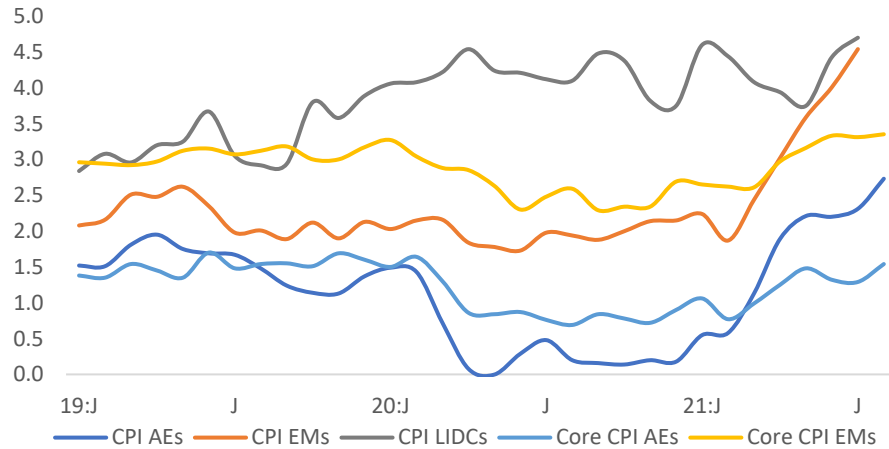




## Global Interest Rates Outlook 2022: “Trending Upward”

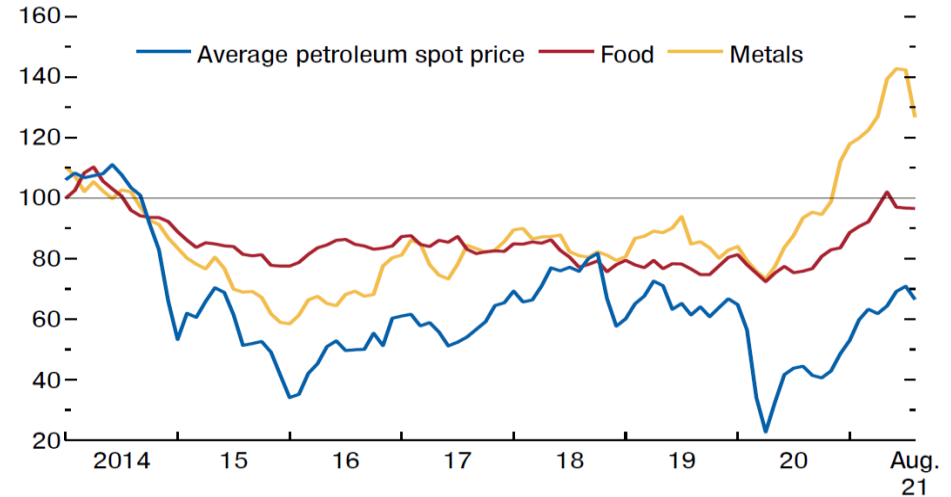
# Global inflation has increased since early 2021 driven by firming demand, supply chain challenges & input shortages, rapidly rising commodity prices

### Inflation by Country Group (% YoY Change)

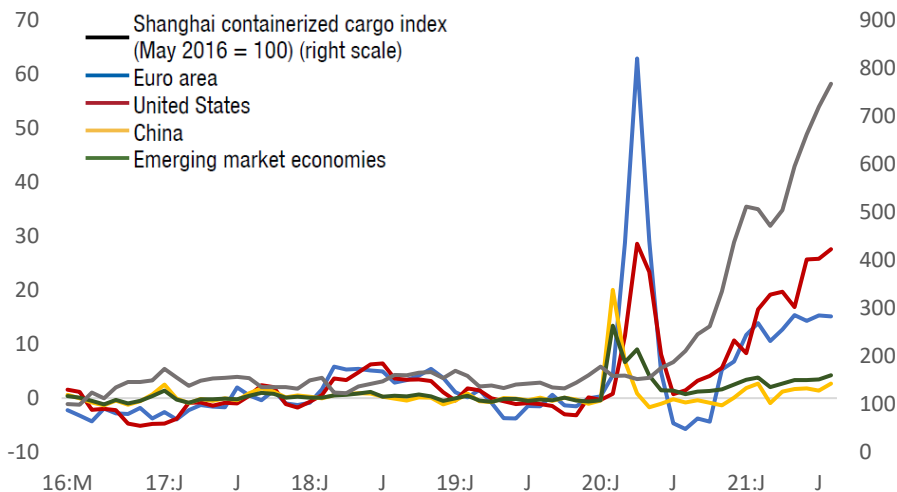


AE=advanced economies, EM=emerging economies, LIDCs = low income developing countries

### Commodity Prices (Indexed to 2014 =100)



### Supply Chain Disruptions Index



- ✓ Inflation rates have increased rapidly worldwide, although there are differences in the extent of inflation pressures across countries.
- ✓ Global inflation drivers: (i) supply bottlenecks, (ii) rising commodity prices, (iii) country-related policies, (iv) currency depreciation push up import prices.
- ✓ Global inflation is expected to come down to pre-pandemic levels in 2022, once supply-demand mismatches resolve.
- ✓ Central banks worldwide have taken actions to keep inflation and inflation expectations in check.

