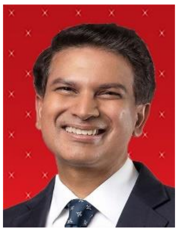
Macro Insights Weekly

Mild recovery in Asian exports

January 22, 2024



Taimur Baig
Chief Economist
taimurbaig@dbs.com

Ma Tieying
Senior Economist
matieying@dbs.com

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

- *Asia's exporters had a forgettable 2023, with across-the-board declines. Several indicators suggest that the cycle has bottomed, but the outlook is not yet looking rosy.*
- *As supply chains normalised and emergency orders abated in 2023, so did exports.*
- *Data from ports, PMI, and advance orders from the US suggest some upside to exports in 1Q24.*
- *But manufacturers and shippers in China/Hong Kong remain gloomy.*
- *Soft commodity prices are holding back exports numbers of Indonesia and Malaysia.*
- *Middle East tensions could also disrupt shipping. Some caution is warranted.*

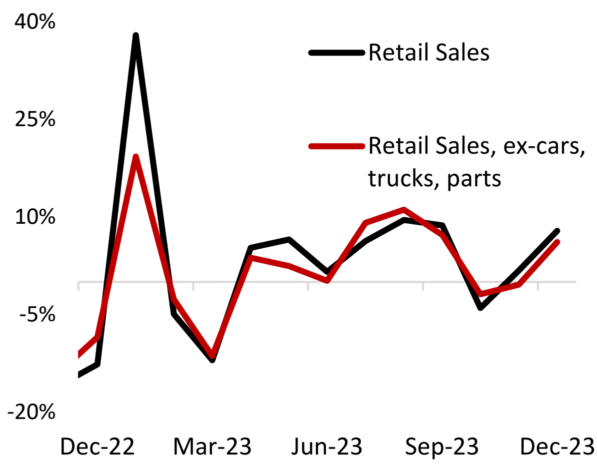
Key data release and events this week:

- *No policy changes from the BOJ, ECB, and BNM*
- *Modest disinflation in Malaysia, Singapore, and Hong Kong*
- *Expect resilient 4Q GDP growth in the US and South Korea*

Chart of the Week: Upbeat US consumers

Defying headwinds from high interest rates and depleted pandemic-era savings, US consumers continued to spend robustly through December. A 5.5% decline in petrol prices and an overall cooling of inflation have helped, with consumer sentiment at a two-and-a-half year high. Consumer loan and housing mortgage rates have declined substantially in recent months, buoying consumers further. The US economy keep chugging along.

US retail sales



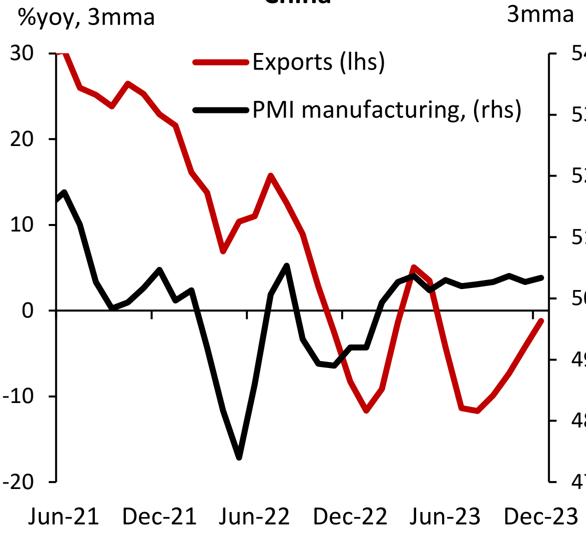
Source: CEIC, DBS. Monthly data are seasonally adj; m-o-m change is calculated and annualised.

Commentary: Mild recovery in Asian exports

Asia's exporters had a forgettable 2023. For the year, China (-4.3%), Indonesia (-11.3%), Malaysia (-11.1%), Singapore (-7.7%), South Korea (-7.5%), Taiwan (-9.8%), even the typically sturdy Vietnam (-4.8%) saw contractions in exports growth. The weakness was prevalent across the board, from commodity to electronics exporters. As supply chains normalised and emergency orders abated, so did exports.

There are indications that the prolonged downturn in the cycle is finally over, even if the recovery outlook is not yet rosy. Particularly in the electronics sector, global inventory and advance order data suggest that demand has bottomed. Whether it is advanced computer chips needed for AI work or electronics for EVs, shipping of such products picked up toward the end of 2023. World's largest ports like Los Angeles and Singapore ended the year reporting a sizeable pick up in trade volumes, which ought to set a good momentum for 1Q24.

