S. Korea's Q1 GDP up

South Korea's economy grew faster than expected in the first quarter, thanks to a robust recovery of exports and facility investment, Yonhap News Agency reported Wednesday, citing central bank's data.

Asia's fourth-largest economy's gross domestic product (GDP) rose 1.7 percent in the first quarter from three months earlier, 0.1 percentage point higher than earlier expected, according to preliminary data from the Bank of Korea.

On a yearly basis, the country's annualized growth in the January-March period was also revised up to 1.9 percent, up 0.1 percentage point.

"Facilities investment grew by 6.1 percent, led by the growth of investment in machinery and transportation equipment," the central bank said in a statement.

"Exports increased by 2 percent, as exports of goods, such as motor vehicles and mobile phones, expanded," it said. South Korea's GDP shrank 0.9 percent last year, marking the first annual contraction since 1998, when the economy shrank 5.1 percent due to the Asian financial crisis. (KUNA)

Western Balkan leaders pleased with EU investment plan

Western Balkan leaders meeting in the Albanian capital Tirana Thursday voiced satisfaction with a large investment plan announced for the region by the European Union - which they all hope to join some day.

Albanian Prime Minister Edi Rama described the investment plan as the EU's "greatest historic move toward the Western Balkans." He said it would lead to "a fundamental improvement of the road, railway and port infrastructure, inter-connectivity, energy sector and digitalization."

Thursday's talks in Tirana brought together the leaders of Albania, Serbia, Kosovo, Bosnia, North Macedonia and Montenegro.

EU Enlargement Commissioner Oliver Varhelyi said the project would mobilize 9 billion euros ($11 billion) and potentially raise investment of up to 20 billion euros ($24 billion) in 2021-27 for the region, which has a combined population of about 18 million.

It's intended to spur long-term recovery after the COVID-19 pandemic and to better connect regional economies with each other and with the EU.

As a first success, Varhelyi announced the free roaming use of cellphones in the region. But Varhelyi warned that the plan "will give its results only if the region itself works for its regional market," urging closer cooperation in a part of the Balkans that was ravaged by war during the bloody break-up of the former Yugoslavia in the 1990s. (AP)

Stocks tick up, S&P 500 erases weekly loss

A woman and her trainer workout outside the New York Stock Exchange, June 7. Stocks moved higher on Wall Street, June 10 nudging the S&P 500 back into the green for the week. The benchmark index was up 0.6% in the early going, and the tech-heavy Nasdaq was up 0.4%. (AP)

Investors digest latest US inflation data

NEW YORK, June 10, (AP): Stocks edged higher Thursday, bringing the S&P 500 index out of the red for the week. Health care and technology companies were among the biggest gainers.

The S&P 500 index was up 0.2% as of 11:10 a.m. Eastern. The Dow Jones Industrial Average was up 79 points, or 0.2%, to 34,5260, and the Nasdaq Composite rose 0.2%. Bond yields were steady.

Stock prices rose, though they lost some momentum by midmorning, after the Labor Department said consumer prices jumped 5% in May, the biggest year-over-year increase since 2008. The figure was higher than the 4.6% rise that economists had expected,

While investors have been concerned about inflation for weeks, the May report seemed to reinforce the growing consensus that any increase in inflation will be temporary. A significant portion of the rise in consumer prices was tied to the sale of used cars, for example, which is largely attributed to the fact that many rental car companies are buying vehicles to beef up their fleets as people return to traveling.

"Keep in mind that as we start to make our way back to a full economic recovery, there is pent up demand and supply constraints from raw material and labor shortages," said Mike Loewengart, a managing director at E-Trade Financial. "This creates the type of inflation that the Fed believes is transitory, meaning it too shall pass. Whether or not they are correct remains to be seen."

The bond market was steady after the inflation data, with the yield of the 10-year U.S. Treasury note holding at 1.49%.

Investors also reacted positively to more data that showed continued improvement in the labor market. The number of Americans who filed for unemployment benefits last week fell by 9,000 to 376,000, another pandemic low.

Markets are also watching for developments from a summit of the Group of Seven in Britain. At the top of the leaders' agenda is helping countries recover from the coronavirus pandemic, which has killed more than 3.7 million people and wrecked economies.

Benchmarks fell in Paris and Frankfurt but rose in Tokyo and Shanghai. U.S. futures were little changed.

"There's a sense of every man for himself ahead of the U.S. inflation data this evening, a data point that has left markets in limbo and seems to be taking an interminably long time to arrive," Jeffrey Halley of Oanda said in a report.

Stimulus

The European Central Bank was expected to leave its stimulus efforts running at full steam at a policy setting meeting Thursday - even as the economy shows signs of recovery thanks to the easing of pandemic restrictions.

