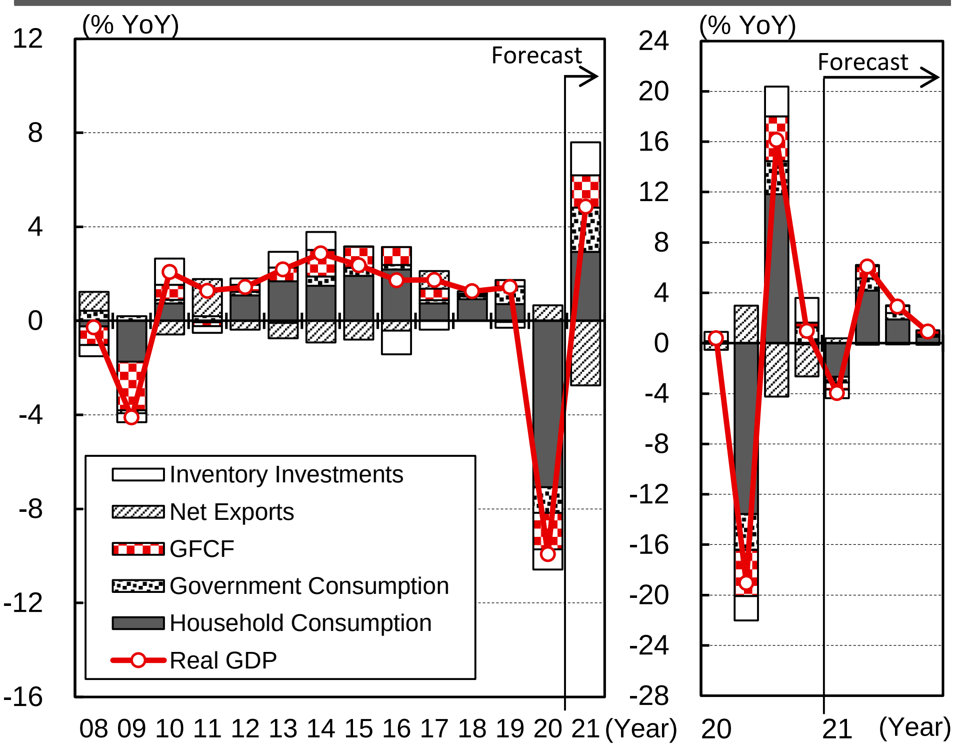


Source: Eurostat, MUFG Bank Economic Research Office

4-5. European Economies: UK Economy – Overview

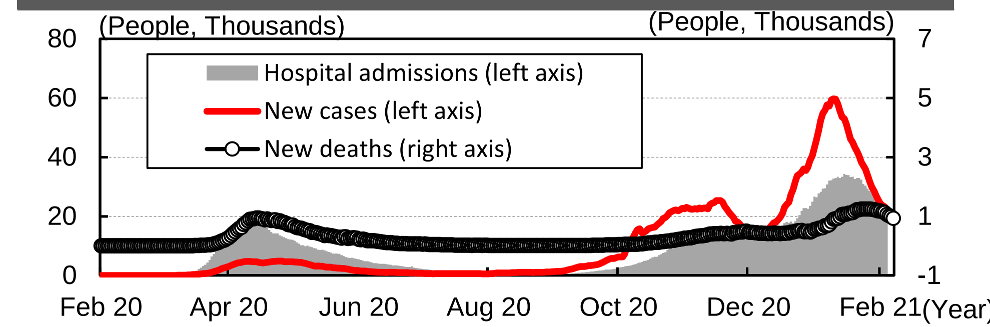
- UK real GDP expanded by 1.0% QoQ in Q4 2020. This was an abrupt slowdown from 16.1% QoQ growth in Q3 (which reflected the recovery after the first lockdown) as another national lockdown was imposed (5 November - 2 December) following the second wave of the pandemic in the autumn.
- A third lockdown was announced in January 2021. New daily cases have since fallen, but a negative GDP growth figure in Q1 looks unavoidable. Greater experience of how to balance restrictions and economic activity, both in government and the private sector, combined with the ongoing fiscal and monetary policy response means that the level of economic activity should not fall to the lows seen last spring, however.
- The government restrictions are to be eased gradually from Q2, and economic activity is set to rebound. It is possible that the UK's relatively quick vaccination distribution is likely to continue.
- The economy is following a favourable W-shaped recovery trajectory from Q2 last year, and we predict that real GDP will rise to 4.9% YoY in 2021. However, given that the economic contraction in 2020 is among the worst seen in major developed economies, it is unlikely that UK real GDP will return to 2019's pre-pandemic levels this year.

Real GDP Outlook for the UK



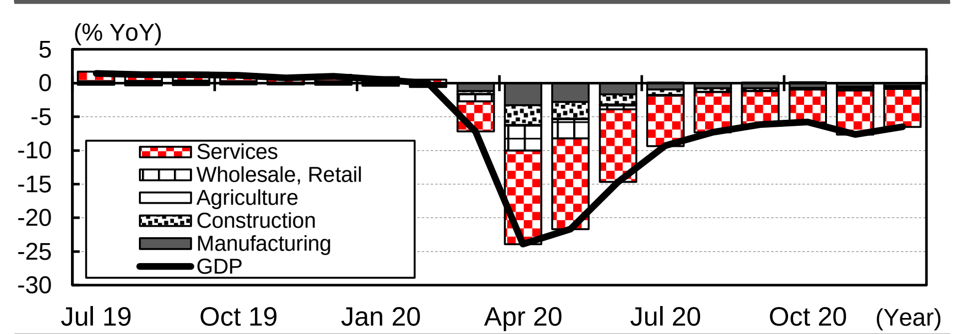
Source: ONS, MUFG Bank Economic Research Office

New COVID-19 Cases and Hospital Admissions in the UK



Source: WHO, NHS Statistics, MUFG Bank Economic Research Office

UK Monthly GDP and Contributions by Industry

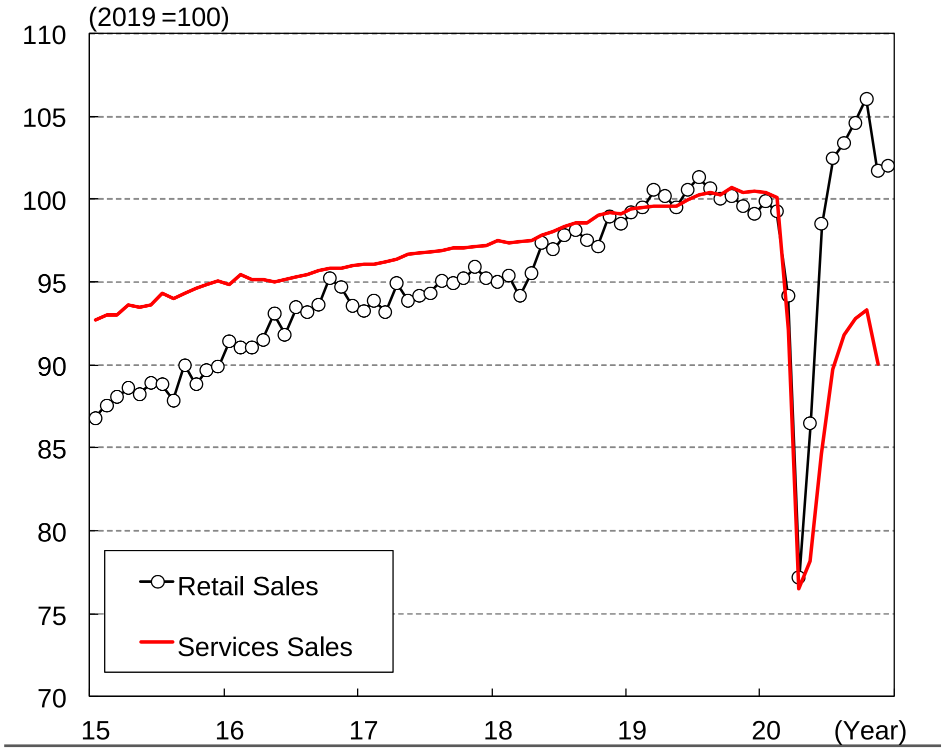


Source: Office of National Statistics, MUFG Bank Economic Research Office

4-5. European Economies: UK Economy – Household Sector

- UK retail sales rose back to 2019's pre-pandemic levels in Q4 2020 due to pent-up demand, but the service sector remained at 90% of pre-pandemic levels due to the effects of the second lockdown.
- The labour market has weakened with declining industrial employment intentions, falling employment and a rise in the headline unemployment rate. However, given the government's support for the Coronavirus Job Retention Scheme, the degree to which the employment market is affected negatively is limited in scope when compared to past levels and the current sluggish economic conditions.
- As a result of this, while real disposable household income fell in Q2 last year, it bounced back to the previous years' level in Q3. Spending on service-related goods remains subdued and the amount of household savings rose greatly (this will be a source of increased spending when restrictions are eased).
- After this, the government will continue their policies supporting employment while at the same time easing lockdown restrictions following the distribution of vaccines. We predict that there will be a rebound in consumption from Q2 this year.

UK Retail and Service Sales Index



Source: ONS, MUFG Bank Economic Research Office

UK Unemployment Rate and Labour Market

Source: ONS, MUFG Bank Economic Research Office

UK Households' Savings and Disposable Income

Source: ONS, MUFG Bank Economic Research Office

4-5. European Economies: UK Economy – Post-Brexit

- The UK and the EU agreed on a new trade deal on 24th December and are continuing to trade without tariffs or quotas from 2021.
- There is downward pressure on the economy from factors such as UK-EU customs procedures, the separation of regulatory jurisdictions, and the Northern Ireland-Great Britain trade management process. However, as a 'no deal' sudden end to the transition period was avoided, large-scale disruption to logistics is unlikely to occur (There are some disruptions in the trade of fresh, perishable goods, however.).
- However, the agreed "Canada-style" trade deal can be seen to be closer to a "Hard Brexit" (some customs barriers and limited services agreement). When considering the economy, the UK's long-term GDP growth rate is likely to face an annual decrease of 0.2 – 0.3pp versus EU membership, based on external calculations.
- From the UK's standpoint, due to the promotion of growth tactics such as the Global Britain Scheme (expansion of FTA), the Green Industrial Revolution and National infrastructure Strategy, the UK's strengths (English language and the British Commonwealth Nations, the high number of highly-educated people, a place of advanced innovation, a pragmatic political system and powers of communication etc.) will be key in producing upward pressure to economic growth over the long term going forwards.

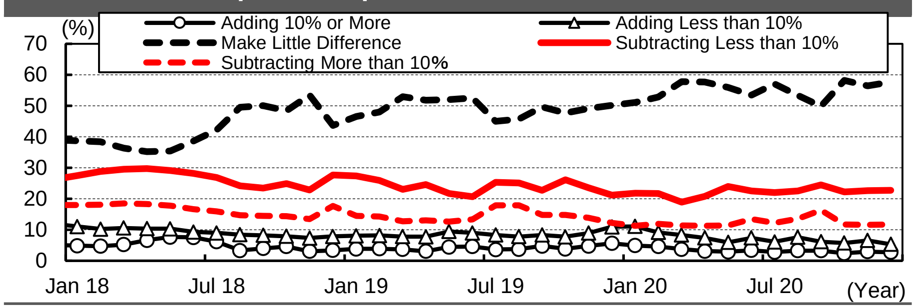
Results of UK & EU Trade Negotiations (New Trade Agreement)

Trade Deal Agreement	No Deal Agreement
●No tariffs or quotas	○Tariffs and quotas
●Minimal system harmony	○No system harmony
●Impact mitigation measures	○Imperfect change in impact mitigation measures

Shared Agreements
●Customs procedures for trade between the UK and the EU
●The separation of UK-EU shared-jurisdiction areas (product certification, data protection, labour, environment etc.)
●Departure from FTA terms with third-party countries, implementation of FTA by each country
●Change to UK imports' customs tax for non-FTA countries (introduction of Global Tariff)
●Change to UK's new immigration policy (end to immigration for EU citizens)
●Change in customs and regulations for Northern Ireland

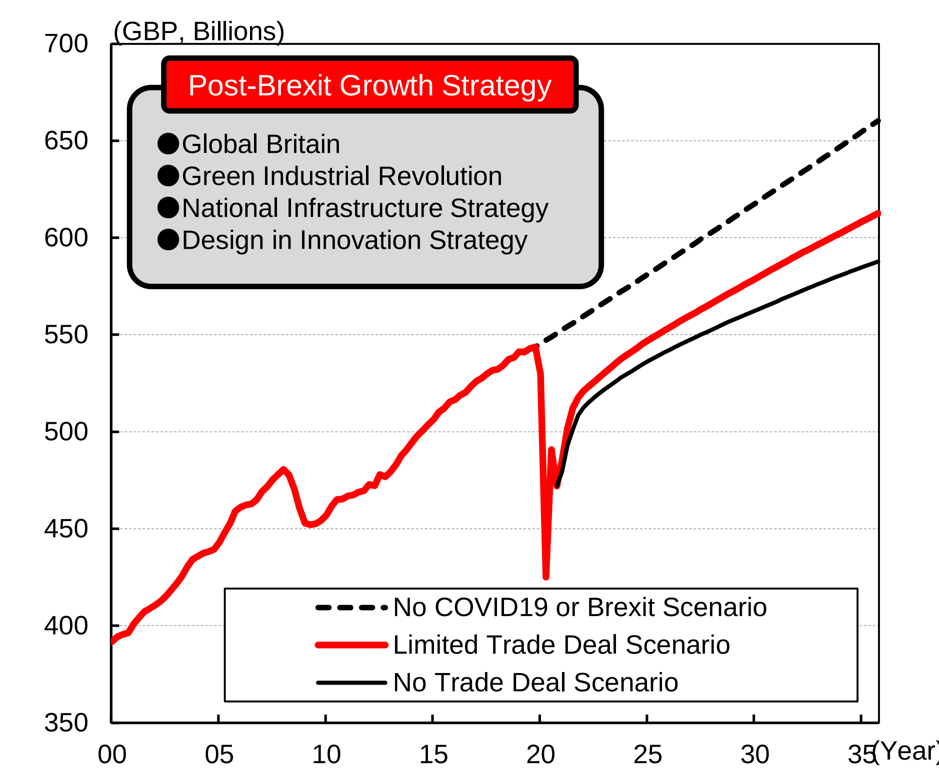
Source: Various Sources, MUFG Bank Economic Research Office

Expected Impact of Brexit Deal on Sales



Source: BOE, MUFG Bank Economic Research Office

Post-Brexit Long-term GDP Growth Path



Source: Various Sources, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: Overview