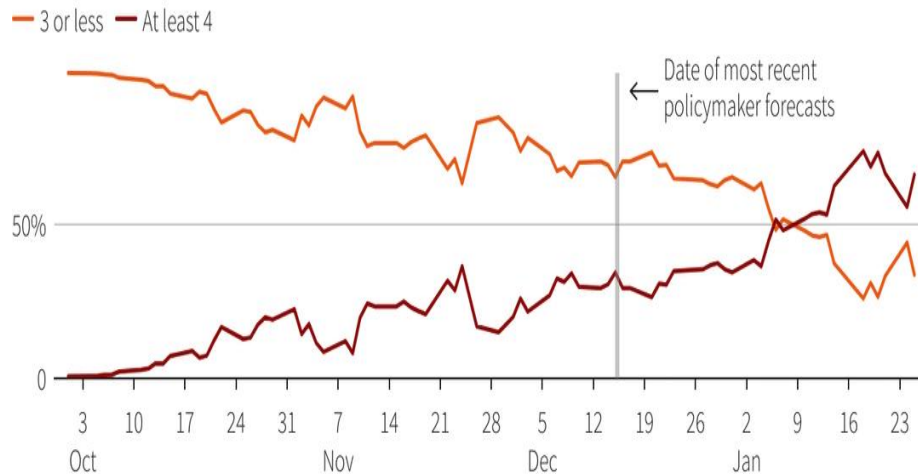


# US Federal Reserve shifts to battling inflation, citing possible first interest rate hike in March

US 10-Year Treasury Yield (2000-2022YTD), %



Probability of US' Interest Rate Hikes, %



- ✓ The US Federal Reserve stated on 27<sup>th</sup> Jan that it is likely to hike the key interest rate in March (assuming that conditions are appropriate to do so), and reaffirmed its plan to end bond purchases in that same month.
- ✓ During December meeting, Fed officials voted to raise the key interest rate 3 times in 2022. The key interest rate is projected to be as high as 1.125% by end-2022 and 2.125% by end-2023 (vs. 0.625% and 1.625% respectively during Sept votes).
- ✓ The market has already moved beyond and interest rate futures imply the probability of four or more hikes in 2022 is above 60% and rising.
- ✓ Inflation has been higher, broader and lasted longer than the US officials had anticipated. CPI rose 7% YoY in 2021, the quickest pace since 1982.
- ✓ A strong labor market has also made the Fed's change in tone and approach easier.
- ✓ The 10-year US Treasury yield rose to 1.845% on 27<sup>th</sup> Jan (26<sup>th</sup> Jan: 1.782%), widened 29bps year-to-date on the impending interest rate hikes.

# US' key statistics forecasts

## US' Key Macroeconomic Projections

### Real GDP, % YoY

FOMC	2021e	2022f	2023f
Mar-21	6.5	3.3	2.2
Jun-21	7.0	3.3	2.4
Sep-21	5.9	3.8	2.5
Dec-21	<b>5.5</b>	<b>4.0</b>	<b>2.2</b>

### Personal Consumption Expenditure Inflation, %

FOMC	2021e	2022f	2023f
Mar-21	2.4	2.0	2.1
Jun-21	3.4	2.1	2.2
Sep-21	4.2	2.2	2.2
Dec-21	<b>5.3</b>	<b>2.6</b>	<b>2.3</b>

### Core Personal Consumption Expenditure Inflation, %

FOMC	2021e	2022f	2023f
Mar-21	2.2	2.1	2.1
Jun-21	3.0	2.1	2.1
Sep-21	3.7	2.3	2.2
Dec-21	<b>4.4</b>	<b>2.7</b>	<b>2.3</b>

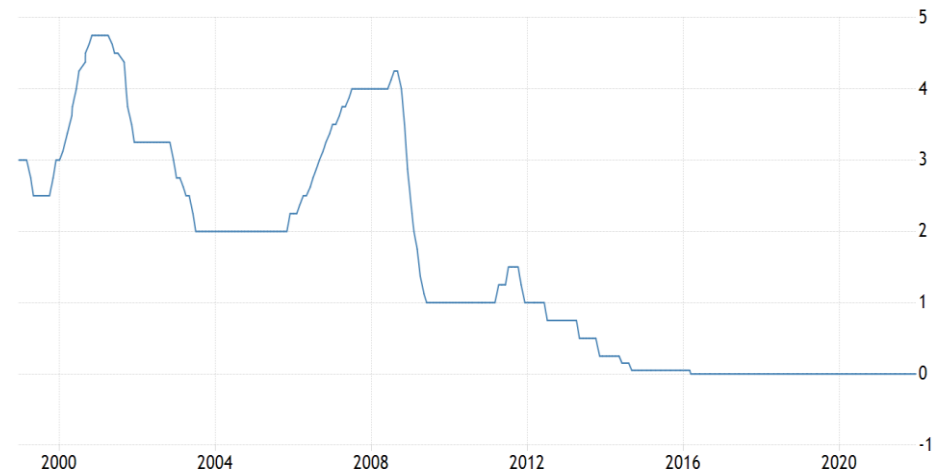
- ✓ The overall US economic activity has picked up - consumer spending rose, manufacturing has been buoyant, trade deficit narrowed sharply as exports surged to a record high, and businesses build inventory steadily.
- ✓ Unemployment rate was at 3.9% as at end-2021, a 21-month low, and projected at pre-pandemic low of 3.5% by end-2022.
- ✓ Consumer confidence improved further, suggesting consumer spending and the economy would continue to expand in 2022.
- ✓ Potential risks: emerging wave of covid-19 infections, high inflation and lingering supply chain issues could significantly restrain growth in 1H22.
- ✓ **Economists scaled down US' quarterly growth in 2022: 1Q22 to 2% (vs. previously 3%), 2Q22 to 3% (vs. 3.5%), 3Q22 to 2.75% (vs. 3%).**
- ✓ **US policymakers project US' GDP growth of 5.5% in 2021 and 4.0% in 2022.**

# EU inflation stays within medium-term expectations of 2%, ECB has no urgency to follow global peers in winding down monetary stimulus

