Cytonn 2022 Markets Outlook

Global Markets Outlook

2021 saw the global economy rebound from the effects of the COVID-19 pandemic which impacted global trade by occasioning lock downs and restrictions aimed at curbing the spread of the virus. According to the World Bank's Global Economic Prospects - 2022, the global economy is expected to rebound by 5.5% in 2021, supported by the increased vaccine inoculation, recovery of commodity prices and the accommodative monetary policies that most economies adopted in 2020. However, the World Bank projects the global economy to grow at a slower rate of 4.1% in 2022, with the key inhibitors being the rising global inflation due to high fuel and energy prices and persistent supply chain constraints, uneven vaccine distribution and inoculation, and the expected tightening of the accommodative monetary policies.

Growth in 2022 shall be shaped by the following three key themes:

i. **Slowdown in Global Trade**

According to the World Bank, global trade rebounded by 9.5% in 2021, driven by improved demand due to reduced pandemic restrictions, sustained economic stimulus packages and accommodative monetary policies. However, the emergence of new variants which have necessitated imposition of new COVID-19 restrictions in some economies, uneven vaccine rollout, and phasing out of economic stimulus packages in most nations as they seek to tame the rising inflation rates is expected to slow down global trade to a growth of 5.8% in 2022. Services trade is also expected to remain subdued, with key sectors such as tourism recording slow recovery due to the travel restrictions being imposed around the world to curb the spread of the Omicron COVID-19 variant, coupled with supply chain disruptions.

ii. **Tightening Monetary Policies**

In 2021, most Central's banks maintained the accommodative monetary policies adopted in 2020 with the intention to spur economic growth. We expect most of these accommodative stances to be tightened, given the increasing global inflation as a result of high oil and energy prices, coupled with persisting supply chain constraints. Tightening of monetary policy will be driven by the need to control the surging inflation by reducing the monetary supply and easing upward cost pressures.

The USA Federal Reserve is poised to increase its benchmark rate in 2022 in a bid to curb the surging inflation that peaked at 7.0% in December 2021, the highest it has been since 1982. On the other hand, the Bank of China (BOC) has adopted a more accommodative policy, easing the benchmark lending rate to 3.70% in January 2022, from 3.80% in December 2021 in-order to support a slowing economy as a result of reintroduction of restrictions to curb the increasing COVID-19 infection rates. The table below highlights the policy stance adopted by the Central Banks of major economies;

No	Country	Central Bank	Previous Rate	Current Rate	Margin
1	USA	Federal Reserve	0.00% - 0.25%	0.00% - 0.25%	-

No	Country	Central Bank	Previous Rate	Current Rate	Margin
2	Australia	Reserve Bank of Australia	0.10%	0.10%	-
3	Malaysia	Bank Negara Malaysia	1.75%	1.75%	-
4	China	Bank of China	3.80%	3.70%	(0.10%) points
5	England	Bank of England	0.10%	0.25%	0.15% points

iii. **High Commodity Prices**

Global commodity prices registered a positive performance in 2021, with energy prices recording the highest gain of 79.0%, compared to the 31.7% decline experienced in 2020. The significant increase can be attributed to the recovery in global demand following the re-opening of major economies, a mismatch between demand and supply, and high costs of shipping. Fertilizers, metals & minerals, non-energy commodities and agriculture, similarly registered gains of 71.1%, 47.1%, 31.7% and 23.0%, respectively, while precious metals registered a slower growth of 5.2% which was significantly lower than the 26.6% gain recorded in 2020. The slower gains by precious metals can be attributed to improved economic conditions from the pandemic, which have reduced investor demand for them as a primary store of value. Energy and Oil prices are expected to remain elevated, mainly attributable to higher demand which has continued to outweigh supply.

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

World GDP Growth Rates

	Region	2018	2019	2020	2021e	2022f
1.	India	6.5%	4.0%	(7.3%)	8.3%	**8.7%**
2.	China	6.6%	6.0%	2.2%	8.0%	**5.1%**
3.	Kenya	6.3%	5.0%	(0.3%)	5.0%	**4.7%**
4.	Middle East, North Africa	0.8%	0.9%	(4.0%)	3.1%	**4.4%**
5.	Euro Area	1.9%	1.6%	(6.4%)	5.2%	**4.2%**
6.	United States	2.9%	2.3%	(3.4%)	5.6%	**3.7%**
7.	Sub-Saharan Africa*	2.6%	2.5%	(2.2%)	3.5%	**3.6%**
8.	Japan	0.8%	(0.2%)	(4.5%)	1.7%	**2.9%**
9.	South Africa	0.8%	0.1%	(6.4%)	4.6%	**2.1%**
10.	Brazil	1.3%	1.2%	(3.9%)	4.9%	**1.4%**
	Global Growth Rate	**3.0%**	**3.1%**	**(3.4%)**	**5.5%**	**4.1%**

Including South Africa

Source: World Bank

It is key to note that growth around the world in 2022 is expected to be slower as compared to the rebound recorded in 2021 mainly attributable to rising global inflation, high fuel and energy prices, persistent supply chain constraints, and the expected tightening of the accommodative monetary policies. Growth in the Emerging and developing markets is expected to weigh down the global economy mainly due to lower vaccination rates, tighter fiscal and monetary policies, and emergence of new variants of COVID-19.