Outlook for the Japanese and Overseas Economies

ECONOMIC RESEARCH OFFICE

9 September 2022 (original Japanese version released on 31st August)

MUFG

Contents

1. Overview of Economic Outlook

- While the global economy has been facing downward pressure in 2022 from prolonged inflation and accelerated monetary tightening, normalisation of economic activity this year – the third year of the pandemic – is supporting economic recoveries in many countries. In 2023, inflation will gradually abate as crude oil and other energy prices decline and supply constraints ease. Therefore, monetary tightening will run its course and growth will likely continue at a moderate pace. We project a global real GDP growth rate of 2.9% YoY for both 2022 and 2023.
- As the conflict in Ukraine drags on, the worsening of supply constraints, energy price rises and tight labour markets have caused inflation to rise at rates that exceed central banks' earlier expectations. This has caused central banks to step up their pace of monetary tightening. Although concerns about a global recession have surfaced, inflationary pressures will gradually fade and monetary policy tightening is predicted to slow in advanced economies. In light of this and the current strength of labour markets, it is likely that the a global recession will be avoided.

Assumptions

- ✓ **Ukraine situation**: Conflict will continue and Western economies will keep in place their harsh sanctions against Russia. The natural gas supply from Russia will remain at reduced levels.
- ✓ **Pandemic**: Western economies and Japan will continue easing restrictions on movement. China will maintain its "zero-COVID-19" policy but it will reduce the extent of its city lockdowns.

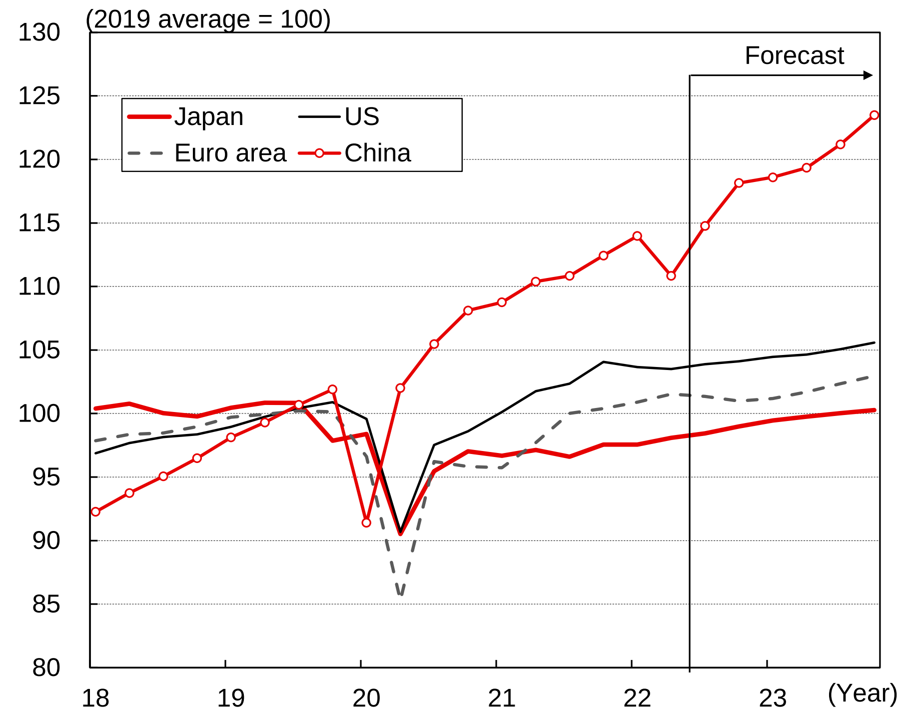
Outlook for Major Economies

(%)

Real GDP growth rate	2021	MUFG forecast (August) 2022	MUFG forecast (August) 2023	MUFG forecast (June) 2022	MUFG forecast (June) 2023
World	6.1	2.9	2.9	3.2	3.5
US	5.7	1.7	1.1	2.3	2.2
Euro area	5.3	2.8	0.9	2.7	2.1
UK	7.4	3.4	0.2	3.7	1.2
Japan (FY)	2.3	1.6	1.4	2.4	1.5
Japan (calendar year)	1.7	1.3	1.6	1.6	2.1
Asia (11 countries)	7.1	4.5	5.2	4.9	5.3
China	8.1	3.5	5.4	4.5	5.2
ASEAN (5 countries)	3.4	5.6	5.1	5.4	5.4
Indonesia	3.7	5.2	4.9	5.2	5.2
Thailand	1.5	3.3	4.1	3.3	4.4
Malaysia	3.1	6.8	4.5	6.3	5.2
Philippine	5.7	6.9	5.8	6.6	6.2
Vietnam	2.6	7.4	6.5	7.0	6.8

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

Real GDP Outlook for Select Major Economies

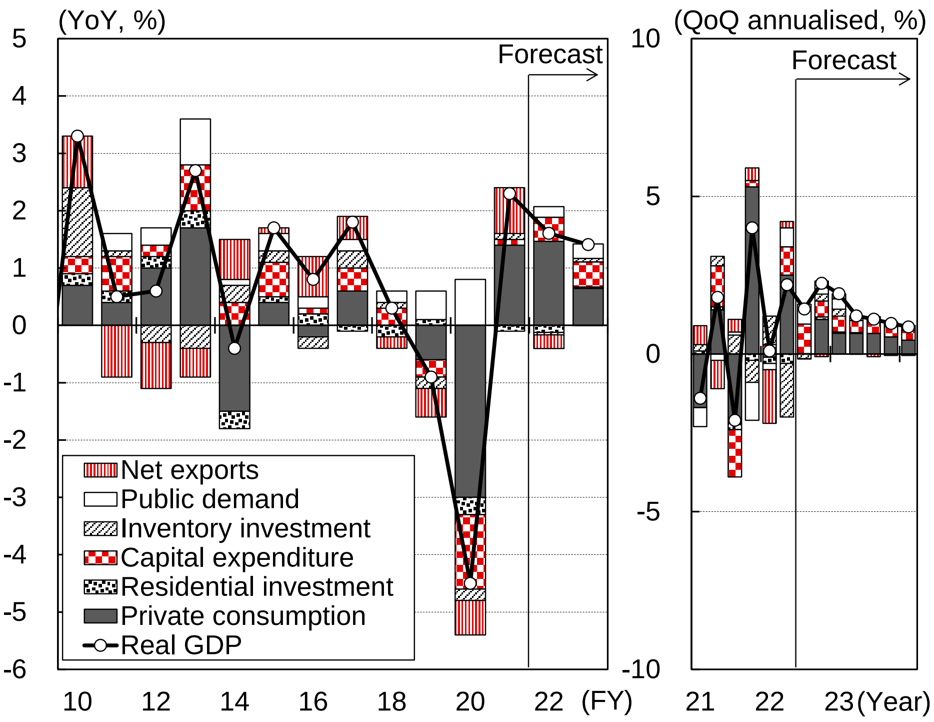


Source: Statistics from each country, MUFG Bank Economic Research Office

2-1. Japanese Economy: Overview

- The real GDP growth rate for the April-June quarter (first preliminary estimate) was 2.2% QoQ annualised, marking the third consecutive quarter of expansion. The contribution to growth from inventory investment was negative after a huge increase the previous quarter. On the other hand, a fall in COVID-19 cases in the April-June quarter and the resulting recovery in people's movement supported a recovery in private consumption, particularly that of services, which drove real GDP growth for the quarter.
- Although the rise in both COVID-19 cases and prices will put downward pressure on the economy, the government is unlikely to enact large-scale restrictions on movement, and the economy is forecast to continue to recover, especially private consumption. Meanwhile, the Japanese economy may come under severe downward pressure if overseas economies enter a recession due mainly to monetary tightening.
- The economy is predicted to continue its steady recovery, expanding 1.6% YoY in FY2022 and 1.4% YoY in FY2023. In the latter half of 2023, real GDP is forecast to return to the level it averaged in 2019 before the pandemic.

Japan Real GDP and Outlook (Fiscal Year, Quarterly)



Source: Cabinet Office, MUFG Bank Economic Research Office

Japan Real GDP and Outlook (Fiscal Year)

(YoY, %)

	FY2020 (Actual)	FY2021 (Actual)	FY2022 (Outlook)	FY2023 (Outlook)
Real GDP	-4.5	2.3	1.6	1.4
Private consumption	-5.4	2.6	2.7	1.2
Residential investment	-7.8	-1.6	-3.5	0.7
Capital expenditure	-7.7	0.6	2.7	2.8
Inventory investment (contribution)	-0.2	0.1	-0.0	0.1
Public demand	3.0	0.0	0.7	1.0
Net exports (contribution)	-0.6	0.8	-0.2	-0.0
Exports	-10.0	12.5	2.5	2.2
Imports	-6.3	7.2	3.8	2.2
Nominal GDP	-3.9	1.3	1.8	2.4
GDP Deflator	0.7	-1.0	0.2	1.0

Source: Cabinet Office, MUFG Bank Economic Research Office

2-1. Japanese Economy: Monetary Policy

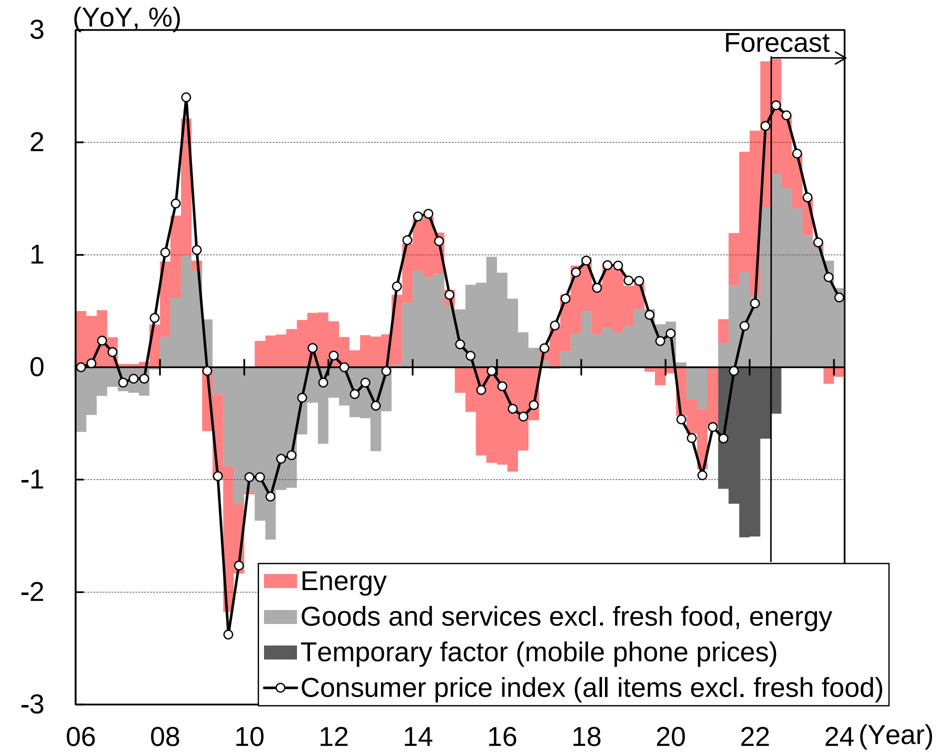
- While US and European central banks move toward monetary policy normalisation, the Bank of Japan reiterated its stance of accommodative monetary policy at its policy meeting in July. Its current yield curve control framework will be kept in place as a way to support the Japanese economy, which is still recovering from pandemic-related downturns.
- The core consumer price index (CPI), which tracks the price of all items excluding fresh food, registered a 2.4% YoY gain in July due in part to increases in food and mobile phone prices. Core CPI is expected to remain at or above the 2% YoY level for the rest of 2022. However, international commodity markets are already experiencing downward pressure due to the prospect of a global economic slowdown. Therefore, commodity and food price gains are expected to moderate gradually, and the rise in prices is forecast to decelerate.
- The recent rise in prices is a temporary trend driven by higher import prices and so is unlikely to take root. Therefore, given the Bank of Japan's stance, it is likely its current monetary policy framework and the policy rate will remain unchanged.

