Macro Insights Weekly

A health-check on China

Group Research

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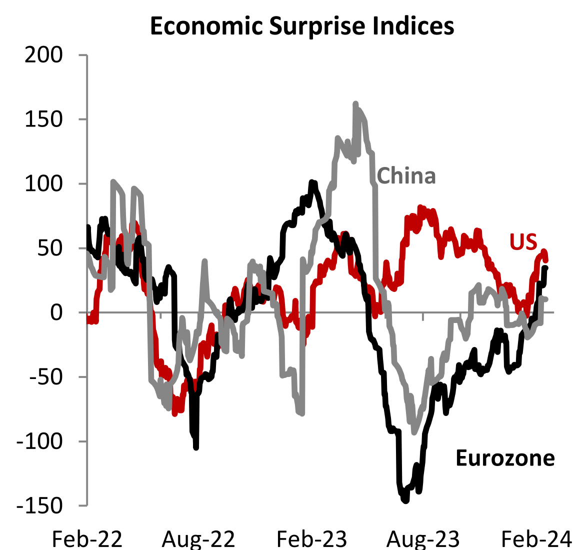
- *China's economy has progressively slowed lately, with mounting imbalances and associated vulnerabilities. For the worst to be over, consumption and business sentiment need substantial support.*
- *Regulatory, governance, and pandemic-related crackdowns have been damaging to sentiments.*
- *The authorities have taken a slew of measures to support the property sector.*
- *Resolving further exacerbation of property sector is priority number one.*
- *Headwinds, like external demand and geopolitics, are not resolvable domestically.*
- *China has plenty of savings and buffers; time to put them to use.*

Key data release and events this week:

- *South Korea and Indonesia's central banks are expected to stay on hold this week.*
- *We forecast a subdued growth report for Thailand for 4Q23.*
- *Singapore core inflation likely ticked up in January.*

Chart of the Week: A synchronised uptick

Data surprises have turned positive for the US, Eurozone, and China. While the strength in the US economy is widely reported, we are picking up improving production and factory order momentum in the Eurozone, whereas China's trade data for January should reflect the already visible uptick in regional exports. A wide range of PMI readings from these areas suggest businesses see the year having begun on an upbeat note. The global economy is on course for a 1Q GDP upside surprise.



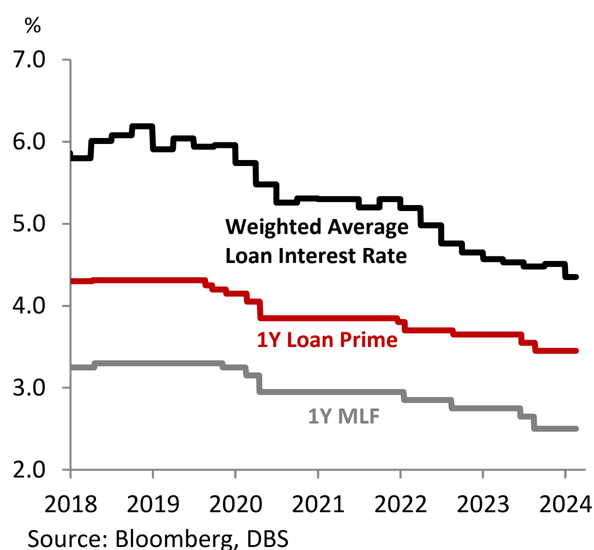
Source: Bloomberg, DBS

Commentary: China health-check

China continues to cast a shadow on the global economic outlook. Long the key source of global demand, the economy has progressively slowed in recent years with mounting imbalances and associated vulnerabilities. Domestic sentiment has been dealt multiple blows, from regulatory, governance, and pandemic-related crackdowns to a deep and continued selloff in asset markets.

The authorities have announced a slew of measures. Interest rates have gone in the opposite direction from the rest of the world, progressively shifting down over the past four years. Fiscal stimulus has been injected to support beleaguered local governments, measures to support debt and equity markets have been announced, and the medium-term reform agenda, particularly on green transition, has been accelerated. And yet, weak sentiments and financial market stress persist.