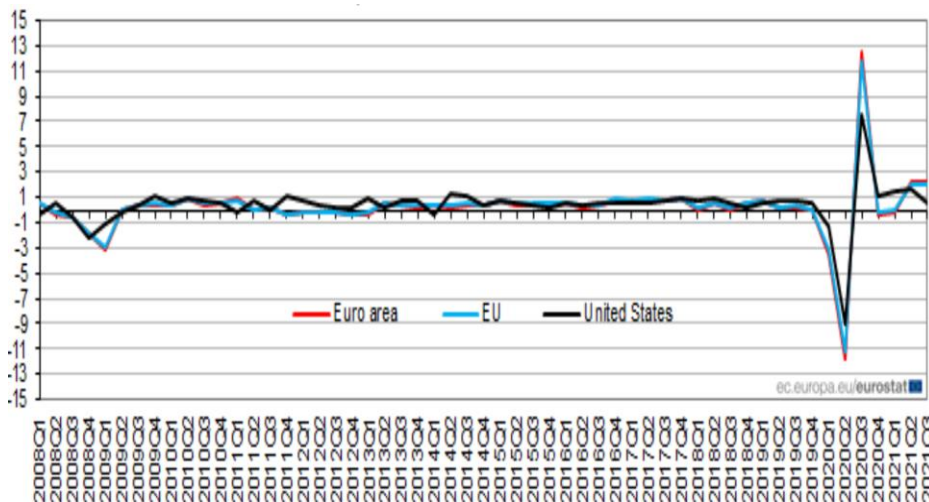
EU Consumer Price Index (2000-2021)



EU Key Interest Rate Trend (2000-2021)



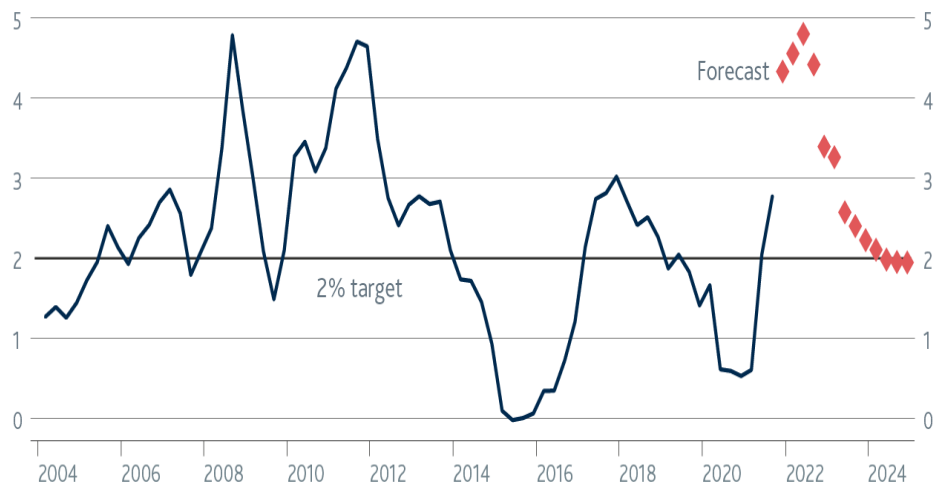
GDP Growth: Euro Area, EU, US



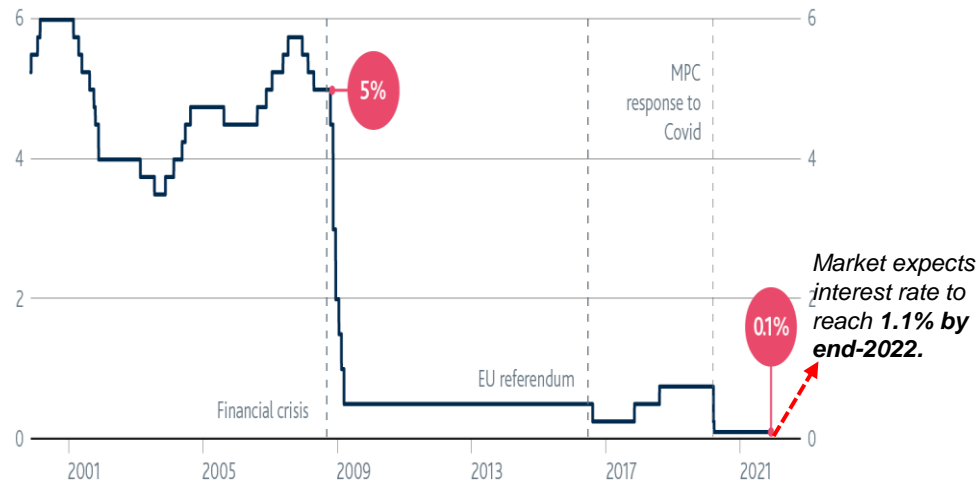
- ✓ EU's inflation of 5.3% in Dec. **Higher prices in 2021 were transitory due to reversal of VAT cuts** (Germany and Ireland).
- ✓ The European Central Bank expects inflation at 3.2% for 2022, above official target of 2.0%, but easing to 1.8% in 2023-2024.
- ✓ The ECB took a small step in rolling back crisis-era stimulus, but **pledged to hold down borrowing costs in 2022** and keeps the door open to restart emergency support.
- ✓ Omicron infections leave EU outlook uncertain, **there is no urgency for ECB to wind down monetary stimulus.**

