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Macro Insights Weekly

Notes from Marrakech: Polycrisis and resilience

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Taimur Baig
Chief Economist
taimurbaig@dbs.com

Nathan Chow
Senior Economist / Strategist
nathanchow@dbs.com

For Alliance Bank clients, please direct your enquiries to Malaysia Research +603 2604 3915 general@alliancedbs.com

- *There was acceptance that a multitude of shocks have be confronted simultaneously. Post-pandemic scarring, wars, inflation, interest rate spikes, climate change, all need to be dealt with agility.*
- *Global resource base and tools to deal with polycrisis are being expanded.*
- *Climate change related support measures are still inadequate.*
- *Between-and-within country income gaps are widening due to the shocks and varying policy responses*
- *Asia is slowing, but still making up about two-thirds of global growth.*
- *Parts of Asia may benefit from geoeconomic fragmentation, but it's a net loss for the world.*

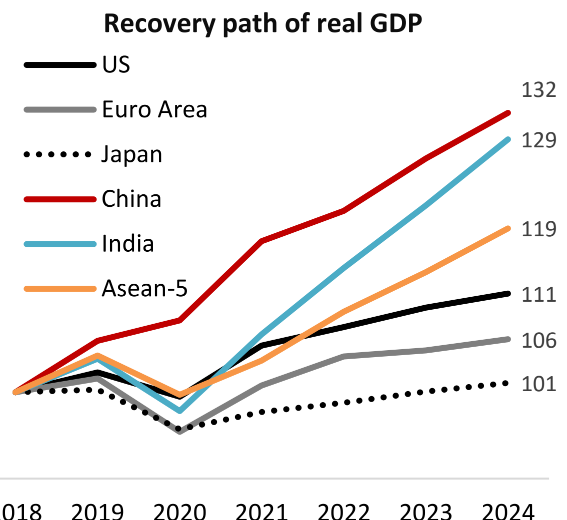
Key data release and events this week:

- *China's GDP growth is projected to slow to 4.4% in 3Q as base effects fade.*
- *Bank of Korea and Bank Indonesia are expected to keep policy rates unchanged.*
- *Japan's CPI is projected to ease slightly but maintain a high level at 3.0% YoY.*

Chart of the Week: An unchanged narrative

Despite trade/tech wars, property crisis, highly differentiated policy stance, and commodity shocks, post-pandemic recovery has left various corners of global economy broadly on their original paths. Going by the latest data and forecasts from the IMF's October 2023 World Economic Outlook, the only notable dynamic is India's acceleration vis-à-vis China. Even that would still leave China as leader of the pack at end-2024. Age-old dynamics don't change readily; the chart below speaks volumes.

Recovery path of real GDP



Source: IMF, DBS

Refer to important disclosures at the end of this report.

Commentary: Notes from Marrakech: Polycrisis and resilience

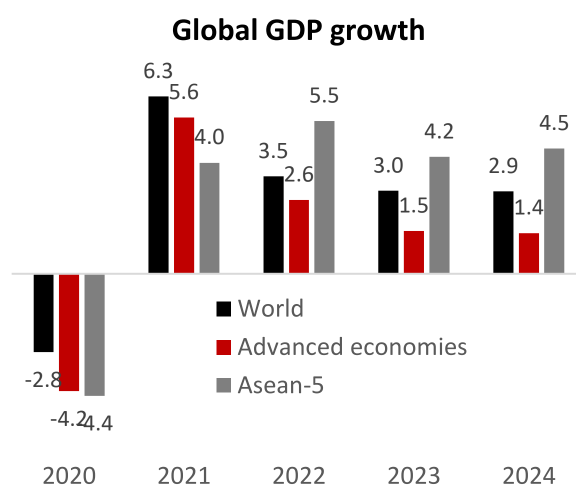
Global central bank heads and finance ministers gathered over the past week in Marrakech, Morocco for the Annual Meetings of the International Monetary Fund and the World Bank Group. The meetings' overarching theme was an uneven global recovery from a multitude of shocks, ranging from pandemic to wars, prices to interest rates. There was also a cautiously constructive view that both the public sector and markets have proven to be more agile than feared to deal with frequently occurring shocks.

The polycrisis dynamic is striking. Scarring from the pandemic, the war in Ukraine, and increasing geoeconomic fragmentation are affecting the global economy in a variety of ways, altering supply chains, raising the cost of doing business, constraining consumption, and increasing risks to livelihoods. Cyclical shocks like sharp interest rate increases, withdrawal of fiscal support amid high debt, and extreme weather events are also highly problematic.