Current Monetary Policy of Bank of Japan

	Policy measures
Control of long- and short-term interest rates	▪ Yield curve control - Short-term interest rate: apply a -0.1% rate to the policy-rate balances - Long-term interest rate: target 10-year JGB yields to be around zero ▪ Fixed-rate purchase operations for consecutive days: offer to purchase 10-year JGBs at 0.25% yield every business day
Asset purchase guidelines	▪ Purchase ETFs and J-REITs as needed with maximum annual increases of about 12 trillion yen and 180 billion yen, respectively, in their amounts outstanding ▪ Purchase CP and corporate bonds at about the same pace before the pandemic so that their amounts outstanding will gradually return to pre-pandemic levels (around 2 trillion yen for CP and about 3 trillion yen for corporate bonds)
Inflation-overshooting commitment	▪ Expand the monetary base until the YoY increase of core CPI exceeds 2% and stays above the target in a stable manner
Forward guidance	▪ For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing of firms and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels

Source: Bank of Japan, MUFG Bank Economic Research Office

CPI (all items excluding fresh food)

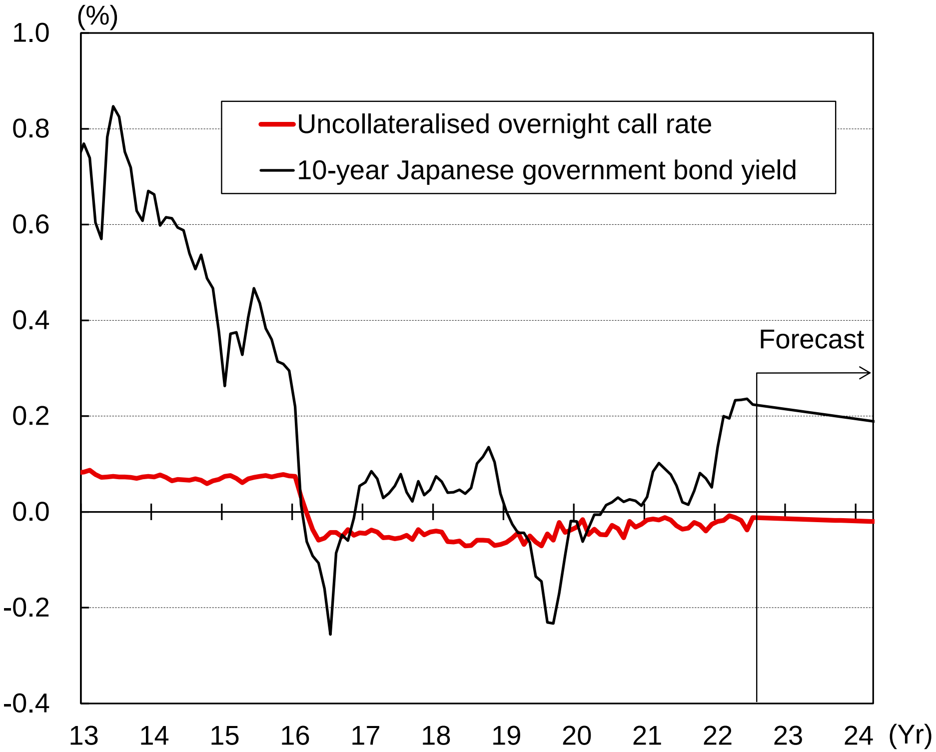


Note: Excludes the impact of sales tax increase
Source: Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

2-1. Japanese Economy: Interest Rates and Foreign Exchange

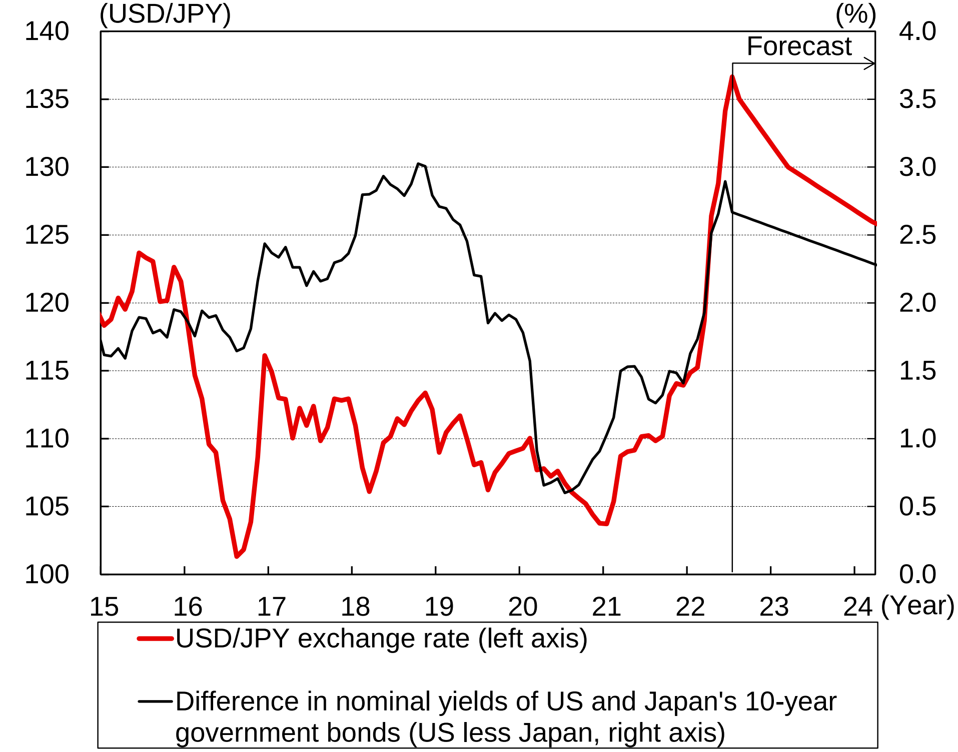
- Under the Bank of Japan's yield curve control policy, the 10-year Japanese government bond yield is around 0.2%. The Bank of Japan is likely to maintain its easy monetary policy and US interest rates are predicted to fall. As a result, Japan's 10-year government bond yield is expected to follow the US 10-year Treasury yield and will plateau with a slight decline.
- The JPY continues to depreciate against the USD owing to the widening gap between US and Japanese interest rates and recently recorded JPY140 per USD. As the Fed maintains its monetary tightening stance, downward pressure on the JPY will remain strong for the time being. Looking ahead, however, the pressure on the JPY will lessen as US inflation and interest rate hikes both slow down over time. In addition, the trade deficit will likely shrink as international commodity price pressures ease. As a result, the JPY is expected to appreciate slightly.

Uncollateralised Overnight Call Rate and 10 Year Gov. Bond Yield



Source: Bloomberg, MUFG Bank Economic Research Office

USD/JPY and Difference in US & Japan's 10-yr Gov. Bond Nominal Yields

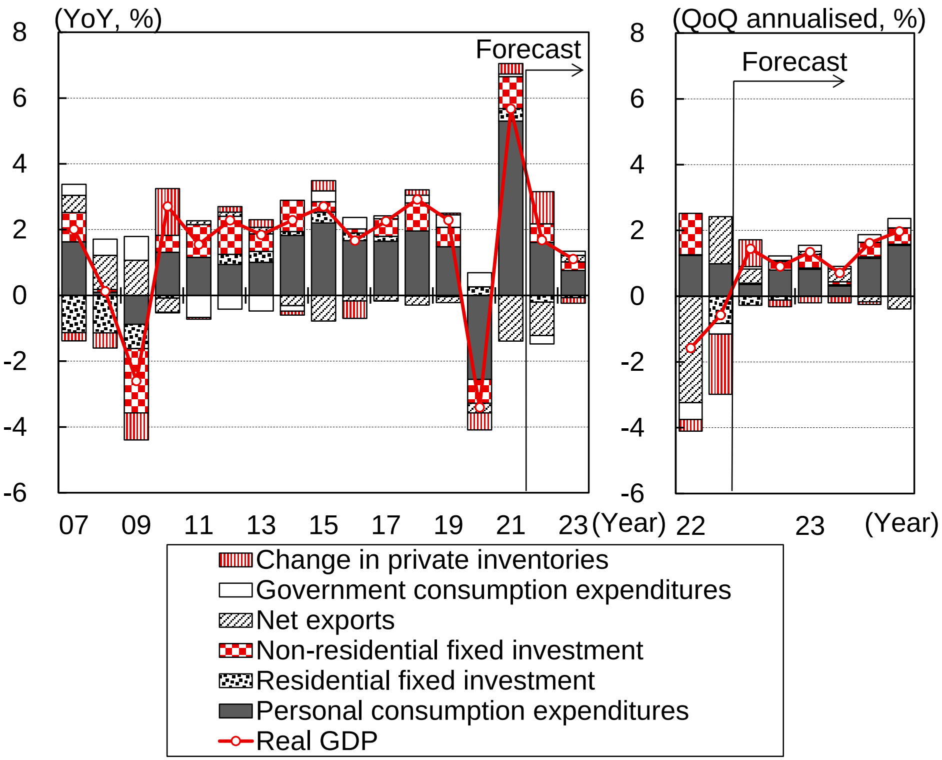


Source: Bloomberg, MUFG Bank Economic Research Office

2-2. US Economy: Overview

- US real GDP declined at an annual rate of 0.6% QoQ (2nd estimate) in the April-June quarter, contracting for the second quarter straight. Production and employment continued to recover, which means it is unlikely that the economy will be deemed to have fallen into a recession. However, due to the impact of high inflation and tighter financial conditions, there were signs of deceleration, such as a slower pace of recovery in personal consumption expenditures and declines in residential and non-residential fixed investments.
- The US economy will likely continue recovering as employment levels continue to rise amid a tight labour market. Still, with the federal funds rate target expected to stay above neutral levels for some time, we project that the US real GDP growth rate will be 1.7% YoY for 2022 and 1.1% for 2023 – below its potential growth rate.