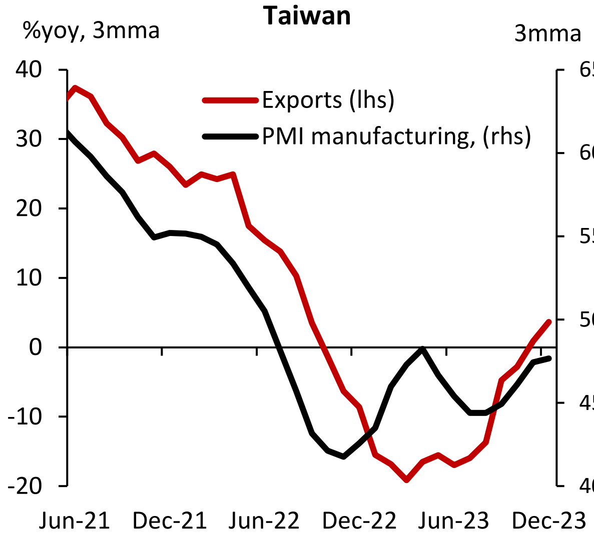
China



Source: CEIC, DBS

Actual exports numbers in recent months have also been promising. Both PMIs and export growth figures have picked up among the advanced electronics exporters in the region, particularly South Korea and Taiwan.

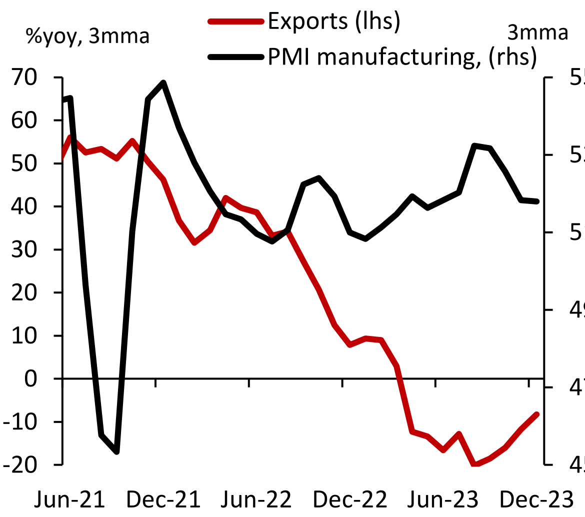
Taiwan



Source: CEIC, DBS

There are a few pockets of worry. Manufacturers and shippers in China/Hong Kong remain gloomy, while waning commodity prices are holding back the exports numbers of Malaysia and Indonesia. A delay in the rate cut cycle could halt improvement in working capital costs, and Middle East tensions could disrupt shipping. Asia's exports are on their way up, but we are not betting on a resounding recovery.

Indonesia



Source: CEIC, DBS

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Jan 22 (Mon)		
Malaysia: CPI (Dec)	1.4% y/y	1.5% y/y
Taiwan: export orders (Dec)	0.5% y/y	1.0% y/y
Hong Kong: CPI (Dec)	2.4% y/y	2.6% y/y
Jan 23 (Tues)		
Singapore: CPI (Dec)	3.5% y/y	3.6% y/y
Taiwan: industrial production (Dec)	-2.0% y/y	-2.5% y/y
BOJ: policy balance rate	-0.1%	-0.1%
- 10Y yield target	0%	0%
Jan 24 (Wed)		
Japan: exports (Dec)	10.7% y/y	-0.2% y/y
- imports	-7.3% y/y	-11.9% y/y
- trade balance	JPY195bn	-JPY780bn
Malaysia: BNM overnight policy rate	3.00%	3.00%
Jan 25 (Thu)		
South Korea: GDP (4Q)	2.0% y/y	1.4% y/y
Eurozone: ECB refinancing rate	4.50%	4.50%
US: GDP (4Q)	2% q/q saar	4.9% q/q saar
Hong Kong: exports (Dec)	7.6% y/y	7.4% y/y
- imports	7.2% y/y	7.1% y/y
- trade balance	-HKD28.4bn	-HKD27.9bn
Jan 26 (Fri)		
Singapore: industrial production (Dec)	1.0% y/y	1.0% y/y
Philippines: exports (Dec)	5.2% y/y	-13.7% y/y
- imports	1.7% y/y	0% y/y
- trade balance	-USD4.4bn	-USD4.7bn

Central bank policy meetings

Bank of Japan (Jan 23): The BOJ is expected to maintain its current monetary policy while adjusting its growth and inflation forecasts. Considering the impact of soft oil prices, the BOJ might slightly lower its FY2024 core CPI forecast from 2.8% to 2.5%. In response to the weaker-than-expected performance in 3Q GDP, the BOJ may also revise down its FY2023 growth forecast from 2.0% to 1.5%. Policymakers are likely to signal a patient approach to monetary policy normalization, citing the need of monitoring this year's Shunto wage negotiation outcomes and assessing the economic impacts of the recent earthquake. We maintain our forecast for the BOJ to raise the policy balance rate by 10bps to 0% from -0.1% in 2Q, with no significant rate hikes anticipated this year.

