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Our Economy and the World

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Key Global and Regional Developments over the Past Week

BBC: China exports see biggest drop for three years

China's imports and exports fell more sharply than expected last month as weaker global demand threatened the recovery prospects of the world's second-largest economy. Official figures show that exports fell by 14.5% in July compared with a year earlier, while imports dropped 12.4%. The grim trade figures reinforce concerns that the country's economic growth could slow further this year.

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Bloomberg: Biden narrows China investment order as US seeks better ties

President Joe Biden imposed limits on US investments in China as part of a push to restrict the country's ability to develop next-generation military and surveillance technologies that might threaten US national security. The order, announced Wednesday, would regulate US investments in some Chinese semiconductor, quantum computing and artificial intelligence firms.

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CNBC: Over $1 trillion needed for developing nations' climate transition, says ex-World Bank official

Developing nations will need more than $1 trillion each year to make significant progress in climate transition, according Mari Pangestu, a former World Bank official. "The estimate is like $1 [trillion] to $3 trillion a year for developing countries to be able to transition," she told CNBC's "Squawk Box Asia" on Thursday. The lack of funding has made it difficult for those countries to reduce their high carbon emissions and shift to clean energy, Pangestu added. This has led to tensions between developing nations and the developed world, which are pushing for more progress in climate related issues.

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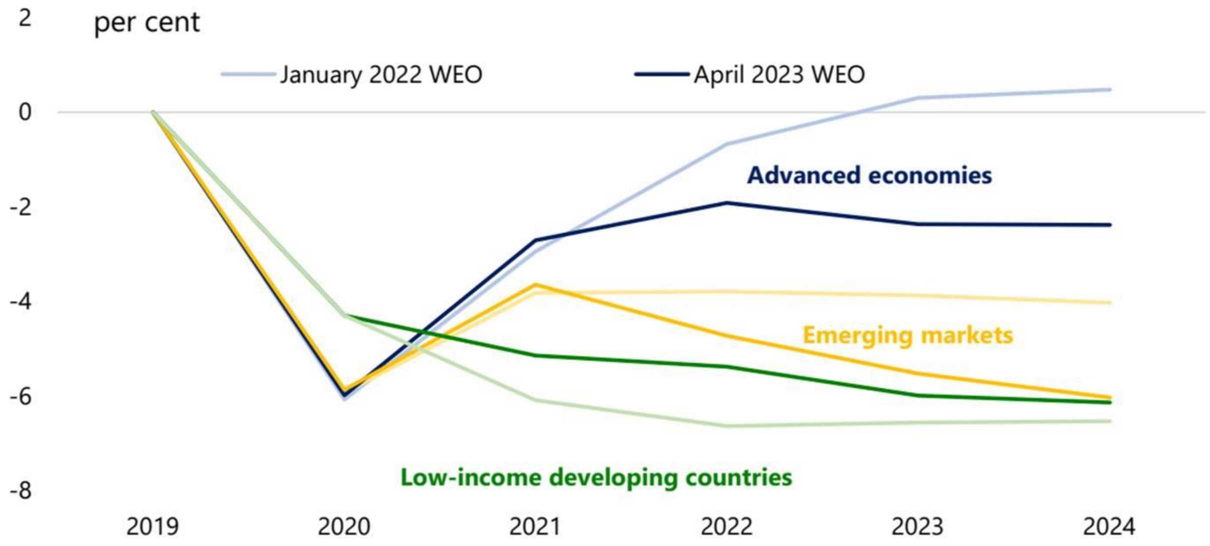
Special Analysis

IMF: Revisiting Covid Scarring in Emerging Markets

The Covid-19 pandemic is expected to result in large and persistent losses in economic output, known as scarring. These losses were expected to be more severe in Emerging Markets than in Advanced Economies. This paper examines the impact of Covid on output in Emerging Markets so far and its implications for projections of economic scarring. While Covid has had a material impact on activity, the recovery has been stronger than initially expected. We find that these positive data surprises have over time been treated increasingly as transitory rather than a signal for the state of scarring. Second, we show that the composition of output losses has been qualitatively different from past last shocks. History suggests that the main driver of scarring is weak productivity. Covid losses, however, have so far been more skewed to employment with a smaller than usual impact on productivity. We argue that these findings suggest that scarring, while substantial, may be ultimately less severe than initially feared, at least over the medium term. We provide alternative sets of medium-term projections to indicate potential magnitudes.

Figure 1: Deviation in GDP from pre-pandemic forecast



Source: Haver, WEO and staff calculations

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Developments in Financial and Commodity Markets in the Past Week

Bloomberg: Asian stock futures lower after Wall Street drops: Markets wrap

Asian equity futures traded moderately lower Thursday following a tech-led sell-off on Wall Street as investors await US monthly inflation data that will help shape the outlook for the Federal Reserve's next steps. Contracts for benchmarks in Japan and Hong Kong fell while those for Australian equities were little changed. The S&P 500 fell 0.7% Wednesday, while the Nasdaq 100 dropped 1.1%, weighed down by a 4.7% decline for Nvidia Corp., as investors rethink the artificial-intelligence frenzy that has helped propel tech shares higher this year. US futures ticked higher in early Asian trading.

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Reuters: Oil hits new highs on US fuel demand, tighter supply

Oil prices hit new peaks on Wednesday with the global Brent benchmark touching its highest since January after a steep drawdown in U.S. fuel stockpiles and Saudi and Russian output cuts offset concerns about slow demand from China. Brent crude settled $1.38, or 1.6%, higher at $87.55 a barrel, its highest since Jan. 27.

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Reuters: Wall Street ends flat, after pop from July inflation data fizzles

Wall Street's main indexes finished flat on Thursday, giving up most early gains on milder-than-feared inflation data as investors worried about the U.S. economy's longer-term prospects and whether stocks had further room to run. Data showed headline and core consumer prices both climbed by 0.2% in July, with the headline number notching annual rise of 3.2% and the core up 4.7%. In the first hour of trading, the three benchmark indexes advanced more than 1% as traders bet the U.S. Federal Reserve would stop further monetary tightening in 2023 and start cutting interest rates early next year.

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