

iFlow

VISION

November 30, 2021

2022 Macro Themes: Wondrous Growth and Inflation

In our annual year ahead preview, BNY Mellon's Markets Strategy Team identify six crucial trends that will heavily influence market action in 2022.

1. US Tightening: Cross-border US Treasury flow is collapsing, posing risks if the Federal Reserve's stance turns more hawkish. We expect three rate hikes through year-end.

2. China Easing: The 2021 policy error of fiscal and monetary tightening will not be repeated in 2022. Investment and exports remain key as the "zero COVID" policy suppresses consumer demand.

3. Europe Outperforming UK: Amid a difficult winter, markets have factored weakness in the eurozone, while giving the UK recovery the benefit of the doubt.

4. iFlow EM Recovery: Following a sudden stop in 2020, EM flows will continue to recover very gradually on FX valuations and higher carry.

5. Asia Zero Tolerance: Steady vaccination rates, progressive reopening, accommodative fiscal and monetary policies support APac growth in 2022.



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2022 Macro Themes

Wondrous Growth and Inflation

Growth and inflation overshoot consensus in 2021 thanks to the implementation of new technologies to fight the pandemic. Global inflation overshoot consensus by more than 100 basis points. BNY Mellon's 2022 central scenario incorporates another year of global inflation and growth overshooting consensus on travel, lodging and entertainment recovery.

Six Key Macro Drivers

- **US Tightening:** US health duration, cross-border US Treasury flow is collapsing, posing risks if stance turns more hawkish. We expect 3 rate hikes through year-end.
- **China Easing:** CGB buying slowed significantly in recent months. The 2021 policy error of fiscal and monetary tightening will not be repeated in 2022. Investment and exports remain key as the "zero COVID" policy suppresses the consumer.
- **Europe Outperforming UK:** EUR FX holdings are very negative. GBP holdings much higher. Amid a difficult winter markets have factored weakness in the eurozone, while giving the UK recovery the benefit of the doubt.
- **iFlow EM Recovery:** EM flow recovering but at only a fraction of historical patterns. Following a sudden stop in 2020, EM flows will continue to recover very gradually on FX valuations and higher carry.
- **Asia Zero Tolerance:** Asia FX hedging is happening despite equities buying. Steady vaccination rates, progressive reopening, accommodative fiscal and monetary policies support APac growth in 2022, mainly in ASEAN.
- **Commodities and Inflation:** Profitability and holdings of commodities was extreme into the recent dip. Commodity prices have eased off in recent weeks, reopening and inflation should cause the rally to resume.

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6. Commodities and Inflation: Commodity prices have eased off in recent weeks, but reopening and inflation should cause the rally to resume.

To read our ***2022 Macro Themes***, click on the thumbnail to the right.

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