Real GDP by Demand Component



Source: Department of Commerce, MUFG Bank Economic Research Office

GDP Outlook

(YoY, %)

	2021 (Actual)	2022 (Forecast)	2023 (Forecast)
Real GDP	5.7	1.7	1.1
Personal consumption expenditures	7.9	2.3	1.1
Residential investment	9.2	-5.7	-2.1
Non-residential fixed investment	7.4	3.9	1.7
Change in private inventories (contribution)	0.3	1.0	-0.2
Government consumption expenditures	0.5	-1.5	0.7
Net exports (contribution)	-1.4	-1.0	0.2
Exports	4.5	5.9	2.7
Imports	14.0	9.2	0.7
Nominal GDP	10.1	8.5	3.8

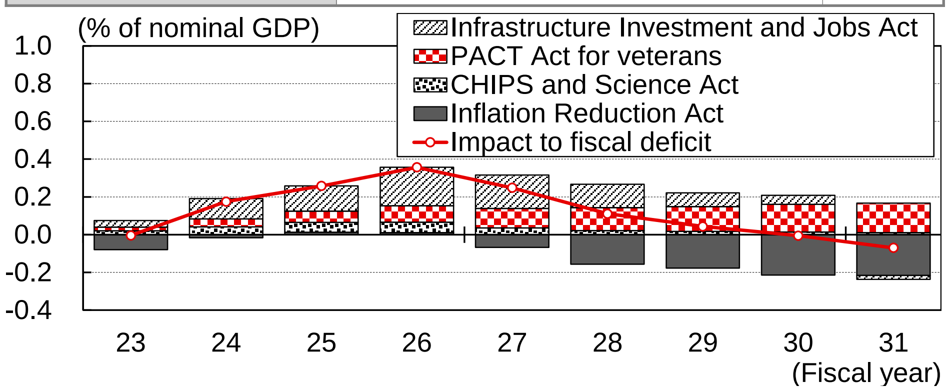
Source: Department of Commerce, MUFG Bank Economic Research Office

2-2. US Economy: Fiscal Policy and Monetary Policy

- Three bills including the Inflation Reduction Act were passed in August 2022, adding to the Infrastructure Investment and Jobs Act enacted in November 2021. The impact of these legislations on growth and inflation rates, however, will likely be limited over the timeframe covered in this Outlook report (until the end of 2023).
- At July FOMC meeting, participants voted unanimously for a 75 basis point rate hike, and Chair Powell told the press conference that "it will be appropriate" to slow the pace of rate hikes at some point as the policy rate has now reached what the FOMC members consider neutral (median of participants' projections as of June: 2.5%). Meeting minutes later revealed that while the committee considers entrenched and elevated inflation a significant risk, many participants acknowledged there is also a risk that monetary policy could be tightened more than necessary.
- Therefore, the pace of rate hikes is expected to slow even though the Fed is likely to continue raising interest rates for the rest of 2022. Furthermore, in the first half of 2023, the FOMC is expected to start lowering interest rates to accommodative levels as inflation continues to ease and the unemployment rate rises on slower jobs growth.

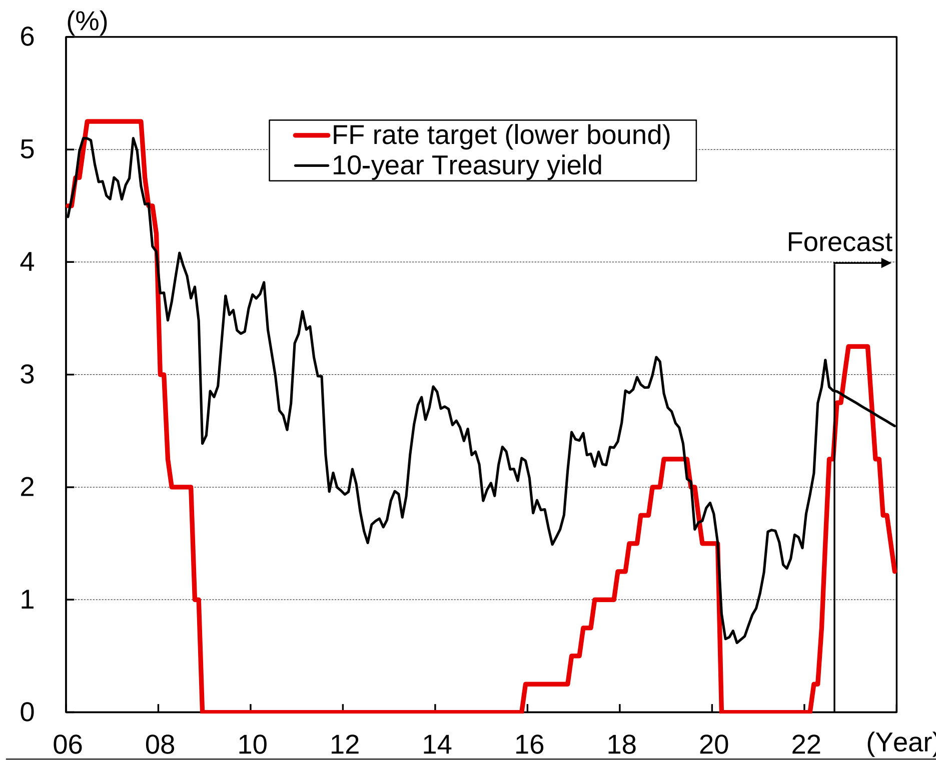
Impact of Bills Passed in August and Infrastructure Bill on Fiscal Deficit

		Key provisions (excerpts)	Impact (USD bn)
Inflation Reduction Act		-	-305
	Climate change	Tax credits for power companies and manufacturers	386
	Health care	Extension of enhanced premium tax credit for health insurance etc.	98
	Cut healthcare cost	Allow Medicare to negotiate drug prices	-322
	Taxation	Minimum corporate tax rate of 15%, increased IRS funding to boost tax enforcement	-468
CHIPS and Science Act		Funding to boost chip production and R&D	79.3
PACT Act		Increased healthcare benefits for veterans who were exposed to toxic burn pits	276.7



Note: Dollar amounts are total for the coming 10 years.
Source: Congressional Budget Office, MUFG Bank Economic Research Office

FF Rate, Long-Term Interest Rates

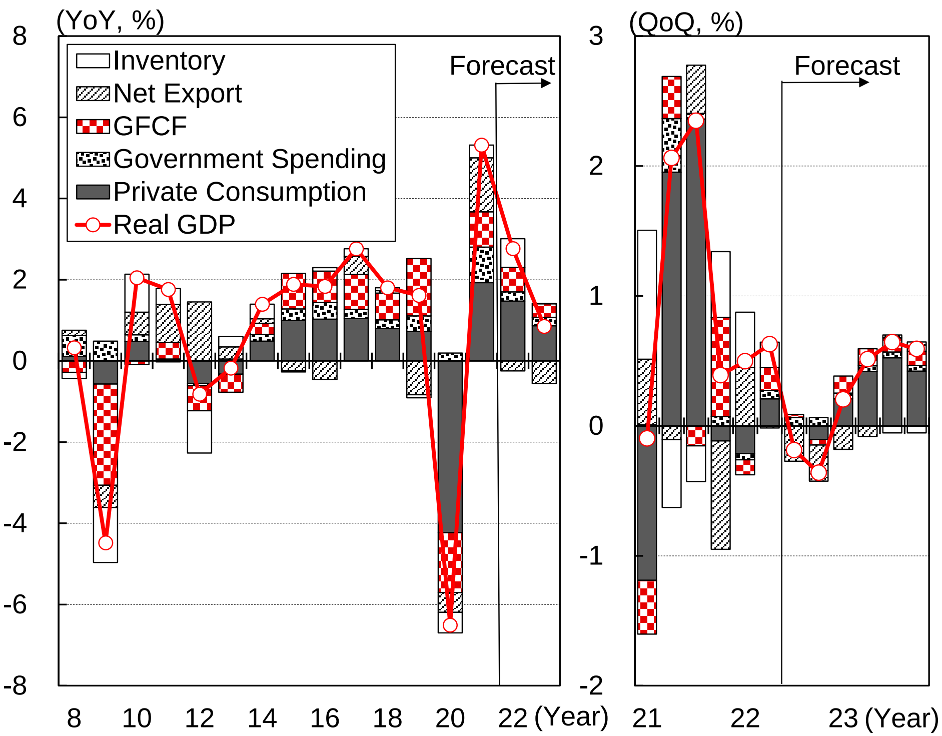


Source: Bloomberg, MUFG Bank Economic Research Office

2-3. European Economies: Euro Area – Overview

- The euro area’s GDP growth rate for the April-June quarter was 0.6% QoQ, marking the fifth consecutive quarter of expansion. Inflationary pressure rose further – particularly energy prices – owing to the Russian invasion of Ukraine, and a decrease in households’ real income has put downward pressure on the economy. Despite this, the euro area has seen economic activities normalise since the pandemic, especially consumption of services, which has allowed economies to maintain positive growth.
- Although Russia has reduced its supply of natural gas to Europe via pipelines, Europe is expected to avoid a serious energy shortage as it increases its procurement of energy via other sources. However, spending on services has already recovered to its pre-COVID-19 levels which means further growth will likely be limited. Meanwhile, countries are facing inflationary pressure from a huge rise in natural gas prices and economies are forecast to start to contract gradually in the latter half of this year.
- The real GDP growth rate is forecast to rise at a strong pace of 2.8% YoY in 2022 due to carry-over effects, but will then slow to 0.9% YoY in 2023. During this time, there is still a risk that Russia will tighten its supply of natural gas to Europe further. In this case, countries will be forced to implement measures to significantly reduce demand and there is a possibility economies will deteriorate considerably as prices rise.

Euro Area Real GDP Forecast



Note: The breakdown for the April-June result has not yet been published. The chart above shows an estimate by the Economic Research Office

Source: Eurostat, MUFG Bank Economic Research Office

Real GDP Forecast of Major European Countries

(QoQ, %) (YoY, %)

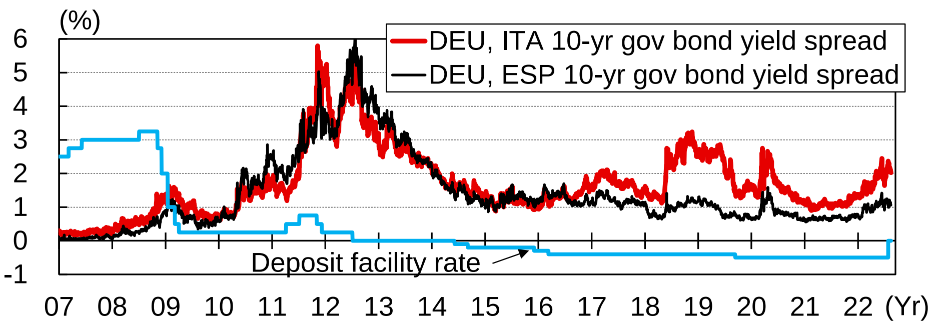
	2021			2022		2021	2022	2023
	Q2	Q3	Q4	Q1	Q2	Actual	Forecast	Forecast
Euro area	2.1	2.3	0.4	0.5	0.6	5.3	2.8	0.9
Germany	2.0	0.7	0.0	0.8	0.0	2.6	1.6	0.8
France	1.0	3.3	0.6	-0.2	0.5	6.8	2.5	1.2
Italy	2.6	2.7	0.7	0.1	1.0	6.6	3.1	1.0
UK	5.6	0.9	1.3	0.8	-0.1	7.4	3.4	0.2

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

2-3. European Economies: Euro Area – Monetary Policy

- At its monetary policy meeting on 21st July, the European Central Bank (ECB) decided to raise its key policy rate by 50 basis points – the first rate hike since 2000. In addition, it introduced the Transmission Protection Instrument (TPI): a framework for new asset purchases to address market disruption. This rate hike was larger than the announcement it made at its meeting in June about an intended hike (25 basis points). The reasons the ECB gave for this were higher inflation rates than it had forecast in June and the introduction of the TPI, which means it has completed preparations for possible market fragmentation, such as a rise in government bond yields in Southern European countries.
- Inflation rates in the euro area are set to continue rising, driven by energy prices. Nevertheless, it does not appear that there will be marked disruption to interest rates in Southern European countries. The ECB went on to raise its key policy rate by a further 75 basis points at its meeting in September.
- Growth of wages agreed at negotiations with unions slowed a little in the April-June quarter. Looking ahead, the labour market is forecast to cool as economies deteriorate in the latter half of the year and wage growth will slow. The ECB will reduce the pace of its rate hikes from its October meeting onwards, and it is highly likely it will stop raising its key policy rate next year.