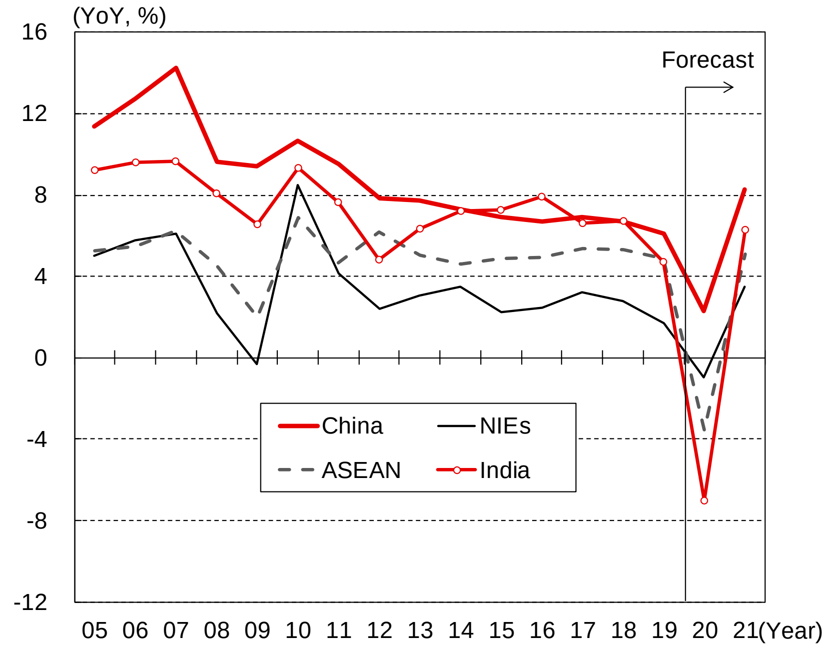
- In China, consumption remains firm, particularly that of goods, yet it will take some time for face-to-face services like dining out to recover. Investment also maintains strong growth, supported by policies. China will continue to balance maintaining economic activities with controlling the spread of COVID-19 and growth will rebound from the low levels recorded last year, resulting in a comparatively high real GDP growth rate forecast of 8.3% YoY.
- Turning to economies in ASEAN and NIEs, the pace of recovery in ASEAN slowed from the end of last year due to another wave of COVID-19 infections. There is still downward pressure in some economies from restrictions on movement; however, it is likely the restrictions will be eased slowly as the number of cases has peaked out and economies will continue to recover. On the other hand, NIEs have generally been successful in controlling the spread of infection and both domestic and foreign demand are predicted to be comparatively robust. Taking into account the difference with the original potential growth rate and the large rebound from last year's growth, the real GDP growth rate in 2021 is forecast to be 5.1 YoY in ASEAN (5 countries) and 3.5% YoY in NIEs.
- Australia's real GDP growth rate for 2021 is expected to recover from 2019's levels and hit 3.6% YoY. Given that Australia is in the Southern Hemisphere, there are concerns that there will be another wave of infection around mid-2021 as there was in developed countries in the Northern Hemisphere last year from around the start of autumn into winter.

Outlook for Asian and the Australian Economies

	Real GDP growth rate (%)			Consumer Price Index (%)		
	2019 (Actual)	2020 (Forecast)	2021 (Forecast)	2019 (Actual)	2020 (Forecast)	2021 (Forecast)
Asia (11 countries/regions)	5.0	- 0.5	6.9	2.9	2.6	1.9
China	6.1	2.3	8.3	2.9	2.5	1.5
India (FY basis)	4.2	- 8.8	8.2	4.8	5.5	4.1
NIEs	1.7	- 1.0	3.5	0.7	0.2	1.1
South Korea	2.0	- 1.0	3.0	0.4	0.5	1.2
Taiwan	2.7	3.0	3.4	0.5	- 0.2	1.0
Hong Kong	- 1.2	- 6.1	4.0	2.9	0.3	1.6
Singapore	0.7	- 5.4	5.3	0.6	- 0.2	0.4
ASEAN 5	4.9	- 3.5	5.1	2.1	1.4	1.9
Indonesia	5.0	- 2.1	4.8	2.8	2.0	1.8
Thailand	2.4	- 6.1	2.6	0.7	- 0.8	1.0
Malaysia	4.3	- 5.6	6.5	0.7	- 1.1	1.4
The Philippines	6.0	- 9.5	6.2	2.5	2.6	3.0
Vietnam	7.0	2.9	6.8	2.8	3.1	3.1
Australia	1.9	- 2.8	3.6	1.6	0.8	1.3

Source: National statistics of each country, MUFG Bank Economic Research Office

Real GDP in Major Countries and Regions in Asia



Source: National statistics of each country, MUFG Bank Economic Research Office

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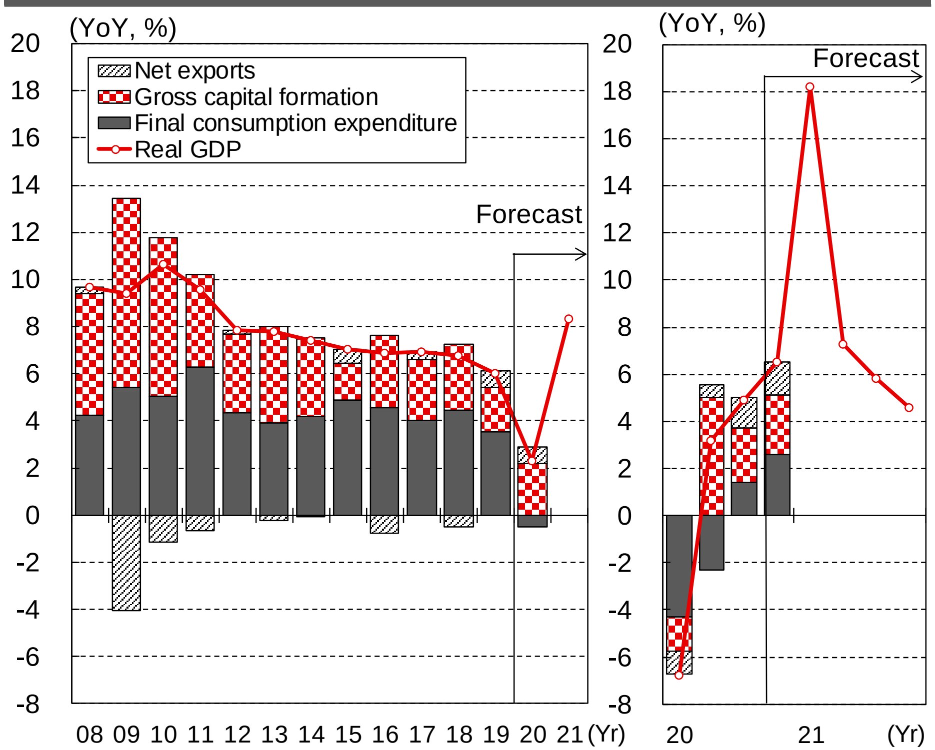
4-6. Asian and the Australian Economies: China – Overview and Investment

- China’s real GDP for the October-December quarter last year rose to 6.5% YoY. This resulted in an annual growth rate of 2.3% YoY for 2020: the only major country to record positive growth for the year. Exports and domestic demand – especially investment – were robust and it appears China has been successful in finding a balance between controlling the spread of infection and maintaining economic activities.
- Fixed asset investment has maintained high levels of growth due to the government’s decision at the National People’s Congress in May to expand the framework for issuing special local government bonds (RMB 3.75 trillion in 2020, an increase of RMB 1.6 trillion from the previous year), which are used to fund infrastructure, as well as due to the robust growth of investment in real estate. Owing to the slump in investment that occurred last year, it is thought there will be a significant increase in investment during the first half of this year, which will then slow. Nevertheless, investment is forecast to remain firm on the whole in light of the government’s continued focus on “new infrastructure investment”.

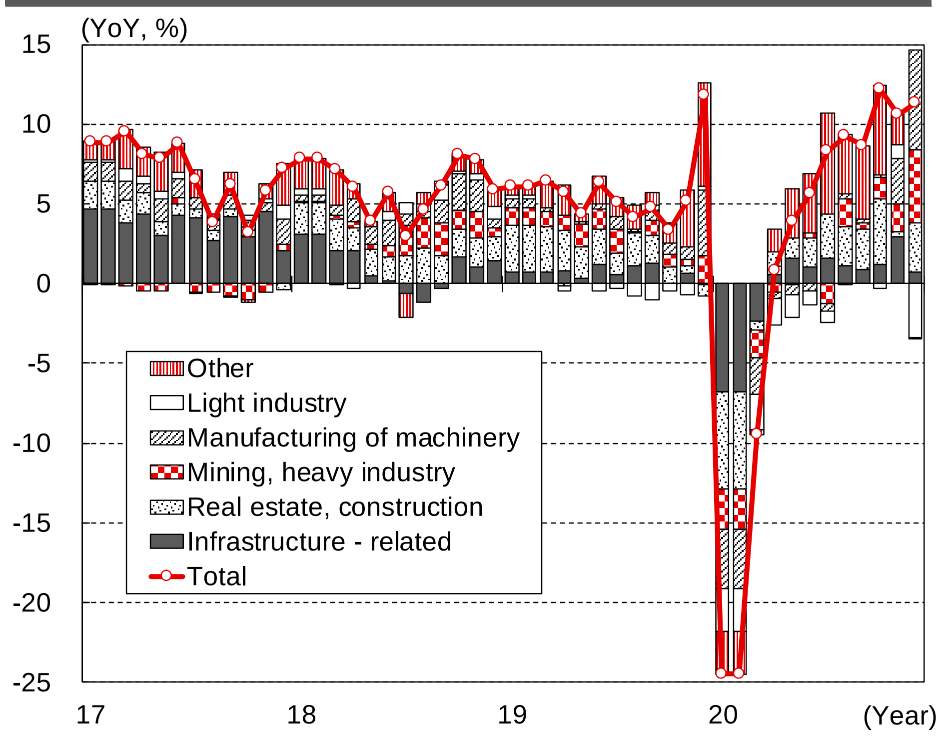
  “New investment infrastructure” is comprised of 3 fields: information infrastructure (5G, IoT, AI), fusion infrastructure (a shift away from conventional technology using internet and big data) and innovation infrastructure (high-tech public infrastructure that supports scientific research).

China’s Real GDP Growth Rate



Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

China’s Fixed Asset Investment



Note: "Infrastructure-related" covers transport, storage, postal services, water conservancy, environment and utility management. New infrastructure investment is not just contained within "infrastructure-related", but is likely included in other items too

Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

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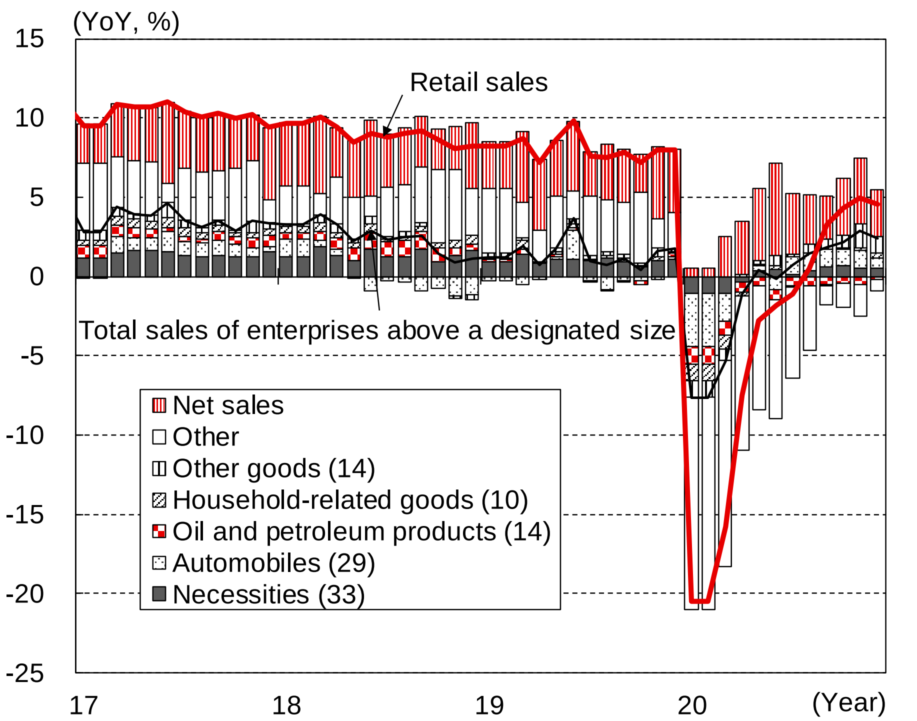
4-6. Asian and the Australian Economies: China – Private Consumption

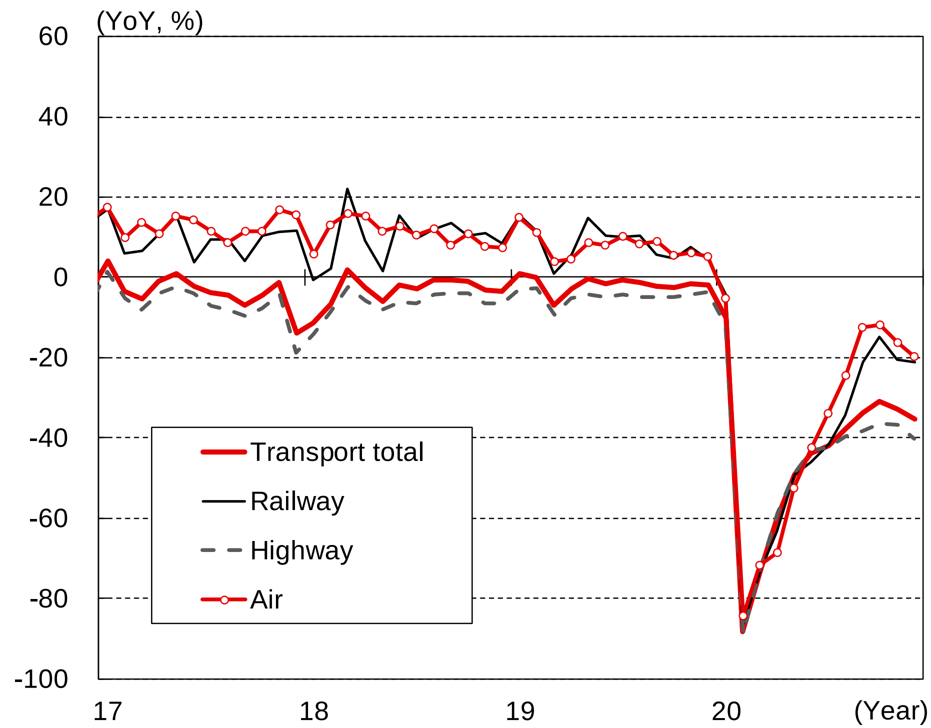
- Private consumption remained firm with retail sales recording growth of 4.6% YoY in December last year on the back of continued robust growth in the sale of automobiles. However, there are some industries where growth has not yet returned to their pre-COVID-19 levels due to deep-seated concerns about a spread of infection. For example, the recovery in restaurants sales, which are a face-to-face service, has been slow.
- Passenger transportation indicates that while China has been successful at controlling the spread of COVID-19 domestically, transportation remains around 30% lower on the whole compared to before the pandemic. In addition, the Chinese government expects passenger numbers around the Lunar New Year to be approximately 1.15 billion – a decrease of around 60% from 2019.
- It is thought that the downward pressure on face-to-face services due to concerns about the spread of infection will continue in the future. There is expected to be a large rebound in year-on-year growth for a short while, but this will slow during the latter half of the year.

