



Key Developments¹ & Chart of the week

24 Sep 2021

US current account deficit widens; Japan's deflation continues; major central banks are stirring

	Outcome	Previous	Comment
US current account (Q2)	-\$190.3bn	-\$189.4bn	A record (in \$)
Japan 'core' CPI (Aug, % y-o-y)	-0.4%	-0.6%	No end to mild deflation
Taiwan exp orders (Aug, m-o-m)	-3.7%	-2.9%	A leading world trade indicator
Eurozone 'flash' PMI (Sep)	56.1	59.0	Both mfg and services softer
Turkey policy rate (% pa)	18.0%	19.0%	A surprise – and curious – cut
Central banks	The Fed and BoE stand pat; but the Norges bank raises rates		

US current account. Slow but steady widening

- The US current account deficit increased slightly further in Q2, to a record US\$190.3 bn.²

Japan CPI. No end to deflation

- 'Headline' CPI fell 0.3% in August, and 0.4% from a year earlier, while consumer prices excluding food and energy fell 0.2% from July, and 0.4% from last August.
- Twenty years of zero or negative interest rates and various forms of 'QE' have yet to pull Japan out of deflation (although it might well have been even worse otherwise).

'Flash' PMIs. 'Delta' spread dampened activity in September

- The spread of the Delta virus damped manufacturing and (especially) services activity in September, both in the euro area and in the UK.
- Manufacturing activity also slowed in Japan, but services activity picked up.

Central banks. Not now in the US and the UK, but probably later

- The Fed stayed 'on hold', but foreshadowed likely "moderation in the pace of asset purchases".³
- The BoE also stood pat, but said "the case for some modest tightening" had "strengthened".⁴
- Norges Bank became the third 'advanced' economy central bank (after Iceland and Korea) to start 'normalising' monetary policy, raising its policy rate from zero to 0.25%.⁵
- New Zealand's central bank further tightened macro-prudential controls on mortgage lending.
- Turkey, in an odd move, reduced its official rate by 100 bp.⁶ The lira hit a new low.⁷

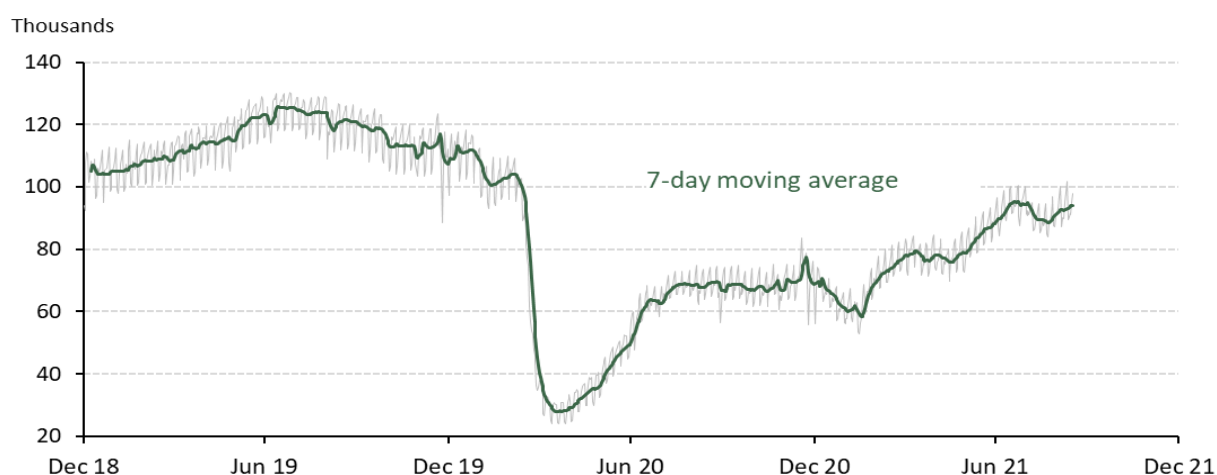
Taiwan export orders. Suggestive of slowing world trade developments

- This leading indicator fell 3.7% m-o-m in August, to 11% below its most recent, April, peak.⁸

Bottom line: *nothing major yet to challenge our World View: the next edition is imminent.*

Chart of the week. Daily commercial flights worldwide – a somewhat hesitant recovery

- As with the global economy, the upturn in new infections appears to be damping the recovery of global aviation.



Source: Flightradar24.com, US Transport Safety Administration, Saul Eslake, and Llewellyn Consulting.

Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 16 September. Thicker coloured lines are 7-day moving averages of daily data plotted in thin grey lines.

¹ **Key Developments** presents what in our judgement represent the past week's most important individual data, policy announcements, and any other developments that may support, or challenge, our understanding of the way in which key economies and financial markets are evolving.

These weekly judgements are cumulated and assessed in our quarterly **World View & Risks**. When an issue warrants particular consideration, we examine it in detail in our **Analysis** pieces. And when in our judgement the accumulated evidence warrants it, we modify our quarterly **World View & Risks**.

² The US current account deficit would have widened more than it did, but for a \$2 bn fall in the deficit on transfer payments. As a proportion of GDP the deficit narrowed by 0.1 ppt to 3.3%, which is well below the record of 6.3% in Q3 2006. However a gradual but steady deterioration seems likely as aggregate demand (boosted by fiscal stimulus) out-runs aggregate supply.

³ Chair Powell was however keen to stress that this would not "*carry a direct signal*" about the timing of any initial increase in interest rates – even though half of all FOMC participants now expect at least one rate rise next year.

⁴ In sharp contrast with the Fed, the BoE foreshadowed that any initial tightening of monetary policy would be implanted by raising rates rather than 'tapering' asset purchases.

⁵ The Norges Bank judged that "*there is no longer a need to maintain the current degree of monetary accommodation*". New Zealand's central bank, which held off from raising rates last month after the country went into another lockdown, this week further tightened macro-prudential controls on mortgage lending.

⁶ Turkey's move was a surprise. Its central bank cut policy rates by 1 ppt (having raised them by 10.75 ppt between August last year and February this year) despite those rates being below inflation (19.3% over the year to August). The CBRT cited the improving current account position and a marked slowing in commercial lending as reasons for the move, but markets suspected that it was in response to pressure from Turkey's President, who has sacked two previous Governors for raising rates. The Turkish lira promptly fell to a record low.

⁷ Amongst other, emerging market, central banks:

- **Brazil's** central bank raised its policy rate another 1 ppt to 6.25% (the fifth consecutive hike, for a total of 4.25 ppts) and foreshadowed a "*further adjustment of the same magnitude next month*".
- Other central banks to raise rates included **Hungary** (by 15 bp this time, down from 30 bp at its two previous meetings), **Paraguay** (by 50 bp, after 25 bp in August) and **Pakistan** (by 50 bp, the first increase in five years);
- Meanwhile the central banks of **South Africa, Indonesia, the Philippines and Taiwan** left their policy rates on hold, although Taiwan's central bank announced a further tightening of controls on real estate lending.

⁸ Orders for ICT products (which includes semi-conductor chips) fell 3.5%, erasing most of the gains recorded in June and July, to be 17.5% down from their most recent peak; while orders for electronic products fell 3.4% to be 13.4% down from their peak. Recent heavy rains appear to have put an end to what had been Taiwan's worst drought in over 55 years (which resulted in restrictions on the supply of water to Taiwan's "fabs"); but production in South-East Asia is still being curtailed by COVID restrictions.

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