Markets are also watching for developments from a summit of the Group of Seven in Britain. At the top of the leaders' agenda is helping countries recover from the coronavirus pandemic, which has killed more than 3.7 million people and wrecked economies.

The G-7 leaders are meeting for three days at a British seaside resort. It's the first such gathering since before the pandemic.

Relations with China are another key concern, as Beijing and Washington remain at odds over trade and technology policies heading into the fourth year of a tariff war.

The Labor Department's release of the consumer price index comes shortly before a meeting next week of the Federal Reserve's Open Market Committee, which sets policy on interest rates and other measures.

Germany's DAX edged 0.1% lower to 15,564.78 while the CAC 40 in Paris lost 0.2% to 6,550.87. In Britain, the FTSE 100 picked up 0.3% to 7,099.18. U.S. futures were little changed, with the contract for the Dow industrials up 0.1% and that for the S&P 500 barely changed.

In Asian trading, Tokyo's Nikkei 225 rose 0.3% to 28,958.56 and the Kospi in South Korea picked up 0.3% to 3,224.64. In Hong Kong, the Hang Seng shed less than 4 points to 28,738.88, while the Shanghai Composite index advanced 0.5% to 3,610.86. Australia's S&P/ASX 200 gained 0.4% to 7,302.50.

On Wednesday, a slide in banks and industrial companies nudged stocks on Wall Street to modest losses after an early gain faded in the last half-hour of trading. Stocks championed by hordes of online retail investors, the "meme" stocks as they have become known, were volatile once again.

The S&P 500 slipped 0.2% to 4,219.55. The Dow Jones Industrial Average gave up 0.4% to 34,447.14, while the Nasdaq held up somewhat better, ending down just 0.1% at 13,911.75. The Russell 2000 index gave up 0.7% to 2,327.13.

In other trading, U.S. benchmark crude lost 2 cents to $69.94 per barrel in electronic trading on the New York Mercantile Exchange. It lost 9 cents to $69.96 per barrel on Wednesday.

Brent crude, the international standard, picked up 4 cents to $72.26 per barrel.

The U.S. dollar was trading at 109.47 Japanese yen, down from 109.64 late Wednesday. The euro weakened to $1.2169 from $1.2182.

WTO should 'punish' Chinese economic coercion: Australia

CANBERRA, Australia, June 10, (AP): The World Trade Organization should penalize "bad behavior when it occurs," Australia's prime minister said Wednesday ahead of a Group of Seven leaders' meeting in Britain where he hopes to garner support in a trade dispute with China.

Prime Minister Scott Morrison said Australia would be "working with others to buttress the role of the World Trade Organization and to modernize its rulebook where necessary."

"In my discussions with many leaders, I've taken great encouragement from the support shown for Australia's preparedness to withstand economic coercion in recent times," Morrison said in a speech in the Australian west coast city of Perth before leaving for the G-7 meeting in Cornwall.

The Australian government announced in December it would ask the WTO to intervene in its dispute with China over barley and expects other nations to become involved in the case.

China effectively ended imports of Australian barley in May 2020 by putting tariffs of more than 80% on the grain, accusing Australia of breaching WTO rules by subsidizing barley production and selling it in China at below production cost.

Trade in Australian seafood, wood, beef, wine and coal has also been disrupted since Australia angered China by requesting an independent inquiry into the origins of the coronavirus pandemic.

Chinese Foreign Ministry spokesperson Wang Wenbin said in Beijing that Australia and the G-7 nations "should do more to promote international cooperation in fighting the epidemic, advance world economic recovery and help developing countries accelerate their development, instead of creating conflicts and differences in the international community."

The Geneva-based WTO, which makes rules governing international trade, is facing calls for restructuring and reform as it struggles to forge a long-awaited world trade pact.

"A well-functioning WTO that sets clear rules, arbitrates disputes objectively and efficiently penalizes bad behavior when it occurs. This can be one of the most powerful tools the international community has to counter economic coercion," Morrison said.

U.S. Secretary of State Antony Blinken said last month the United States will not leave Australia alone to face coercion from China and that such behavior toward U.S. allies will hamper improvement in relations between Washington and Beijing. Morrison said in his speech that the most practical way to address economic coercion would be to restore the WTO's binding dispute settlement system.