ECB Policy Rate and DEU, ESP & ITA 10-Year Gov Bond Yield Spreads



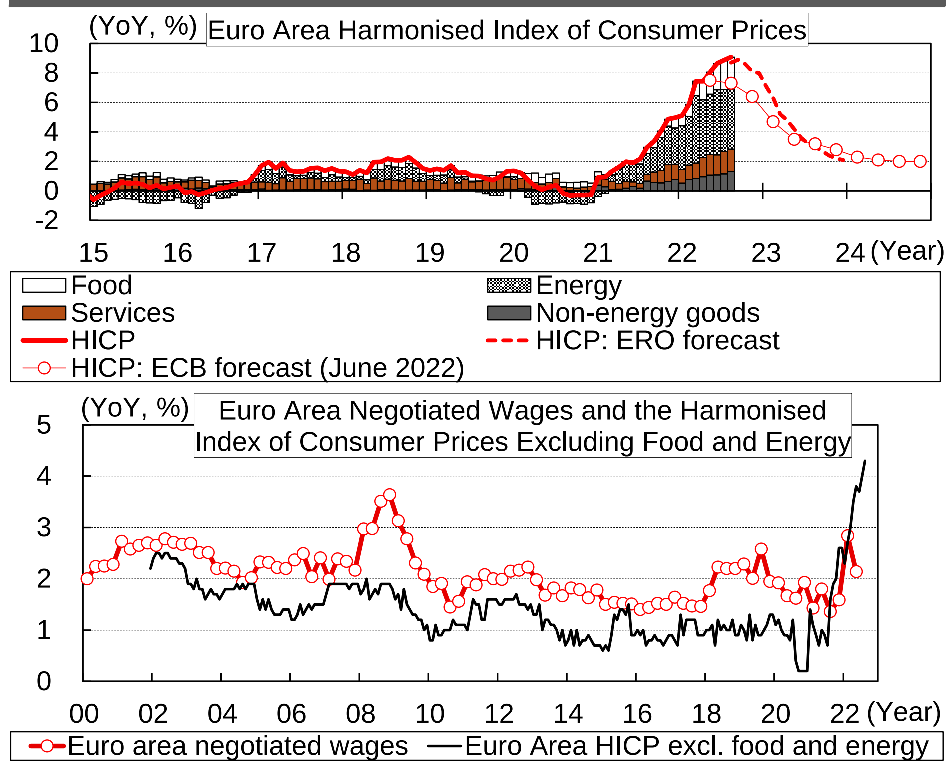
Source: ECB, Macrobond, MUFG Bank Economic Research Office

Transmission Protection Instrument

Purchase parameters	Public sector securities (issued by central and regional governments) with a remaining maturity of between 1 and 10 years. Purchases of private sector securities could be considered, if appropriate.
Eligibility	1: Compliance with the EU fiscal framework; 2: absence of severe macroeconomic imbalances; 3: fiscal sustainability; 4: sound and sustainable macroeconomic policies.
Activation	A decision by the Governing Council to activate the TPI will be based on a comprehensive assessment of market and transmission indicators, an evaluation of the eligibility criteria and a judgement that the activation of purchases under the TPI is proportionate to the achievement of the ECB's primary objective.
Relation to the monetary policy stance	TPI would be conducted such that they cause no persistent impact on the overall Eurosystem balance sheet and hence on the monetary policy stance.

Source: ECB, MUFG Bank Economic Research Office

Euro Area's HICP and Negotiated Wages

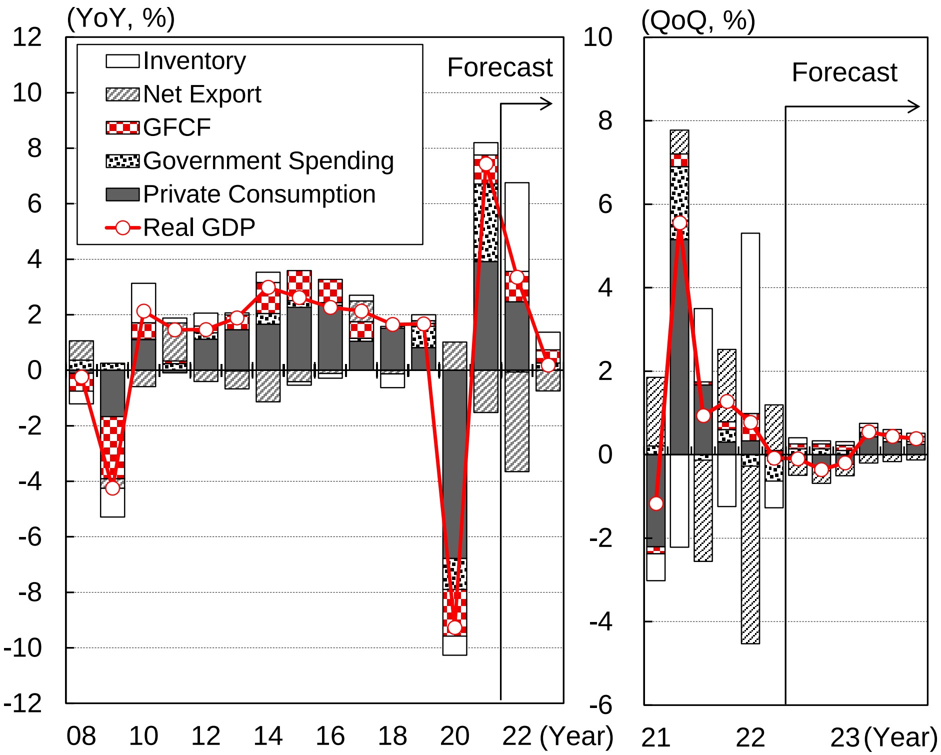


Source: Eurostat, MUFG Bank Economic Research Office

2-3. European Economies: UK – Overview

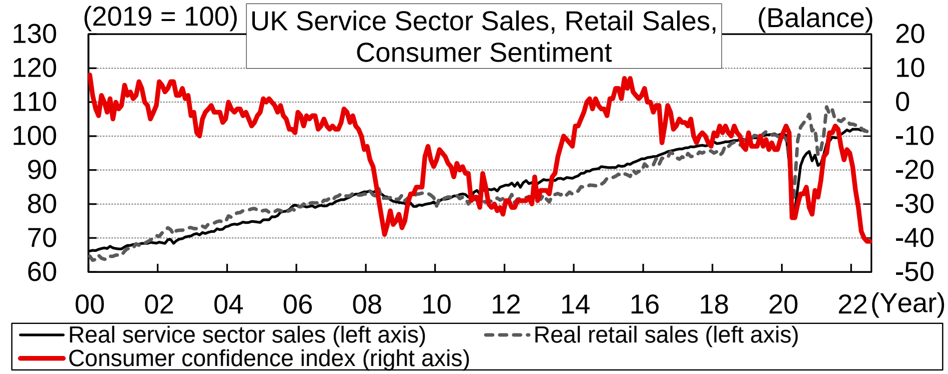
- The UK's real GDP growth rate (preliminary estimate) was -0.1% QoQ for the April-June quarter, contracting for the first time in five quarters. A further rise in commodity prices caused by the Russia-Ukraine conflict put additional downward pressure on the economy and households' real income fell. Furthermore, a decrease in COVID-19 related activities by the government, such as tests and vaccinations, meant government consumption declined.
- Since last year, the UK has been easing restrictions on movement ahead of other major advanced economies, which means service sector sales have already recovered to their pre-COVID-19 levels and the scope for further recovery of spending on services is thought to be limited. High rates of inflation have already caused a deterioration in consumer sentiment and real retail sales continue to fall. Meanwhile, the UK's inflation rate is forecast to accelerate in the latter half of this year, putting further downward pressure on consumption. The Bank of England (BoE) has already raised its Bank Rate higher than it was before the pandemic and businesses' investment intentions are on a downward trend. As a result, the UK economy is forecast to continue to contract until the start of next year.
- The real GDP growth rate will record strong growth of 3.4% YoY in 2022 owing to carry-over effects, but will then slow to 0.2% YoY in 2023 due to the continued impact of high inflation.

