

Past the peak?

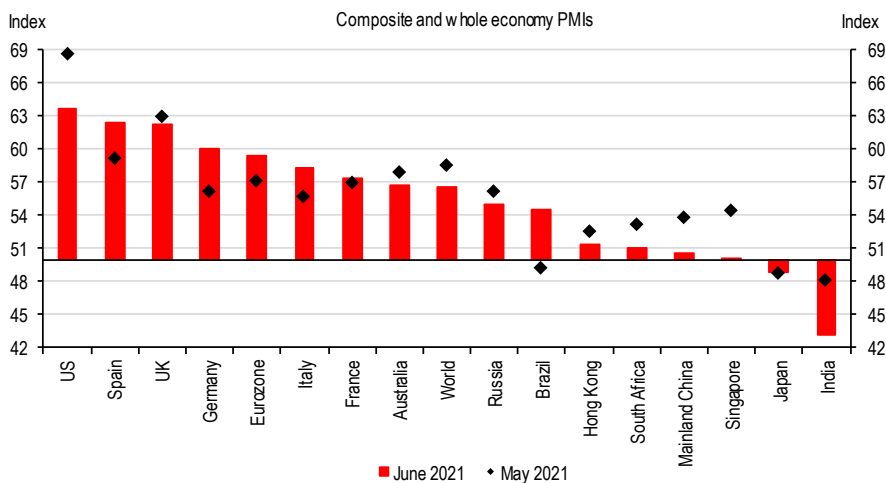
PMI wrap-up (Jun)

Free to View
Economics - Global

- ◆ Whilst the global economy is still recovering...
- ◆ ...that pace may be cooling outside of Europe...
- ◆ ...but intense price pressures remain, particularly in the US

James Pomeroy
 Global Economist
 HSBC Bank plc

Composite PMIs – World at a glance



Source: IHS Markit, HSBC. Note: Due to public holidays, the composite and services PMIs are yet to be released for Brazil.

June's PMIs suggest that the peak improvement in the global economic outlook may be behind us. That's not to say that things aren't still getting better – the global composite PMI was still strong at 56.6, but the sequential pace may be cooling from the 58.5 in May.

Some of that is evident in the manufacturing prints in Asia – where we saw sharp drops in Malaysia and Vietnam (11.4pt and 9pts respectively) as a result of renewed restrictions due to the pandemic. But elsewhere, things softened a touch, too – with headline indices and new orders coming off their recent peaks across most of the world, with the eurozone the notable exception.

In the service sector, too, the positive news may have peaked, apart from in Europe. Markit's US services PMI fell by 5.8pts from its record high in May, while data weakened in the UK with the delay to the full re-opening. In mainland China and India, services PMIs fell by roughly 5pts, with virus outbreaks still a key concern in Asia.

Going forwards, while the global economy is continuing to recover, in some places more quickly than elsewhere, the pandemic looms large in the near-term data. Worries about variants, vaccines and virus numbers are still the dominant factor in determining economic activity on a month-to-month basis.

This is an abridged version of a report of the same title published on 7 July 2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

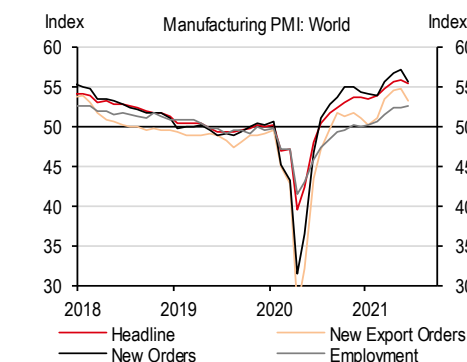
Issuer of report: HSBC Bank plc

View HSBC Global Research at:
<https://www.research.hsbc.com>

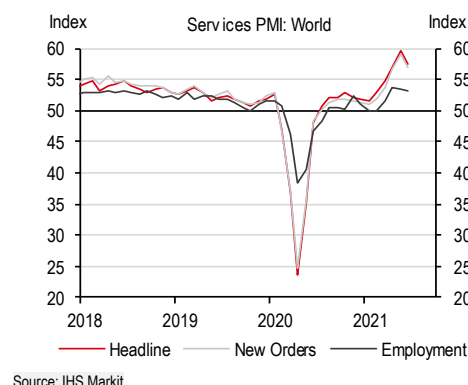
PMIs – what are they telling us?