These frequently occurring shocks call for, both at the public and private sectors levels, tail risk hedging or building of redundancy buffers. These efforts would however nudge nations to horde more reserves, food, and fuel, while companies will invest in de-risking strategies by shifting supply chains and dependencies.

A few key points on the outlook, as per the IMF's World Economic Outlook publication:

- Global growth to slow from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024. These are well below pre-pandemic growth rates.
- For advanced economies, the slowdown would be from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. This reflects a stronger-than-expected US, but weaker-than-expected Euro Area.
- Emerging market economies are projected to slow marginally, from 4.1% in 2022 to 4% percent in both 2023 and 2024. Asean's prospects are somewhat better. The major driver of EM slowdown is China.
- Global inflation is forecast to decline steadily, from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024.
- Inflation is not expected to return to target until 2025 in most cases.



Source: IMF, DBS. Asean-5: Indonesia, Malaysia, Philippines, Singapore, Thailand.

Cost of geoeconomic fragmentation. The IMF presented work on the weaking of cross-border trade flows, reflecting a sharp rise in trade restriction policies worldwide. It was pointed out that this could fragment global payments, limit gains from digitalisation, and reduce global pooling of risk as regions and nations turn inward. Global imperatives like inequality

reduction and green transition can also be impeded by geoeconomic fragmentation.

There was concern about global spillovers from US monetary policy tightening. 500bps+ rise in short-term USD interest rates has fundamentally changed the cost of capital. If the "high for long" narrative does take hold around higher than trend inflation in the coming years, concerns would extend far beyond financial asset prices. This would make development and green transition more costly, impeding an already tall order. If financial stability is undermined due to the sharp rise in interest rates, that would also have adverse implications for the global economy.

Scarring from the pandemic is considerable, although the recovery in 2022 and so far in 2023 has been a testament to some technological and policy achievements (from vaccine development/distribution to larger allocation of resources to multilateral organisations which have supported struggling economies). Economic activity still falls short of its pre-pandemic path, especially in emerging market and developing economies.

An additional consequence of the pandemic has been to accentuate inequality trends. Volatility around economic lockdowns affecting production, jobs, tourism, the accompanying inflation and interest rate shock, and divergence in policy support across economies and sectors have left widening gaps in income and opportunities both between and within countries. Rising trade/tech restrictions don't help, nor do commodity shocks and wars. Governments and businesses have made efforts, but the magnitude and frequency of shocks over the last three years have overwhelmed many developing economies.

Unlike the previous IMF/World Bank meetings, there appeared to be greater comfort with China's role in various initiatives. Not much progress has been made to give China greater power and voice in multilateral forums, but China has nonetheless begun playing consequential roles in debt restructuring for some developing countries. Previous gaps in approach to debt restructuring between China and other creditors appear to have been closed substantially. China's role in global trade and green transition is central, independent of great power rivalry.

The IMF estimates Asia to contribute two-thirds of global growth this year. But forecasts have been revised down somewhat given China's underwhelming recovery and weak external demand in the electronics sector. There was a great deal of concern about China's economic trajectory, as that has an outsized role in regional and global growth.

On green transition, developing countries repeated their call for a just transition, financed by grant (not debt) financing from western nations and multilateral organisations, and appreciative of income and jobs security. The ongoing work on expanding multilateral trust funds and financial facilities is welcome, but much more needs to be done.

The meetings ended with a mid-December 2023 target to complete the review of the resource quotas of IMF members. The goal is to increase the capital base so that more can be done to achieve debt sustainability, reduce inequality, and make progress toward green transition.

Taimur Baig

Central bank policy meetings

Bank Indonesia (Oct 19): As base effects dissipate, selected food segments (particularly rice) and non-food have started to rise or bottom out. This will lead the headline inflation to rise towards but stay below 3% yoy by end-2023. While inflation is within targets, the US Fed is expected to stay hawkish for longer than previously anticipated, which will keep the BI focused on capital flow management policies to ensure currency and financial market stability. This is likely to see the BI on an extended pause, with a pivot likely to require a stable currency and clarity on the US terminal rate (*Indonesia: Indonesia: Inflation, rupiah, and the response framework*).