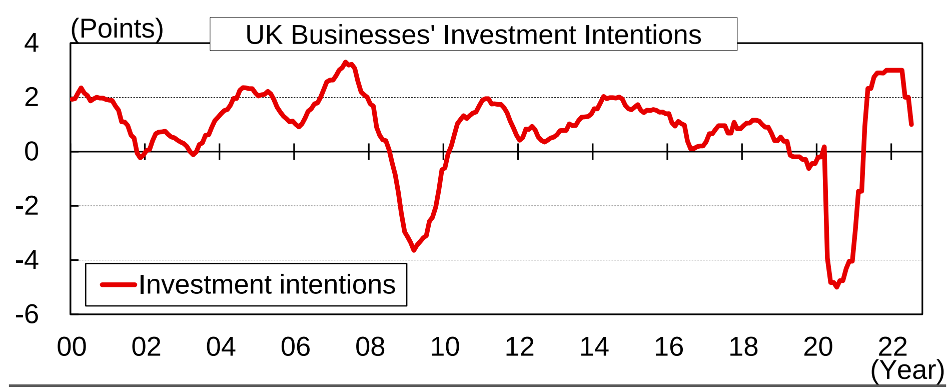
Real GDP Outlook for the UK



Source: ONS, MUFG Bank Economic Research Office

UK Service & Retail Sales, Consumer Confidence, Investment Intentions



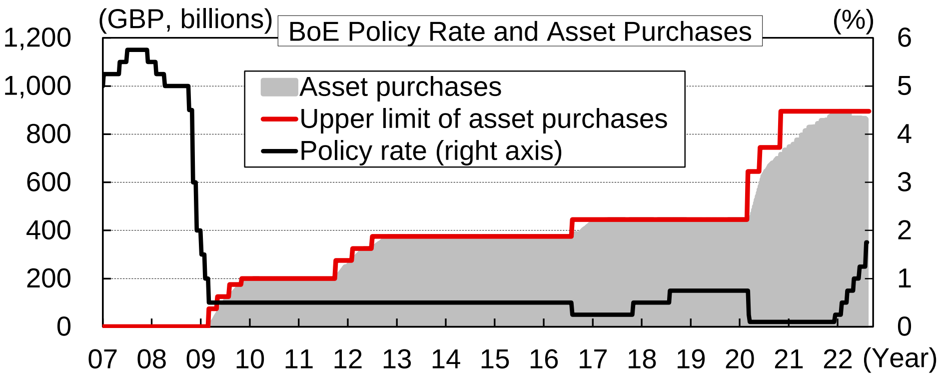


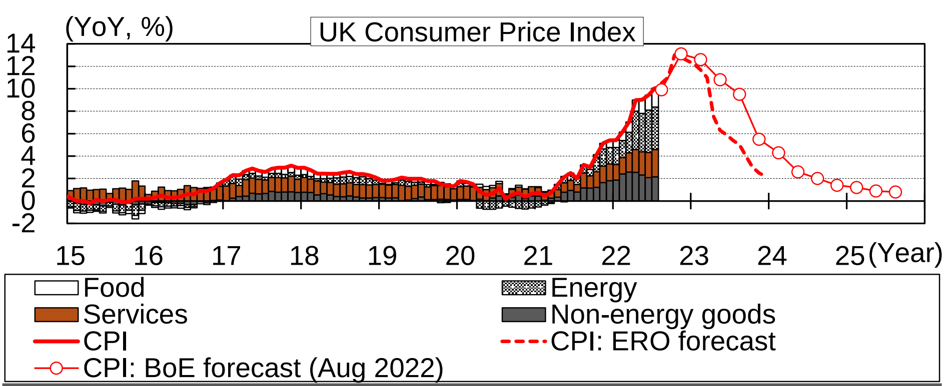
Source: ONS, MUFG Bank Economic Research Office

2-3. European Economies: UK – Monetary Policy

- The Bank of England (BoE) decided to increase its Bank Rate by 50 basis points from 1.25% to 1.75% at its monetary policy meeting on 4th August. Furthermore, the Monetary Policy Committee said it was "provisionally minded to commence gilt sales shortly after its September policy meeting, subject to economic and market conditions being judged appropriate and to a confirmatory vote at that meeting". The explanation Governor Bailey gave for this decision was that, although there will be a negative impact on the economy from the increase in interest rates, "there are no ifs or buts in our commitment to the two percent inflation target".
- The UK's CPI is expected to accelerate as the updated price cap on electricity and gas comes into effect in October. Therefore, we predict the BoE will raise its Bank Rate by 50 basis points again at its next monetary policy meeting in September.
- The UK economy has already started to contract and households' inflation expectations are beginning to fall. In addition, storm clouds are starting to appear over the labour market. It is likely the BoE will be cautious with regards to the economy and will raise rates slowly after its meeting in September before lowering rates gradually next year.

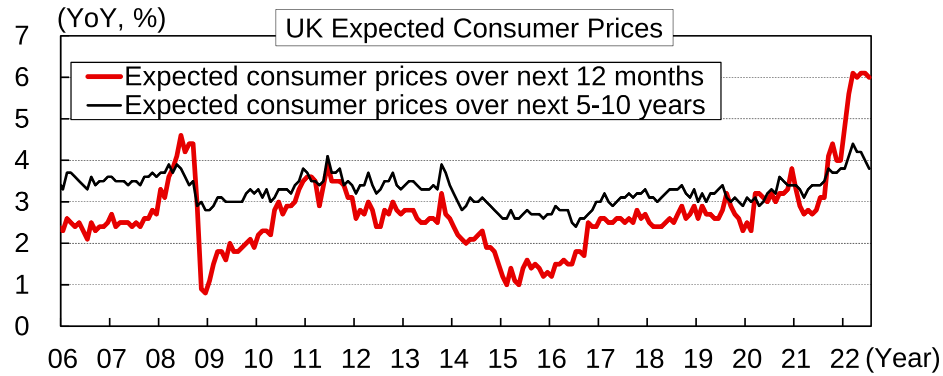
BoE Policy Rate and Asset Purchases and UK CPI

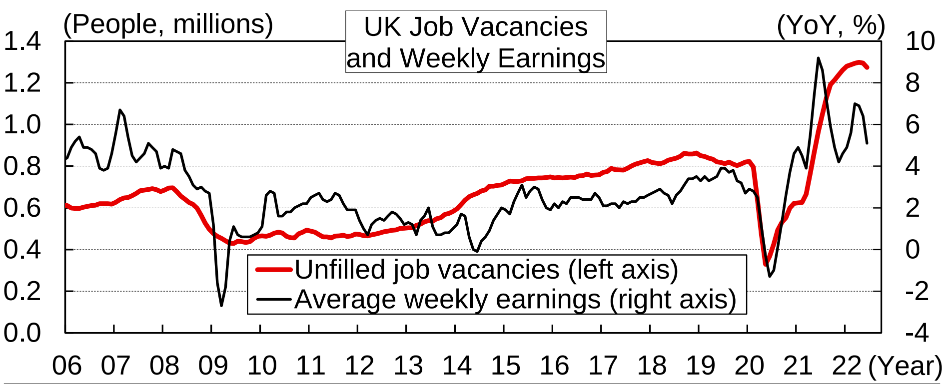




Source: Bank of England, UK Office of National Statistics, MUFG Bank Economic Research Office

UK Expected Consumer Prices and Labour Market Indices





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

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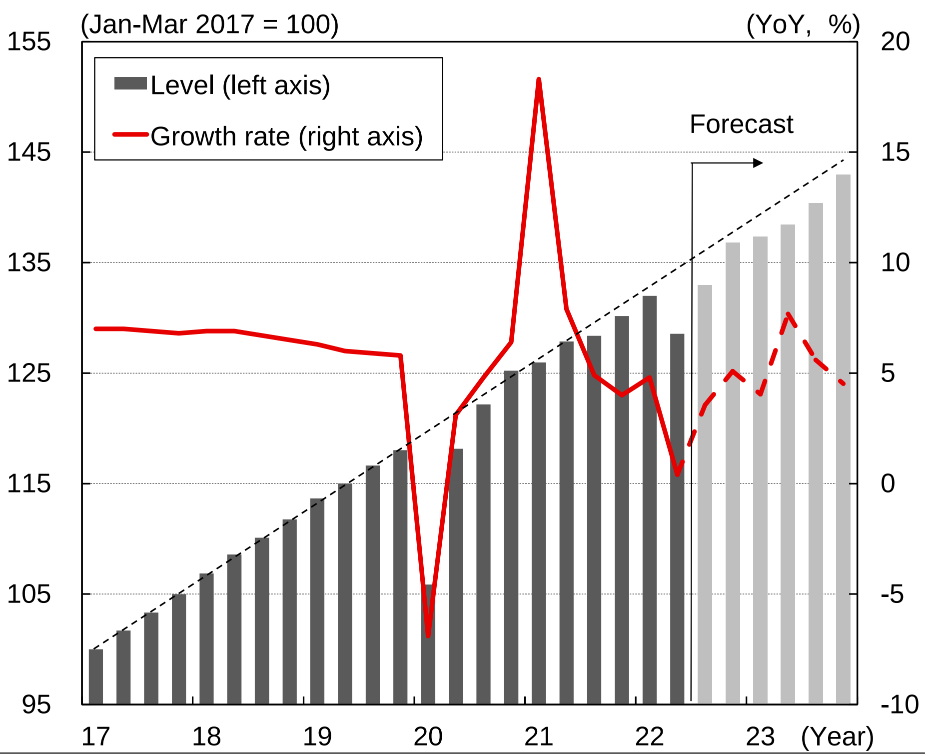
2-4. Asian and the Australian Economies: China – Overview

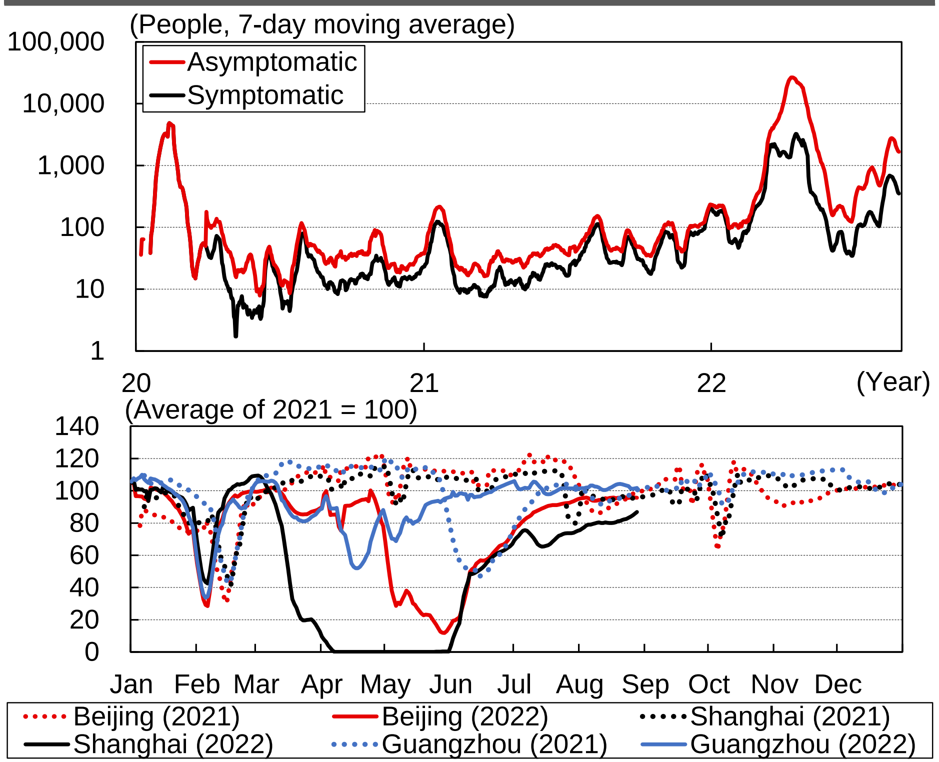
- Although China's real GDP growth rate for the April-June quarter remained positive at 0.4% YoY, it decelerated sharply from the previous quarter (4.8% YoY). The primary reason for this was the considerable restrictions placed on economic activities nationally due to the impact of the lockdown in Shanghai that was introduced at the end of March.
- From June, restrictions on movement in some regions – including Shanghai – were relaxed and economic activities were re-started. In addition, various measures taken to boost consumption offered some support and the economy slowly picked up. However, China's "zero COVID-19" policy remains in place and its real estate market has slumped. It has also been experiencing abnormal weather, such as the current heat wave. In addition to these domestic issues, the deceleration of the global economy will be a headwind going forwards. China's government aims to underpin the economy by promoting infrastructure investment and taking additional measures to encourage consumption. However, the real GDP growth rate for 2022 is forecast to be 3.5% YoY: well below the potential growth rate. In 2023, GDP growth is expected to rebound to 5.4% YoY, despite a clear deceleration of overseas economies.
- That being said, there will be some risks to the downside: it is possible that the current rise in cases in some parts of the country will result in further lockdowns and the real estate market may deteriorate further due to increased uncertainty as homebuyers refuse to repay mortgages.