Economic Update

NBK Economic Research Department | 10 June 2021

Oil Markets

Oil tops $70 on improving oil demand outlook and continued supply tightness

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Summary

Oil prices recently reached levels not seen in more than two years, with Brent topping $70 on 1 June, buoyed by signs that global oil demand growth is accelerating while oil supply remains limited by OPEC policy. Energy watchdogs are upgrading their oil demand growth assessments, and OPEC+ could act in the next month or so to prevent a supply deficit opening up and prices overheating. Recent moves by activists and investors to pressure oil majors to embrace climate-friendly, net-zero carbon practices could have

- Oil prices recently set another milestone on their post-pandemic recovery, with Brent futures breaking though the important $70 level on 1 June and then extending that gain to close at a more than two-year high of $71.89/bbl (+38.8% ytd) last Friday. West Texas Intermediate (WTI), the US crude oil benchmark, closed up at $69.62/bbl (+45.0% ytd), a remarkable resurgence from its low of $-37.6/bbl on the 28 of 'Black April' last year amid the most severe cratering of oil demand on record (Charts 1-2.)
- Spurring the recent uptick in prices has been the steady but uneven recovery in global oil demand, with the outlook for major economies improving in tandem with greater vaccine penetration. Industrial activity, consumer spending and employment, which in the US has been supported by a multi-trillion dollar stimulus package, are all up, pointing to an acceleration in economic activity. Inflation has moved higher in response and on the back of constrained global supply chains. This is most visible in the 23% year-to-date and the 61% y/y surge in global commodity prices. (Chart 3.) The OECD just raised its 2021 global economic growth estimate, by 0.2% pts to 5.8%.
- Both the International Energy Agency (IEA) and OPEC are also sounding more bullish lately. The IEA now estimates that oil consumption could return to pre-pandemic levels in a year's time, a significant upgrade from its assessment in March that demand would not likely recover to 2019 levels until 2023. The IEA even went so far as to warn that unless OPEC+ brings on more supply in the coming months the market is at risk of overheating, with prices facing upward pressure as the gap between supply and demand widens. Even the potential return of Iranian barrels would not be able to meet this shortfall.
- While oil demand and supply are currently roughly in balance, a supply deficit of just over 1 mb/d is expected to open up in 3Q21 on current trends, the IEA estimated in its May oil market report. Without a response from OPEC+, this shortfall could then widen to around -2.5 mb/d by 4Q21 and the average for the whole year would be -1.1 mb/d, slightly less than OPEC's deficit estimate of -1.4 mb/d. The IEA has oil demand growing by 5.4 mb/d (avg.) for 2021 as a whole, but is likely to upgrade its growth forecast shortly. (Chart 4.)
- In terms of the supply overhang, according to the OPEC Secretariat, OECD commercial crude and refined products stocks fell 49 mb to 2,987 mb by end-March. (Chart 5.) This put stocks at around 37 mb above the 5-year average and covering 67 days' worth of consumption (vs. 70 days at end-2020).
- OPEC+, for its part, has shown some restraint in keeping supply in check and has benefitted from moving to a monthly cycle of meetings, both in terms of being able to react more quickly to shifting demand and in terms of maintaining group unity. OPEC+ compliance was 114% in April. (Chart 6.)
- At its 1 June meeting, OPEC+ reaffirmed the current production schedule that was agreed in April, which sees output increasing incrementally by 841 kb/d in July following hikes of 600 kb/d May and 700 kb/d in June (these figures include the restoration of Saudi Arabia's additional production cuts). In total, more than 2 mb/d of withheld supply will have been brought back to the market by the end of July—and this excludes any extra output that OPEC members Libya, Venezuela and Iran, which are not subject to quotas, will provide. Of the three, only Iran has the capacity for sizeable increases.

Chart 1: Benchmark crude oil prices
($/bbl)
ICE Brent
NYMEX West Texas Intermediate (WTI)
Source: Refinitiv

Chart 2: ICE Brent forward curve
($/bbl)
1-Jun-21
3-May-21
Source: Refinitiv

Chart 3: Bloomberg Commodities Spot Index
Bloomberg Commodities Spot Index (LHS)
Year-to-date gain (%, RHS)
Source: Bloomberg