# UK raised key interest rate by 15bps to 0.25% in Dec 2021 to maintain medium-term inflation target of 2%

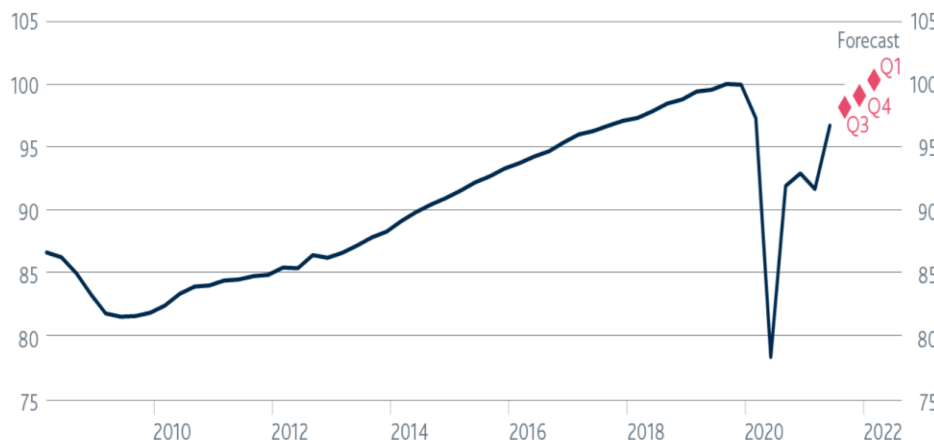
UK's Inflation & Forecasts, %



UK's Key Interest Rate, %



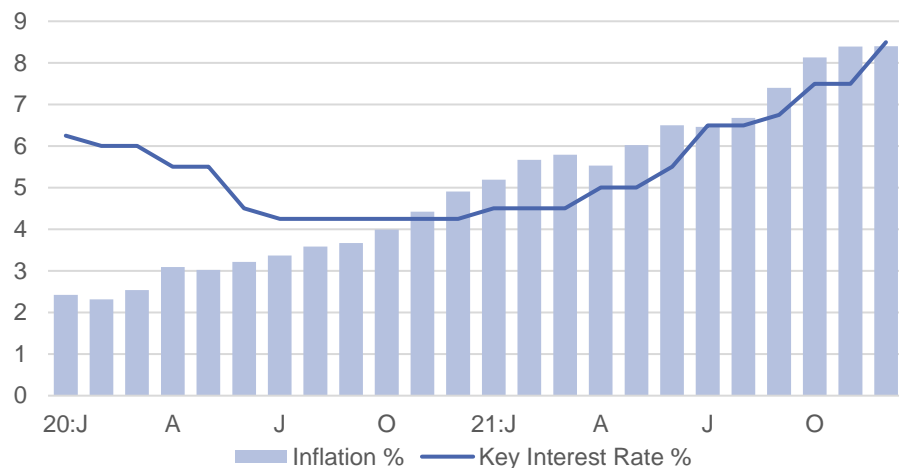
UK's Quarterly GDP, index 4Q19=100



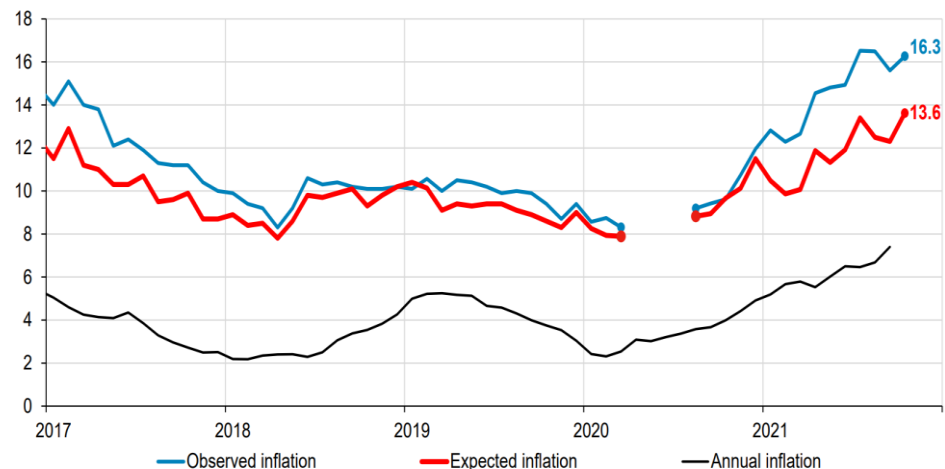
- ✓ **UK's inflation hit 5.4% in Dec, the highest since March 1992.** The central bank warned that inflation will peak at 6% in Apr 2022, 3 times the official target of 2%, easing in 2H22.
- ✓ **The Bank of England raised rates by 15bps to 0.25% in Dec 2021.** Asset purchases are maintained at GBP895bln.
- ✓ The BOE would have to be cautious on further interest rate rises this year to avoid undermining confidence on an already fragile economic recovery.

# Russia's inflation expected to remain elevated, monetary policy remains "neutral" to support growth in 2022

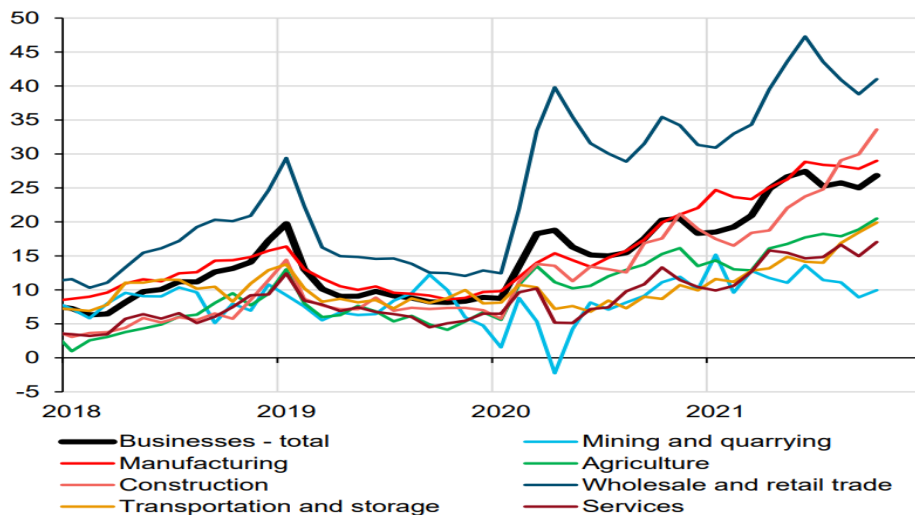
Russia's Inflation vs. Key Interest Rate, %