Breakdown of China's Retail Sales by Item



Note: 1. "Enterprises above a designated size" are those with annual sales of RMB 5 million and over. Figure in brackets each enterprise's share of total
2. "Necessities" are food, clothes, daily goods and medicine. "Household-related goods" is furniture and construction materials.
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

China's Passenger Transportation



Source: Ministry of Transport, China State Railway Group, Civil Aviation Administration of China, MUFG Bank Economic Research Office

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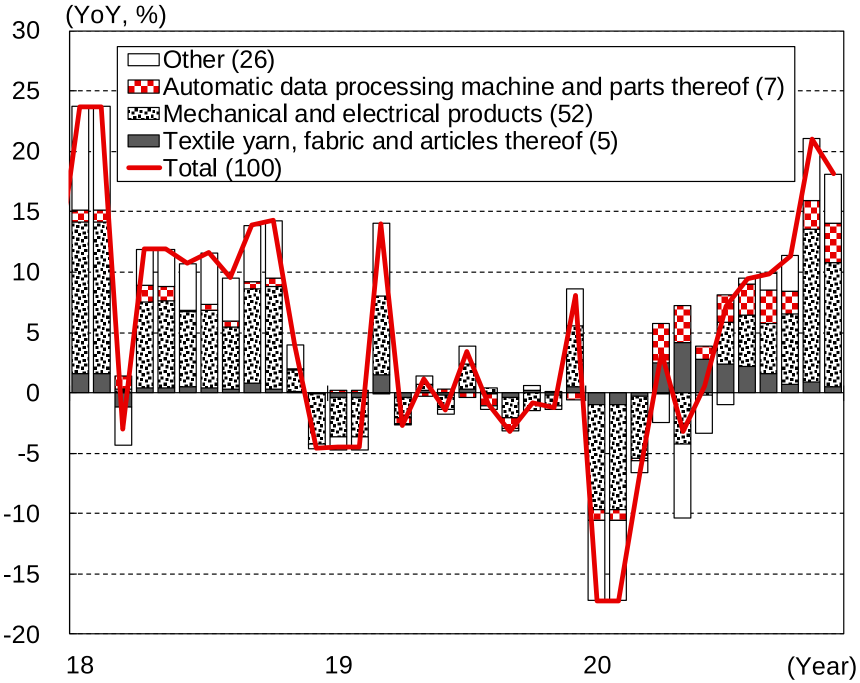
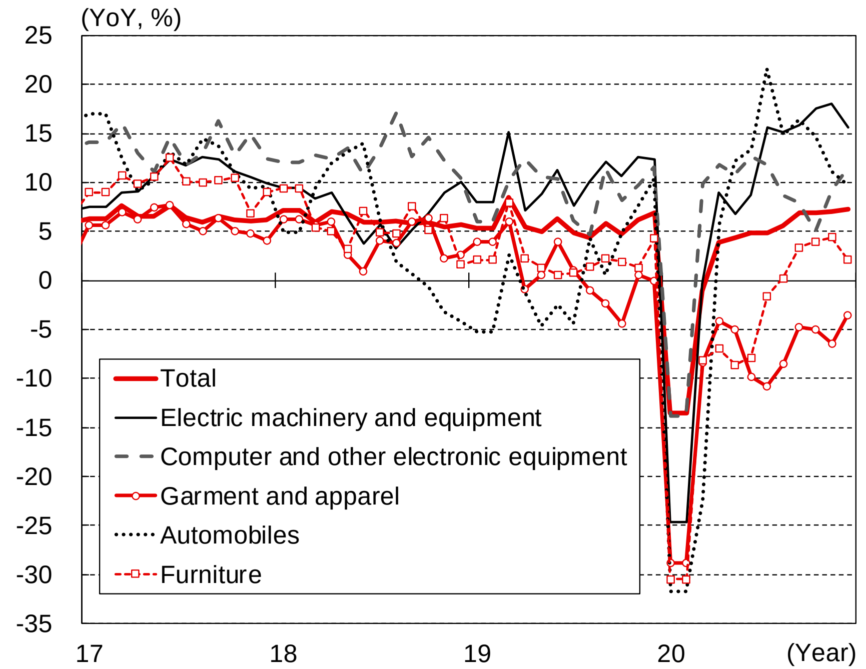
4-6. Asian and the Australian Economies: China – Exports and Production

- Exports maintained strong growth in December last year, hitting 18.1% YoY. There was robust growth in exports of "textile yard, fabric and articles thereof", such as masks, and of "automatic data processing machine and parts thereof", for which demand is high due to the rise in the amount of people working from home globally. Around the end of last year, there was another rise in COVID-19 cases in Europe – a major export destination for China – but the wave of expectations has peaked and is starting to decrease. Therefore, while there is downward pressure on exports, it will only be temporary. Looking ahead, while it will be important to keep an eye on downward pressure on exports from RMB appreciation, exports are forecast to grow at a firm pace and react positively to the recovery in overseas economies and the changes in global demand brought about by the pandemic.
- Real added-value industrial production has recovered and now exceeds pre-COVID-19 levels as a total. Nevertheless, the pace of recovery varies between industries. Production of "automobiles" is robust owing to a recovery in demand, and demand for "electric machinery and equipment" is rising due to more people working from home. This has translated into high levels of growth in production. On the other hand, production of "garments and apparel" is weak. Looking ahead, it seems production will remain firm, particularly that of "electric machinery and equipment", but growth is likely to slow during the latter half of this year as a reaction to the high levels of growth recorded the previous year and decrease in demand after strong growth.

Breakdown of China's Exports by Item



China's Real Added-Value Industrial Production



Note: 1. In order to smooth the irregularities caused by the lunar new year, figures for January and February are an average of the two months
2. The numbers in brackets in the chart denote the weight of each item as a percentage of the 2019 total
Source: General Administration of Customs, MUFG Bank Economic Research Office

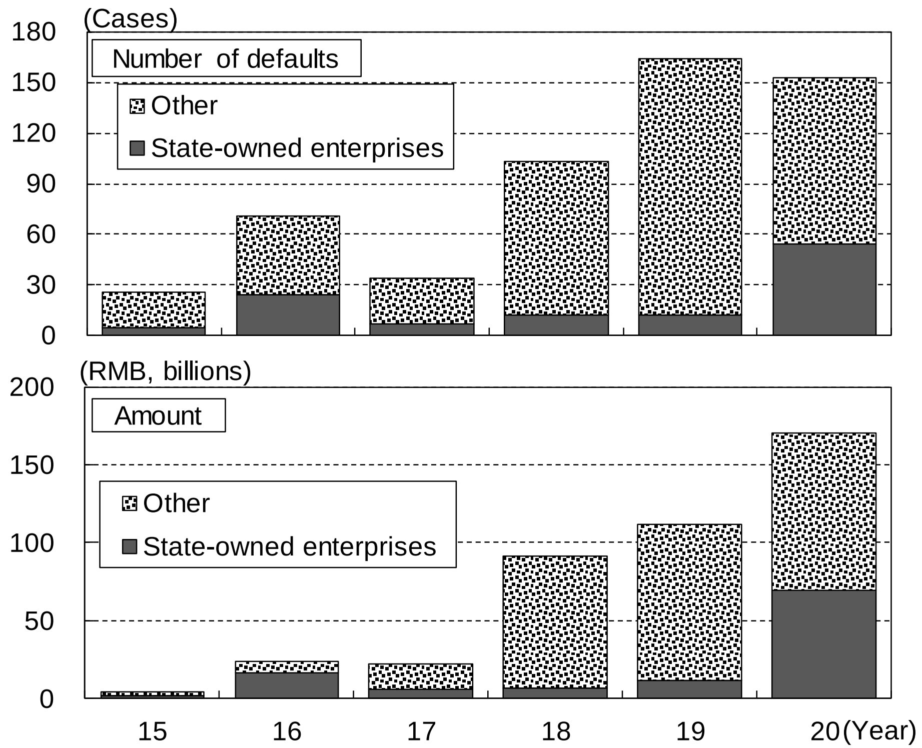
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: China – Debt

- The Chinese economy continues to recover on the whole, yet the frequent occurrence of corporate bond defaults that started in 2018 continues. Last year, the number of corporate bond defaults greatly exceeded those in 2019, especially defaults amongst state-owned enterprises (SOEs), which rose sharply (including large SOEs). The Chinese government has emphasised that a crisis in the financial system will not happen. This tolerance for defaults by SOEs could be interpreted as a demonstration of the government's will to deleverage (reduce corporate debt) or to carry out structural reforms. However, there is an undeniable possibility this will put downward pressure on investment as the sharp rise in defaults by SOEs will dampen investors' appetite for investing in bonds, which will make it difficult for companies to raise funds.

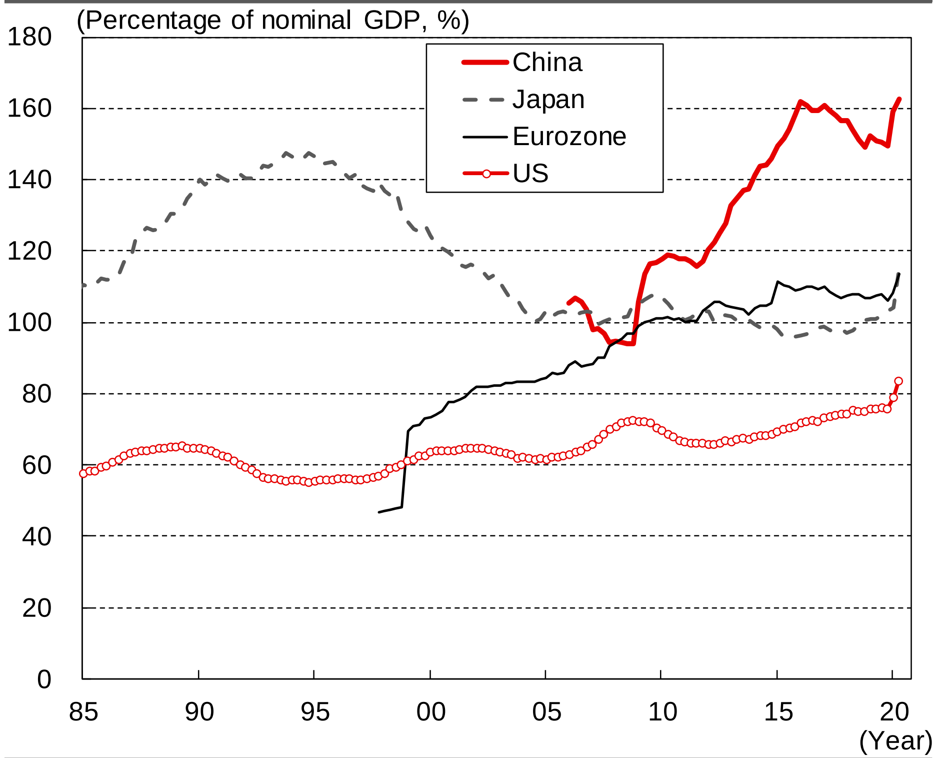
- Furthermore, analysis of non-financial corporations' corporate debt (compared with nominal GDP) in major economies shows an accumulation of debt by China due to its large-scale economic policies after the global financial crisis. Since 2015, the Chinese government had been deleveraging (reducing) its excessive debt, but debt has risen to record levels again due to the COVID-19 pandemic, and it will be necessary to keep an eye on this trend in future.

No. and Value of Defaults on Corporate Bonds by Chinese Companies



Source: WIND, MUFG Bank Economic Research Office

Amount of Corporate Debt in Major Countries and Regions



Source: BIS, MUFG Bank Economic Research Office

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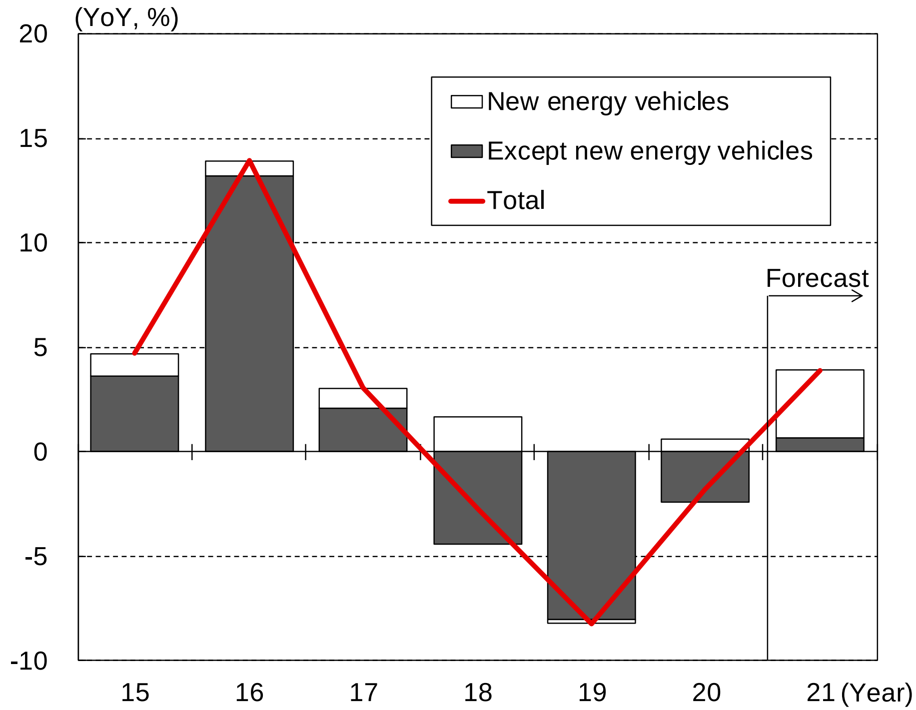
4-6. Asian and the Australian Economies: China – Policies

- The Chinese government continues to try and find a balance between controlling the spread of COVID-19 and economic activities, while also dealing with difficult issues such as its escalating conflict with the US. It is pushing forwards with several policies to maintain growth in the medium and long term. At the Central Economic Work Conference held last December, the government announced its basic plan for economic policies in 2021. The government sets out to “maintain the continuity, stability and sustainability” of its macro economic policies. While it will continue to carry out necessary economic policies, it will also stick to its former plans, such as not causing excessive debt.
- The government set forth eight “key missions”, such as “strengthen competitiveness in national strategic science and technologies” and “push forwards with carbon neutrality”. When it comes to the topic of carbon neutrality, the development of electric vehicles is gaining a lot of attention and in October last year, the Society of Automotive Engineers of China published its “Energy-Saving and New Energy Vehicle Technology Roadmap 2.0” under the guidance of the Ministry of Industry and Information Technology. Using the mid-to-long-term target for the ratio of new energy vehicles (sales of new energy vehicles as a percentage of total vehicle sales) to calculate the ratio for this year and then applying this to the estimate for the total number of automobile sales for the same year published by the China Association of Automobile Manufacturers reveals the growth of new energy vehicles will drive the overall growth of sales.