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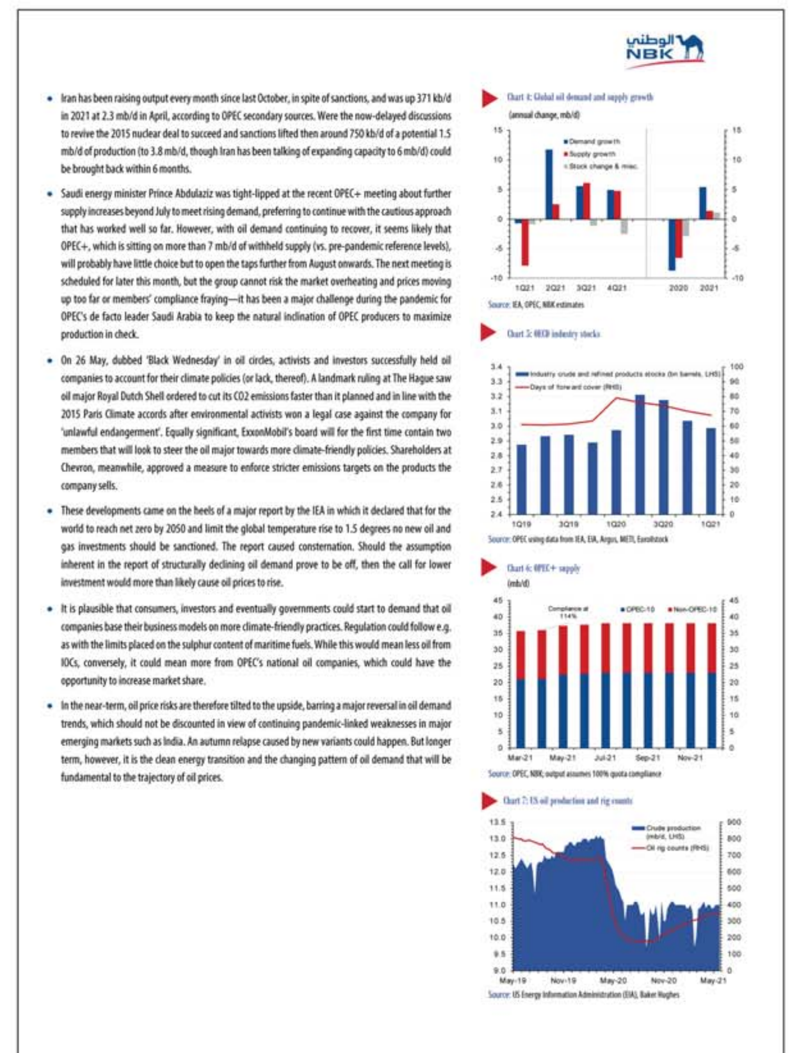

- Iran has been raising output every month since last October, in spite of sanctions, and was up 371 kb/d in 2021 at 2.3 mb/d in April, according to OPEC secondary sources. Were the now-delayed discussions to revive the 2015 nuclear deal to succeed and sanctions lifted then around 750 kb/d of a potential 1.5 mb/d of production (to 3.8 mb/d, though Iran has been talking of expanding capacity to 6 mb/d) could be brought back within 6 months.
- Saudi energy minister Prince Abdulaziz was tight-lipped at the recent OPEC+ meeting about further supply increases beyond July to meet rising demand, preferring to continue with the cautious approach that has worked well so far. However, with oil demand continuing to recover, it seems likely that OPEC+, which is sitting on more than 7 mb/d of withheld supply (vs. pre-pandemic reference levels), will probably have little choice but to open the taps further from August onwards. The next meeting is scheduled for later this month, but the group cannot risk the market overheating and prices moving up too far or members' compliance fraying—it has been a major challenge during the pandemic for OPEC's de facto leader Saudi Arabia to keep the natural inclination of OPEC producers to maximize production in check.
- On 26 May, dubbed 'Black Wednesday' in oil circles, activists and investors successfully held oil companies to account for their climate policies (or lack, thereof). A landmark ruling at The Hague saw oil major Royal Dutch Shell ordered to cut its CO2 emissions faster than it planned and in line with the 2015 Paris Climate accords after environmental activists won a legal case against the company for 'unlawful endangerment'. Equally significant, ExxonMobil's board will for the first time contain two members that will look to steer the oil major towards more climate-friendly policies. Shareholders at Chevron, meanwhile, approved a measure to enforce stricter emissions targets on the products the company sells.
- These developments came on the heels of a major report by the IEA in which it declared that for the world to reach net zero by 2050 and limit the global temperature rise to 1.5 degrees no new oil and gas investments should be sanctioned. The report caused consternation. Should the assumption inherent in the report of structurally declining oil demand prove to be off, then the call for lower investment would more than likely cause oil prices to rise.
- It is plausible that consumers, investors and eventually governments could start to demand that oil companies base their business models on more climate-friendly practices. Regulation could follow e.g. as with the limits placed on the sulphur content of maritime fuels. While this would mean less oil from IOCs, conversely, it could mean more from OPEC's national oil companies, which could have the opportunity to increase market share.
- In the near-term, oil price risks are therefore tilted to the upside, barring a major reversal in oil demand trends, which should not be discounted in view of continuing pandemic-linked weaknesses in major emerging markets such as India. An autumn relapse caused by new variants could happen. But longer term, however, it is the clean energy transition and the changing pattern of oil demand that will be fundamental to the trajectory of oil prices.