Whilst the global PMIs are extremely strong, momentum has clearly softened in the past month. Granted, this is from multi-year highs, but June's PMI data suggest that sequential growth momentum may have peaked across the world. The global manufacturing PMI fell from 56.0 (a decade high) to 55.5, still strong, while the global services PMI slipped from 59.6 to 57.5.

1. The global manufacturing PMI came off a decade high in June



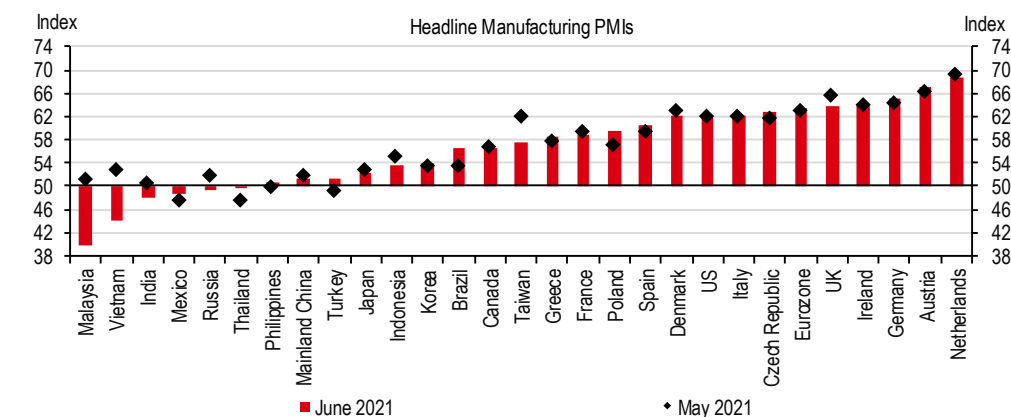
2. The global services PMI fell to 57.5 in June



The pandemic matters still

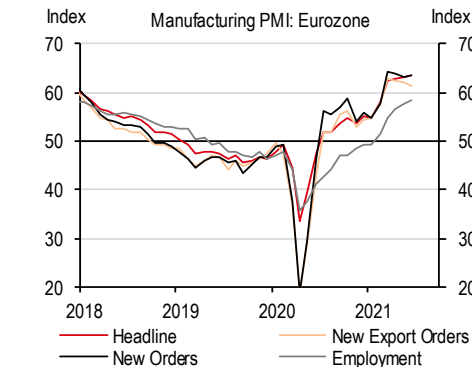
On an economy-by-economy basis, the divide in the data follows pandemic-related developments closely. In the manufacturing sector, weakness is evident in many of the Asian economies most affected by a surge in COVID-19 cases – notably Malaysia and Vietnam, but in mainland China, the disruptions in Guangdong Province weighed on activity. Fred Neumann points out that the weakness in Asia was more widespread, suggesting that disruptions and delays could be holding back output—and new orders eased too. Whilst clearly the most extreme drops in the PMIs are as a result of local restrictions, the broad-based nature and the drop in forward-looking components suggest that demand pressures may be starting to cool, too. That would make sense given the ongoing shift in spending patterns, from goods to services, in the US and Europe as economies open up.

3. Developed market PMIs are much stronger than in the emerging world



In the developed world, the story looks better. The eurozone aggregate PMI saw another record high, the fourth in a row (now at 63.4), thanks to strength in Austria, the Netherlands and Germany compared to small pull-backs in France and Italy. Markit's US survey matched the all-time high print from May (62.1), while the ISM edged down slightly from 61.1 to 60.6.

