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# Macro Insights Weekly

## Three scenarios for 2024

Group Research

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- *Will 2024 be the year when the global economy takes time out from the post pandemic recovery, burdened by the Federal Reserve's rate hikes, and beset by the uncertainties emanating from China?*
- *Base case: The burden of high rates weighs in on US and EU demand, but a recession is unlikely.*
- *China continues to clean up its property and tech sectors, while keeping growth above 4%.*
- *ASEAN, helped by a bottoming electronics cycle and tourism, has upside next year.*
- *Benign inflation and China rebound are two upside risks.*
- *Financial sector accident and debt crises are key downside risks.*

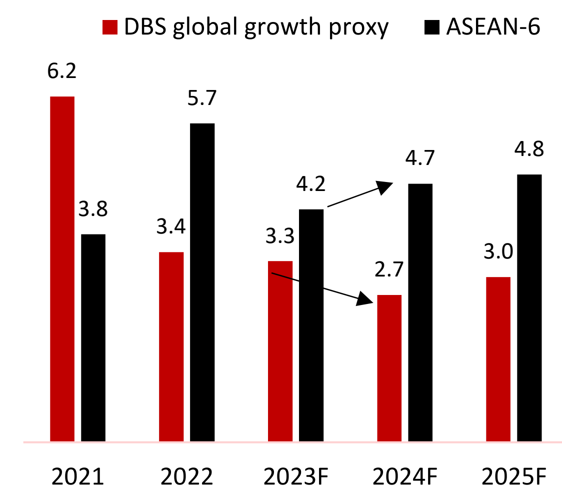
**Key data release and events this week**:

- *The Fed, ECB, BOE and SNB are expected to keep their policy rates unchanged.*
- *The PBOC and CBC will also retain the respective policy rates.*
- *India's CPI is projected to accelerate from 4.9% YoY in Oct to 5.9% in Nov.*

### Chart of the Week: ASEAN's upside in 2024

Overall outlook for the global economy is somewhat gloomy, with China, EU, and the US expected to grow at a slower pace next year. Combined impact of this dynamic on global growth is unsurprisingly negative, with our global growth proxy likely to grow by 2.7% next year, compared to 3.3% in 2023. But ASEAN will be an exception, as per our forecasts. Aided by a bottoming of the electronics cycle and continued re-opening of travel and tourism, around 0.5% upside is in store for the region.

**Real GDP growth,** %yoy




Source: CEIC, DBS

Refer to important disclosures at the end of this report.

## Commentary: Three scenarios for 2024

Will the coming year be the one when, finally, the global economy takes time out from the post pandemic recovery, burdened by the Federal Reserve's rate hikes, and beset by the uncertainties emanating from China? Would geopolitical risks spike further, sapping business confidence? Could financial markets turn unstable as liquidity tightens? We consider three scenarios:

**Soft landing (60% probability):** This is our base case. The burden of high rates weighs in on US and EU demand, but a recession is unlikely in either area. A gradual softening of US labour market materialises in moderation of consumption demand. Similarly, in the euro area, growth flattens in the core economies. Here in Asia, China continues to clean up its property and tech sectors, while keeping growth above 4%. With respect of ASEAN countries, we see a 50bps pick-up in the annual real GDP growth, driven by a bottoming of the electronics export cycle and continued recovery in travel and tourism.

This scenario is contingent on an orderly financial sector. Liquidity stays ample despite quantitative tightening, US treasuries remain well bid by the private sector, USD weakens, and commodity markets stabilise.

**No landing (25%):** As 2023 ends, the no-landing scenario has risen in probability. A stroke of good luck and good timing is needed for this scenario to pan out. Economies and markets rally in expectations of rate cuts, as has been the case lately, which in turn eases financial market conditions. The Fed and other central banks don't ease rates in 1H24, but they begin to remove restrictive policies as inflation risks abate during the second half of the year. This in turn eases debt related stress and improves consumption and investment sentiments. Supply-side conditions improve, geopolitical risks subside, and weather-related disruptions take a back seat. China finds its footing as property market and tech sector headwinds ease, helped by sensible macroeconomic and structural policies.

**Hard landing (15%):** We assign 15% chance to the hard landing scenario, but one-in-six is not a trivial proposition at all. Markets may be discounting the risk of a hard landing, and policy makers seem somewhat sanguine, but there are still several knife's edge developments at play, in our view.

Firstly, inflation may be on a downtrend now, but could well prove to be stubborn in early 2024, heading back to over 3%. If that were to be the case, there is bound to be a great deal of consternation among central banks and market participants. Even further rate hikes could come to the table. What could cause a rebound in inflation? It could start with housing prices and rentals, where supply remains constrained. Overall services costs may see some upside too, as inertia from this year's wage increases remain in place. Commodities could easily be another spoiler, with OPEC production cuts and geopolitical risks.

