Macro Insights Weekly
China after the NPC

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- *China's challenges are counteracting an adverse economic cycle and geopolitical headwinds while carrying out structural reforms. Property sector and local govt funding stress are critical to resolve.*
- *After a pivotal NPC, ambitious growth and inflation targets have been set.*
- *The burden of support would come from monetary/financial policies and local governments.*
- *But many local governments are saddled with heavy debt that need restructuring urgently.*
- *Also, short of property sector restructuring, consumer and investor sentiment would remain poor.*
- *Trade, tourism, and mobility data from spring festival, both during and after, hold promise.*

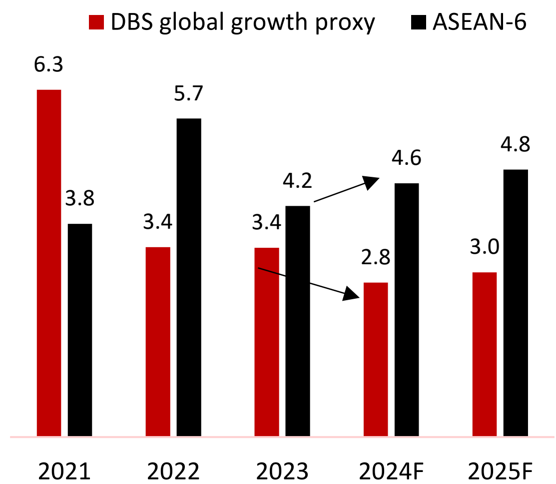
Key data release and events this week:

- *We expect the PBoC to maintain the 1Y MLF rate unchanged at 2.50%.*
- *India 4QFY24 average inflation is likely to undershoot the central bank's projection.*
- *Malaysia industrial production (IP) likely returned to 2.5% YoY expansion.*

Chart of the Week: Asean-6's 24 growth outlook

Major economies of the world, including China, EU, and the US, are expected to slow in 2024. We think Asean has a better outlook. Driven by a long-awaited revival of electronics demand, post-pandemic rejuvenation of regional travel and tourism, and some relief from energy price disinflation, regional growth would exceed 4.5%, as per our forecasts. From Malaysia to Singapore to Vietnam, 2024 has the makings of a year when demand revives robustly.

Real GDP growth, %yoy



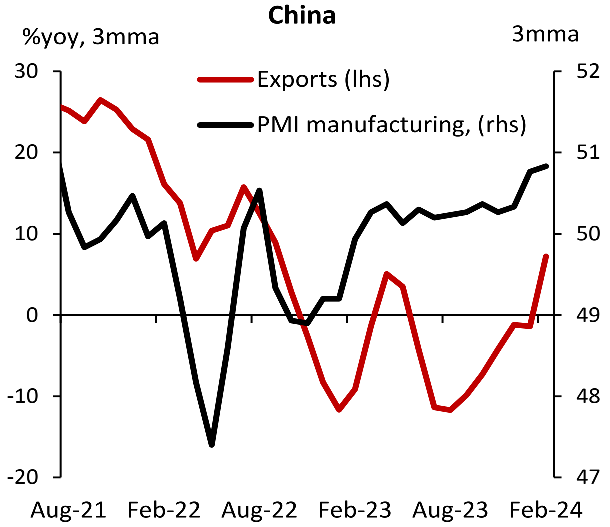
Source: CEIC, DBS

Commentary: China after the NPC

China's 2024 National People's Congress last week came at a pivotal moment. This year marks the 75th anniversary of the People's Republic, which is facing multiple geopolitical and economic challenges. A wide spectrum of economic forecasts and policy pronouncements were made during the "Two Sessions," which, by the end of the week, managed to neither cheer nor depress the markets. The authorities projected ambitious growth and inflation targets but did not signal a major fiscal stimulus at the central government level. This implies that the burden of support would be on monetary and financial market policies, and more critically, local governments. But as widely understood, China's local governments are presently beleaguered with high debt burdens, with diminished capacity and willingness to spend.

The authorities are focusing, belatedly but rightly, in our view, on the quality of economic growth over quantity. Productivity-led growth can help wage gains, which, in turn, helps support consumption. Investments in R&D and frontier technology rollout are also welcome. The question if there is a well-articulated medium-term vision, encompassing social-economic policies and regulations, that can anchor consumer and investor behaviour.

The economy is a on a decidedly mixed footing. On the negative side, asset markets remain under pressure, property sector stress shows no signs of abating, policy signals continue to underwhelm, and US trade and tech restrictions keep widening. But that's only one side of the story. Exports were up 7.2%yoy in January-February, coinciding with manufacturers' reporting, in PMI surveys, their best sentiments in two and a half years.