Households' Observed & Expected Inflation, %



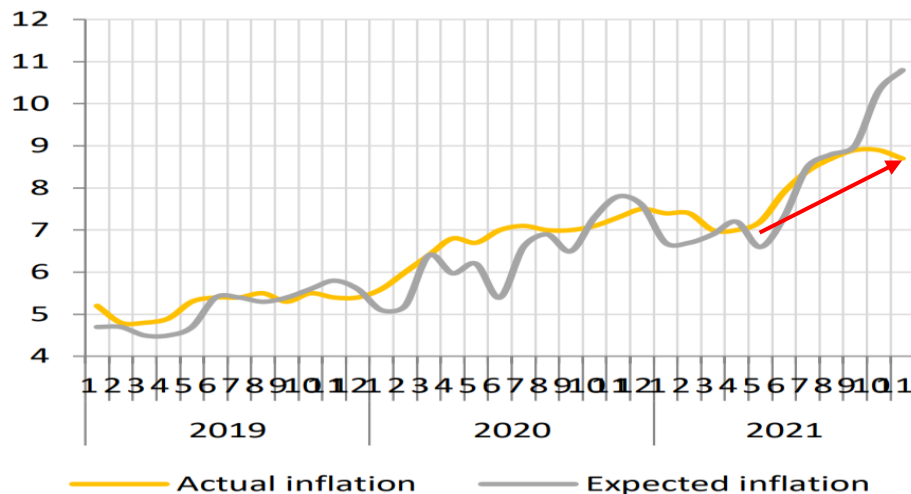
Businesses' Observed & Expected Inflation, %



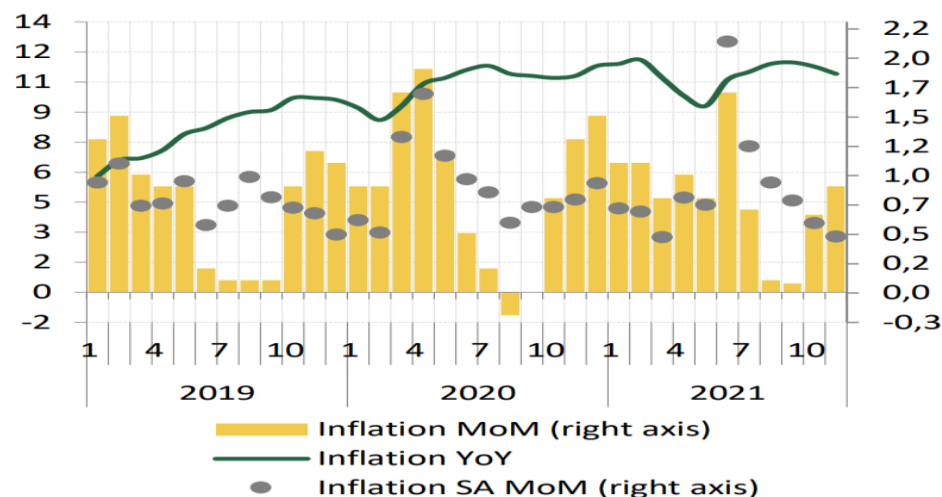
- ✓ Russia's inflation was at 8.4% in Dec (vs. 7.4% in Sep), more than double official target of 4%.
- ✓ The Central Bank of Russia raised the key interest rate 7 times in 2021 to 8.5% from a record low of 4.75%.
- ✓ The central bank plans to keep the key interest rate above 6% until at least mid-2023 to bring down inflation. CBR expects inflation of 4.0-4.5% by end-2022, and around 4% in the medium-term.
- ✓ Monetary conditions in Russia remain neutral.

# Kazakhstan raises key interest rate as inflation remains elevated, official inflation target of 4-6% in 2022

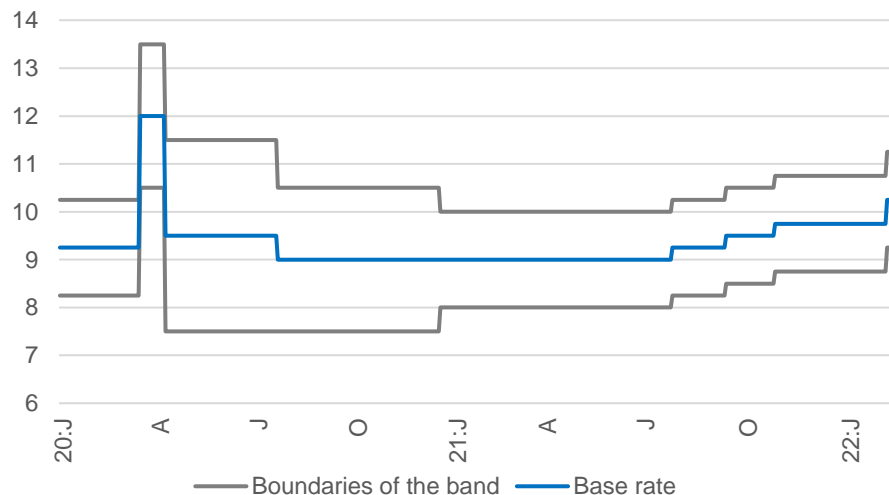
Kazakhstan's Inflation & Inflation Expectations, % YoY



Kazakhstan Food Inflation, % YoY



Kazakhstan's Base Rate Band (2019-2021)