4. Another record high in the eurozone...

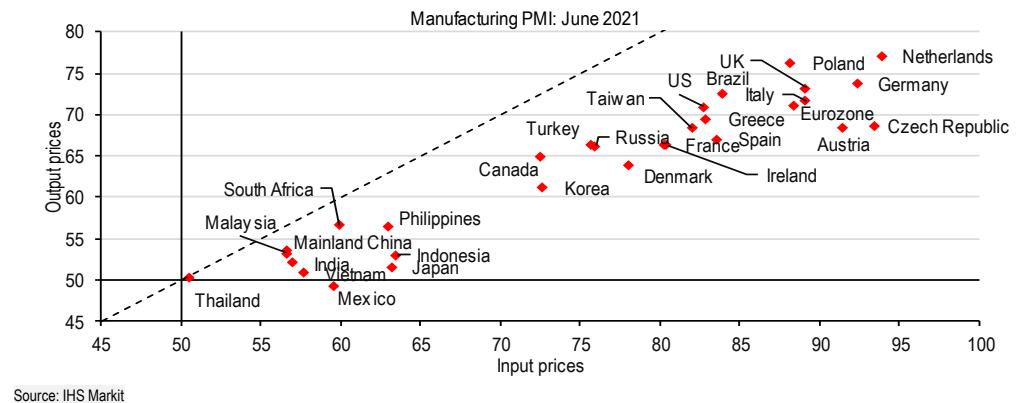


5. ...and in the US



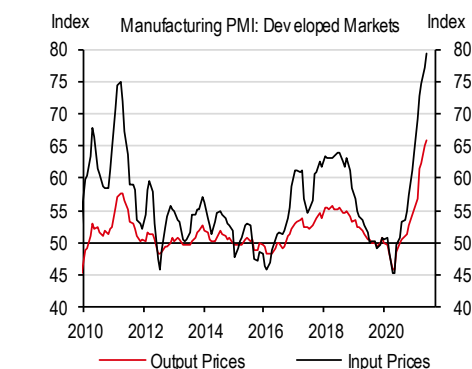
At least for now, pricing pressures remain in the developed world. One respondent to the US ISM manufacturing survey highlighted that they are seeing “Inflationary pressure on materials due to supply and demand imbalance”, and customer demand appears to be strong. There is a clear divide across the world, though, as seen in chart 6. Those economies in Europe, North America and Brazil stand out compared to the price pressures seen in Asia, South Africa and Mexico. The two exceptions to that broad grouping are Korea and Taiwan, where semiconductors are a large industry.

6. Price pressures are still high in the developed world

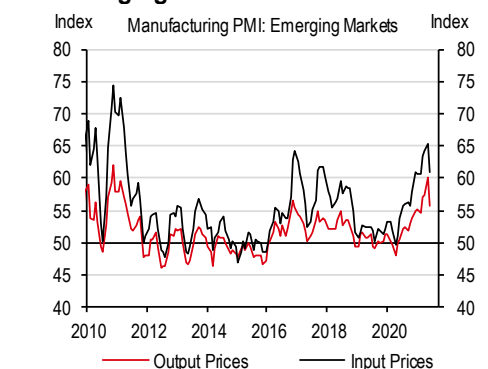


This discrepancy can be seen clearly in charts 7 & 8, where developed markets are seeing soaring input costs, which are feeding through into ever higher output costs, but in the emerging world the same pressures aren't there, particularly in mainland China. Of course, price pressures could change in the coming months if demand for goods softens due to economies re-opening and spending shifting towards services.

7. DM price pressures keep intensifying...



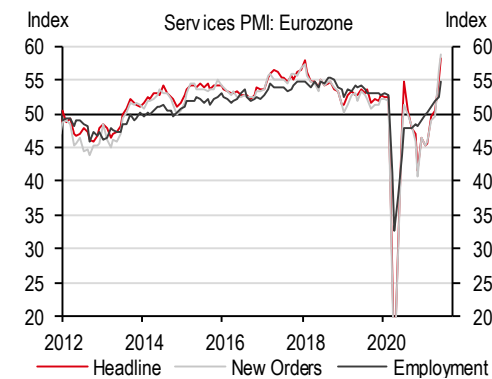
8. ...but they may be softening a touch in the emerging world