Bank of Korea (Oct 19): The Bank of Korea is expected to maintain the policy rate at 3.50% this week while retaining a hawkish bias. Headline CPI rebounded more than anticipated, reaching 3.7% YoY in September, primarily driven by increased food and energy prices, coupled with festive effects. Concurrently, household mortgage loans continue to exhibit a rebounding trend, requiring the BOK's vigilant attention concerning financial stability. With the expectation that inflation will gradually ease back towards the 2% mark in 2024, our assessment still leans towards the likelihood of a rate cut as the next policy move. The timing of such a rate cut might be delayed, considering the latest trends in food and oil prices.

Forthcoming data releases

China: China's GDP is expected to slow from 6.3% YoY in 2Q to 4.4% in 3Q, largely driven by dissipating low base effect. The economic activities should have picked up somewhat on in September. Early indicators such as Manufacturing PMI returned to expansion zone for the first time in the last 5 months. Industrial production therefore is projected to accelerate from 4.5% in Aug to 4.7% in Sep. Likewise, retail sales growth is expected increase from 4.6% to 4.8% alongside rising Non-manufacturing PMI. Government support policies such as increase in tax allowance also rendered support to consumption sentiment. Fixed asset investment however should have stayed at 3.2% YoY YTD. Despite investment into strategic sectors such as IT, electronics and automobile, headline growth number continued to drag by property investment alongside ongoing default of China property developers.

Hong Kong SAR: Jobless rate is expected to stay at the pre-COVID low of 2.8% in 3Q despite labour demand and overall economic recovery were weaker-than-expected. Such situation is largely a result of tight labour supply. Both population and labour force have yet to returned to 2019 or 2018 levels. Therefore, overall inflation remained modest. On one hand, wage growth should accelerate. On the other hand, consumer price should be kept at bay due to tepid domestic consumption and tourist spending. As such, the CPI is projected to edge up from 1.8% YoY in Aug to 1.9% in Sep.

Japan: CPI inflation is projected to ease slightly in September, but maintaining a high level at 3.0% YoY. The prolonged weakness of the yen, in combination with the rising global energy prices, is anticipated to keep imported inflation elevated for an extended period. The sustained inflation pressure, along with the rising global interest rates and the outflow of JGBs, heightens the likelihood of further adjustments to the BOJ's YCC policy during the Oct 31st

meeting. Given the unsatisfactory wage performance (total wages: 1.2% YoY, base wages: 1.6% in August), however, significant policy changes such as discontinuing YCC and NIRP should remain unlikely.

Malaysia: We are likely to see the themes of weak export performance and contained inflation being reflected in Malaysia's Sep data. We expect Malaysia's goods exports to contract for the seventh straight month by a double-digit rate of 16.5% YoY, amid global external headwinds. Indeed, Malaysia's purchasing managers' index (PMI) remained in contraction in Sep, with new export orders softening to the greatest extent since May 2020. Meanwhile, we expect headline inflation to hover around the 2% mark, helped by favourable base effects, slight easing in food and core items, even though the YoY energy price drop narrowed for the second straight month. That said, we see upside inflation risks going forward, given the uptick in global energy prices, potential shocks to food prices from El Nino weather disruptions, currency depreciation, and recalibration of domestic subsidy policies.

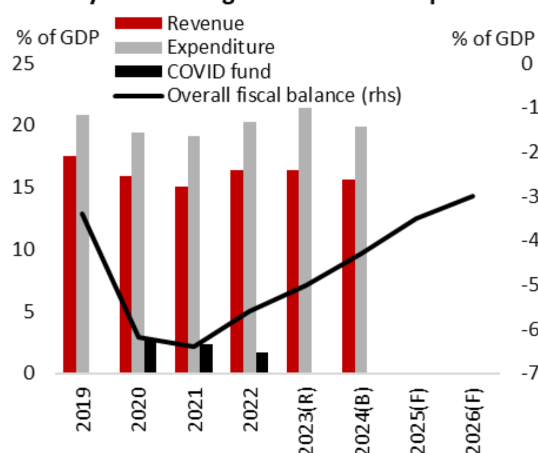
Singapore: Singapore's non-oil domestic export (NODX) year-on-year (YoY) slump likely continued for the 12th straight month in Sep, in our view. That said, the contraction possibly narrowed to 15.5% YoY, from Aug's and Jul's decline of ~20% YoY, with base effects starting to turn more favourable. Key to watch will be electronics exports. The drop in electronics exports has likely bottomed, with the decline narrowing in Aug, and this improvement could extend into Sep, in line with the modest recovery in Singapore's electronics purchasing managers' index (PMI).