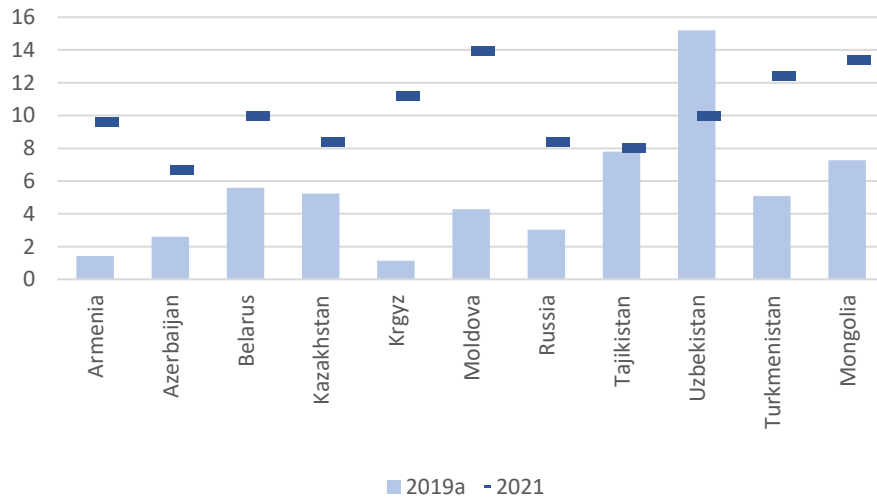


- ✓ **Kazakhstan's inflation was at 8.4% in Dec**, down from a 5-year high of 8.9% in Oct. **Inflation is anticipated at 6.0%-6.5% by end-2022**, above the official target of 4-6% for 2021-2022.
- ✓ **NBK raised the Base Rate by 50bps to 10.25% on 22<sup>nd</sup> Jan**, cited inflation remains elevated. The central bank raised the key interest rate 3 times during Jul-Oct, from 9.0% to 9.75%.
- ✓ Inflation risks are from high prices of certain food products, which could deteriorate with supplies & logistics in the event of new Covid-19 outbreaks.