China's Real GDP



Note: The black dotted line shows the trend of "Real GDP" from 2017 to 2019
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

China's COVID-19 Cases and Number of Subway Passengers



Source: National Health Commission of the People's Republic of China, MUFG Bank Economic Research Office

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2-4. Asian and the Australian Economies: China – Fiscal and Monetary Policy

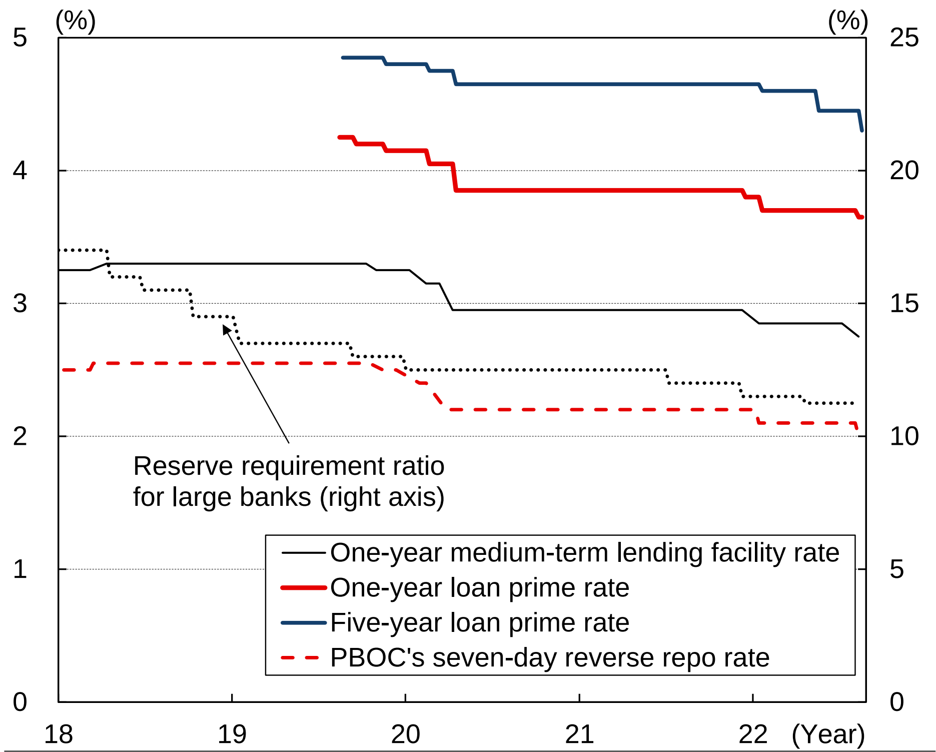
- China's economy grew at a pace of 2.5% YoY for the first half of 2022, well below the target of around 5.5% YoY for 2022 set at the National People's Congress in March. At July's Standing Committee of the National People's Congress (where the first half of the year is assessed and policies for the rest of the year are decided), the government said it would focus on reviving the economy from the deceleration that occurred during the first half of the year due to COVID-19 by prioritising infrastructure investment, the real estate market and capital controls.
- In August, the People's Bank of China lowered its one-year loan prime rate by 5 basis points and its five-year loan prime rate by 15 basis points. It is likely that the large decrease in the five-year loan prime rate (a reference for mortgage rates) will have a more targeted impact on the real estate market this time round.
- The government is expected to focus on economic recovery by increasing fiscal spending, particularly on infrastructure spending, and easing monetary policies. However, there are still risks related to its management of COVID-19, with the government reconfirming it would maintain its "zero COVID-19" policy at its standing committee.

Overview of July's Standing Committee of the NPC

Summary	
Clarify policies to encourage economic growth and fiscal and monetary policies in the latter half of the year. Emphasise policies related to infrastructure investment, the real estate market and capital	
Major Points	
Economic Growth Rate	April: "work hard to realise the annual economic and social development targets" ⇒ July: "work hard to achieve the best possible results" ≒ The government will no longer pursue the goal of "around 5.5% YoY" as a hard target for this year.
COVID-19 Measures	Still stick with the "zero COVID-19" policy.
Infrastructure Investment	Fiscal: issue RMB 3.45 trillion worth of local government special bonds by the end of June and aim to use them by August. Monetary: establish a framework for RMB 800 billion in lending from policy banks as support for construction of infrastructure. Pledge RMB 300 billion in financial bonds to fund projects like new infrastructure.
Real Estate Market	"Housing is for living in, not for speculation" Emphasise local governments's responsibilities in implementing local policies. New request to ensure housing delivery and stabilise citizens' lives. ← The background for home buyers refusing to repay mortgages
Capital controls	Promote the healthy and sustainable development of the platform economy. → Since strengthened supervisory and control measures have curbed disorderly expansion over the past two years, shift back to normal measures to stabilise market forecasts. In addition, set goals to focus on the intensive cultivation of excellent projects.

Source: News reports, MUFG Bank Economic Research Office

China's Policy Rates and Reserve Requirement Ratio

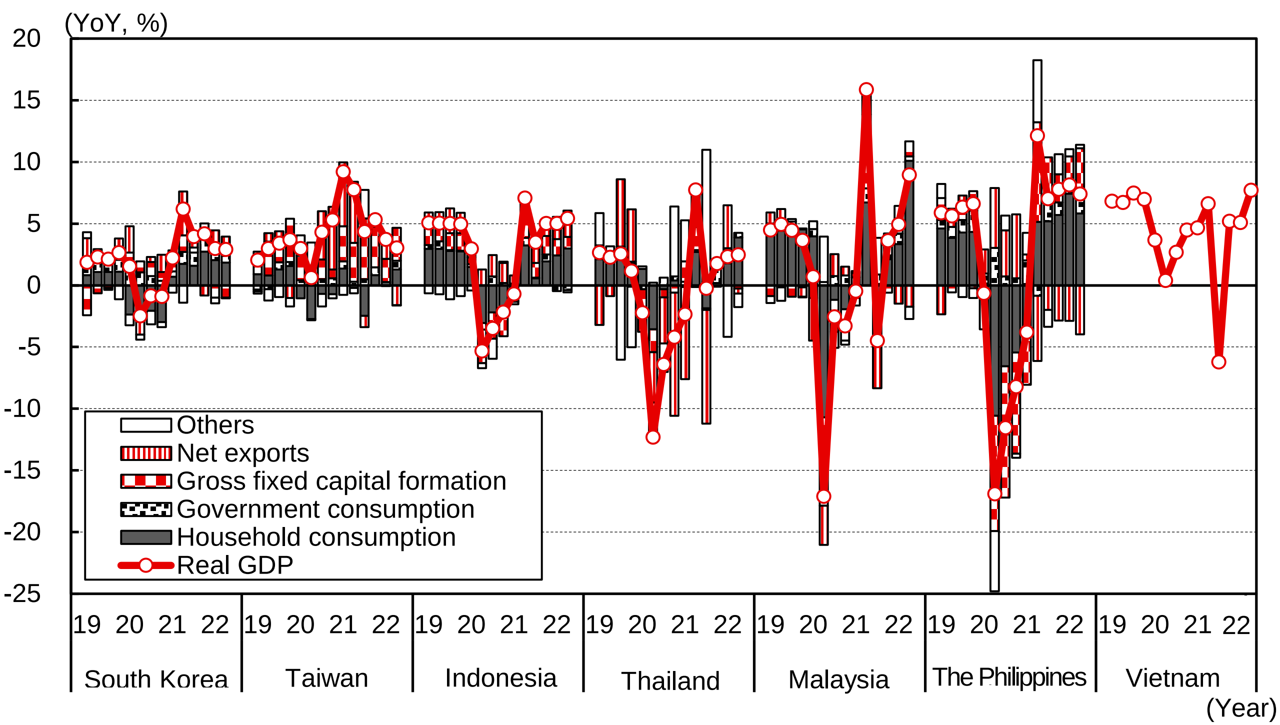


Source: People's Bank of China, MUFG Bank Economic Research Office

2-4. Asian and the Australian Economies: Other Asian Economies

- NIEs and ASEAN (five major countries) registered real GDP growth rates of 2.7% YoY and 5.9% YoY, respectively, in the April-June quarter. Economies are facing headwinds of high inflationary pressures linked to surges in commodity prices as well as a sharp slowdown in the Chinese economy. NIEs recovered to some extent last year and GDP growth is set to moderate. Meanwhile, ASEAN countries, which have lagged behind in their recovery, will likely register relatively high GDP growth as household spending recovery gains momentum thanks to the easing of restrictions on movement.
- Going forward, headwinds for NIEs and the ASEAN economies will likely include high inflation, rate hikes to curb inflation, and a fallout from the slowdown in advanced economies. However, the recovery in household spending will gain momentum thanks to the easing of pandemic-related restrictions and exports will be supported by the economic recovery in China, which had slowed due to lockdowns in Shanghai. Therefore, we project solid growth rates of 2.7% YoY for NIEs and 5.6% YoY for ASEAN (five countries) for 2022, and slower growth rates of 2.6% YoY and 5.1% YoY, respectively, for 2023.

Real GDP of Major Asian Economies



Note: Breakdown data is not available for Vietnam.
Source: National statistics of each country, MUFG Bank Economic Research Office

Outlook for ASEAN (five countries)

Outlook for ASEAN (five countries)
Indonesia
Solid demand for commodities will support the overall economy. GDP growth rate is already at pre-pandemic trend levels.
Thailand
Inflation is highest in ASEAN, weighing on the economy. With limited recovery of tourism industry, the economy is recovering only moderately.
Malaysia
Seeing stable recovery thanks to being a net exporter of commodities. But fiscal concerns remain due to high debt balance.
The Philippines
GDP growth will be relatively high in 2022 due to a rebound effect, but global economic slowdown will erode remittances from workers abroad.
Vietnam
GDP growth rate to be highest among ASEAN-5, supported by public works investment and recovery of consumer spending on eased restrictions on movement.