Economics Team

Malaysia Budget 2024: Fiscal efforts on the right track

We believe Budget 2024 announced on Oct 13 reflects the government's commitment to undertake fiscal consolidation and reforms. This is in line with the 'Madani Economic Narrative' launched in late July. These efforts come amid a challenging global economic environment and external headwinds. The government expects growth to slow to ~4.0% in 2023 before picking up to 4.0-5.0% in 2024, in line with DBS forecasts (2023: 4.0%; 2024: 4.8%).

Budget 2024 proposes reducing the federal government fiscal deficit to 4.3% of GDP in 2024, from a revised 5.0% shortfall in 2023, with a 3.0% medium-term goal. Gradual reforms cover both sides of the ledger and governance, representing multiple efforts to tackle Malaysia's long-standing fiscal weakness.



Source: CEIC, MOF, DBS
Note: R=Revised; B=Budgeted; F=Forecast

On expenditures, the much-anticipated subsidy rationalisation on fuel and electricity was announced, with the savings partly channelled towards social safety net. Subsidies and social assistance operating spending are budgeted to

drop by ~18% YoY to MYR52.8bn in 2024. The government will shift to a targeted diesel subsidy approach in phases, starting in 2024, except for selected users such as logistics firms. It will also remove the temporary price control for chicken and eggs.

Several tax measures were introduced to shore up revenues. Notably, the Sales and Services Tax will be raised to 8% from 6%. The scope of taxable services is expanded to include logistics, brokerage, underwriting, and karaoke services but excludes food and beverages or telecommunications. Also, a high-value goods tax of 5-10% on items such as jewellery and watches will be introduced. A capital gains tax on unlisted shares of 10% will also be effective from Mar 2024. For health purposes, the excise duty rate for sugar-sweetened beverages will be raised, while a new excise duty on chewing tobacco will be imposed. In 2025, a minimum tax for companies with a global income of at least EUR750mn per year will be introduced, in line with international standards.

On governance, we think the Public Finance And Fiscal Responsibility Law, passed by parliament on Oct 11, will improve Malaysia's public finance framework. First proposed in 2018, the law sets a three to five-year timeline to meet several fiscal targets such as development expenditures, fiscal deficit, federal government debt, and government guarantee, all as a percentage of GDP. The government will also aim to table the Government Procurement Act by 2Q24 to address tender processes in public procurement. We believe these positive efforts will ensure fiscal sustainability.

Chua Han Teng

FX: Event-dependent markets caught between data-dependent central banks and a volatile Middle East crisis

Markets will likely be event-dependent, closely monitoring if the Middle East conflict will widen regionally, adding a new threat to the global economy and renewing inflation risks. The newfound uncertainty may steer data-dependent central banks to pause monetary policy tightening to assess the volatile new risk to an already challenging landscape painted by the IMF last week. We cannot rule out the DXY and its components consolidating this month after the greenback's rebound over the past two and a half months. However, focus should return to the Fed when the tensions subside.

DXY appreciated 0.6% to 106.5 last week. The greenback did not brush off the better-than-expected US CPI inflation last Thursday just as it did the stellar nonfarm payrolls the previous Friday. **Many Fed officials will comment on the US economy and the Fed's mandate this week, culminating in Fed Chair Jerome Powell's remarks on Friday** (19 Oct). Markets are keen to see where Powell leans within the Fed's internal debate to pause or keep the door open for a hike at the FOMC meeting on 1 November. Ultimately, the decision will probably depend on whether the PCE deflator (on 27 Oct) and advanced GDP (on 26 Oct) will also surprise during the Fed's blackout period next week. The Atlanta Fed GDPNow model sees GDP growth rebounding to an annualized 5.1% QoQ in 3Q23 after its slowdown to 2.1% from 2.7% in the previous four quarters. Markets will listen closely to how the Mideast conflict is shaping its assessment of the Fed's outlook. **DXY has been wedged between 105 and 107 this month.**

Investors did not dismiss the IMF's warning about a widening Middle East conflict adding to global economy's stagflation risks. Brent crude oil prices continued pushing higher this morning after last Friday's 4.9% spike above USD90 per barrel, some 30% off their lows in May-June. The **IMF estimated that every 10% increase in oil prices would lift global inflation by 0.4%.**

According to newswire reports, the US seeks to prevent Iran or Hezbollah from opening a new front in the Israel-Hamas conflict and has sent a second aircraft carrier group to the Mediterranean Sea. **The United Nations Security Council is scheduled to vote on a draft resolution on the conflict today at 1900 GMT**, calling for a humanitarian ceasefire and condemning violence against civilians and all acts of terrorism. The resolution needs at least nine favourable votes without any vetoes from the US, UK, France, Russia, or China.