Source: CEIC, DBS

As per recent data, this year's Lunar New Year holidays were marked by fairly buoyant activities and spending. Both the number of domestic tourists and tourism revenues finally left the pandemic doldrums behind, rising well above the 2019 levels, by 19% and 7% respectively. Latest mobility data on inter-city highway traffic and domestic flight operations show upward momentum, with the best YTD reading in five years.

A potentially critical development took place on the sideline of the NPC last week, with officials from some of the most indebted provinces and cities meeting leading state bankers to renegotiate debt payments on billions of dollars of liabilities. With local government obligations reaching nearly 70% of GDP, and 2024 financing obligations exceeding 2% of GDP, such workouts are needed urgently. Short of this, growth related investment and spending would be hampered. China has a long road to recovery ahead, with many potential pitfalls; post-NPC, the journey remains perilous.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Mar 11 (Mon)		
China: M1 (Feb)	2.3% y/y	5.9% y/y
China: M2 (Feb)	8.2% y/y	8.7% y/y
China: Aggregate Financing (Feb)	RMB2,915bn	RMB6,502bn
China: New Yuan Loans (Feb)	RMB1,853bn	RMB4,920bn
Mar 12 (Tue)		
India: CPI (Feb)	4.9% y/y	5.1% y/y
India: Industrial production (Jan)	4% y/y	3.8% y/y
Malaysia: Industrial production (Jan)	2.5% y/y	-0.1% y/y
Philippines: exports (Jan)	6.6% y/y	-0.5% y/y
- imports	-9.1% y/y	-5.1% y/y
- trade balance	-USD4.2bn	-USD4.0bn
Mar13 (Wed)		
India: exports (Feb)	-1.4% y/y	3.1% y/y
- imports	-1.1% y/y	3.0% y/y
- trade balance	-USD16.5bn	-USD17.5bn
Mar 15 (Fri)		
China: 1Y MLF Rate	2.50%	2.50%
Indonesia: exports (Feb)	-6.0% y/y	-8.1% y/y
- imports	10% y/y	-0.4% y/y
- trade balance	USD2.5bn	USD2.0bn

Central bank policy meetings

People's Bank of China (March 15): We expect the PBoC to maintain the 1Y MLF rate unchanged at 2.50% this week, given some signs of stabilization observed in CNY tourism and export data. Authorities are currently monitoring the unfolding effects of recent stimulus measures before considering another series of rate cuts. On the deposit front, we anticipate M1 growth to normalize from 5.9% YoY in Jan to 2.3% in Feb, influenced by seasonal effects from the CNY holiday. M2 growth is projected to decelerate from 8.7% YoY in Jan to 7.7% YoY in Feb. The gap between M1 and M2 is expected to widen from Jan due to lingering weak investment confidence. As for loans, we anticipate a slowdown in the new increase in aggregate financing from RMB6,502bn in Jan to RMB2,915bn in Feb, largely due to seasonal factors. Historically, January experiences higher levels of aggregate financing compared to other months, as individuals and businesses seek financing for the year ahead. The issuance of additional ultra-long special central government bonds may tighten liquidity and elevate CNY rates, thus restraining credit growth. Consequently, we anticipate another 50bps RRR cut, equivalent to around RMB1 trillion injection, in our view. The PBOC is also likely to reduce policy rates in 2H2024 to manage funding costs.

Forthcoming data releases

India: February inflation is likely to witness a concurrent easing in core and non-core categories, which will take the headline to 4.9% yoy. Our forecasts show that the 4QFY24 average inflation is likely to undershoot the central bank’s projection at 5.2%. We expect food prices to also moderate on-year terms, led by cereals, spices, fruits and milk, even though sub-segments like rice and wheat are likely to stay firm on sequential basis. On-track sowing of the winter crop will also be a tailwind for this segment. Industrial production is likely to rise 4% yoy, drawing on the earlier released core industries index and PMI readings.

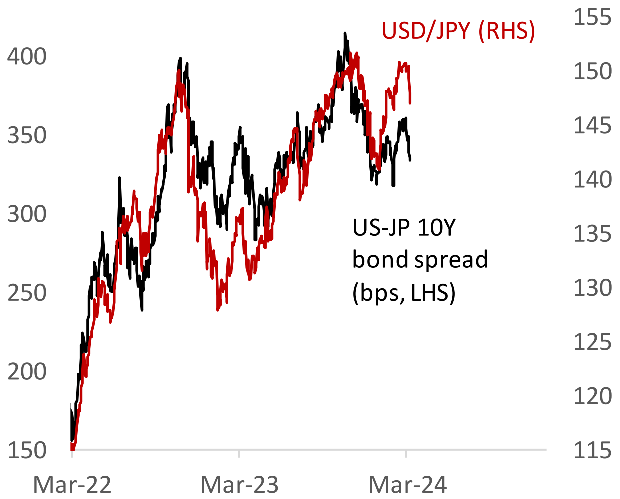
Malaysia: January 2024’s industrial production (IP) likely returned to 2.5% YoY expansion, mirroring the goods exports uptick. Signs of bottoming exports and IP are emerging, and would be supported by a turnaround in the global electronics cycle. Yet, the still uncertain global economic environment would keep the recovery fragile.