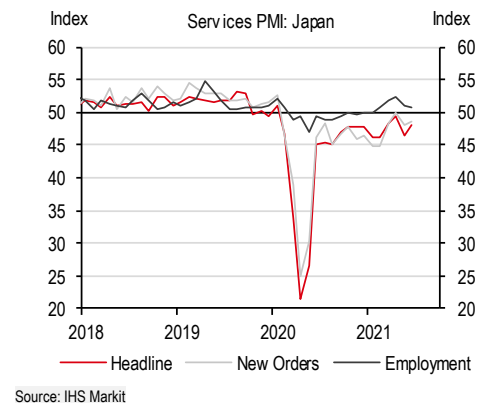
A mixed picture in services

That services rebound is clearly still happening in the parts of the world where vaccinations have been fast and restrictions are being eased – most notably in mainland Europe. The eurozone services PMI has risen quickly in recent months as vaccinations and falling case numbers have allowed restrictions to come off, with the index rising to a fifteen-year high of 58.3. The clearest strength was in Spain, which is approaching record high numbers, in Italy, where the PMI rose from 53.1 to 56.7, and in Germany (52.8 to 57.8). In the US, May's PMI was the strongest PMI ever printed, and so it was unsurprising that the index fell in June – though at 64.6 it is still pointing to very strong service sector activity. The UK saw a slight drop to 62.4 after the delay of the full-reopening on the economy, but even so the result points to robust growth as economic activity resumes.

9. The eurozone services PMI is rising quickly...

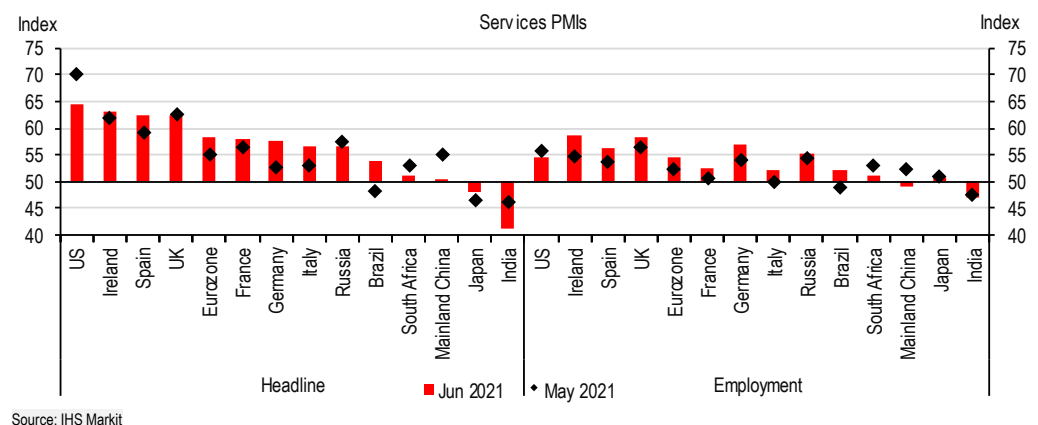


10. ...while Japan's can't get back above 50



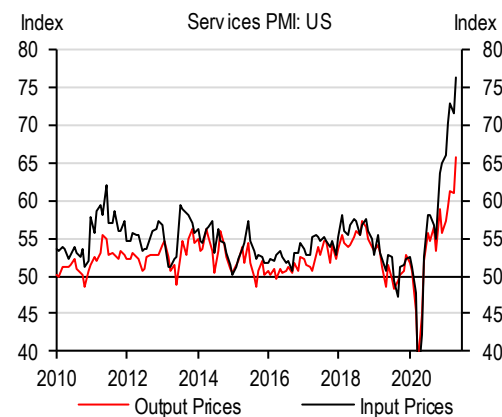
But in Asia, where we get services PMI data, the situation is far from rosy. Mainland China saw a nearly 5pt drop to 50.3, only just pointing to an expansion. This was likely at least in part due to the clusters of COVID-19 cases in the coastal region, and the drop in employment is concerning given the continued weakness in household consumption. In India, the services PMI fell further to 41.2 (versus 46.4 in May), led by a sharp contraction in new orders for a second month in a row. Future optimism was just above 50, much weaker than at the start of the year. In Japan, although things improved, slightly, the services PMI is still to climb back above the 50 threshold since the pandemic began. Brazil, on the other hand, saw its services PMI rise back above 50 for the first time in 2021 despite case numbers staying high.