If inflation and rates remain high, the risk of financial market accidents would rise, which in turn could cause disorderly outcomes in public and private debt markets. The world is sitting on a mountain of public and private debt; if central banks fail to bring rates down, this could take the global economy on a dangerous path.

*Taimur Baig*

## Key forecasts for the week

| Event | DBS | Previous |
|---|---|---|
| **Dec 11 (Mon)** | | |
| Malaysia: industrial production (Oct) | 2.4% y/y | -0.5% y/y |
| **Dec 12 (Tues)** | | |
| India: industrial production (Oct) | 11.8% y/y | 5.8% y/y |
| India: CPI (Nov) | 5.9% y/y | 4.9% y/y |
| **Dec 13 (Wed)** | | |
| India: exports (Nov) | -2.5% y/y | 6.2% y/y |
| - imports | 5.4% y/y | 12.3% y/y |
| - trade balance | -USD26bn | -USD31.46bn |
| **Dec 14 (Thu)** | | |
| FOMC rate decision | 5.50% | 5.50% |
| Eurozone: ECB main refinancing rate | 4.50% | 4.50% |
| CBC benchmark rate | 1.875% | 1.875% |
| BSP overnight borrowing rate | 6.50% | 6.50% |
| **Dec 15 (Fri)** | | |
| China: 1Y MLF Rate | 2.50% | 2.50% |
| China: industrial production (Nov) | 5.7% y/y | 4.6% y/y |
| - retail sales | 9.7% y/y | 7.6% y/y |
| - fixed asset investment | 2.9% y/y ytd | 2.9% y/y ytd |
| Indonesia: exports (Nov) | -9% y/y | -10.4% y/y |
| - imports | -1.5% y/y | -2.4% y/y |
| - trade balance | USD3.3bn | USD3.48bn |

## Central bank policy meetings

**Taiwan's central bank (Dec 14th):** Taiwan's central bank (CBC) is expected to retain the benchmark discount rate at 1.875% with a hawkish bias. The rebound in exports and manufacturing activity has provided clearer indications of recovery, alleviating the pressure on the CBC to implement monetary easing measures to bolster the economy. With the CPI remaining elevated at nearly 3% YoY, the CBC is compelled to stay vigilant against inflation risks. The resurgence in housing loans and the stabilization of property prices further support the CBC's decision to maintain a hawkish policy bias. It is our view that the discount rate will remain at 1.875% throughout 2024.

**Swiss National Bank (Dec 14th):** The SNB has every reason to keep the policy rate unchanged at 1.75% for a third consecutive meeting. CPI and core inflation fell to 1.4% YoY and 1.6% in November after returning into the 0-2% target range around mid-year. Look for the State Secretariat for Economic Affairs (SECO) to downgrade this year's GDP growth forecast on 13 December. The official forecast of 1.3% made in September was already below the long-term average growth rate of 1.7%. Real GDP growth decelerated from 1.6% YoY in 1Q23 to 0.3% in 2Q23 and 3Q23. Interest rate futures are betting on the SNB delivering its first rate cut in March (46% odds) or June (75% probability).

**Bank of England (Dec 14th):** Expect the BOE to keep the bank rate unchanged at 5.25% for a fourth consecutive meeting. With CPI inflation falling to 4.6% YoY in October, Prime Minister Rishi Sunak fulfilled his pledge to halve inflation from its peak (Oct 2022: 11.1%) this year. At the Autumn Statement last month, the Office for Budget Responsibility (OBR) projected inflation would fall to 2.8% by the end of 2024 before reaching the 2% target in 2025. The OBR also downgraded GDP growth to 0.7% from 1.8% previously for 2024 and 1.4% from 2.5% for 2025, mirroring the BOE's almost no growth outlook. Interest rate futures have placed a 50% probability for the BOE to start cutting rates in June 2024.

**European Central Bank (Dec 14th):** Weakness in incoming activity indicators and the need to contain long-end bond yields is likely to see the ECB pause at the main refinance rate at 4.5% until the first half of 2024, before starting to gradually lower rates.

We also expect reinvestments in the pandemic-bond purchase program to cease within 1H24. The ongoing quantitative tightening exercise have months to go before it returns to pre-pandemic levels and has material impact on domestic liquidity.