Bank Negara Malaysia (BNM) (Jan 24): We expect BNM to maintain its overnight policy rate (OPR) at 3.00% in its first meeting of 2024. The policy stance will likely be assessed as supportive of the economy, like in the previous decision. Malaysia's growth remains sluggish, with 4Q23 advance real GDP growth registering at 3.4% YoY, vs 3Q23's 3.3% YoY, and full-year 2023 growth settling at 3.8%, below official forecast of ~4.0%. Manufacturing was weak, despite reversing to expansion in 4Q23, amid global economic uncertainties, while resilient services provided cushion. Malaysia's inflation remains contained, likely registering at 1.4% YoY in Dec 2023, in our view. Authorities, although keeping policy steady, would watch out for upside risks from a shift to targeted subsidies, services tax hike, and global commodity and supply chain developments. BNM will likely manage downside currency volatility through other tools.

Bank of Canada (Jan 24): The BOC should keep the overnight lending rate unchanged at 5% for the fifth straight meeting. In mid-January, the BOC Business Outlook Survey for 4Q23 reported that only 26.6% of companies planned greater-than-normal price increases, fewer than the 29.5% in 2Q23. About three-quarters of the firms were negatively impacted by higher interest rates. Looking ahead, they see upcoming mortgage renewals leading homeowners to cut spending. Worried about softer demand and renewed competitive pressures, companies intend to hire and invest less. However, the BOC is unlikely to pivot towards rate cuts. Firms do not see inflation at the BOC's 2% target in the next four years. CPI inflation fluctuated in a 3.1-4% YoY range in the second half of 2023 after falling to a two-year low of 2.8% in June.

European Central Bank (Jan 25): We expect the ECB to keep the main refi and deposit facility rate unchanged this week. Since the December rate review, economic activity has broadly been soft, including ex-energy industrial production in France and Germany. 4Q23 GDP numbers saw Germany narrowly avert a recession but the recovery impulse remains lackluster in midst of slowing China and manufacturing weakness, not helped by ongoing strikes. Inflation, on the other hand, ticked up to 2.9% yoy in Dec23, on higher non-energy industrial goods. Unfavourable base effects and spillover risks from geopolitical tensions are likely to keep price pressures above target this year. In recent days, ECB Governing Council members have also questioned the extent of rate cuts priced into the markets, cautioning against premature easing.

Forthcoming data releases

South Korea: GDP growth is projected to experience a modest increase to 2.0% YoY in 4Q, compared to 1.4% in 3Q, primarily driven by net exports. Monthly trade data unveiled a notable 5.9% YoY rise in exports in 4Q, with semiconductor exports rising to 21.8% in December from -3.1% in October. Investment remained sluggish, however, given that the manufacturing capacity utilization rate has not fully recovered. Consumer spending growth weakened in 4Q, attributed to diminishing reopening demand and a soft labor market. The subdued performance in domestic demand supports our expectation of a 75bps BOK rate cut this year, starting from 2Q.

Taiwan: We expect a sustained, gradual uptrend in December export orders and industrial production. December exports saw a robust increase of 11.8% YoY. The growth in export orders and industrial production is projected to be relatively moderate. Export orders encompass orders received by Taiwanese manufacturers from the mainland. Industrial production lags export demand due to the need to fully digest excess inventories. We continue to expect a U-shaped recovery in the overall growth cycle in 1H.

Singapore: Regarding inflation, we expect the headline rate to stay rather steady at 3.5% YoY in Dec 2023, following Nov 2023's correction to 3.6% YoY. Private transport inflation has been volatile in recent months, amid swings in certificate of entitlement (COE) premiums, but we expect stabilisation at single-digit YoY rate in Dec 2023. Core inflation likely softened to 3.0% YoY in Dec 2023, on broad-based easing. This would be at the upper end of the Monetary Authority of Singapore (MAS)'s 2.5-3.0% range for end-2023. In early 2024, we expect core inflation to edge up, amid increases in the goods and services tax, carbon tax, and public transportation fare.