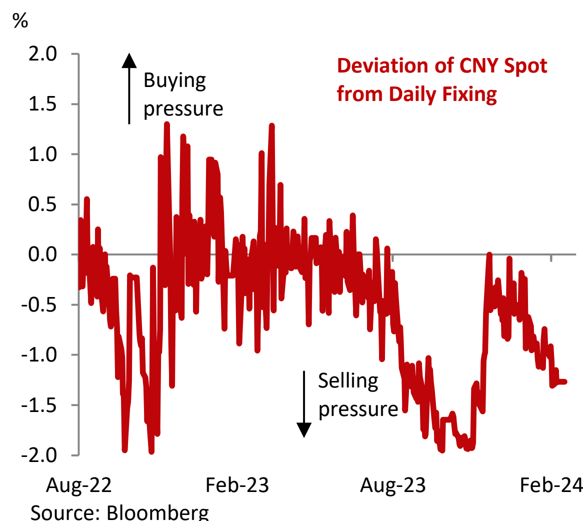
China: Lending rates for the real economy



Source: Bloomberg, DBS

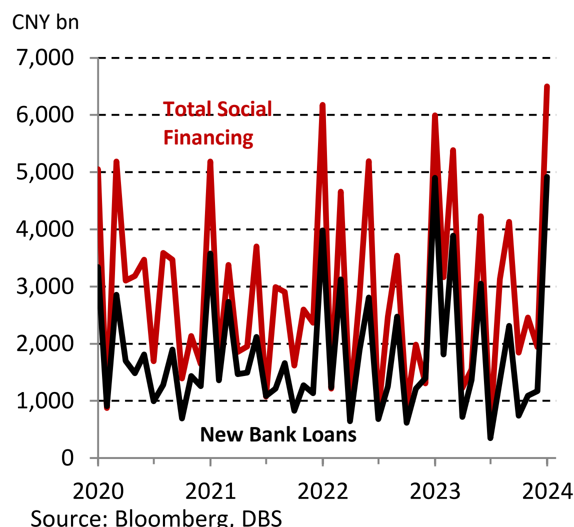
Resolving further exacerbation of property sector is priority number one, as it is presenting assorted headwinds, from deflation pressure to private demand, from banking system balance sheet to local government financing stress.

Measure of CNY stress



Source: Bloomberg

China: Credit Growth and Liquidity



Source: Bloomberg, DBS

Several factors outside of China's controls are also material to the outlook. They include external demand, global liquidity conditions, and geopolitics. We are not too concerned about external demand and global liquidity, whereas tensions with the US could only worsen if a Trump term-two becomes apparent. Meanwhile, the Chinese authorities need to deploy forceful supportive measures to revive consumption and investment sentiment. Recent policy announcements are moves in the right direction, in our view. China has plenty of savings and buffers; time to put them to use.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Feb 19 (Mon)		
Thailand: GDP (4Q)	2.2% y/y	1.5% y/y
Feb 20 (Tue)		
Malaysia: exports (Jan)	-2.5% y/y	-10% y/y
- imports	7.0% y/y	2.9% y/y
- trade balance	MYR 8.8bn	MYR 11.80bn
Feb 21 (Wed)		
Indonesia: 7D reverse repo	6.0%	6.0%
Japan: exports (Jan)	26% y/y	9.7% y/y
- imports	-6.1% y/y	-6.9% y/y
- trade balance (adj)	JPY902bn	- JPY412.7bn
Feb 22 (Thu)		
Hong Kong: Composite CPI (Jan)	2.1% y/y	2.4% y/y
Eurozone: CPI inflation (Jan)	2.9% y/y	2.9% y/y
South Korea: BOK Base Rate	3.50%	3.50%
Feb 23 (Fri)		
Malaysia: CPI (Jan)	1.5% y/y	1.5% y/y
Singapore: CPI (Jan)	3.8% y/y	3.7% y/y

Central bank policy meetings

Bank Indonesia (Feb 21): BI Governor is expected to push back against the market's early rate cut bets. Domestic inflation is poised to stay within the revised 1.5-3.5% target, under the rebased series (2022 from 2018). Policymakers will, however, be wary of a premature dovish turn, as markets continue to pare bets that the US Fed's shift to rate cuts is imminent. Currency and bond market stability will be the main considerations in the coming months. Early exit polls from the recently held election produced a clear winner. Armed with political stability, the central bank is likely to be focused on global developments.

Bank of Korea (Feb 22): The Bank of Korea is expected to keep rates unchanged at 3.50% with a neutral stance. Policymakers will likely express confidence about the growth recovery outlook, given the significant rebound observed in January exports, PMI, and consumer confidence indicators. Policymakers may also find comfort in the easing of CPI inflation to 2.8% YoY in January. However, with the potential for price hikes during the LNY festival in February, it is premature to conclude that inflation has consistently returned to the 2% level. The BOK is expected to monitor inflation data for a few more months to confirm that inflation has stabilized at the 2% target, before moving to cut interest rates. We currently maintain the forecast of BOK rate cuts starting in 2Q, totaling 75bps this year.