Although the IMF kept its forecast for world growth at 3% this year, it lowered the forecast for 2024 to 2.9% for 2024. The IMF sees monetary policy tightening, the Ukraine-Russia war, and geoeconomic de-fragmentation keeping world growth below the 3.8% average for the past 20 years before the Covid pandemic. With inflation seen stubbornly high, the **IMF urged central banks to keep monetary policy tight until inflation declines sustainably towards their targets**.

EUR/USD depreciated 0.7% to 1.0510 last week, near where it started this month. The European Central Bank paving the ground for its first pause next week; the governing council meets on 26 October. The ECB sees both downside and upside risks to inflation and growth. A pause would allow the ECB to assess the impact of the 450 bps of rate increases since July 2022 on the labour market, consumers, and businesses amid a softer global outlook facing heightened geopolitical risks. While inflation remains too high above the 2% target for the ECB to declare victory, its narrative is steering towards keeping rates high for longer into 1H24. Geography-wise, the Eurozone is near the fresh conflict in the Middle East and the ongoing war between Ukraine and Russia. **EUR/USD had been trading between 104.5 and 106.5 this month.**

GBP/USD resumed its depreciation last week after a relief rally in the first week of October. GBP/USD wiped out five sessions of gains in two days. Per CFTC data, speculators held on to their net short GBP positions for a second week on the UK's stagflation risks. **We see the Bank of England paving the ground for another pause** at the monetary policy meeting on 2 November. The committee voted 5-4 to keep the bank rate unchanged for the first time at 5.25% on 21 September. The narrow decision came after two months of negative readings for employee payrolls. **Let's see if a third negative print turns up in tomorrow's** (17 Oct) **monthly jobs report.** On Wednesday (18 Oct), consensus sees UK CPI inflation slowing to 6.6% YoY in September from 6.7% in August and core inflation to 6% from 6.2%. BOE Governor Andrew Bailey reckoned UK's potential growth has fallen to "at best 1.5%" from 2.25-2.5%, making the last mile to bring inflation back to the 2% target the hardest. Meanwhile, Chancellor Jeremy Hunt lessened prospects for tax cuts at the Autumn Statement on 22 November because of a GBP20-30bn increase in debt payments this fiscal year from higher borrowing costs.

GBP/USD has held a 1.2030-1.2330 range in October.

NZD/USD depreciated 1.8% to 0.5885 last week, its lowest close since 8 September. Most of the sell-off occurred between Tuesday and Thursday from risk aversion and the USD's rebound from the surprisingly firm US CPI data. Tomorrow, consensus sees NZ's 3Q23 CPI inflation slowing to 5.9% from 6% in YoY terms, but rising to 1.9% from 1.1% in QoQ terms. The Reserve Bank of New Zealand paused after its last hike to 5.5% in May when it warned that a recession might be needed to bring inflation back to its 1-3% target. However, recession fears ebbed when 2Q23 GDP growth surprised with a 0.9% QoQ growth vs. the 0.4% consensus. NZ also revised 1Q23 growth from -0.1% to 0%. Hence, **RBNZ may steer its neutral policy bias towards a "hawkish hold" at its meeting on 29 November.** Meanwhile, New Zealand will have a new centre-right government after the general elections on 14 October ended six years of Labour Party rule. Until the special votes are finalized on 3 November, the opposition National Party will likely form a coalition government with its ally, the ACT Party, and if necessary, include the New Zealand First Party, too. **Since mid-August, NZD/USD has fluctuated within a 0.5860-0.6060 range.**

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Chris LEUNG
Chief Economist
China, Hong Kong SAR
chrisleung@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Nathan CHOW
Senior Economist
China, Hong Kong SAR
nathanchow@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW
Credit Analyst
SGD Credit
joelsiew@dbs.com

Han Teng CHUA, CFA
Economist
Asean
hantengchua@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Duncan TAN
Rates Strategist
Asia
duncantan@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Samuel TSE
Economist
China, Hong Kong SAR
samueltse@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

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DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.

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