**People's Bank of China (Dec 15):** We expect the PBoC to keep the 1Y MLF rate unchanged at 2.50% this week, as the economy has shown some signs of stabilization. Retail sales growth is expected to rise from 7.6% YoY in Oct to 9.7% YoY in Nov. The boost can be attributed in part to the base effect resulting from comparisons with the depressed levels in 2022. Consumption sentiment was largely favourable in Nov. Gross merchandise value of livestream-commerce platform during Double-11 Gala increased 19% YoY. Industrial production is projected to rise from 4.6% YoY in Oct to 5.7% YoY in Nov. High frequency data such as load rate of PTA supply chain and utilization rate of electric furnace have all seen pick-ups in Nov. Fixed asset investment is expected to remain at 2.9% YoY YTD, with investments in strategic sectors such as infrastructure, EVs, and renewables offsetting the shortfall in property investment. That said, the PBOC is awaiting the economic impact of recent stimulus measures before contemplating another series of rate cuts.

**Forthcoming data releases**

**Malaysia:** Oct 2023's industrial production (IP) likely returned to 2.4% YoY expansion, rebounding from the previous two months' contraction. This indicated stabilisation, in line with the bottom seen in the exports contraction, notwithstanding a still challenging global economic environment. Base effects have turned more favourable in 4Q23, and the global electronics cycle has started to turn around gradually, which should bode well for Malaysian manufacturers, as we head into 2024.

**India and Indonesia:** India's inflation in early part of the week is expected to rise to 5.9% from 4.9% in Oct, reversing up after three consecutive months of moderation. While fuel and core price pressures are expected to stay capped, the heavy-weight food segment is likely to be the main contributor to the headline. High frequency retail trends show a reacceleration in vegetables, besides persistent rise in cereals and pulses in recent months. Concurrently, industrial production is expected to spurt to 11% YoY from 5.8% in Sep due to base effects and distortion due to a change in the timing of festivities between this year (Nov) and last year (Oct). An average of Oct-Nov trends will provide a better picture of the underlying trend. We expect a step down in the India's goods trade deficit from a record high $31bn in Oct to $25bn in Nov, suggesting that the spurt in pre-festive gold and oil purchases has likely eased off. On Indonesia's end, the trade balance is likely to stay above $3bn, lifted by a slower rise in imports (led by weaker raw material imports) rather than improving exports.

*Economics Team*

## FX: Stalemate

**USD, EUR, GBP, and CHF are making little headway against each other** because their monetary policies and softer economic and inflation landscape and outlook mirror each other.

**The four central banks** – US Federal Reserve, European Central Bank, Bank of England, and Swiss National Bank – **meeting this week believe they can afford to stop hiking interest rates, but none are ready to declare victory on inflation.** These central banks were not getting through to markets about keeping interest rates high for an extended period to get inflation back to target. Instead, **interest rate futures have brought forward rate cuts** to March-April for the Eurozone, May for the US, June for Switzerland, and August for the UK.

**Advanced economies are looking to end the year on a softer note through early 2024.**

- The Atlanta Fed GDPNow model sees US GDP growth decelerating to 1.2% QoQ saar in 4Q23 from an exceptional expansion of 5.2% in the prior quarter.
- The European Commission reckoned the EU economy lost momentum but saw GDP growth improving to 1.2% in 2024 from 0.6% in 2023.
- At last month's Autumn Statement, the Office for Budget Responsibility (OBR) downgraded the UK's GDP growth to 0.7% from 1.8% previously for 2024 and 1.4% from 2.5% for 2025.
- On 13 December, the State Secretariat for Economic Affairs (SECO) should downgrade Switzerland's 2024 GDP growth forecast. The official estimate of 1.3% made in September was already below the long-term average growth rate of 1.7%.

**Disinflation gathered momentum in the advanced economies, with inflation at two-year lows.** Although supply disruptions have eased and helped headline inflation lower, the tight and resilient labour market and wage increases have underpinned core inflation. Except for Switzerland, the US, the EU, and the UK still have headline and core inflation above their targets. The UK is the only country with a negative real policy rate.

- On Tuesday, consensus expects US CPI inflation to moderate again to 3.1% YoY in November. Inflation fell to 3.2% in October after a brief rebound to 3.7% in July-August. However, CPI core inflation was still high at 4% in October, twice the 2% target.
- Eurozone CPI inflation slowed rapidly in the past three months to 2.4% in November. Besides being closest to its 2% target, EU inflation has been below the US since October.
- British Prime Minister Rishi Sunak fulfilled his pledge to halve inflation this year. UK CPI inflation fell to 4.6% YoY in October from its 11.1% peak the same month a year ago. While headline inflation fell below the BOE's bank rate of 5.25%, core inflation remained above at 5.7% and significantly higher than the 2% target.
- Switzerland's inflation returned to the official 0-2% target around the middle of the year. Headline and core inflation fell to 1.4% YoY and 1.6% in November, below the SNB policy rate of 1.75% and its 2% neutral rate.

*Philip Wee*

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**Sources**: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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