Forthcoming data releases

Japan: January trade data will be released this week, with exports expected to show a robust YoY increase of 26%. This surge is attributed in part to the low base effect resulting from the Lunar New Year festival in China and other major Asian countries. Looking beyond seasonal volatility, a gradual rebound in exports is expected throughout the year. This recovery is bolstered by the weakness of the JPY and the cyclical upswing in the global semiconductor/electronics sector. The Red Sea crisis may cause some disruptions in 1Q. This is due to the significant reliance on sea shipping for automobile exports, which constitute 17% of Japan's total exports, with the EU accounting for 10% of Japan's overall exports.

Malaysia: The themes of a turnaround in goods exports and contained inflation are likely to be reflected in Malaysia's January 2024 data. The contraction in goods exports has been narrowing since troughing in August 2023, and likely shrank by 2.5% YoY in January 2024, vs December 2023's 10.0% YoY fall, amid favourable base effects and bottoming out electronics shipments. Headline inflation likely remained stable at 1.5% YoY in January 2024, amid contained core inflation that has eased to the long-term average, and broadly stable commodity-related inflation. That said,

Malaysia's inflation outlook faces upside risks from potential shifts to targeted subsidies.

Singapore: We expect core inflation to rise to 3.6% YoY in January 2024, from December 2023's 3.3% YoY. The pick-up will be mainly driven by the goods and services tax (GST) hike to 9% starting January 2024, uptick in utilities prices from an increase in carbon taxes in 2024, and already increased public transport fares from December 2023. Downward bias in private transport inflation due to January 2024's declines in certificate of entitlement premiums against rising core inflation would likely cap the rise in January 2024's headline inflation to 3.8% YoY, vs December 2023's 3.7% YoY.

Thailand: Thailand's 4Q23 real GDP growth was likely muted at 2.2% YoY, vs 3Q23's 1.5% YoY. Still robust private consumption amid improving consumer confidence, alongside rising foreign tourist arrivals, likely supported headline growth. That said, still weak private investments, drag from government consumption, and poor net trade capped growth momentum.

Hong Kong: Consumer price growth is forecasted to decrease from 2.4% YoY in Dec 2023 to 2.1% YoY in Jan 2024. The weakened asset markets are adversely affecting consumer confidence due to a negative wealth effect. The robust Hong Kong dollar is constraining the spending capacity of tourists and encouraging local residents to travel abroad. Additionally, a high base effect is occurring compared to the Chinese New Year in Jan 2023. The residential rental yield gradually increased from 2.2% in Mar 2023 to 2.6% in Dec 2023. The rising rental cost will keep consumer price moderated.

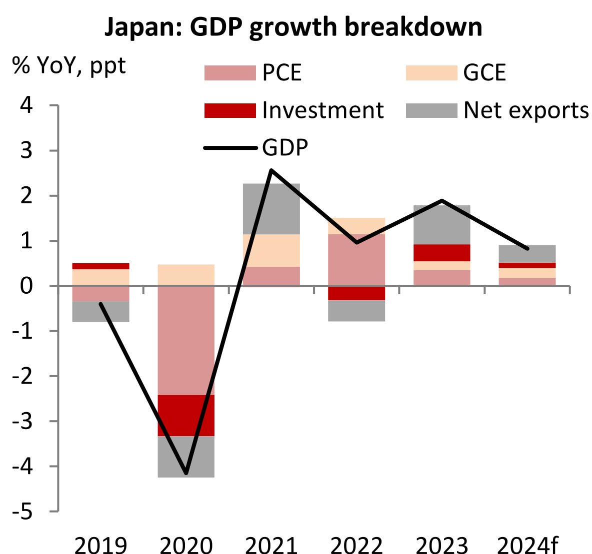
Economics Team

Japan: BOJ policy outlook unchanged despite weak GDP

The preliminary GDP estimate for 4Q23 fell below expectations. Contrary to the consensus expectations for a moderate rebound, GDP growth remained slightly negative at -0.4% QoQ (saar) in 4Q23, following the 3.3% decline in 3Q23. While exports of goods and services saw a robust 11% QoQ saar expansion in 4Q23, private consumption expenditures recorded a -0.9% contraction, marking the third consecutive quarter of decline. Additionally, gross fixed capital formation declined by -1.3%, the third consecutive quarter of contraction.

Still, the overall results for the full year of 2023 were in line with expectations. The full-year GDP growth reached 1.9%, marking the third consecutive year of above-trend growth. The economy has successfully recovered from the 4.1% losses incurred during the 2020 pandemic, eliminating the negative output gap. In nominal terms, GDP growth for 2023 reached 5.7%, the strongest in more than three decades since 1991.