Key Missions for 2021 from the Central Economic Work Conference
1. Strengthen competitiveness in national strategic science and technologies
・Resolve issues to allow the state to fully employ its role in innovation
2. Strengthen independent control of industrial supply chains
・Lay the foundations of a framework for new developments in secure and stable industrial supply chains
3. Maintain the strategic expansion of domestic demand
・Promote labour, complete a social security system, optimise the structure of income redistribution, expand the middle class
4. Promote a comprehensive reform and opening
・Implement a three-year plan to reform state-owned enterprises, optimise the environment for developing private businesses
5. Resolve issues with seeding and cultivating land
・Include food security as part of national security, i.e. nationalise seed resources and maintain the size of arable land
6. Prevent monopolies and disorderly expansions of capital
・Complete standards for certifying digital platform monopolies
7. Resolve housing issues in cities
・Uphold the policy that "homes are to be used for occupation and not speculation"
8. Push forwards with carbon neutrality
・Drive for peak consumption of carbon as soon as possible and focus on development of new energies

Source: Various news reports, MUFG Bank Economic Research Office

Number of Vehicle Sales in China



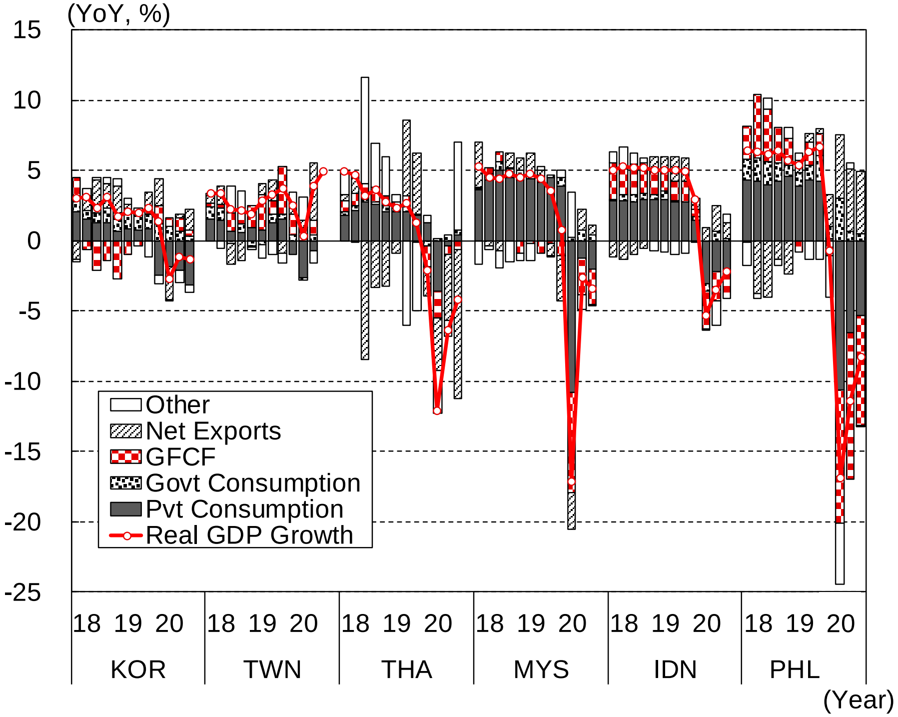
Note: Forecast based on China Association of Automobile Manufacturer’s estimates and the Energy-Saving and New Energy Vehicle Technology Roadmap 2.0 (assuming ratio increases from 2021 to 2025)

Source: China Association of Automobile Manufacturers, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: Other Asian Economies – Overview, Private Consumption and Exports

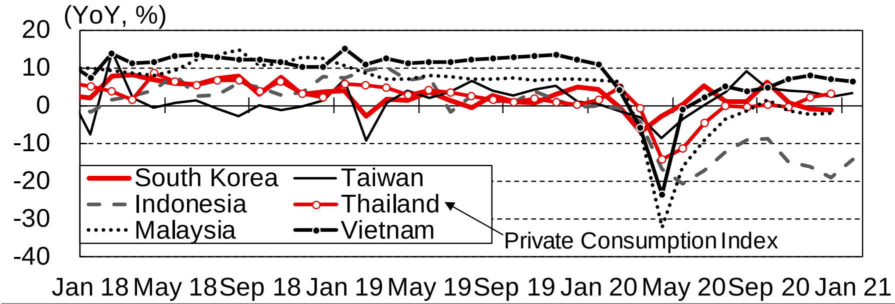
- The real GDP growth of ASEAN (5 countries) and NIEs for the October-December quarter was -2.2% YoY and -0.0% YoY respectively – both showing improvements for the second consecutive quarter. However, the figures for 2020 as a whole were negative: -3.5% YoY for ASEAN and -1.0% YoY for NIEs. The former was the lowest since the Asian financial crisis.
- Looking at retail sales, which is an indicator of domestic consumption activities, there has been a continued recovery for the most part since April last year when sales hit their lowest point. However, the pace of recovery differs between economies and Indonesia, which has struggled to contain COVID-19 infections, stands out as particularly slow to pick up. In the future, domestic consumption will continue to pick up as restrictions on movement are eased, yet the route to recovery is not likely to be straight and will depend on the spread of COVID-19.
- Export data of major Asian economies by destination reveals robust growth of exports to China, which is recovering with remarkable speed, and growth of exports to other countries, including major developed countries, has turned positive. While it is possible that exports may take a downturn if there is another wave of infection in export destinations, they are expected to continue to grow gradually on the whole, supported by robust exports to China.
- The real GDP growth rate in 2021 is forecast to be 5.1 YoY in ASEAN (5 countries) and 3.5% YoY in NIEs.

Real GDP of Major Asian Economies



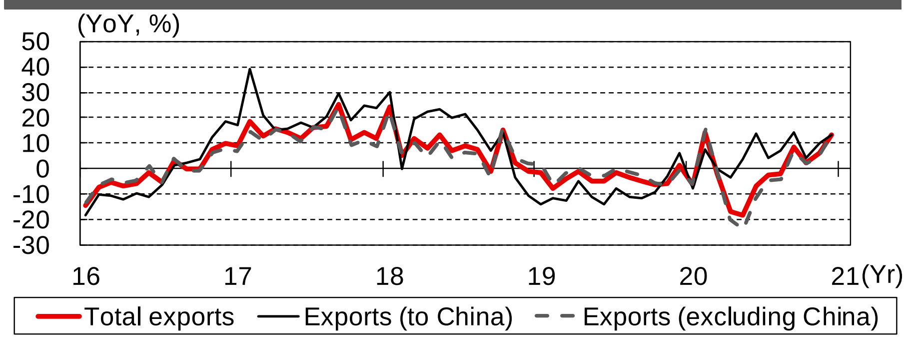
Source: National statistics of each country/region, MUFG Economic Research Office

Retail Sales of Major Countries/Regions in Asia



Source: National statistics of each country/region, MUFG Bank Economic Research Office

Exports of Major Economies in Asia

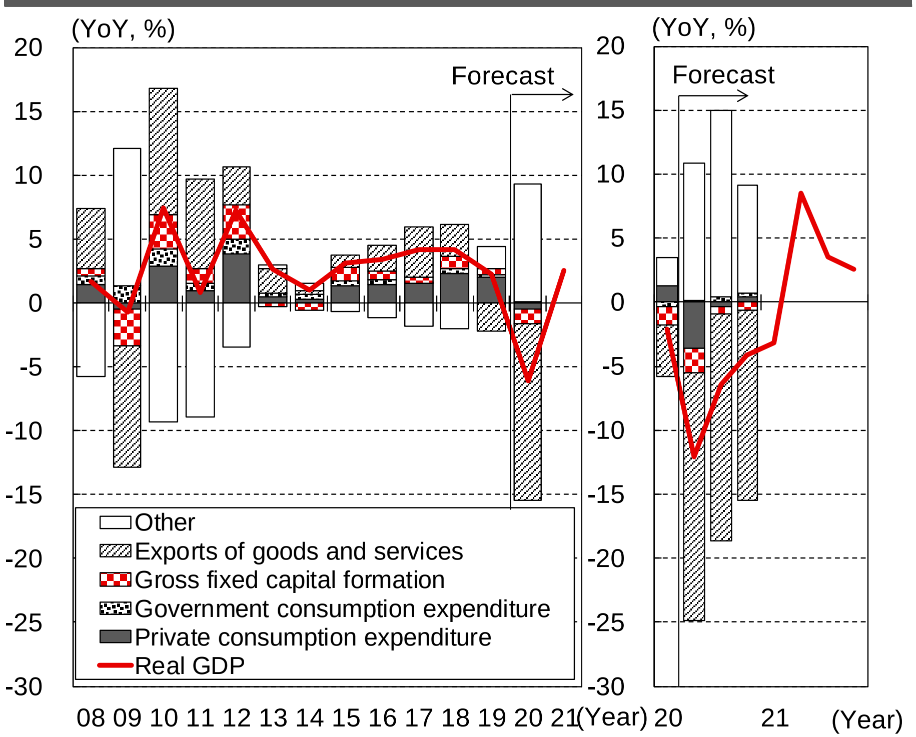


Note: Major Asian economies is a total of South Korea, Taiwan, Thailand, Malaysia and Vietnam
Source: National statistics of each country/region, MUFG Bank Economic Research Office

4-6. Asian and the Australian Economies: Other Asian Economies – Thailand

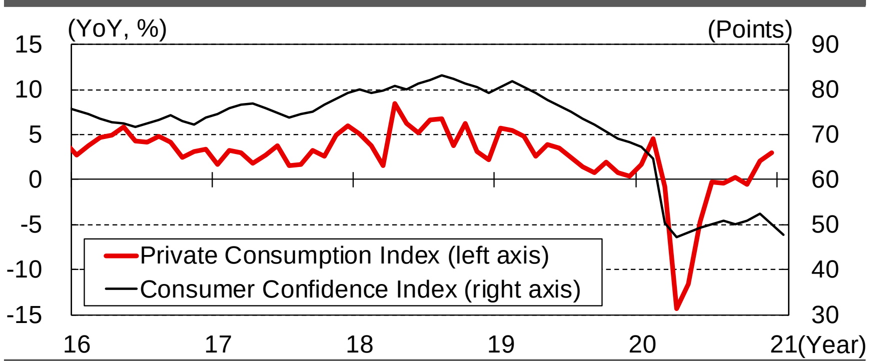
- Thailand's real GDP growth rate for the October-December quarter last year was -4.2% YoY, declining for the fourth consecutive quarter. As a result, growth for 2020 as a whole was -6.1% YoY. Tourism – Thailand's major sector – was hit badly by the COVID-19 pandemic, and the large slump in service exports throughout the year (-60.6% YoY) was the main reason for the contraction of economic growth.
- Thailand was relatively successful in curbing the spread of infection owing to its restrictions on foreigners entering the country amongst other policies, and domestic consumption is on an upward trend with private consumption expenditure recording growth of 2.9% YoY in December last year. In addition, exports of goods are clearly picking up as growth turns positive: 4.6% YoY. On the other hand, the number of foreign visitors to Thailand has remained at roughly zero since April last year and service exports face tough conditions.
- Looking ahead, the economy is expected to start to recover slowly centring on domestic demand, assuming the level of COVID-19 cases remains at low levels on the whole. However, it will take some time before a recovery in the tourism industry can be expected, and the real GDP growth rate for 2021 is 2.6% YoY – not yet recovering to the level of real GDP recorded in 2019. In addition, it will be important to keep an eye on the impact of the coup d'état that took place in the neighbouring country of Myanmar, as well as a resurgence in anti-government protests after restrictions on movement are lifted.

Thailand's Real GDP



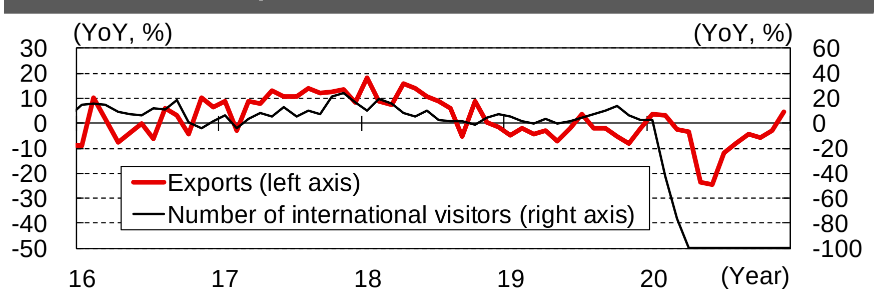
Source: Thailand Office of the National Economic and Social Development Board, MUFG Bank Economic Research Office

Thailand's Private Consumption and Consumer Confidence Index



Source: Bank of Thailand, MUFG Bank Economic Research Office

Thailand's Exports and Number of International Visitors



Source: Ministry of Commerce of Thailand, Ministry of Tourism and Sport, MUFG Bank Economic Research Office

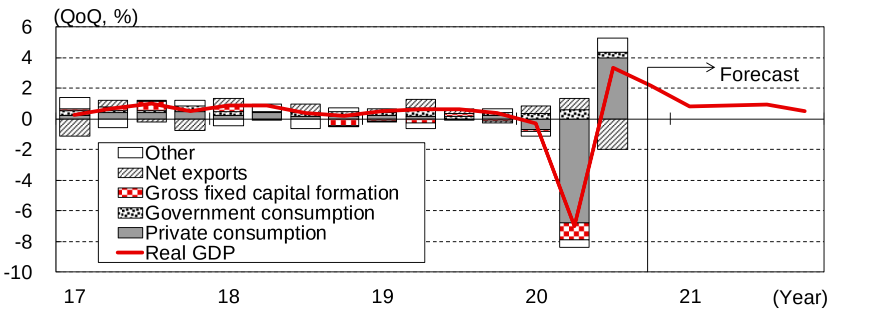
4-6. Asian and the Australian Economies: Other Asian Economies – Australia

- Australia is forecast to record a positive result for its real GDP growth rate for the October-December last year in light of the strength of its monthly indicators. As a result, real GDP for 2020 is expected to end up around -2.8% YoY (GDP result scheduled to be announced on 4th March).
- Since the latter half of last year, Australia has been re-starting its economic activities step by step as the increase in number of COVID-19 cases falls, and it is likely its economy will continue to recover in the future. The economy will be underpinned by the government's economic support package* and the Reserve Bank of Australia's monetary policy measures**.