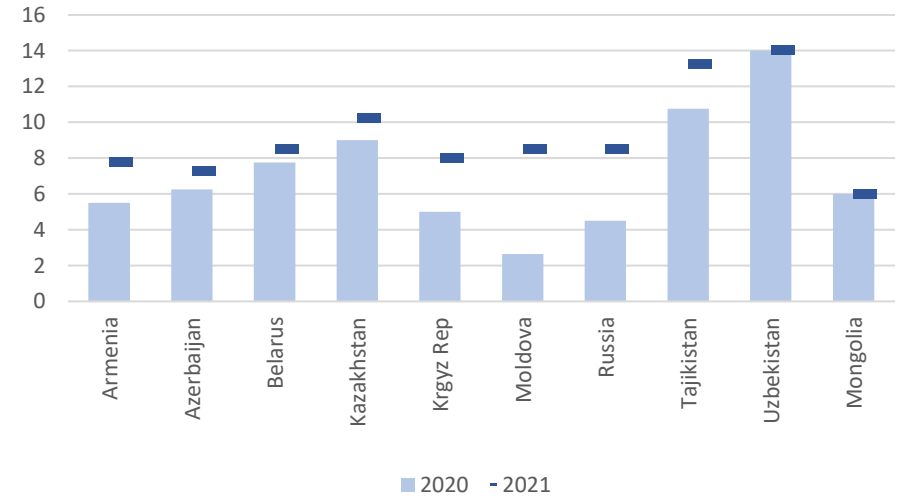


# High commodity prices have pushed up inflation, CIS economies start raising rates in response to inflation

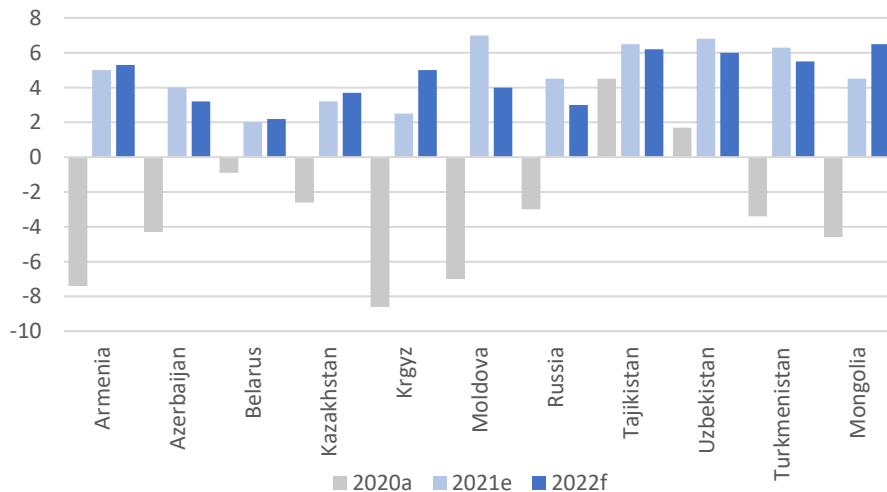
Inflation Comparison (2021 vs. 2019), %



Key Interest Rate Comparison (2020-2022YTD), %



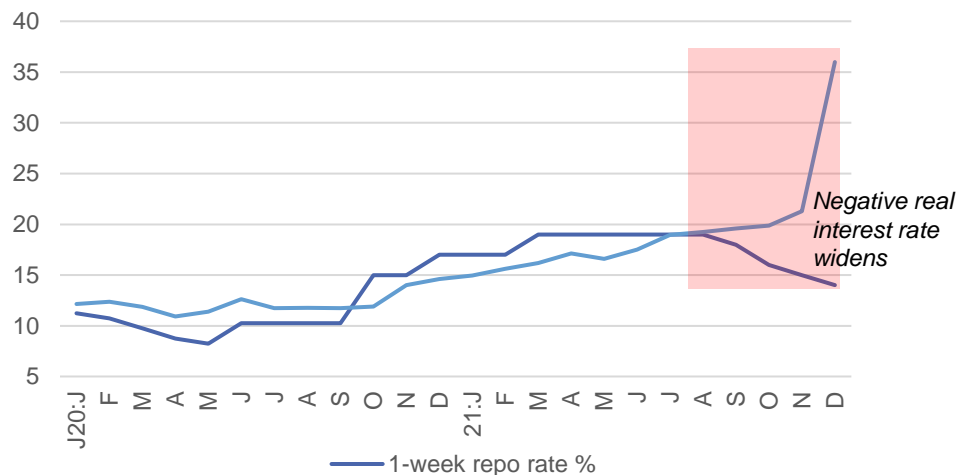
GDP Growth Comparison (2020-2022f), %



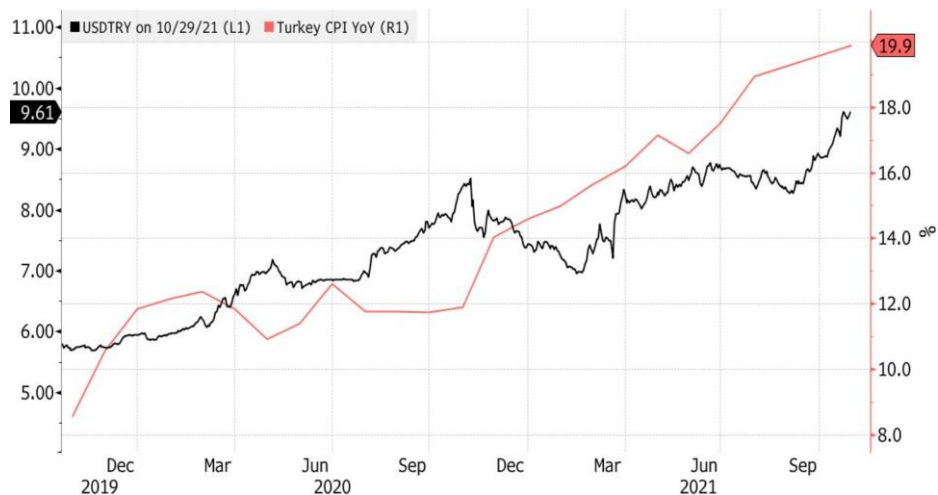
- ✓ **CIS' inflation increased on pent-up demand, high food & commodity prices, supply chain disruptions.** In some economies, tight labor markets have added to inflationary pressures.
- ✓ CIS' inflation on average exceeded its end-2019 levels by 3%. In response, a number of central banks have hiked policy interest rates (EBRD).
- ✓ **Kyrgyz' inflation stood at 11.2% in Dec**, above medium-term target of 5%-7%. **The central bank raised the key rate by 50bps to 8% on 29<sup>th</sup> Nov, the fourth rate hike in 2021.** (the key rate was raised by 250bps in 2021 and 375bps since early 2020)

# Turkey's inflation jumped to a 19-year high, unconventional economic & monetary policies saw aggressive interest rate cuts

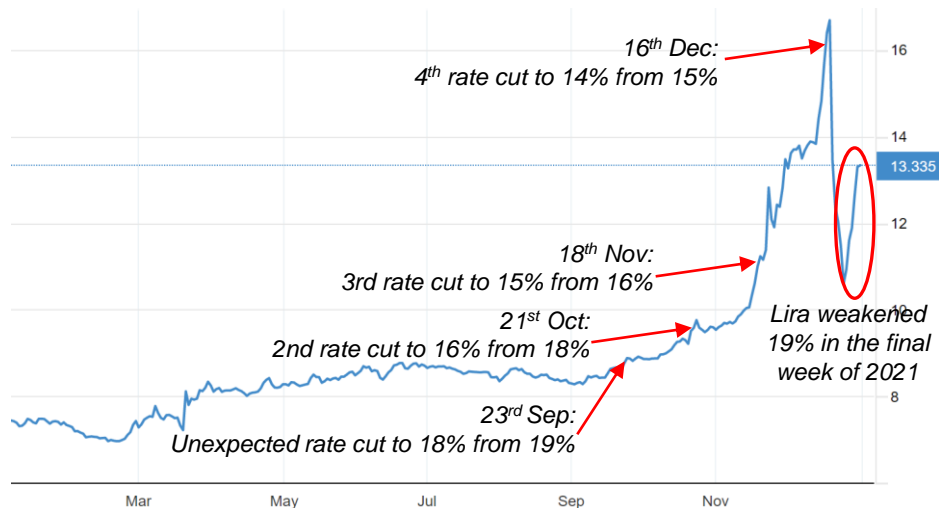
1-Week Repo Rate vs. Inflation trends (2020-2021)



Inflation vs. USDTRY (2019-2021)



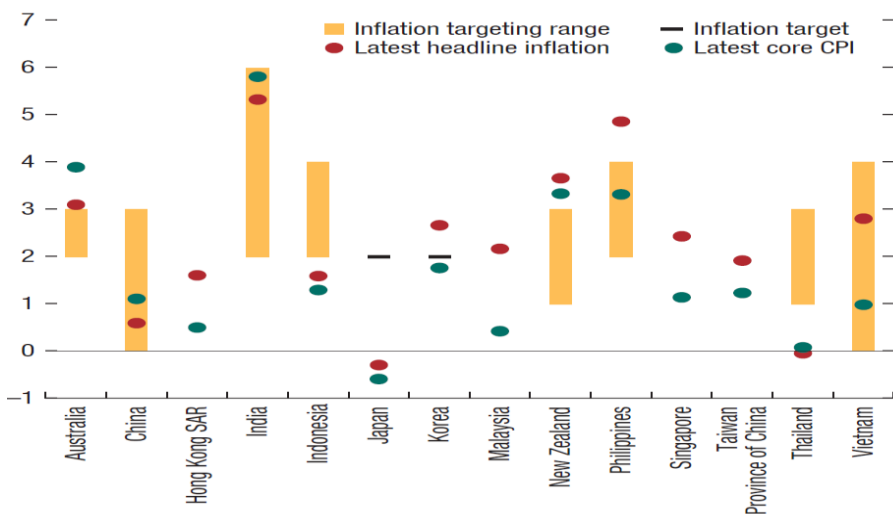
USDTRY Trends (2021)