Source: Various reports, MUFG Bank Economic Research Office

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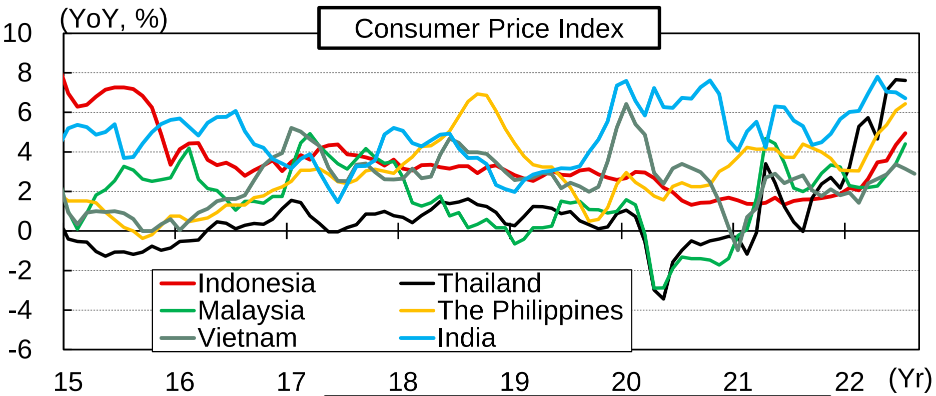
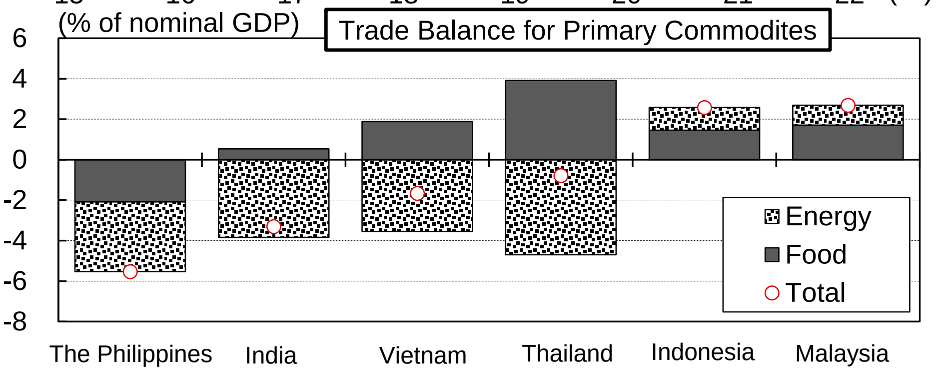
2-4. Asian and the Australian Economies: Inflation, Interest Rates in Other Asian Economies

- In Asia's emerging economies (excluding Indonesia and Malaysia), there is a negative trade balance for primary commodities, which means these economies are susceptible to the impact of fluctuations in energy and food prices. The global surge in primary commodity prices brought about by the conflict in Ukraine has resulted in notable price rises in these economies, prompting governments to respond with measures to mitigate the impact, such as tax cuts and subsidies.
- In addition to high inflation, the accelerated pace of interest rate hikes in the US has raised concerns of capital flight as well. Therefore, while the central banks of these emerging economies have previously kept their policy rates unchanged in order to support economic recoveries, they have now shifted gears to raising interest rates. India and the Philippines have seen particularly large rate hikes compared with other countries.
- Going forward, central banks in these economies will likely continue raising interest rates in order to curb inflation and reduce capital flight risks.

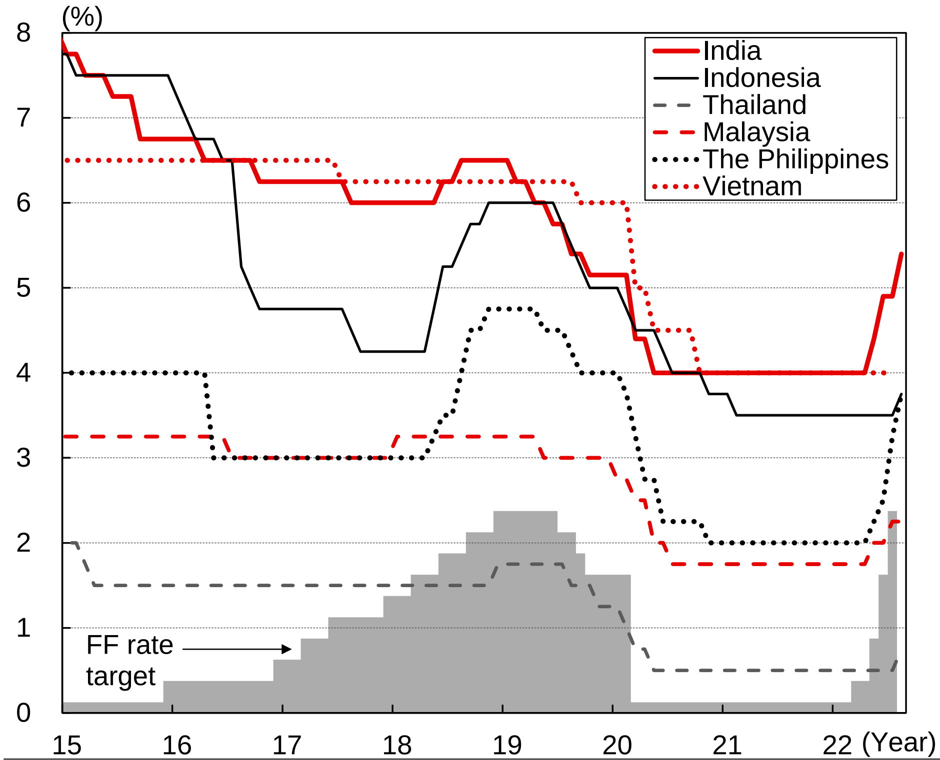
CPI and Primary Commodity Trade Balance of ASEAN Countries and India





Source: Bloomberg, MUFG Bank Economic Research Office

Policy Rates in ASEAN Countries and India

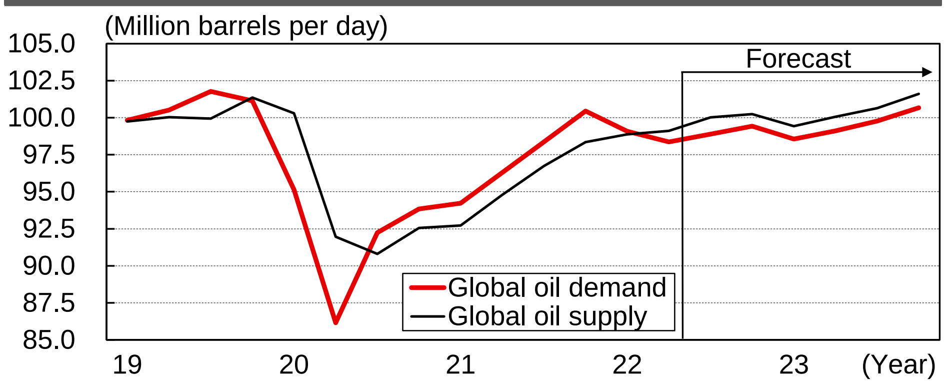


Source: Bloomberg, MUFG Bank Economic Research Office

2-5. Oil Prices

- Although demand continues to rise as the global economy recovers, the balance of oil supply and demand is expected to remain tipped towards excess supply this year owing to a moderate rise in US shale oil production and a level of production by OPEC+ which is already around 2 million barrels higher per day than last year. Next year, demand will continue to gradually rise as the US and other countries, such as Brazil, increase their oil production. Nevertheless, OPEC+ is forecast to maintain its output at around current levels, which means the balance of supply and demand is unlikely to change significantly from this year.
- The supply of Russian oil has fallen since April, yet the US and Brazil have continued to increase their production on the back of a rise in oil prices. As a result, it is highly likely that supply will continue to exceed demand. Oil prices are forecast to fall gradually to between USD85 and USD89 by the end of 2023.
- Risk factors going forwards include a considerable strengthening of sanctions against Russia (e.g. a complete ban on exports of Russia-produced energy including natural gas), changes in the COVID-19 situation and countries' decarbonisation policies. Although unlikely at present, if a nuclear deal with Iran were to be revived, it is thought that OPEC+ would decrease its production to avoid a large rise in excess supply caused by the increase in output from Iran.

Forecast of Global Supply and Demand



Change in the Supply-Demand Balance
(Figures in brackets are YoY change in barrels per day)

	2022	2023
Change in demand	Increase in demand from the US (+480,000)	Increase in demand from China (+490,000)
	Increase in demand excl. US and China (+1,090,000)	
Change in supply	Increase in US output (+1,270,000)	Increase in US output (+1,090,000)
	Increase in OPEC output (+2,130,000)	Decrease in Russia's output (-900,000)
Change in supply-demand balance	Excess demand → excess supply (-2,310,000)	Increase in the amount of excess supply (-280,000)

Note: Forecast for period from August 2022 onwards by Economic Research Office
Source: EIA, MUFG Bank Economic Research Office

Forecast of Oil Prices

	WTI Price (USD/barrel)	YoY (%)	Brent Price (USD/barrel)	YoY (%)
Q1 2021	58.1	27.0%	61.3	20.7%
Q2	66.1	136.1%	69.1	106.9%
Q3	70.5	72.3%	73.2	69.0%
Q4	77.1	80.6%	79.7	76.0%
Q1 2022	95.0	63.4%	97.9	59.7%
Q2	108.5	64.2%	112.0	62.1%
Q3	92.0	30.5%	95.0	29.7%
Q4	91.0	18.0%	94.0	18.0%
Q1 2023	90.0	-5.3%	93.0	-5.0%
Q2	89.0	-18.0%	92.0	-17.8%
Q3	88.0	-4.3%	91.0	-4.2%
Q4	87.0	-4.4%	90.0	-4.3%
2021	68.0	72.8%	70.8	63.9%
2022	96.6	42.2%	99.7	40.8%
2023	88.5	-8.4%	91.5	-8.2%

Forecast

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

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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)				Euro area (19 countries)				UK	Russia
									Brazil	Mexico	Argentina		Germany	France	Italy		
Nominal GDP	USD trillions	146.1	56.1	59.0	31.1	5.6	23.0	9.0	3.4	2.7	1.1	17.5	4.9	3.4	2.7	3.4	4.5
2021	Japan = 100	2,602	998	1,050	554	100	410	161	61	47	19	312	86	60	49	61	80
Real GDP	2021 Actual	6.1	5.2	7.0	5.8	2.3	5.7	6.7	4.6	4.8	10.4	5.3	2.6	6.8	6.6	7.4	4.7
(YoY, %)	2022 Forecast	2.9	2.2	3.2	3.6	1.6	1.7	2.6	1.8	2.4	4.0	2.8	1.6	2.5	3.1	3.4	-10.0
	2023 Forecast	2.9	1.2	4.3	3.3	1.4	1.1	1.3	0.8	1.2	1.5	0.9	0.8	1.2	1.0	0.2	-1.0
CPI	2021 Actual	4.6	3.2	3.7	8.8	0.1	4.7	10.9	8.3	5.7	48.4	2.6	3.2	2.1	2.0	2.6	6.7
(YoY, %)	2022 Forecast	7.9	6.9	6.2	12.9	2.2	7.7	12.1	7.5	7.6	51.7	7.8	7.6	5.6	6.6	9.4	20.0
	2023 Forecast	5.1	3.3	4.5	9.4	1.0	2.9	9.7	6.5	5.5	43.5	3.9	4.0	3.3	2.3	6.0	8.0

