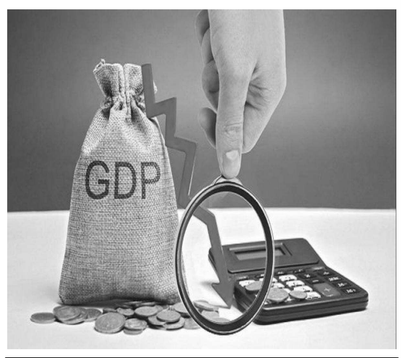
UK economy slowed in May as GDP misses estimates



The UK economic growth lost steam in May as GDP came below expectations, posing concerns about the pace of the economic recovery. Consumer-facing sectors proved strong as restrictions eased, yet there was little progress elsewhere.

The UK GDP expanded by 0.8% in May, missing the consensus estimate of 1.5% and down from 2% in April and 2.4% in March, according to the Office for National Statistics (ONS). This was the fourth consecutive month of economic growth, yet the GDP is still 3.4% below its pre-pandemic February 2020 levels, the ONS said.

The growth was largely driven by the consumer-facing services, which spiked 3.2% and are nearing their pre-pandemic levels as coronavirus restrictions eased through May. Yet the rest of the services remained flat.

Construction output declined for the second month in a row, while still remaining 0.3% above its pre-pandemic levels. Adverse weather conditions in May boosted electricity, gas and air supply, with output in the production sector returning to growth at 0.8%.

Paul Dales, chief UK economist at Capital Economics said that the muted increase in GDP is "especially disappointing" as more timely indicators show that the economic recovery is losing steam in June. "This may mean that the recent rise in COVID-19 cases and the delay to the final easing in COVID-19 restrictions is hampering the recovery," he said.

"Of course, the pace of the recovery was always going to slow as the economy climbed back towards its pre-crisis level. But we hadn't expected it to slow so much so soon. As such, whereas we previously thought that GDP would return to its pre-crisis peak in August, October now looks a better bet," Dales added.

Samuel Tombs, chief UK economist at Pantheon Macroeconomic expects the economic growth to slow further over the summer as rising COVID-19 infections and UK self-isolation rules are increasingly constraining labour supply.

"Accordingly, we think that month-to-month growth in GDP will average 0.5% over the next four months, meaning that the level of activity won't return to its pre-Covid level until the very end of this year," he added.

Euro to dollar rate capped at 1.23 say ING as Fed tightening will shift dollar forecast profile

Foreign exchange analysts at ING still expect that the US Dollar will weaken in the second half of 2021. It does, however, expect the Fed will raise interest rates next year with a reduced commitment to higher inflation.

The bank now expects the Euro to Dollar (EUR/USD) exchange rate upside will be limited to 1.2300 with a retreat to 1.1500 at the end of next year.

ING's forecasts for significant dollar losses during 2021 were based to an important extent on expectations that the Federal Reserve would maintain a very loose monetary policy and reiterate its commitment to the Average Inflation Targeting (AIT) policy.

This policy would keep real interest rates at very low levels and undermine the US currency.

Given recent developments, however, ING expects the Federal Reserve's commitment to AIT will falter.

"What has changed is that the Fed looks less committed to Average Inflation Targeting and more towards a conventional lift-off in rates which could come as early as autumn 2022."

Looking at the remainder of 2021, Fed action is likely to be limited to a tapering of bond purchases which is necessary to curb dollar losses, but not sufficient to trigger gains.

In this context, it expects the dollar still has scope for net losses, especially with the ECB also likely to edge towards a tapering of bond purchases

banner"That is why we still think there is scope for EUR/USD to rally into year-end – typically a seasonally weak period for the dollar – but that the upside is more likely to be limited to the 1.23 area than the 1.28 area we had expected previously."

ING now expects that persistent inflation pressure and supply issues will force the Fed to raise rates twice next year. The bank expects that these rate hikes and a further gradual tightening of liquidity will strengthen the dollar. "Into 2022, however, we see the dollar turning higher more broadly, with EUR/USD and USD/JPY ending 2022 near 1.15 and 120, respectively." Save money on your currency transfers with TorFX, voted International Money Transfer Provider of the Year 2016 - 2020. Their goal is to connect clients with ultra competitive exchange rates and a uniquely dedicated service whether they choose to trade online or over the telephone.

China hints at reserve ratio cut to help bolster economy

China's State Council signaled the central bank could make more liquidity available to banks in order to boost lending to businesses, including by cutting the amount of money they have to keep in reserve. Bond yields fell.

Authorities "will use monetary policy tools, including a cut to the reserve requirement ratio at an appropriate timing to enhance financial support to the real economy, particularly to smaller businesses," the government said in a statement Wednesday after a meeting of the State Council, the equivalent of a government cabinet, chaired by Premier Li Keqiang. That's aimed at helping firms deal with the impact of rising commodity prices, it said.

China's robust recovery from the pandemic has shown signs of faltering recently, with soaring commodities pushing factory-gate prices to a 13-year high in May and a gauge of activity in the services industry slowing sharply in June, partly because of virus outbreaks in some parts of the country.

The State Council's shift may indicate the government expects disappointing data when it reports second-quarter gross domestic product and June activity figures next week. Economists surveyed by Bloomberg expect a slowdown in GDP growth to 8% in the second quarter from 18.3% in the previous three months.

"A shift to some kind of policy easing in the second half is no surprise," Nomura Holdings Inc. economists led by Ting Lu said in a note. "But using a high-profile tool such as RRR cut is a big surprise to markets and us."