Economics Team

FX: Potential JPY recovery vs. the DM currencies amid a weak USD bias

JPY appreciated 2.1% to 147 per USD last week, its largest weekly rally since December and July 2023. The JPY will likely keep ascending instead of depreciating like it did in the first two months of 2024 or the second half of 2023.

Room for USD/JPY to extend its decline



Sources: DBS Research, Bloomberg data

First, the Bank of Japan is getting closer to ending its ultra-accommodative monetary policy. At its meeting on March 19, we expect the BOJ to pave the way for the end of its negative interest rate policy (NIRP) and yield curve control (YCC) policy in April.

- BOJ Governor Kazuo Ueda and his colleagues see Japan's economy making steady progress towards "sustainably and stably" achieving its 2% inflation target. On March 22, the National CPI data should mirror the jump in Tokyo CPI to 2.5% YoY in February from 1.8% in January.
- Today, Japan's economy avoided a technical recession after a final revision showing real GDP expanding by an annualized 0.4% QoQ sa in 4Q23 vs. the previous estimate of a 0.4% contraction. Although private consumption contracted by 0.3%, the lift came from the revision in business spending to 2% from -0.1%. This, coupled with a Nikkei 225 index at record highs, was enough for corporations to support 30-year high wage increases needed for the BOJ to join its peers in lifting interest rates.
- The 3,102 members of the Japanese Trade Union Confederation, Rengo, requested to increase wages by a weighted average of 5.85%, above 5% for the first time in 30 years. According to Reuters, the initial estimate for the Shunto (spring wage offensive) will be out this week.

Second, the US Federal Reserve, the European Central Bank, and other central banks have hinted at lowering interest rates from multi-decade high levels this summer. Last week, interest rate futures lifted the odds for a June cut at 67% and 88% for the Fed and ECB, respectively.

- Although Fed Chair Jerome Powell said a rate cut was not the "base scenario" for the FOMC meeting on March 19-20, he told US lawmakers last week that the Fed was "not far" from the confidence (in falling inflation) needed to lower rates. Tomorrow, consensus sees CPI core inflation slowing to 0.3% MoM (3.7% YoY) in February from 0.4% MoM (3.9% YoY) in January.
- The Fed is not pushing for "higher for longer" rates as it did in 3Q23 after its final hike in July. Neither is the Fed thinking about another hike in recent months; it was simply pushing back the market's aggressive bets for 7 rate cuts at the end of 2023.

At the ECB's post-meeting press conference on March 7, ECB President Christine Lagarde said the governing council discussed dialling back its restrictive stance. The ECB staff revised down the Eurozone's growth and inflation forecast, with CPI inflation hitting the 2% target in 2025. Bundesbank President Joachim Nagel hinted a rate cut was possible before the summer break, i.e., one of the meetings in April, June, or July.

ECB forecast revisions

% yoy	2024	2025	2026
Real GDP	0.6 (0.8)	1.5 (1.5)	1.6 (1.5)
CPI	2.3 (2.7)	2.0 (2.1)	1.9 (1.9)
Core CPI	2.6 (2.7)	2.1 (2.3)	2.0 (2.1)

Previous forecast in parantheses
Source: ECB

The Swiss National Bank will likely deliver a dovish pivot at its meeting on March 21. Switzerland's CPI inflation fell to 1.2% YoY in February, inside its 0-2% target for the ninth month. SNB President Thomas Jordan declared that monetary policy stability has been reached, hinting at a rate cut in June before he steps down in September.

Futures markets' policy rate outlook

	BOJ	FED	ECB	BOE	SNB
Jan	-0.10	5.50	4.50		1.75
Feb	-0.10			5.25	
Mar		5.50	4.50	5.25	**1.50**
Apr	**0.10**		**4.25**		
May	0.10	5.50		5.25	
Jun		**5.25**	4.25	**5.00**	**1.25**
Jul	0.10	**5.00**	**4.00**		
Aug	0.10			5.00	
Sep		**4.75**	**3.75**	**4.75**	1.25
Oct	**0.20**		**3.50**		
Nov	0.20	4.75		4.75	
Dec		**4.50**	**3.25**	**4.50**	**1.00**

Sources: DBS Reseach, Bloomberg data

While the Fed's rate cut bias weighs on the greenback, we also see the potential for more JPY recovery against the European currencies from the monetary policy divergences between BOJ and the European central banks.

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