Chart 4: Global oil demand and supply growth
(annual change, mb/d)
Demand growth
Supply growth
Stock change & misc.
Source: IEA, OPEC, NBK estimates

Chart 5: OECD industry stocks
Industry crude and refined products stocks (bn barrels, LHS)
Days of forward cover (RHS)
Source: OPEC using data from IEA, EIA, Argus, METI, Euroilstock

Chart 6: OPEC+ supply
(mb/d)
Compliance at 114%
OPEC-10
Non-OPEC-10
Source: OPEC, NBK; output assumes 100% quota compliance

Chart 7: US oil production and rig counts
Crude production (mb/d, LHS)
Oil rig counts (RHS)
Source: US Energy Information Administration (EIA), Baker Hughes

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China flays US bill to boost competitiveness

BEIJING, June 10, (AP): Beijing has denounced a U.S. bill aimed at boosting U.S. technology to improve American competitiveness, calling it a thinly veiled attack on China's political system and an attempt to hinder its development.

The Foreign Affairs Committee of China's ceremonial legislature, the National People's Congress, issued a scathing statement on Wednesday expressing its "strong dissatisfaction and resolute opposition" to the U.S. Innovation and Competition Act." The bill passed with overwhelming bipartisan support in the Senate on Tuesday.

"This bill seeks to exaggerate and spread the so-called 'China threat' to maintain global American hegemony, using human rights and religion as excuses to interfere in China's domestic politics, and deprive China of its legitimate development rights," the statement said.

"No force should expect that China will swallow any bitter fruit that harms China's sovereignty, security or development interests," it said. It echoed language used by President Xi Jinping, who has adopted an aggressive foreign policy that responds harshly to any perceived attacks on China's reputation.

The statement also attacked provisions of the bill expressing support for Taiwan, the self-governing island democracy that China claims as its own territory; references to Hong Kong, where Beijing is accused of rolling back democracy; and criticism of Chinese policy in the northwestern territory of Xinjiang, the site of mass detentions of minority Muslim groups.

Those and related issues are "purely China's internal affairs and absolutely no foreign interference will be tolerated," the statement said.

At a daily briefing, Foreign Ministry spokesperson Wang Wenbin said China-related content in the bill was "full of Cold War zero-sum thinking " which "distorts the facts (and) smears China's development path and domestic and foreign policies."

"It is a matter for the U.S. itself as to how to develop and enhance its competitiveness. But we firmly oppose the U.S. making an issue of China and treating China as an imaginary enemy," Wang said. China has enacted various policy blueprints intended to enhance its own competitiveness and build its prowess in advanced technologies. Such plans tend to be focused entirely on the economy and business, areas where the ruling Communist Party and government play a huge role.

Issue

The 68-32 Senate vote demonstrated how confronting China is a rate issue that can unite both parties in Congress at a time of intense partisan division.

But Senators have sought to call attention to China's growing influence without stoking anti-Asian rhetoric at a time of rising hate crimes against Asian Americans.

The centerpiece of the bill is a $50 billion emergency allotment to the Commerce Department to support semiconductor development and manufacturing through research and incentive programs previously authorized by Congress. The bill's overall cost would increase spending by about $250 billion, with most of the outlays in the first five years.

Other parts of the bill spell out national security concerns and target money-laundering schemes or cyberattacks by entities on behalf of the Chinese government. There are also "buy America" provisions for infrastructure projects in the U.S.

Some provisions reflect concerns over China's handling of the pandemic. One would prevent providing federal money to the Wuhan Institute of Virology as investigations proceed into the origins of the virus and suspected connections to the lab's research. Cases of the virus were first recorded in the central Chinese city of Wuhan, but China has rejected any links between the outbreak and the institute.

It's unclear whether the measure will find support in the Democratic-led House, where the Science Committee is expected to soon consider that chamber's version.

The bill's passage comes days after President Joe Biden expanded a list of Chinese companies whose shares are off-limits to American investors because of their purported links to the Chinese military and surveillance.

That updated an order signed last year by Biden's predecessor, Donald Trump, that added to antagonisms over trade and technology.

China demanded Washington withdraw the order and said it was prepared to take "necessary measures to resolutely safeguard the legitimate rights and interests of Chinese enterprises."

The executive order, which takes effect Aug. 2, is the latest indication that Biden has not softened the U.S. stance on alleged security risks from companies American officials say are linked to the Chinese "military and industrial complex."

Tariffs on Chinese products that were imposed under Trump, triggering similar actions from Beijing, mostly remain in place.