Nomura expects the central bank to most likely deliver a 50 basis-point universal RRR cut in coming weeks.

China's 10-year bond yields dropped three basis points to 3.03%. Futures for the benchmark gained as much as 42 ticks to its highest level since August.

"Beijing now wants to make further moves to boost the economy, support smaller enterprises and limit credit risks when external demand for Chinese goods peak," said Tommy Xie, head of Greater China research at Oversea-Chinese Banking Corp. in Singapore. "This will offer an extra stimulus to bonds."

Allowing banks to reduce their reserves would free up the flow of credit to the wider economy. However, it's not definite that the central bank will follow through: the last time the State Council suggested cutting the RRR was in June last year, but the People's Bank of China didn't end up taking any action.

Even so, the mention of RRR cuts after more than a year was "notable and probably increases the chance of an actual implementation of the cut," Goldman Sachs Group Inc. wrote in a note. The State Council's statement had a clear "pro-growth" shift, focusing on the need to increase financial support to the real economy, the economists said.

The meeting may signal a turning point for liquidity conditions is approaching -- the PBOC may marginally ease liquidity from a previously tight tilt to a neutral or marginal easing stance. But overall conditions are unlikely to allow the PBOC to reduce interest rates.

The PBOC hasn't cut the official RRR since mid-2020, when it was trying to boost the economy after the lockdowns to contain the Covid-19 outbreak. The central bank has refrained from making any changes to its policy interest rates as well since cutting them early last year, choosing instead to guide credit growth lower to curb financial risks. The central bank said last week it will maintain a steady policy and prevent "external shocks" from overseas policy changes.

The State Council's comments came a day after a former PBOC official called for interest rates to be cut in the second half of the year to safeguard the recovery and create policy room to deal with the Federal Reserve's future tightening.

Authorities are still wary of overstimulating the economy though, with the State Council saying it will refrain from flooding the economy with stimulus and maintain the stability and effectiveness of monetary policy.

China's state media cited China Minsheng Banking economist Wen Bin as saying there could be a cut to the RRR for small and medium-sized financial institutions by the end of the third quarter.

A reserve-ratio cut, while not immediately lowering the cost of borrowing in China, is a rapid way of freeing up cheap funds to lend and has been a favored tool of the central bank's efforts in recent years.

The bank can cut the ratios for different types of banks or for different types of lending at specified banks, such as the "inclusive financing" RRR cut, which it has done annually since 2017.

Thailand's wealth creation: Revival of economy counts on tourism and improving exports

This story is part of Forbes' coverage of Thailand's Richest 2021. See the full list here.

Thailand has been hard hit by the pandemic. Government bonds have had the worst total year-to-date returns among Asia's emerging markets this year. The baht recorded the second-worst performance among Asia's currencies, and the worst among Southeast Asia, over the same period.

After its success in containing Covid-19 last year, the government is grappling with the biggest wave of infections yet, causing the central bank to cut its GDP growth forecast for the year to 1.8% from 3%. In a country where tourism and travel account for 20% of GDP, over 1.4 million jobs have been lost in these sectors alone. In May last year Thai Airways became the first and the only national flag carrier in Southeast Asia to file for bankruptcy protection. Thais have been affected too, with the country's poverty rate rising from 6.2% in 2019 to 8.8% last year, according to the World Bank. On the positive side, exports in May rebounded 40% year on year as worldwide demand picks up. Thailand has achieved remarkable progress over the last generation, driven by the private sector creating jobs that pulled millions out of poverty.

Still, even before the pandemic, economic growth had slowed due to weaker demand from U.S.-China tensions, economic mismanagement and rising household debt.

The domestic political landscape, already volatile, was further disrupted by Covid-19.

Thailand's recovery will depend on global growth and vaccine progress—the government has vowed to vaccinate 70% of the population by year's end, but rates remain in single digits. There's also hope in Thailand's beleaguered tourism industry with plans to fully reopen borders by year's end—though when tourism can return to pre-pandemic levels is anyone's guess.

Texas economy on a post-pandemic recovery path

The Texas economy initially suffered more economic losses because of the COVID-19 pandemic than any previous crisis, according to Luis B. Torres, a research economist with the Texas Real Estate Research Center at Texas A&M.

One main reason is the downturn in the oil industry that occurred at the same time as the pandemic. "It was a double whammy," he said. "For example, between March 14 and April 4 of last year, the number of Texans laid off from their jobs skyrocketed from 18,445 to 314,239. This was far more than we saw in any previous recession, including the financial crisis of 2008-2009."

Now, however, Torres said the Texas economy appears to be getting back on track. He bases his optimism on data produced in recent weeks by the index he developed to measure COVID-19's effects on the state's economy.

"It uses leading economic indicators — things like unemployment claims and new business applications — to tell us what's going on in the right now and where the economy might be headed," he said.

Torres compiles his findings into weekly reports available online and to subscribers. For each report, he analyzes data from the Texas weekly leading indicator, which covers new business applications, initial unemployment claims and inflation-adjusted oil prices and interest rates.

He also looks at weekly continuing unemployment claims and the number of new COVID-19 cases to determine how the economy is recovering from the pandemic.

"The news across these categories is good," Torres said. "First, oil prices are above $60 per barrel, and demand for oil and natural gas is expected to recover this year as economies around the world rebound from the pandemic." In addition, Torres said that as of May 22, the state had seen eight straight weeks of drops in the number of initial jobless claims — the lowest level since before the pandemic. "This is progress, but we still need to add almost 446,000 jobs before we reach the number of jobs we had before the pandemic," he said.