The YoY expansion in IP likely extended for the third straight month in Dec 2023 by 1.0%. This is based on our estimates from the 4Q23 manufacturing print of the advance GDP estimate. Electronics production growth likely pared back, but better than the declines in 1H23. The global electronics cycle is starting to turn around, and Singapore is likely to benefit. However, the recovery is likely fragile, given the still uncertain global economic environment and lingering geopolitical tensions that could still disrupt supply chains.

Hong Kong SAR: CPI is projected to decrease from 2.6% YoY in Nov to 2.4% YoY in Dec. The weakened asset markets are adversely affecting consumer confidence through a negative wealth effect. Additionally, the robust Hong Kong dollar is constraining spending capacity of tourists and encouraging local residents to travel abroad. The strong HKD is also expected to keep import costs in check. These are offsetting the rebound of residential rent and labour costs.

Exports growth is anticipated to increase from 7.4% YoY in Nov to 7.6% YoY in Dec, primarily driven by an extended low-base effect. However, external demand from Mainland China remained weak. Despite the 2023 GDP growth released last week beating the government's target of 5.0%, the slowdown in sequential growth from 1.5% QoQ in 3Q to 1.0% in 4Q pointed to weakening growth momentum. Demand from the US and the EU is hindered by high interest rates. Likewise, imports are expected to expand from 7.1% in Nov to 7.2% in Dec on low base effect. Domestic demand remained subdued.

Economics Team

FX: Not yet, not yet

In the coming weeks, the central banks of developed markets will manage expectations carefully amid sticky inflation. Their primary focus is not to set new precedents but to navigate the current economic landscape cautiously. With a resurgence in inflation in December, these institutions are hesitant to commit to early interest rate reductions in March, contrary to market speculations. Simultaneously, they exhibit little enthusiasm for rate hikes. The overarching strategy seems to be reducing interest rates from their current high levels once inflation steadily returns to target levels. Policymakers anticipate monetary policy normalization to start around summer, assuming no significant shocks or surprises.

The USD Index (DXY) remains underpinned after surpassing 103 last week. Critical support levels include the 103.1 mark, aligning with its 50-day moving average, and the 38.2% Fibonacci retracement level from its plunge from 107.1 to 100.6 in November-December. Despite the Federal Reserve's blackout period, Fed officials have clearly dismissed endorsing the March rate cut pushed by markets at the FOMC meeting on January 30-31. **This week's important economic data should reinforce the Fed's patient stance.** On Thursday, consensus sees advanced GDP growth declining to 2% QoQ saar in 4Q 2023 from 4.9% in the previous quarter, supporting a soft-landing scenario. On Friday, markets will be wary of PCE inflation echoing the CPI's uptick by rising 0.2% MoM in December vs. the 0.1% decline a month earlier. Any unexpected results in these reports could push the DXY to test resistance near 104.5, near its 100-day MA and 61.8% Fibo level.

EUR/USD has shifted to a slightly lower range of 1.0850-1.0900, compared to the 1.09-1.10 range in the preceding fortnight. EUR bears will closely monitor the European Central Bank's meeting on January 25 for indications on the timing of potential rate cuts. ECB President Christine Lagarde will likely emphasize the collective wage agreements in late spring as an essential influence on any pivot towards a rate cut this summer.

USD/CAD did not trade above the 1.35 level last week. It may stabilize within the 1.3350-1.3480 range after its 2.8% rebound between December 27 and January 17. The Bank of Canada should maintain its interest rate at 5% in its January 24 meeting, marking the fifth consecutive hold. With December's CPI inflation and wage growth exceeding expectations, the BOC will likely delay any shift towards a rate cut. CPI inflation has remained between 3.1-4% YoY in the latter half of 2023, following a decline to a two-year low of 2.8% in June. Canadian firms do not see inflation at the BOC's 2% target in the next four years.

USD/JPY faces upward pressure after closing above its 100-day moving average (147.45) last week. The Bank of Japan will signal a patient approach to normalizing monetary policy at its meeting on January 23. We maintain the view that the negative interest rate policy will end in 2Q24 after the Shunto wage negotiations. Instead, the BOJ will likely lower its forecast for GDP growth to 1.5% from 2% for FY2023 and CPI inflation to 2.5% from 2.8% for FY2024. With the greenback supported into the FOMC, Finance Minister Shunichi Suzuki has restarted verbal interventions to cushion the yen.

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

Tracy Li Jun Lim
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

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

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

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

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

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

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

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron Lam
Economist
Hong Kong
byronlamfc@dbs.com

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

Samuel TSE
Economist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

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

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)