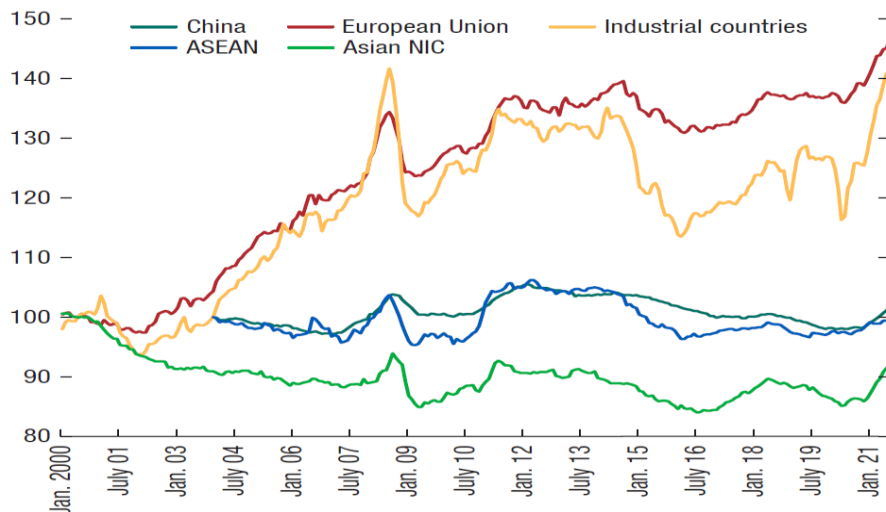
- ✓ Under the pressure from President Erdogan, **Turkish central bank cut interest rates 4 times since Sept 2021 by 500bps from 19% to 14%**. Mr Erdogan has pledged to continue his low-rates economic policy to boost growth.
- ✓ The lira slump (-40% in 2021) post interest rate cuts and inflation jumped to 36% in Dec, a 19-year high.
- ✓ **Real interest rate fell deep into negative territory (-22%) on weakening confidence and raising demand for FX.**
- ✓ **The market expects inflation to reach 50% by spring 2022 unless the direction of monetary policy was reversed.**

# Asia Pacific's inflation expected to fall within target ranges as transitory pressures subside, especially given substantial prevailing output gaps

Headline vs. Core Inflation Comparison, %



US Import Prices By Country of Origin (index=100)



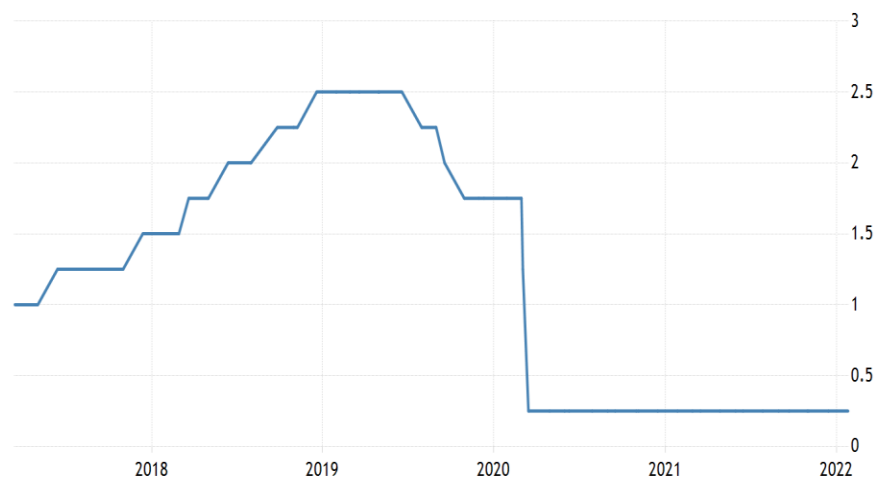
- ✓ **Headline inflation is on the rise across the Asia Pacific region**, fueled by shifting global demand, rising food and fuel prices, and supply chain disruptions.
- ✓ **But inflation expected to fall mostly within target ranges as transitory pressures subside**, especially given substantial prevailing output gaps.
- ✓ Core inflation has risen to a lesser extent, and the **pass-through from producer to consumer prices has been limited**, with generally well-anchored inflation expectations.
- ✓ Export prices have remained relatively flat, suggesting an erosion of profit margins in tradable sectors and no significant evidence of Asia exporting inflation elsewhere.
- ✓ **The policy mix has remained accommodative** - advanced economies see sustained pace of asset purchases, while EM and developing economies retain low policy rates.
- ✓ Japan assessed its policy framework and maintained its yield curve control framework. New Zealand was the first advanced economy to taper and South Korea to raise policy rates, given the advanced stage of recoveries and concerns of rising household leverage in the latter.
- ✓ Asian emerging market and developing economies have kept their policy rates at historical lows and retained unconventional policies, including monetary financing (India, Indonesia, and the Philippines).
- ✓ China's policymakers pledged more support in 1H22 for the slowing economy.

# Global interest rates in summary

US 10-Year Treasury Yield, 1-Month Trends,  
as at 28 Jan 2022



US' Fed Fund Target Rate, 2018-2022, %



- ✓ The 10-year US Treasury yield rose to 1.845% on 27<sup>th</sup> Jan (26<sup>th</sup> Jan: 1.782%), widened 29bps year-to-date on the impending interest rate hikes.
- ✓ **Market traders are pricing in the probability of four or more hikes in 2022 above 60% and rising. The 10-year UST yield potentially reach 2% by mid-2022 and 2.5% by end-2022.**
- ✓ **In the EU, there is no urgency to follow its global peers in winding down monetary stimulus.** The ECB rolled back some of the crisis-era stimulus, but **pledged to hold down borrowing costs in 2022.**
- ✓ **In the UK, the BOE would have to be cautious on further interest rate rises this year to avoid undermining confidence on an already fragile economic recovery.**
- ✓ **In Russia, CBR plans to keep the key rate above 6% until at least mid-2023 to bring down inflation.** The central bank describes **monetary conditions in Russia to be still neutral.**
- ✓ In Kazakhstan, NBK raised the base rate by 50bps to 10.25% on 25<sup>th</sup> Jan, cited inflation remains elevated.
- ✓ **Turkey's inflation is expected to reach 50% by spring 2022 unless the direction of monetary policy is reversed.**
- ✓ **Asian emerging market and developing economies have kept their policy rates at historical lows and retained unconventional policies, including monetary financing.**

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