  * For example, up until July 2020, the JobKeeper policy amounted to 7.5% of GDP. The large-scale tax relief and support payments for individuals included in the budget for FY2021 (up until June 2021) announced in October is equal to 5.0% of GDP.
  ** The Reserve Bank of Australia lowered its policy rate to 0.10% in November last year and has maintained it at that level since then. In February, it decided to extend its quantitative easing (AUD 5 billion in government and state bond purchases, totalling AUD 100 billion purchases) at the same pace beyond mid-April 2020, when it was due to end.

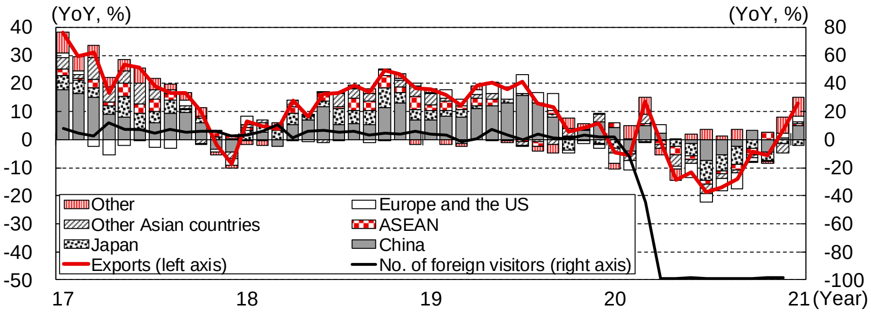
- The real GDP growth rate for 2021 is expected to recover to 2019's levels and hit 3.6% YoY. Given that Australia is in the Southern Hemisphere, there are concerns that there will be another wave of infection around mid-2021 as there was in developed countries in the Northern Hemisphere last year from around the start of autumn into winter.

Australia's Real GDP



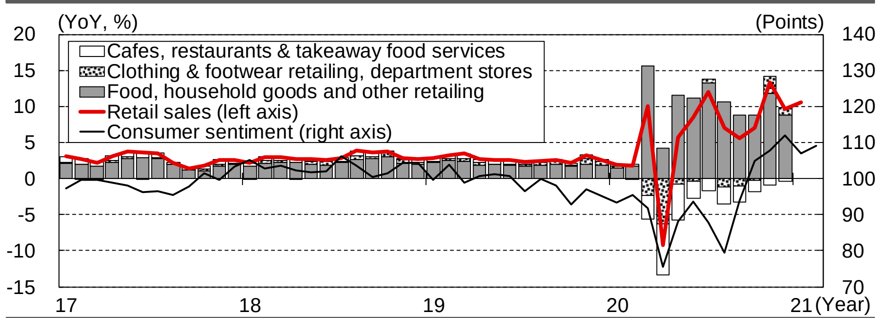
Source: Australian Bureau of Statistics, ANZ, MUFG Bank Economic Research Office

Australia's Exports and Number of Foreign Visitors



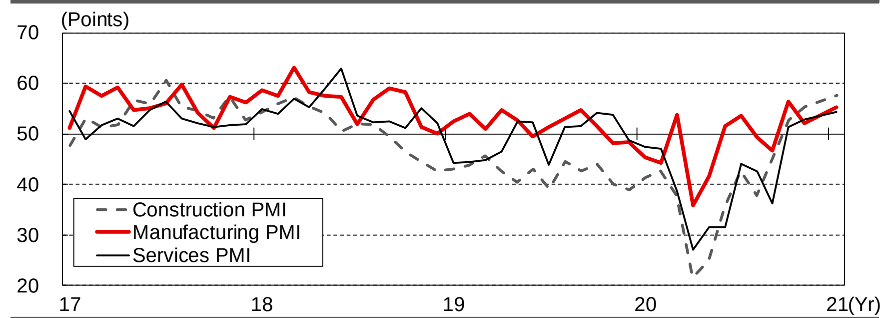
Source: Australian Bureau of Statistics, MUFG Bank Economic Research Office

Australia's No. of Employees, Retail Sales & Consumer Sentiment



Source: Australian Bureau of Statistics, Westpac, MUFG Bank Economic Research Office

Australia's PMI

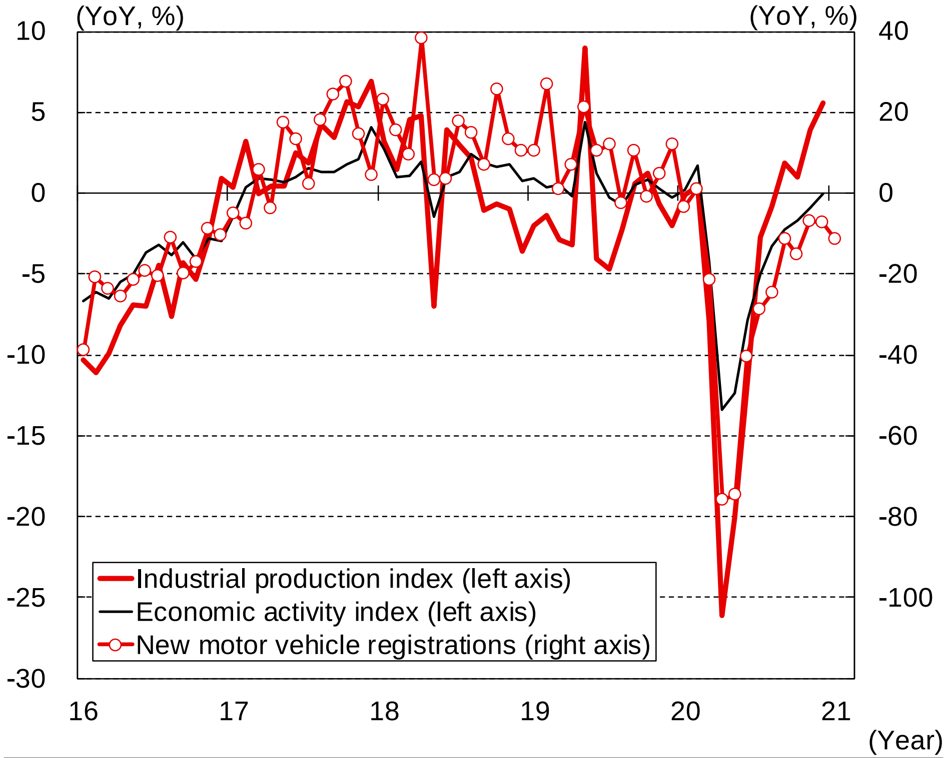


Source: The Australian Industry Group, MUFG Bank Economic Research Office

4-7. Central and South American Economies: Brazil

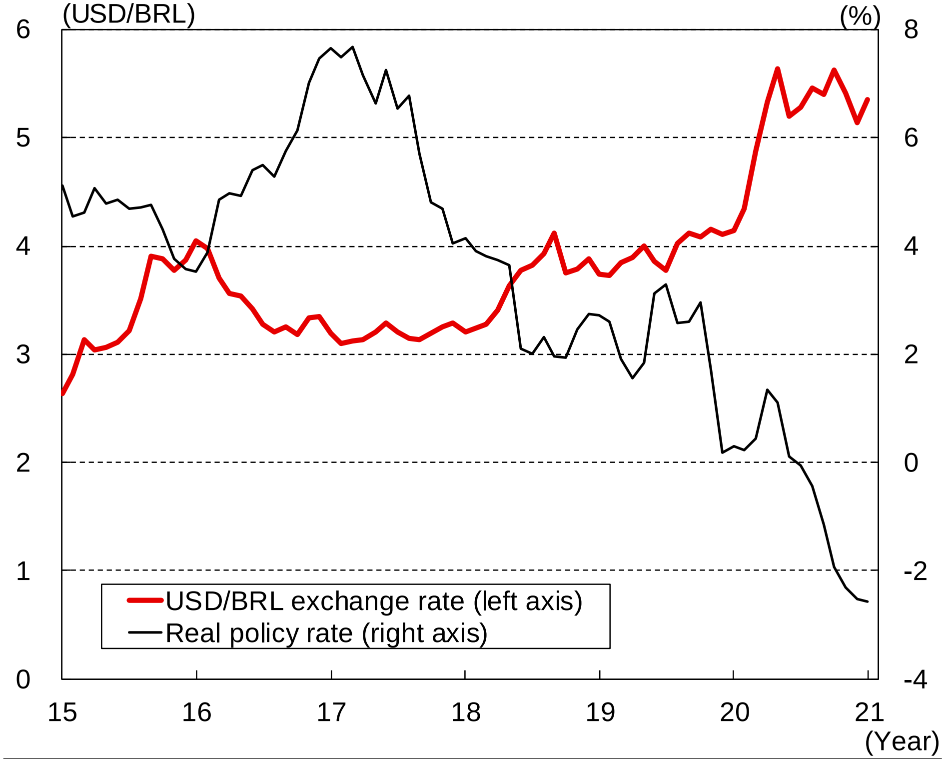
- In the July-September 2020 quarter, the decline in Brazil's real GDP narrowed from the prior quarter to 3.9% YoY, helped by the gradual easing of restrictions on movement that occurred between mid and late May and the economic relief measures totalling BRL 1.1 trillion, which is equivalent to around 18% of nominal GDP. The decline in real GDP is likely to narrow further in the October-December 2020 quarter as economic indicators suggest the economy will maintain its recovery. All in all, annual real GDP is estimated to have declined 4.5% YoY in 2020 (statistics released on 3rd March).
- COVID-19 cases started to rise again around November (third wave) and there are fears about the emergence of mutant strains of the virus. As a result, some states have tightened restrictions on movement again and uncertainty about the future of the economy is rising.
- Policies are unlikely to underpin the economy in 2021 as the government has limited fiscal manoeuvrability, the hurdle for passing an additional economic relief package is high and the scope for additional easing is limited due to BRL depreciation. Therefore, Brazil's annual real GDP is projected to grow only moderately, by 2.5% YoY.

Brazil Industrial Production Index and Economic Activity Index



Source: Brazilian Institute of Geography and Statistics, Central Bank of Brazil, National Association of Vehicle Manufacturers, Institute for International Monetary Affairs

Brazil Real Policy Rate and USD/BRL Exchange Rate

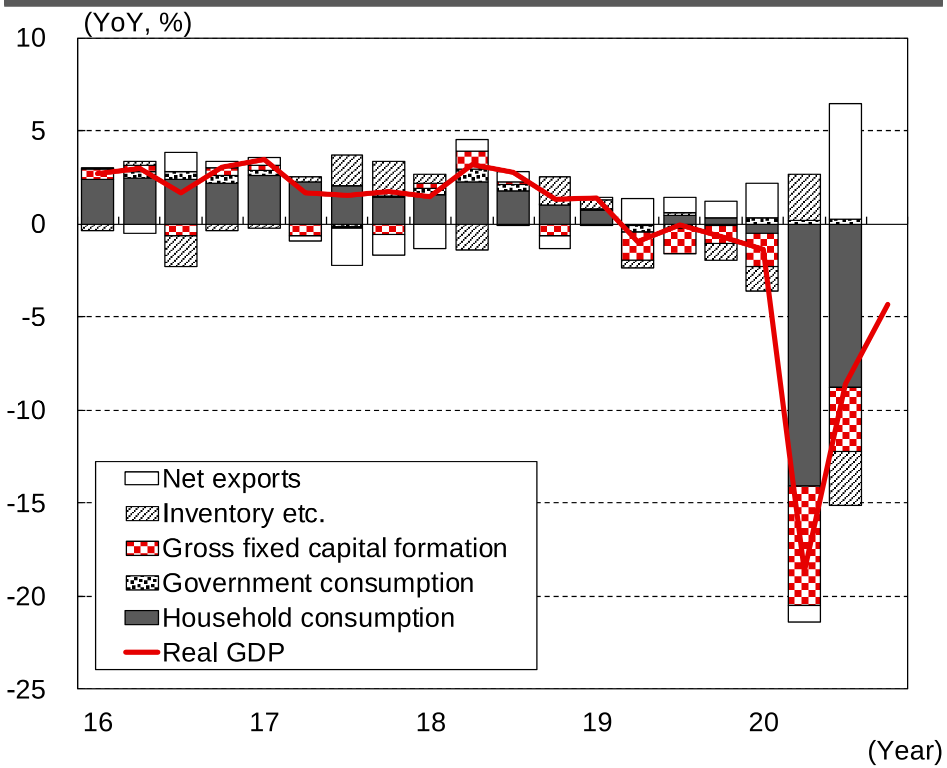


Source: Central Bank of Brazil, Institute for International Monetary Affairs

4-7. Central and South American Economies: Mexico

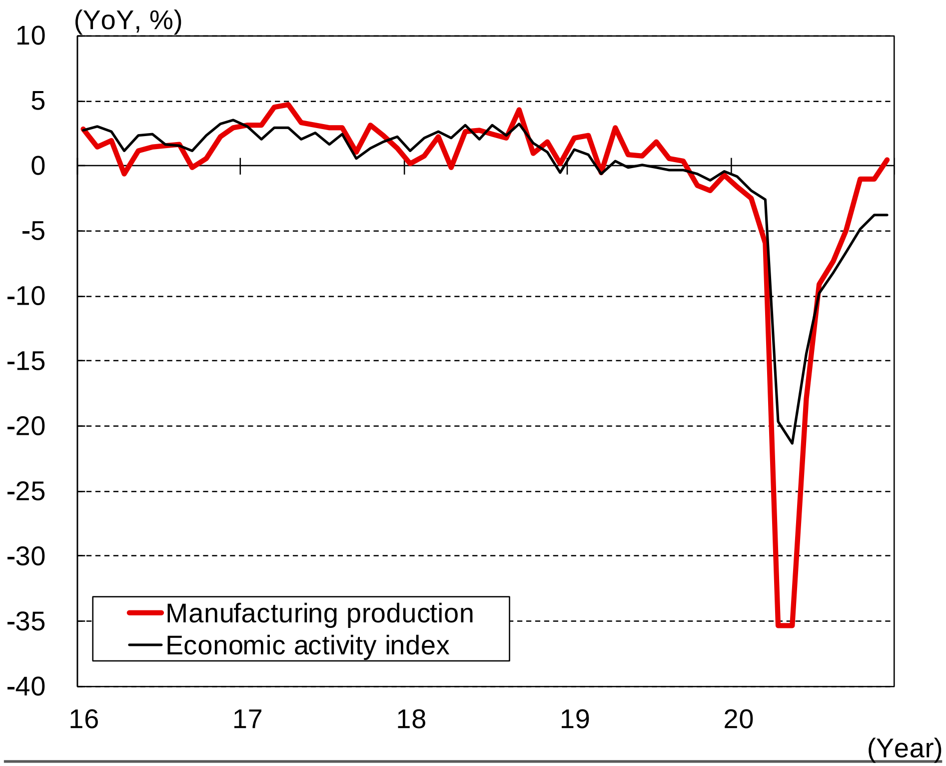
- Economic activity started to gradually pick up from mid-May 2020, but the pace of recovery has been moderate due to the limited scale of economic relief measures (equivalent to 0.7% of nominal GDP). In the October-December 2020 quarter, real GDP declined for a fifth consecutive quarter, by 4.3% YoY.
- Data on manufacturing production and the economic activity index suggest that economic recovery continued through December 2020. However, the pace of economic recovery may have slowed lately because of a resurgence of cases this year that prompted a tightening of public health measures, such as restrictions on restaurants and other service operations.
- In 2021, economic recovery in the US – Mexico's biggest trade partner – is likely to support Mexico's economic recovery. Nevertheless, with limited capacity for fiscal measures and a weak Mexican peso (MXN), this leaves little room for monetary easing. Mexico's annual real GDP is projected to increase only moderately, by 4.0% YoY.

