

## Weekly Flash

### U.S. fiscal package will drive GDP growth

#### MARKET PERFORMANCES (as of March 12, 2021 – 17:15 CET)

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
S&P 500 Index	3'921.59	2.07%	4.41%	Gold	1'710.71	0.64%	-9.85%
S&P/Toronto Stock	18'746.14	1.99%	7.53%	Silver	25.64	1.67%	-2.83%
EuroStoxx 50	3'828.21	4.32%	7.76%	Oil WTI	65.75	-0.51%	35.51%
SMI Index	10'840.98	2.20%	1.28%	EUR/USD	1.1940	0.29%	-2.23%
DAX Index	14'495.44	4.13%	5.66%	EUR/CHF	1.1091	-0.22%	-2.60%
Nikkei Index	29'717.83	2.96%	8.28%	USD/CHF	0.9289	-0.24%	4.78%
Emerging Market Index	76'294.00	1.30%	6.42%	USD/JPY	109.03	-0.83%	5.39%
Yield 10Y US Treasuries	1.630	0.0630	0.7152	CAD/USD	0.8009	-1.40%	-1.96%
Yield 10Y German Bund	-0.297	0.0067	0.2776	USD/CNY	6.5084	-0.18%	-0.27%

[Source: Bloomberg]

#### Summary

- The new fiscal package will soon become law and not only drive U.S. growth but also be beneficial for the economies of major trading partners.
- The recent acceleration in Asian exports shows that current consensus estimates for global growth in 2021 may be too conservative.

#### U.S. fiscal stimulus package approved

After the senate's approval the house also passed President Biden's \$1.9 trillion stimulus package on Wednesday. The latest version of the bill includes stimulus payments of \$1400 per eligible person, the extension of key unemployment programs, aid to small businesses, around \$350 billion for the state and local governments, an increase in tax credits for low- and middle-income families, and \$160 billion for the vaccination and testing program. Extra unemployment benefits, which were originally set to expire on March 14, will continue at \$300 per week through September 6. Without any doubt, the huge fiscal package will increase U.S. GDP growth in 2021. However, it is highly likely that only a part of the new round of stimulus will end up in the economy. According to recent data from the Census Bureau, 73% of households who received a stimulus check in the first half of February, saved it or paid down debt. A recent survey from Bank of America shows that even in the lowest-income group 53% of people said they either plan to save, pay off debt or invest money received by stimulus checks. Thus, fears that the U.S. economy may overheat due to the new stimulus program may be exaggerated. In our view, inflation will likely moderate after a temporary rebound in the second quarter on base effects.

#### OECD revises up forecasts on global growth

According to the Organisation for Economic Cooperation and Development (OECD), the new U.S. stimulus package as well as growing evidence of vaccine efficacy, will drive a faster than expected global growth recovery. The Paris-based organization increased its world growth forecast for 2021 from 4.2% to 5.6% and for 2022 from 3.7% to 4.0%. Global output is expected to rise above pre-pandemic levels by mid-2021, albeit with large

divergences between individual countries. While China's GDP is expected to increase by 7.8% in 2021 and U.S. GDP to expand by 6.5%, the Eurozone economy will grow at a more moderate pace of 3.9% given ongoing government restrictions and a relatively slow vaccination path so far. According to OECD Chief Economist Laurence Boone, the U.S. fiscal package would not only boost U.S. GDP and create up to 3 million new jobs in 2021, it would also lead to significant demand spill overs to major trading partners, boosting growth by 0.5%-1% in Canada and Mexico, and between 0.25% and 0.5% in the Eurozone and China.

#### Acceleration in Asian export momentum

China's exports jumped more than 60% in dollar terms during the first two months of 2021 compared to a year ago, resulting from a low base during the first two months of 2020 when the economy was in lockdown, but also reflecting rising global demand for manufactured goods. The Chinese government is targeting growth of more than 6% for 2021, which we believe to be a relatively conservative goal. The government also signalled a more restrained monetary and fiscal policy regime after last year's record high stimulus program. South Korean exports increased by 9.5% in February, driven by semiconductor and car shipments, which surged by around 13% and almost 50%, respectively. The Bank of Korea sees the economy expanding by 3% in the current year, largely driven by exports to China, the U.S. and the European Union. Taiwan's exports rose by 9.7% in February compared to a year ago, mainly resulting from rising shipments to China, the U.S. and Singapore. Based on historical relationships with total Asian trade, strong export data from China, South Korea and Taiwan suggest that Asia Pacific exports could have gained strong momentum in 2021.

#### Conclusion

**At around 10% of GDP, the approved fiscal package should be beneficial for the U.S. economy and also drive global growth. The OECD's massive increase in its global growth forecast shows that consensus estimates for world GDP growth may be too low. Strong export data from several Asian economies already point to a pick-up in global trade.**

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