

Cytonn 2021 Markets Outlook

Global Markets Outlook

The year 2020 was a turbulent year for markets worldwide, due to the effects of the COVID-19 pandemic on global trade and disposable incomes as unemployment rates increased globally. According to the World Bank, the global economy is estimated to have contracted by 4.3% in 2020, compared to the 2.3% growth, recorded in 2019. Governments played a key part in containing the economic fallout caused by the pandemic by adopting an accommodative monetary policy stance, such as lowering interest rates and providing much-needed stimulus packages, effectively supporting liquidity in markets. According to the World Bank's Global Economic Prospects 2021, the global economy is projected to recover in 2021 to a growth rate of 4.0%.

Growth in 2021 shall be supported by the following three key themes:

i. Pick Up in Global Trade

According to the World Bank, global trade contracted by 13.4% in 2020, a larger contraction than the 9.9% contraction recorded during the 2008/2009 financial crisis. Global trade is however expected to recover faster than during the financial crisis. By November 2020, six months from the peak of the pandemic, global trade was at 99.5% the April levels, compared to an 83.5% recovery in global trade as at May 2009, a similar 6-month period following the financial crisis. Overall, in 2021 global trade is projected to grow at 5.1%.

ii. Accommodative Monetary Policies

Most Central's Banks came up with accommodative policies to help inject liquidity in the money markets which would lead to increased cash for onward lending to individuals and companies leading to economic growth. We expect most of this to remain in place into 2021 to support growth. The table below shows how Central Banks of major global economies that have moved to maintain their interest rates so far:

No.	Country	Central Bank	Rate in Dec 2019	Current Rate	Reduction Margin
1	USA	Federal Reserve	1.50%-1.75%	0.00%-0.25%	1.50% points
2	Australia	Reserve Bank of Australia	0.75%	0.10%	0.65% points
3	Malaysia	Central Bank of Malaysia	3.00%	1.75%	1.25% points
4	China	People's Bank of China	4.15%	3.85%	0.30% points
5	England	Bank of England	0.75%	0.10%	0.65% points

iii. Recovering Commodity Prices

Commodity prices declined in H1'2020 due to subdued demand before recovering in H2'2020 as markets gradually opened and demand increased. According to the World Bank Commodities

Markets Outlook, agriculture and non-energy commodities gained by 2.8% and 1.1% respectively in 2020, with agriculture forecasted to gain further by 2.8% and non-energy commodities forecasted to gain by 1.1% in 2021. Metals and minerals recorded a 1.1% decline while crude oil declined 33.2% in 2020, with the World Bank forecasting a 2.7% growth for metals and minerals and a 7.3% growth for crude oil in 2021. The performance of oil, metals and minerals was driven down by a decline in demand as a result of significant reduction in travel coupled with decline in manufacturing as plants slowed down operations. As travel restrictions are expected to decrease in 2021, crude oil is expected to rebound due to the subsequent increased demand. With the resumption of travel, trade and manufacturing activities we expect that commodity prices will increase based on demand increases.

Below is a summary of the regional growth rates by country as per the World Bank:

World GDP Growth Rates						
	Region	2017	2018	2019	2020e	2021f
1.	China	6.8%	6.6%	6.1%	2.0%	7.9%
2.	India	7.2%	6.1%	4.2%	(9.6%)	5.4%
3.	Kenya	4.9%	6.3%	5.4%	1.0%	4.7%
4.	Sub-Saharan Africa*	2.7%	2.6%	2.4%	(3.7%)	2.7%
5.	Middle East, North Africa	1.1%	0.5%	0.1%	(5.0%)	2.1%
6.	Brazil	1.3%	1.8%	1.4%	(4.5%)	3.0%
7.	United States	2.4%	3.0%	2.2%	(3.6%)	3.5%
8.	Euro Area	2.5%	1.9%	1.3%	(7.4%)	3.6%
9.	South Africa (SA)	1.4%	0.8%	0.2%	(7.8%)	3.3%
10.	Japan	1.9%	0.6%	0.3%	(5.3%)	2.5%
Global Growth Rate		3.1%	3.0%	2.3%	(4.3%)	4.0%

***Including South Africa**

Source: World Bank

It is key to note that growth will largely be supported by the recovery in Developed and Emerging Markets but the African markets and other frontier markets shall lag the recovery.

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

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