Mexico Real GDP



Source: National Institute of Statistics and Geography, Institute for International Monetary Affairs

Mexico Manufacturing Production and Economic Activity Index

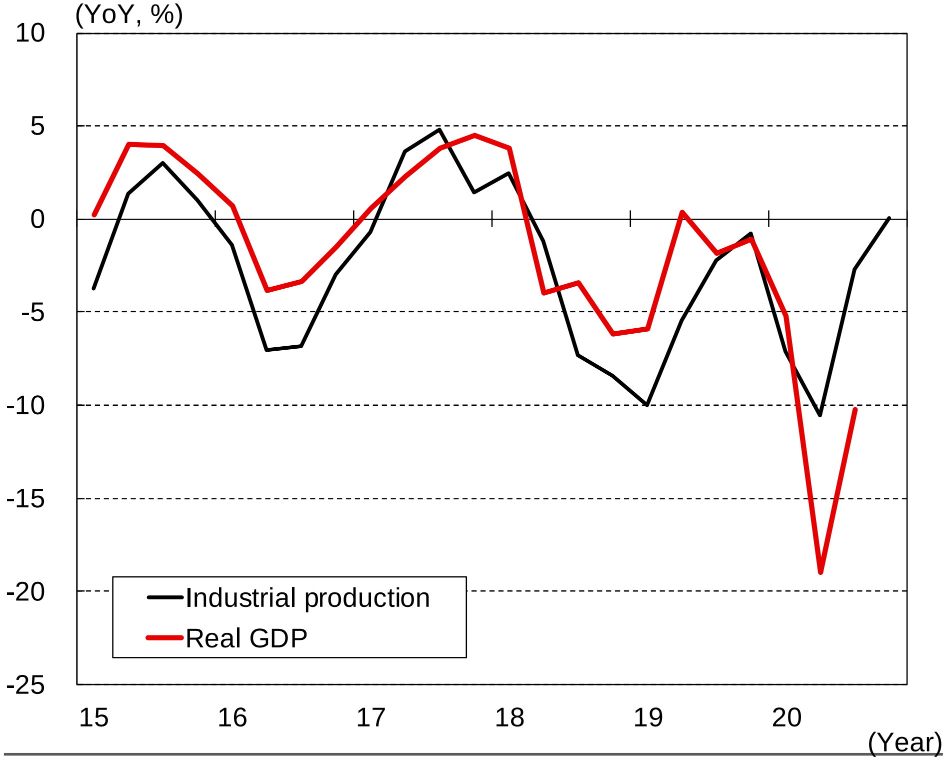


Source: National Institute of Statistics and Geography, Institute for International Monetary Affairs

4-7. Central and South American Economies: Argentina

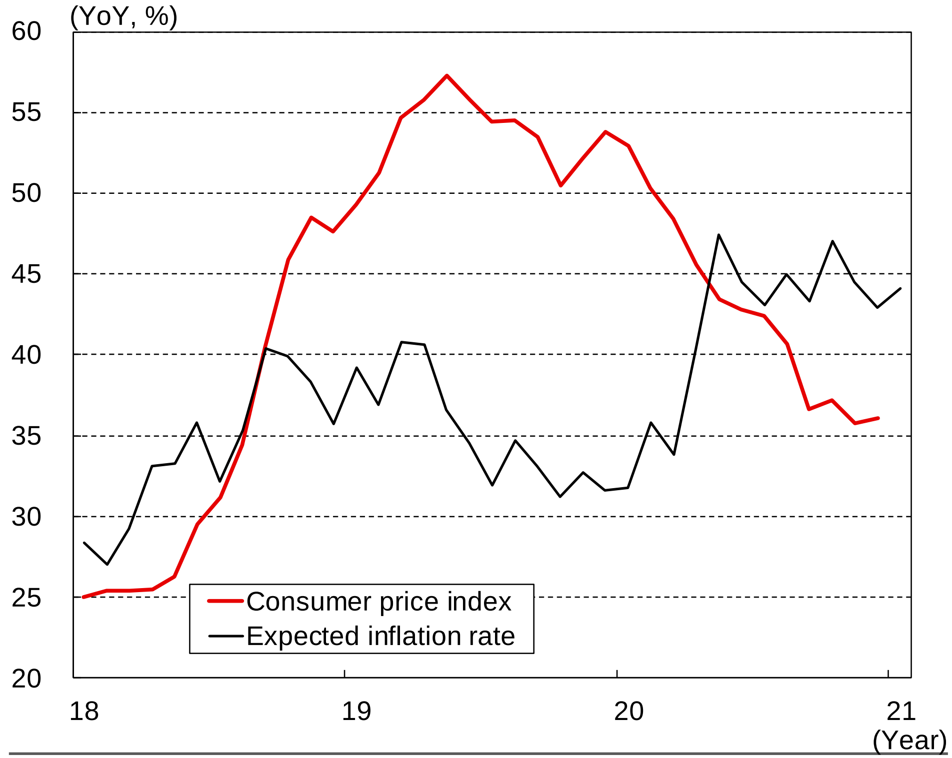
- Argentina's economy had been in a serious situation even before the COVID-19 pandemic, with real GDP contractions and high inflation persisting since 2018. Real GDP declined 5.4% YoY in the January-March 2020 quarter, before the pandemic hit hard. With the pandemic weighing down the economy, real GDP declined by double-digits in the April-June and July-September quarters, by 19.1% YoY and 10.2%, respectively.
- Industrial production improved in the October-December 2020 quarter, so it is probable that real GDP decline narrowed in that quarter. For the full year 2020, real GDP is estimated to have declined by 10% YoY.
- Exports are still sluggish and the country is still mired in its debt problems, with inflation rates in the high 30s. The economy will probably remain in a state of stagflation as the government has limited fiscal manoeuvrability and little scope for monetary easing.
- In 2021, Argentina's annual real GDP is likely to rebound from its significant decline in 2020, yet in light of the difficult conditions facing its neighbour, Brazil, which has strong economic ties with Argentina, the increase in real GDP is projected to be moderate at 3.5% YoY.

Argentine Real GDP Growth Rate and Industrial Production



Source: National Institute of Statistics and Censuses, Institute for International Monetary Affairs

Argentine Consumer Price Index and Expected Inflation Rate

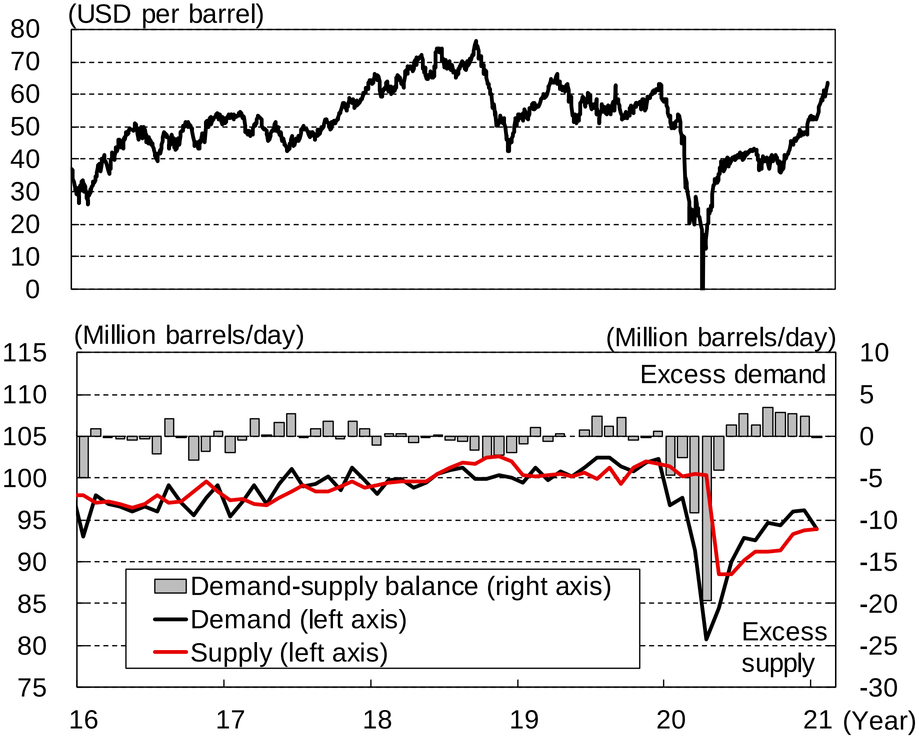


Source: National Institute of Statistics and Censuses, Institute for International Monetary Affairs

4-8. Oil Prices: Overview

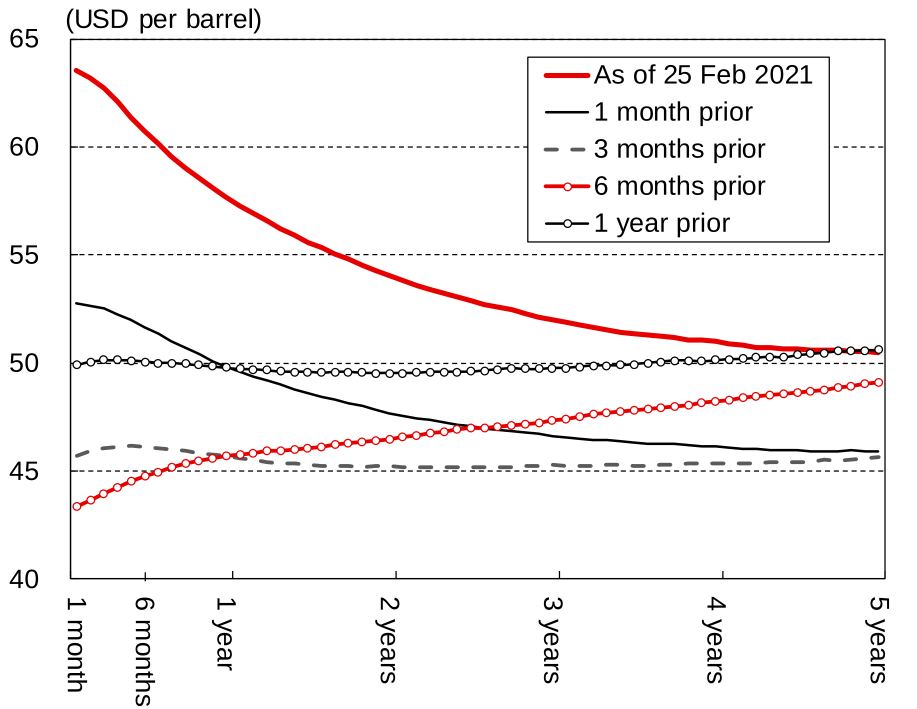
- Oil prices (WTI front month, USD per barrel) finished 2020 at around USD48 on the back of a rise in expectations of a recovery in demand for oil as Europe and the US started to roll out COVID-19 vaccinations in December last year. On the 5th January, Saudi Arabia announced it will voluntarily carry out additional production cuts of 1 million barrels per day in February and March. This, or the expectations associated with the Biden administration's additional COVID-19 stimulus package in the US, appear to have led to an improvement in the demand-supply balance. As a result, oil prices continued to rise and ended January at just above USD 50. At a Ministerial Meeting on 3rd February, OPEC+ decided to maintain their current production cuts into March and in mid-March, a winter storm in the US led to closures at oil refineries and increased demand for heating, which caused oil prices to rise to their current level of around USD 63.
- The global balance of oil demand and supply continued to tip in favour of excess demand for the seventh consecutive month until the end of December 2020. In January, the balance shifted to excess supply with global demand at 93.89 million barrels per day and supply at 93.95 barrels per day. That being said, it is important to bear in mind that the balance of oil supply and demand can tip into excess supply more easily in a typical January. It appears that the trend of excess demand will continue.
- The oil futures curve (WTI 1 month ~ 5 years) shows 5-year futures are just above USD 50 compared with the USD 63 for the front month. This indicates an increase in those that anticipate a fall in prices.