11. Services PMIs are now very diverse



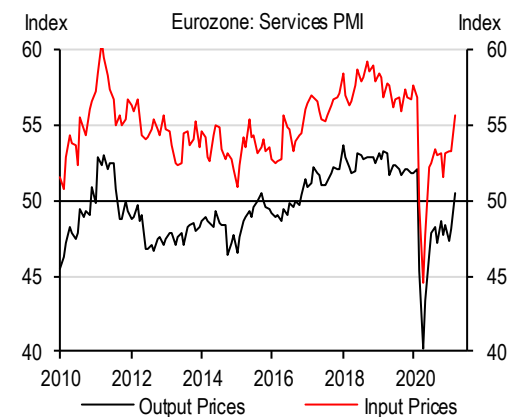
In terms of service sector pricing, US services firms are now seeing input prices rise even more quickly, whilst in Europe there are early signs that the re-opening is leading to the same price pressures building in the sector there. Some of the comments published with the ISM services report were telling – one respondent saying that “Severe supply chain disruptions and inflation are continuing in the marketplace, in all sectors” and another saying that “Our restaurants are quickly — maybe too quickly — returning to 2019 sales levels” – suggesting that the strength in demand is allowing firms to pass on some of these higher costs. That is very clear in the US price indices.

12. Services price pressures keep building in the US...



Source: IHS Markit

13. ...and maybe now in Europe



Source: IHS Markit

Summary

June's PMIs paint a picture of a global economy that is still recovering, but at a slower pace. In Europe, things look good – with looser restrictions boosting service sector activity and manufacturing holding up too. In Asia, the service sector looks vulnerable to the latest wave of cases across the region, while those economies most affected by fresh lockdowns have seen manufacturing sentiment dive, too. Inflationary pressures are still out there; they keep building in the developed world. But if demand keeps changing shape – and goods spending slows, this may alleviate in the coming months.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: James Pomeroy

Important disclosures

This document has been prepared and is being distributed by the Research Department of HSBC and is not for publication to other persons, whether through the press or by other means.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investment products mentioned in it and/or to participate in any trading strategy. Advice in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document and take into account their specific investment objectives, financial situation or particular needs before making a commitment to purchase investment products.

The value of and the income produced by the investment products mentioned in this document may fluctuate, so that an investor may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Value and income from investment products may be adversely affected by exchange rates, interest rates, or other factors. Past performance of a particular investment product is not indicative of future results.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

- 1 This report is dated as at 07 July 2021.
- 2 All market data included in this report are dated as at close 05 July 2021, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Legal entities as at 1 December 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; '000' HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

Issuer of report

HSBC Bank plc
 8 Canada Square, London
 E14 5HQ, United Kingdom
 Telephone: +44 20 7991 8888
 Fax: +44 20 7992 4880
 Website: www.research.hsbc.com

In the UK, this publication is distributed by HSBC Bank plc for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. Nothing herein excludes or restricts any duty or liability to a customer which HSBC Bank plc has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC Bank plc in the UK will not enjoy the protections afforded by the UK regulatory regime. HSBC Bank plc is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In the European Economic Area, this publication has been distributed by HSBC Continental Europe or by such other HSBC affiliate from which the recipient receives relevant services. The document is distributed in Hong Kong by The Hongkong and Shanghai Banking Corporation Limited and in Japan by HSBC Securities (Japan) Limited. Each of the companies listed above (the "Participating Companies") is a member of the HSBC Group of Companies, any member of which may trade for its own account as Principal, may have underwritten an issue within the last 36 months or, together with its Directors, officers and employees, may have a long or short position in securities or instruments or in any related instrument mentioned in the document. Brokerage or fees may be earned by the Participating Companies or persons associated with them in respect of any business transacted by them in all or any of the securities or instruments referred to in this document. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

The information in this document is derived from sources the Participating Companies believe to be reliable but which have not been independently verified. The Participating Companies make no guarantee of its accuracy and completeness and are not responsible for errors of transmission of factual or analytical data, nor shall the Participating Companies be liable for damages arising out of any person's reliance upon this information. All charts and graphs are from publicly available sources or proprietary data. The opinions in this document constitute the present judgement of the Participating Companies, which is subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. This document is neither an offer to sell, purchase or subscribe for any investment nor a solicitation of such an offer.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All US persons receiving and/or accessing this report and intending to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at www.business.hsbc.com.sg for contact details. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV).

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by Banco HSBC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document. HSBC Bank plc is registered in England No 14259, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions for accessing research and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications ("the Terms"). Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the Terms. If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the Terms and any other conditions or disclaimers applicable to the provision of the publications that may be advised by PB.

© Copyright 2021, HSBC Bank plc, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank plc. MCI (P) 028/02/2021, MCI (P) 087/10/2020