		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	50.5	27.2	10.2	5.1	2.5	1.5	0.5	0.6	8.0	3.6	1.3	1.0	1.0	1.1	1.5
2021	Japan = 100	900	485	182	91	45	26	9	11	143	64	24	17	18	20	26
Real GDP	2021 Actual	7.1	8.1	8.7	5.5	4.1	6.6	6.3	7.6	3.4	3.7	1.5	3.1	5.7	2.6	4.7
(YoY, %)	2022 Forecast	4.5	3.5	7.3	2.7	2.6	3.3	0.2	3.5	5.6	5.2	3.3	6.8	6.9	7.4	3.8
	2023 Forecast	5.2	5.4	6.4	2.6	2.2	2.8	3.7	2.6	5.1	5.0	4.1	4.5	5.8	6.5	2.4
CPI	2021 Actual	2.1	0.9	5.5	2.2	2.5	2.0	1.6	2.3	2.0	1.6	1.2	2.5	3.9	1.8	2.9
(YoY, %)	2022 Forecast	3.7	2.3	6.6	4.3	5.2	3.1	2.0	5.5	4.2	3.9	6.0	3.0	5.0	3.5	6.2
	2023 Forecast	3.1	2.3	5.0	2.8	3.0	2.2	2.2	3.6	3.3	3.5	2.6	2.4	3.8	3.6	4.3

Note: 1. "Nominal GDP" is based on purchasing power parity
2. For "CPI", Japan is composite figure excluding fresh food. CPI refers to the HCIP for the euro area and member countries (HICP)
3. Figures for Japan and India based on their financial years (April to following March) except Japan's nominal GDP
4. "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
5. "Advanced economies" is a total of Japan, NIEs (4 countries and regions), Australia, US, Eurozone (19 countries) and the UK. "Emerging economies" is a total of China, India, ASEAN (5 countries), Central and South America (6 countries) and Russia
6. "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 (First Preliminary Estimate of GDP Statistics for April-June 2022)

Forecast →

	2021				2022				2023				2024	FY2021	FY2022	FY2023
	Q1	2Q	3Q	4Q	Q1	2Q	3Q	4Q	Q1	Q2	Q3	Q4	Q1			
1. The Real Economy (QoQ annualized change)																
Real GDP	-1.4	1.8	-2.1	4.0	0.1	2.2	1.4	2.2	1.9	1.2	1.1	1.0	0.9	2.3	1.6	1.4
Private Consumption	-2.5	1.6	-3.5	10.1	1.2	4.6	0.0	2.0	1.2	1.2	1.2	1.0	0.8	2.6	2.7	1.2
Housing Investment	3.0	6.6	-7.1	-5.2	-5.6	-7.3	0.4	2.4	1.2	0.8	0.0	0.0	0.0	- 1.6	- 3.5	0.7
Private Business Fixed Investment	3.3	4.8	-8.2	0.6	-1.1	5.8	6.1	3.2	3.2	2.4	2.4	2.0	2.0	0.6	2.7	2.8
Business Inventory (Contribution)	0.2	0.3	0.6	-0.7	0.9	-1.7	-0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.1	- 0.0	0.1
Government Expenditures	-2.3	0.7	0.5	-3.7	-1.3	2.5	2.4	1.6	1.2	0.6	0.6	0.6	0.6	0.0	0.7	1.0
Public Investment	-0.7	-9.5	-12.6	-14.2	-12.3	3.8	3.2	3.2	3.2	0.4	0.4	0.4	0.4	- 7.5	- 2.5	1.4
Net Exports (Contribution)	0.6	-0.9	0.4	0.4	-1.7	0.2	-0.0	-0.1	0.2	-0.0	-0.1	-0.0	-0.0	0.8	- 0.2	- 0.0
Exports	9.4	12.4	0.1	2.6	3.6	3.7	1.2	1.6	2.0	2.8	2.4	2.2	2.2	12.5	2.5	2.2
Imports	7.5	18.8	-4.3	1.7	14.8	2.7	1.2	2.0	1.2	2.8	2.8	2.4	2.4	7.2	3.8	2.2
Nominal GDP	-2.4	-0.7	-1.9	1.9	1.5	1.1	2.4	2.8	4.9	2.8	0.9	-0.2	2.3	1.3	1.8	2.4
GDP Deflator (YoY)	-0.1	-1.1	-1.1	-1.3	-0.5	-0.4	-0.1	0.4	0.9	1.5	1.2	0.7	0.4	-1.0	0.2	1.0
Industrial Production Index (QoQ)	2.6	0.2	-1.9	0.2	0.8	-2.8	3.5	1.0	0.8	0.5	0.5	0.5	0.5	5.8	1.0	3.1
Domestic Corporate Goods Price Index (YoY)	-2.2	-0.5	4.3	5.8	8.4	9.2	8.0	7.0	4.5	2.0	0.3	-0.9	-0.8	- 1.4	12.1	0.1
Consumer Price Index (excl. fresh food, YoY)	-0.5	-0.6	0.0	0.4	0.6	2.1	2.3	2.2	1.9	1.5	1.1	0.8	0.6	0.1	2.2	1.0
2. Balance of Payments																
Trade Balance (billion yen)	1,527	1,005	-230	-715	-1,688	-3,759	-3,055	-2,690	-2,411	-2,493	-2,414	-2,259	-2,348	-1,619	-11,915	-9,514
Current Balance (billion yen)	5,119	4,483	2,976	2,840	2,272	1,358	754	1,399	1,810	1,920	2,129	2,975	3,169	12,651	5,321	10,194
3. Financial																
Uncollateralized overnight call rate	- 0.0	-0.0	-0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	-0.1
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	0.1
Newly Issued 10-Year Government Bonds Yield	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Exchange Rate (USD/JPY)	106	109	110	114	116	130	135	133	131	129	128	127	126	112	132	128

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

	2021				2022				2023				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(Actual)	(Forecast)	(Forecast)
1. Main Economic Indicators															
Real GDP (QoQ annualized, %)	6.3	6.7	2.3	6.9	-1.6	-0.6	1.4	0.9	1.3	0.7	1.6	2.0	5.7	1.7	1.1
Personal Consumption Expenditures	11.4	12.0	2.0	2.5	1.8	1.5	0.5	1.1	1.2	0.4	1.6	2.2	7.9	2.3	1.1
Fixed Investment (Residential)	13.3	-11.7	-7.7	2.1	0.5	-16.2	-8.0	-3.5	1.2	1.2	1.2	1.2	9.2	-5.7	-2.1
Fixed Investment (Nonresidential)	12.9	9.2	1.6	2.9	10.0	0.0	0.2	1.7	2.7	0.6	3.0	3.3	7.4	3.9	1.7
Changes in Business Inventories (Contribution)	-2.6	-1.3	2.2	5.3	-0.4	-1.8	0.8	-0.2	-0.2	-0.2	-0.1	0.0	0.3	1.0	-0.2
Government Expenditures	4.2	-2.0	0.9	-2.6	-2.9	-1.8	0.5	0.8	1.1	0.4	1.4	1.7	0.5	-1.5	0.7
Net Exports (Contribution)	-1.6	-0.2	-1.3	-0.2	-3.2	1.4	0.4	0.0	0.1	0.4	-0.2	-0.4	-1.4	-1.0	0.2
Exports	-2.9	7.6	-5.3	22.4	-4.8	17.6	2.1	1.2	2.3	1.9	1.5	1.1	4.5	5.9	2.7
Imports	9.3	7.1	4.7	17.9	18.9	2.8	-0.8	0.6	1.0	-0.8	1.8	2.7	14.0	9.2	0.7
Domestic Private End User Demand	11.8	10.4	1.5	2.6	3.1	0.5	0.1	1.0	1.4	0.5	1.8	2.3	7.8	2.2	1.1
Nominal GDP (QoQ annualized, %)	10.9	13.2	8.5	14.5	6.6	8.4	4.4	3.1	3.5	2.8	4.0	3.9	10.1	8.5	3.8
Industrial Production (QoQ annualized, %)	3.1	6.5	3.5	4.8	4.8	5.4	-1.7	-1.1	-0.6	-2.1	-0.1	0.5	4.9	3.6	-0.6
Unemployment Rate (%)	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.7	3.8	4.1	4.3	4.5	5.4	3.6	4.2
Producer Price Index (YoY, %)	2.9	7.0	8.5	9.6	10.7	11.2	8.8	7.6	4.9	2.0	2.3	2.1	7.0	9.6	2.8
Consumer Price Index (YoY, %)	1.9	4.8	5.3	6.7	8.0	8.6	7.9	6.5	4.7	2.7	2.3	2.1	4.7	7.7	2.9
2. Balance of Payments															
Trade Balance (billion dollars)	-265	-267	-273	-285	-342	-312	-340	-339	-337	-333	-333	-335	-1,090	-1,333	-1,338
Current Account (billion dollars)	-189	-206	-226	-225	-291	-283	-267	-265	-263	-258	-258	-260	-846	-1,106	-1,040
3. Financial Indicators															
FF Rate Target (%)	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	1.50-1.75	2.75-3.00	3.25-3.50	3.25-3.50	2.75-3.00	1.75-2.00	1.25-1.50	0.00-0.25	3.25-3.50	1.25-1.50
Euro Dollar (3M) (%)	0.2	0.2	0.1	0.2	0.5	1.5	2.8	3.4	3.5	3.0	2.1	1.5	0.2	2.1	2.5
10-year Treasury Note's Yield (%)	1.6	1.6	1.3	1.5	1.9	2.9	2.9	2.8	2.7	2.7	2.6	2.6	1.5	2.6	2.7

Note: FF Rate Targets is end-of-period figures, Euro Dollar (3M) and 10-year Note's Yield are averages for periods. Current account balance for Q2 2022 is a forecast.
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)		
	2021 (Actual)	2022 (Forecast)	2023 (Forecast)	2021 (Actual)	2022 (Forecast)	2023 (Forecast)	2021 (Actual)	2022 (Forecast)	2023 (Forecast)
Euro Area	5.3	2.8	0.9	2.6	7.8	3.9	3520	893	1717
Germany	2.6	1.6	0.8	3.2	7.6	4.0	3189	1620	1910
France	6.8	2.5	1.2	2.1	5.6	3.3	102	- 339	- 378
Italy	6.6	3.1	1.0	2.0	6.6	2.3	516	60	145
UK	7.4	3.4	0.2	2.6	9.4	6.0	- 826	- 1196	- 960
Russia	4.7	- 10.0	-1.0	6.7	20.0	8.0	1223	1960	1240

2. Forecast by Demand Component (YoY, %)

	Euro Area			UK		
	2021 (Actual)	2022 (Forecast)	2023 (Forecast)	2021 (Actual)	2022 (Forecast)	2023 (Forecast)
Nominal GDP	7.4	6.0	3.3	7.5	8.1	1.9
Real GDP	5.3	2.8	0.9	7.4	3.4	0.2
Contribution by domestic demand	4.0	3.0	1.4	9.0	6.9	0.9
Contribution by foreign demand	1.3	- 0.2	- 0.6	- 1.5	- 3.6	- 0.7
Private consumption	3.6	2.8	1.7	6.2	3.9	0.0
Government consumption	3.9	1.0	1.0	14.3	- 0.3	1.3
Gross fixed capital formation	3.9	2.7	1.5	5.9	6.3	2.6
Inventory investment (contribution)	0.2	0.8	- 0.2	0.4	3.2	0.6
Exports	10.4	5.3	2.6	- 1.3	2.5	3.5
Imports	8.1	6.3	3.9	3.8	14.9	5.3

Note: 1. “Euro area" 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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