Oil Prices and the Current Balance of Global Supply and Demand



Note: Demand-supply balance is demand less supply
Source: US Energy Information Administration, Bloomberg, MUFG Bank Economic Research Office

Oil Futures Curve (WTI)

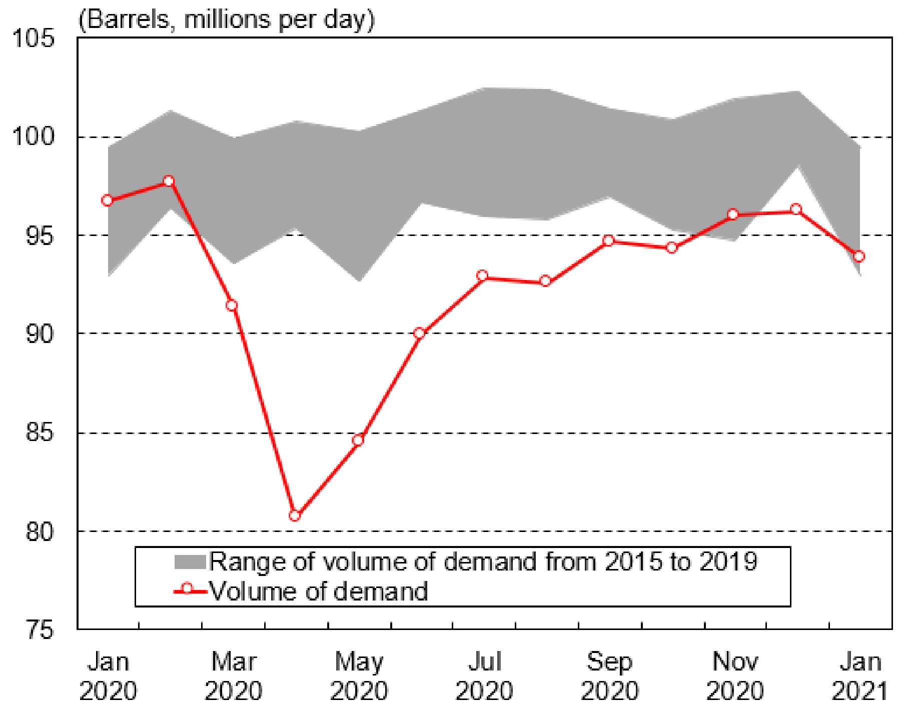


Source: Bloomberg, MUFG Bank Economic Research Office

4-8. Oil Prices: Demand

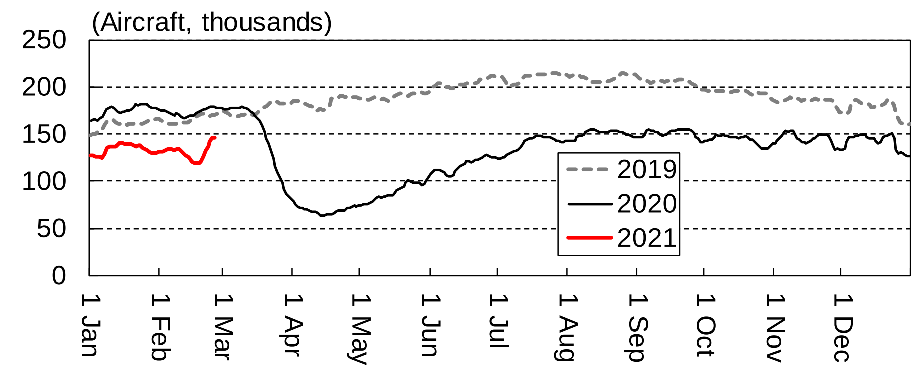
- Demand for oil plummeted for a short while due to loss of demand for transportation (such as gasoline and jet fuel) caused by restrictions on movement in response to the COVID-19 pandemic. However, it has been on an upward trend since bottoming out in April last year. Nevertheless, some demand has not yet fully recovered, such as that related to flights, and the level of demand in January remained at the lower limit of the range recorded from 2015 to 2019.
- Demand related to flights is one of the sources of demand that holds the key to increasing the pace of recovery in overall demand for oil. Looking at the number of private sector flights (considered a proxy variable for demand related to flights), the number of flights has been recovering since May last year. In December, the number of flights had returned to a level around 20% lower than the same period in 2019. However, it appears the recovery has flattened and is around 20% lower than 2019 levels from January onwards.
- It is assumed demand for oil will continue to pick up as the global economy recovers, yet the pace will remain gradual while transport demand continues to plateau owing to the pandemic.

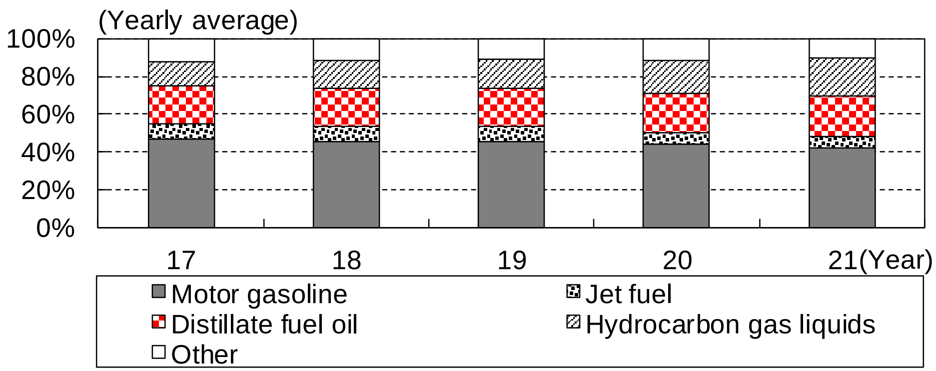
Oil Demand



Source: US Energy Information Administration (EIA), MUFG Bank Economic Research Office

No. of Private Sector Flights Globally & Share of US Oil Demand by Use



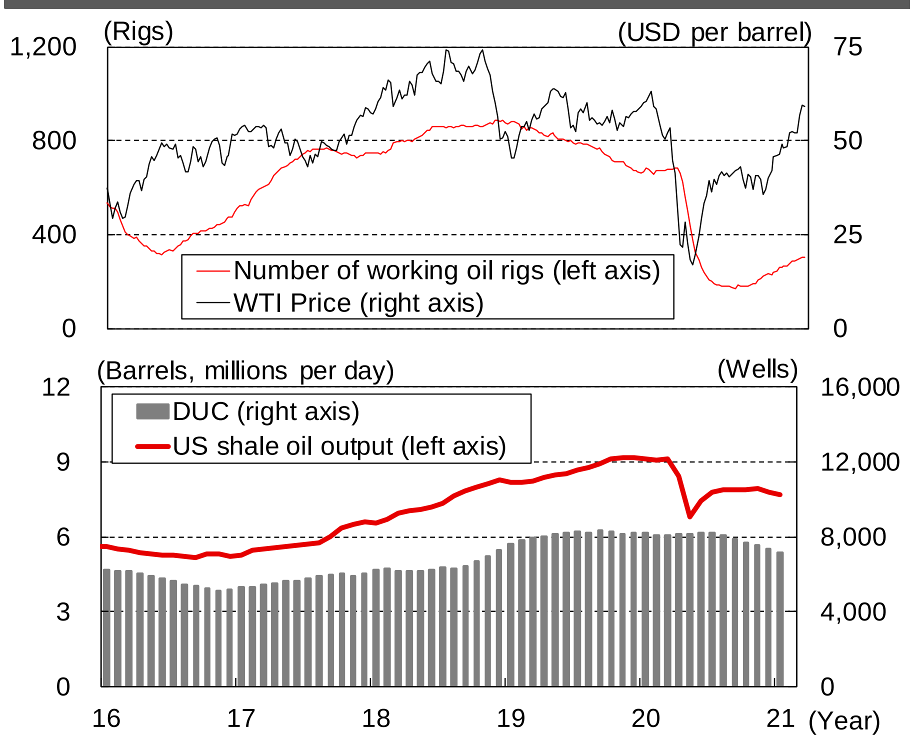


Note: 1. Number of flights is average aircraft over 7 days
2. Data for volume of US oil demand by use in 2021 uses January's result
Source: Flightradar24.com, EIA, MUFG Bank Economic Research Office

4-8. Oil Prices: Supply

- The volume of US shale oil production declined significantly owing to the sharp drop in oil demand and prices sparked by the COVID-19 pandemic. However, global demand started to improve as countries and regions eased their restrictions on movement, and US shale-oil production slowly picked up. Generally speaking, US shale oil companies need an oil price of around USD 50 in order to profitably drill new wells. However, before oil prices recovered to USD 50, the number of working US oil rigs began to rise from October last year in anticipation of the recovery in demand and prices that occurred at the end of the year. The number of DUCs (wells that have been drilled but not completed with hydraulic fracturing or other procedures) is also decreasing at present which suggests shale oil production will increase in the future as wells are completed.
- On 3rd February, OPEC+ announced it will maintain its current oil production cuts in March. The compliance rate with cuts in January was high: 103%. Taking this into account, it is fairly likely that members will continue to reduce production in line with planned targets for the most part. However, given that oil prices have recovered to around USD 63, it is assumed Saudi Arabia will end its voluntary oil production cuts or OPEC+ will reduce the scale of its current production cuts from April. At present, it appears Iran is increasing its oil output but it is difficult to ascertain the likelihood of the US easing its sanctions against Iran in light of the bipartisan hard-line stance taken against Iran by Congress.

No. of Working US Oil Rigs, Oil Prices, Shale Oil Output and DUC



Note: 1. "Volume of US shale oil production" is a total of output from Permian, Eagle Ford, Bakken, Niobrara, Appalachia, Anadarko and Haynes Hill oil fields
2. Oil prices are mean price for the month
Source: US Energy Information Administration, MUFG Bank Economic Research Office

Target and Actual Oil Output for by OPEC+ Members

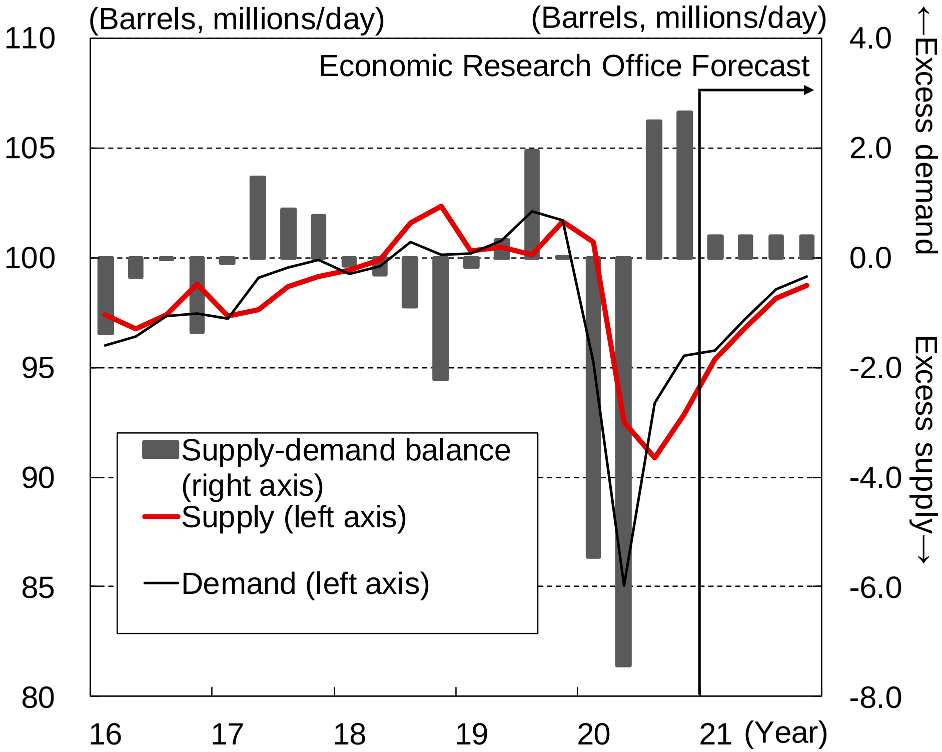
		Baseline	Target output in Jan 2021 (million bpd)	Actual output in Jan 2021 (million bpd)	Compliance Rate (%)
	Saudi Arabia	11.00	9.12	9.10	101
	Iraq	4.65	3.86	3.84	103
	UAE	3.17	2.59	2.57	103
	Other	7.86	6.55	6.23	124
OPEC10		26.68	22.12	21.74	108
	Russia	11.00	9.12	9.22	95
	Kazakhstan	1.71	1.42	1.42	100
	Other	2.71	2.24	2.30	87
Non-OPEC		15.42	12.78	12.94	94
Total		42.10	34.90	34.68	103

Note: Mexico participated in cooperative cuts in only May and June 2020 and is excluded
Source: International Energy Agency, MUFG Bank Economic Research Office

4-8. Oil Prices: Outlook

- Demand for oil is predicted to continue to increase as the global economy recovers, but since demand related to transport has not yet fully returned, the pace of recovery in demand for oil is expected to be gradual. Supply is also expected to increase relative to the recovery in demand, and the amount of excess demand in 2021 will be less than it was during the latter half of 2020.
- The price of oil has been rising at a relatively quick pace since January 2021 and is now trading at around USD 63. The average price for the January-March quarter is forecast at USD 58 and there are some that feel the sudden rise in prices that started at the beginning of this year is somewhat of an overshoot given that the impact on supply and demand from the cold weather that hit the US will be short lived, and that supply is expected to increase due to Saudi Arabia ending its voluntary production cuts, OPEC+ reducing the scale of their production cuts or a rise in US shale oil output. Oil prices are expected to rise and fall in response to various events but are forecast to end the year at around USD 55.