Japan: GDP growth breakdown



Sources: CEIC, DBS

In light of the weaker-than-expected 4Q23 GDP results, we are trimming our 2024 GDP growth forecast to 0.8% from 1.0%. This revision considers the impact of the lower-than-expected performance in 4Q23, influencing the trajectory for the coming year. A slowdown is expected compared to 2023, as the reopening-related boost on consumption and tourism exports diminishes. The slowdown is unlikely to be drastic, however. Factors such as higher wage growth following this year's Shunto, slower inflation, and a more stable JPY are expected to restore consumers' purchasing power. Additionally, the cyclical rebound in the global semiconductor/electronics sector is expected to support Japan's goods exports.

We maintain our forecast that the Bank of Japan will terminate the negative interest rate policy at the April meeting, raising the policy balance rate from -0.1% to 0%. Despite the likelihood of GDP growth falling short of the BOJ's FY2024 forecast of 1.2%, it is expected to align with the country's long-term trend rate. Attention will likely shift to nominal GDP, inflation, and wage data trends. If Shunto negotiations result in significant wage hikes, core-core CPI remains close to the BOJ's 2% target, and nominal GDP continues to outperform real GDP, this should provide confidence for policymakers, paving the way for further monetary policy normalization at upcoming meetings.

Ma Tieying

FX: Consolidation amid a light calendar

DXY appreciated by 0.2% to 104.28 last week, closing **above its 100-day moving average for the first week since mid-November**. Fed officials are adhering to their forecast of three rate cuts in December's Summary of Economic Projections. **The US calendar is light in terms of data, focusing mainly on Fed events,** especially the FOMC minutes on 21 February. Seven Fed officials are scheduled to speak on Wednesday-Friday. They are Vice Chair Philip Jefferson, Governors Michelle Bowman, Lisa Cook, and Christopher Waller, and Presidents Raphael Bostic (Atlanta), Patrick Harker (Chicago), and Neel Kashkari (Minneapolis). **Unless they sound overly hawkish, Fed officials have already pushed back against the market's aggressive rate cut bets.** Since mid-December, interest rate futures have pulled back their stakes from seven to four cuts this year, and for the first reduction to start in June instead of March.

Hence, **DXY did not push above 105 last week** when the US 10Y bond yield was capped at around 4.33% or its 100-day moving average. Japanese officials also stepped up verbal intervention with USD/JPY above 150. On the other hand, the **market is not rushing to dump the greenback** ahead of possible surprises in next week's PCE deflators. Moreover, the US economy has proven resilient compared to the technical recessions in Japan and the UK amid underwhelming growth in other economies. Meanwhile, China returns from its week-long Lunar New Year holidays. Investors are still holding out for more stimulus measures despite the skepticism over the Chinese economy.

EUR/USD remains pressured below 1.08. The European Central Bank is divided over whether to cut rates too soon or too late. ECB member Francois Villeroy de **Galhau** (France) **preferred gradual cuts over waiting too long to cut rates**. Eurozone GDP growth has been stuck in a ±0.1% QoQ sa range for five quarters into 4Q23. The European Commission downgraded this year's GDP growth outlook to 0.8% from its autumn forecast of 1.2%. On the other hand, ECB President Christine **Lagarde, and** member Isabel **Schnabel** (Germany) **did not want to rush rate cuts for fear that inflation may rebound**. With wages becoming an important driver of inflation, the ECB will wait for the Eurozone wage talks to conclude after the April meeting to determine if it could start cutting rates in summer. At 2.8% YoY and 3.3% in January, headline and core inflation were still too high above the 2% target.

GBP/USD is hemmed between 1.25 and 1.2650 this week with a downside bias. With the UK economy in a mild technical recession and the Tory Party losing two significant by-elections over the weekend, **expect more pressure on the Bank of England to lower interest rates**. Real GDP contracted by 0.4% QoQ sa in 4Q23 after declining 0.1% in 3Q23. However, retail sales turned positive by 3.4% MoM in January from its -3.3% growth in December, suggesting a short-lived downturn. Over the weekend, BOE Chief Economist Huw **Pill wanted several months of data to be sure inflation was on its way to the 2% target before considering rate cuts**. Although CPI inflation fell 0.6% MoM in January following a 0.4% rise in December, headline and core inflation were high in YoY terms, at 4% and 5.1% in December. **Do not expect Chancellor** of the Exchequer Jeremy **Hunt to dole out generous tax cuts at the Budget announcement on 6 March**. Hunt is constrained by the reduced fiscal headroom provided by the Office for Budget Responsibility (OBR) forecasts and the IMF pushing the UK towards the path of fiscal consolidation.

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