Outlook for Balance of Oil Demand and Supply



Source: US Energy Information Agency, MUFG Bank Economic Research Office

Oil Price Forecast

	WTI future (USD/barrel)	YoY (%)	Brent future (USD/barrel)	YoY (%)
2019 Q1	54.9	-12.7%	63.8	-5.1%
Q2	59.9	-11.8%	68.5	-8.7%
Q3	56.4	-18.7%	62.0	-18.2%
Q4	56.9	-4.2%	62.4	-9.0%
2020 Q1	45.8	-16.6%	50.8	-20.4%
Q2	28.0	-53.3%	33.4	-51.2%
Q3	40.9	-27.5%	43.3	-30.2%
Q4	42.7	-24.9%	45.3	-27.5%
2021 Q1	58.0	26.7%	61.0	20.0%
Q2	57.0	103.6%	60.0	79.7%
Q3	56.0	36.9%	59.0	36.1%
Q4	55.0	28.8%	58.0	28.1%
2019	57.0	-12.1%	64.2	-10.5%
2020	39.3	-31.0%	43.2	-32.7%
2021	56.5	43.6%	59.5	37.7%

Forecast

Note: Prices shown are average for period
Source: Bloomberg, MUFG Bank Economic Research Office

Appendix: Global Economic Outlook

Forecast for the Global Economy

		World (weighted average of nominal GDP)				Japan (FY)	Americas					Europe					
			Developed countries	Emerging countries	Other		US	Central and South America (6 countries)				Eurozone (19 countries)				UK	Russia
									Brazil	Mexico	Argentina		Germany	France	Italy		
Nominal GDP	USD trillions	142.0	52.9	53.3	35.8	5.5	21.4	8.6	3.2	2.6	1.0	16.8	4.7	3.2	2.7	3.3	4.1
(2019)	Japan = 100	2,605	971	978	657	100	393	157	59	48	19	308	86	59	49	60	76
Real GDP	2019 Actual	2.7	1.6	4.5	1.8	-0.3	2.2	0.8	1.4	-0.1	-2.1	1.3	0.6	1.5	0.3	1.4	1.3
YoY, %	2020 Actual	-3.5	-4.8	-2.4	-3.3	-5.0	-3.5	-7.1	-4.5	-8.2	-10.0	-6.8	-5.0	-8.3	-8.9	-9.9	-5.0
	2021 Forecast	5.3	3.7	6.3	6.1	3.6	4.1	3.5	2.5	4.0	3.5	3.6	3.4	4.9	4.4	4.9	2.5
CPI	2019 Actual	3.5	1.4	4.0	5.8	0.6	1.8	8.6	3.7	3.6	53.5	1.2	1.4	1.3	0.6	1.8	4.5
(YoY, %)	2020 Actual	3.0	0.7	3.2	6.0	-0.5	1.3	2.8	3.2	3.4	42.0	0.3	0.4	0.5	-0.1	0.9	3.2
	2021 Forecast	2.7	1.1	2.4	5.3	-0.1	1.7	2.8	3.5	3.3	50.0	0.9	1.7	0.8	0.7	1.2	3.4

		Asia and Oceania														
		Asia (11 countries and regions)														Australia
			China	India (FY)	NIEs (4 countries and regions)					ASEAN (5 countries)						
						S. Korea	Taiwan	Hong Kong	Singapore		Indonesia	Thailand	Malaysia	Philippines	Vietnam	
Nominal GDP	USD trillions	45.2	23.4	9.5	4.6	2.3	1.3	0.5	0.6	7.6	3.3	1.3	0.9	1.0	1.0	1.3
(2019)	Japan = 100	829	429	175	85	42	23	9	11	140	61	25	17	18	19	25
Real GDP	2019 Actual	5.0	6.1	4.2	1.7	2.0	2.7	-1.2	0.7	4.9	5.0	2.4	4.3	6.0	7.0	1.9
(YoY, %)	2020 Actual	-1.2	2.3	-8.8	-1.0	-1.0	3.0	-6.1	-5.4	-3.5	-2.1	-6.1	-5.6	-9.5	2.9	-2.8
	2021 Forecast	6.8	8.3	8.2	3.5	3.0	3.4	4.0	5.3	5.1	4.8	2.6	6.5	6.2	6.8	3.6
CPI	2019 Actual	2.9	2.9	4.8	0.7	0.4	0.5	2.9	0.6	2.1	2.8	0.7	0.7	2.5	2.8	1.6
(YoY, %)	2020 Actual	2.9	2.5	5.5	0.2	0.5	-0.2	0.3	-0.2	1.4	2.0	-0.8	-1.1	2.6	3.1	0.8
	2021 Forecast	2.1	1.5	4.1	1.1	1.1	1.0	1.6	0.4	1.9	1.8	1.0	1.4	3.0	3.1	1.3

Note: 1. Values for "2020" for some countries and regions are forecasts
2. "Nominal GDP" is based on purchasing power parity
3. For "CPI", Japan is composite figure excluding fresh food, Eurozone and the UK are the EU standardised inflation rate (HICP)
4. Figures for Japan and India based on their financial years (April to following March) except Japan's nominal GDP
5. "World", "developed countries", "emerging countries" calculated using Japan data based on the calendar year, India data based on the fiscal year for nominal GDP only and other countries' data based on the calendar year
6. "Developed countries" is a total of Japan, NIEs (4 countries and regions), Australia, US, Eurozone (19 countries) and the UK. "Emerging countries" is a total of China, India, ASEAN (5 countries), Central and South America (6 countries) and Russia
7. "Central and South America (6 countries)" is a total of Brazil, Mexico, Argentina, Colombia, Chile and Peru

Source: National statistics of each country, MUFG Bank Economic Research Office

Appendix: Outlook for the Japanese Economy and Financial Markets

Outlook for the Japanese Economy

Reflecting Oct-Dec 2020 GDP (the first preliminary estimates)

Forecast →

	2019				2020				2021				FY2019	FY2020	FY2021
	1Q	2Q	3Q	4Q	Q1	2Q	3Q	4Q	Q1	2Q	3Q	4Q			
1. The Real Economy (QoQ annualized change)															
Real GDP	2.3	0.3	0.7	-7.1	-2.2	-29.3	22.7	12.7	-8.7	7.0	2.5	1.9	- 0.3	- 5.0	3.6
Private Consumption	-0.2	1.6	2.1	-11.9	-2.5	-29.5	22.0	8.9	-14.9	15.4	3.4	2.3	-1.0	-6.6	3.9
Housing Investment	11.2	6.5	0.2	-7.3	-14.0	2.0	-21.0	0.2	-3.2	0.8	0.2	-0.2	2.5	-7.6	-1.8
Private Business Fixed Investment	-2.8	0.7	3.6	-16.8	5.7	-21.5	-9.2	19.4	-7.0	3.2	2.4	2.4	-0.6	-6.9	2.0
Business Inventory (Contribution)	0.1	-0.1	-0.8	-0.3	0.5	0.5	-0.7	-1.4	0.7	-0.5	0.0	0.0	-0.1	-0.2	-0.2
Government Expenditures	2.6	1.8	3.6	2.3	-0.7	2.4	10.0	7.3	1.5	1.4	1.3	0.9	2.0	3.8	2.5
Public Investment	9.2	-1.9	6.1	2.5	0.3	9.2	3.6	5.5	1.6	1.5	1.5	1.3	1.5	4.6	2.0
Net Exports (Contribution)	1.7	-1.3	-1.1	2.5	-1.6	-11.0	11.3	4.3	-0.4	-1.3	-0.1	0.1	-0.2	-0.9	0.8
Exports	-6.2	-0.4	-2.2	0.9	-19.7	-52.9	33.2	52.3	-5.9	6.1	4.9	4.1	-2.6	-11.6	9.1
Imports	-14.6	6.8	3.6	-12.1	-11.9	5.1	-29.0	17.3	-3.9	14.3	5.3	3.6	-1.3	-6.8	4.1
Nominal GDP	4.0	1.0	1.3	-4.6	-2.0	-28.2	23.7	10.4	-9.6	-5.2	16.6	1.4	0.5	-4.4	2.3
GDP Deflator (YoY)	0.1	0.4	0.5	1.5	0.9	1.4	1.2	0.2	-0.4	-3.5	-0.6	-0.2	0.8	0.6	-1.2
Industrial Production Index (QoQ)	-2.1	0.0	-1.1	-3.6	0.4	-16.9	8.7	6.4	-1.1	3.2	1.5	1.1	-3.8	-10.1	9.6
Domestic Corporate Goods Price Index (YoY)	0.9	0.6	-0.9	0.2	0.5	-2.3	-0.8	-2.1	-1.0	-0.5	0.0	1.0	0.1	-1.5	0.1
Consumer Price Index (excl. fresh food, YoY)	0.8	0.8	0.5	0.6	0.6	-0.1	-0.2	-0.9	-0.6	-0.5	-0.3	0.4	0.6	-0.5	-0.1
2. Balance of Payments															
Trade Balance (billion yen)	69	-307	78	388	616	-1,645	1,354	2,781	1,787	-1,219	1,656	1,709	666	4,277	2,849
Current Balance (billion yen)	5,042	4,970	4,813	5,419	4,956	1,972	4,020	5,381	4,393	1,392	4,247	4,295	20,141	15,766	13,225
3. Financial															
Uncollateralized overnight call rate	0.0	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Euro-Yen TIBOR (3-month rate)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Newly Issued 10-Year Government Bonds Yield	0.0	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	-0.1	0.0	0.1
Exchange Rate (USD/JPY)	110	110	107	109	109	108	106	104	104	104	103	103	109	106	103

Note: *Uncollateralized overnight call rate* is the average rate during the last month of the period. *Euro-Yen TIBOR (3-month rate)*, *Newly Issued 10-Year Government Bonds Yield* and *Exchange Rate (USD/JPY)* are averages during the period.

Source: Various statistics, Bloomberg, MUFG Bank Economic Research Office

Appendix: Outlook for the US Economy and Financial Markets

Outlook for the US Economy

Forecast →

	2019				2020				2021				2019 (Actual)	2020 (Forecast)	2020 (Forecast)
	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12			
1. Main Economic Indicators															
Real GDP (QoQ annualized, %)	2.9	1.5	2.6	2.4	-5.0	-31.4	33.4	4.1	2.4	6.4	1.2	2.1	2.2	-3.5	4.1
Personal Consumption Expenditures	1.8	3.7	2.7	1.6	-6.9	-33.2	41.0	2.4	1.4	6.9	1.2	2.4	2.4	-3.9	4.1
Fixed Investment (Residential)	-1.7	-2.1	4.6	5.8	19.0	-35.6	63.0	35.8	1.8	1.7	1.7	1.7	-1.7	6.0	10.0
Fixed Investment (Nonresidential)	4.2	0.0	1.9	-0.3	-6.7	-27.2	22.9	14.0	3.5	2.2	2.2	2.2	2.9	-4.0	4.7
Changes in Business Inventories (Contribution)	0.2	-1.0	-0.1	-0.8	-1.3	-3.5	6.6	1.0	0.0	0.0	0.0	0.0	0.0	-0.7	0.7
Government Expenditures	2.5	5.0	2.1	2.4	1.3	2.5	-4.8	-1.2	2.3	4.8	-1.2	0.4	2.3	1.1	0.7
Net Exports (Contribution)	0.6	-0.8	0.0	1.5	1.1	0.6	-3.2	-1.5	0.4	0.4	0.2	0.0	-0.2	0.0	-0.8
Exports	1.8	-4.5	0.8	3.4	-9.5	-64.4	59.6	21.8	13.5	8.8	6.8	5.0	-0.1	-13.0	8.9
Imports	-2.1	1.7	0.5	-7.5	-15.0	-54.1	93.1	29.6	6.2	3.5	3.5	3.5	1.1	-9.3	11.2
Domestic Private End User Demand	2.1	2.9	2.6	1.4	-6.0	-32.3	38.6	5.3	1.8	5.9	1.4	2.4	2.3	-3.5	4.5
Nominal GDP (QoQ annualized, %)	4.0	4.1	4.0	3.9	-3.4	-32.8	38.3	6.1	4.1	7.5	3.2	4.2	4.0	-2.3	5.8
Industrial Production (QoQ annualized, %)	-1.9	-2.3	1.1	0.4	-6.8	-42.6	43.3	10.0	6.8	6.1	5.4	2.4	0.8	-6.6	6.4
Unemployment Rate (%)	3.9	3.7	3.6	3.6	3.8	13.1	8.8	6.8	6.0	5.7	5.5	5.3	3.7	8.1	5.6
Producer Price Index (YoY, %)	1.9	2.0	1.7	1.1	1.1	-1.1	-0.1	0.7	0.8	1.6	1.2	1.5	1.7	0.2	1.3
Consumer Price Index (YoY, %)	1.6	1.8	1.8	2.0	2.1	0.4	1.2	1.2	1.4	2.2	1.6	1.7	1.8	1.2	1.7
2. Balance of Payments															
Trade Balance (hundred million dollars)	-2,161	-2,246	-2,211	-2,025	-1,937	-2,215	-2,475	-2,522	-2,570	-2,617	-2,665	-2,712	-8,643	-8,656	-8,756
Current Account (hundred million dollars)	-1,266	-1,277	-1,216	-1,043	-1,115	-1,614	-1,785	-1,822	-1,859	-1,896	-1,932	-1,969	-4,802	-4,618	-4,668
3. Financial Indicators															
FF Rate Target (%)	2.25-2.50	2.25-2.50	1.75-2.00	1.50-1.75	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	1.50-1.75	0.00-0.25	0.00-0.25
Euro Dollar (3M) (%)	2.7	2.5	2.2	1.9	1.5	0.6	0.3	0.2	0.2	0.2	0.2	0.2	2.3	0.7	0.2
10-year Treasury Note's Yield (%)	2.7	2.3	1.8	1.8	1.4	0.7	0.6	0.9	1.2	1.3	1.3	1.3	2.1	0.9	1.3

Note: FF Rate Targets is end-of-period figures, Euro Dollar (3M) and 10-year Note's Yield are averages for periods.
Source: Compiled by MUFG Bank Economic Research Office from various reports and Bloomberg

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Appendix: Outlook for the European Economies and Financial Markets

Outlook for European Economies

1. Overview

	Real GDP growth rate (YoY, %)			CPI (YoY, %)			Current Account (USD billions)		
	2019 (Actual)	2020 (Actual)	2021 (Forecast)	2019 (Actual)	2020 (Actual)	2021 (Forecast)	2019 (Actual)	2020 (Actual)	2021 (Forecast)
Eurozone	1.3	- 6.8	3.6	1.2	0.3	0.9	307	255	274
Germany	0.6	- 5.0	3.4	1.4	0.4	1.7	274	270	273
France	1.5	- 8.3	4.9	1.3	0.5	0.8	- 18	- 61	- 71
Italy	0.3	- 8.9	4.4	0.6	- 0.1	0.7	60	58	98
UK	1.4	- 9.9	4.9	1.8	0.9	1.2	- 88	- 85	- 112

2. Forecast by Demand Component (YoY, %)

	Eurozone			UK		
	2019 (Actual)	2020 (Forecast)	2021 (Forecast)	2019 (Actual)	2020 (Forecast)	2021 (Forecast)
Nominal GDP	3.0	- 6.4	4.8	3.6	- 4.8	5.4
Real GDP	1.3	- 6.8	3.6	1.4	- 9.9	4.9
Contribution by domestic demand	1.8	- 6.2	3.0	1.5	- 10.6	7.6
Contribution by foreign demand	- 0.5	- 0.6	0.6	- 0.1	0.7	- 2.7
Private consumption	1.4	- 8.3	2.8	1.1	- 11.0	4.6
Government consumption	1.8	0.7	2.2	4.0	- 5.7	9.5
Gross fixed capital formation	5.7	- 8.3	4.9	1.5	- 8.7	7.6
Inventory investment (contribution)	- 0.4	- 0.1	0.0	0.1	- 0.7	0.9
Exports	2.5	- 10.1	8.2	2.7	- 16.7	- 4.6
Imports	3.9	- 9.7	7.6	2.7	- 18.1	4.8

Note: 1. "Eurozone" is total of 19 countries - Germany, France, Italy, Ireland, Estonia, Austria, The Netherlands, Cyprus, Greece, Spain, Slovakia, Slovenia, Finland, Belgium, Portugal, Malta, Luxembourg, Lithuania
2. "CPI" is the standardised inflation rate for the EU (HICP)

Source: Eurostat, UK Office for National Statistics, MUFG Bank Economic Research Office

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