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# Macro Insights Weekly
# A health-check on India


Group Research

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- *India is in multiple sweet spots, from geo-strategic to demographics. 5.5.-6.5% growth looks par for the course. But what would it take for growth to head toward 7%?*

- *The economy has weathered two major shocks—the 2020/21 pandemic and the 2022 food/energy shock.*

- *Yet, business and consumer sentiments have revived, demand markers are robust, and BOP is stable.*

- *Three areas need momentum for growth to head toward 7%. First, literacy and skills need enhancing.*

- *Second, health indicators are lagging peers; more investment would help productivity.*

- *Third, openness to trade and regional cooperation by embracing regional value chains is key.*


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

- *South Korea exports are projected to decelerate with during the LNY festival.*

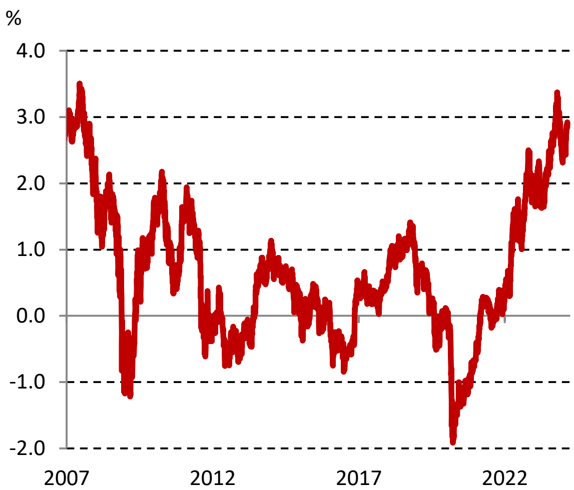
- *We forecast a subdued growth report for India for 4Q23.*

- *Singapore industrial production is expected to rebound and return to expansion.*

## Chart of the Week: Expensive stocks

Exuberance around artificial intelligence and a resilient demand environment have pushed US stock markets to a series of record highs. Going by valuation metrics like yield gap, US stocks look rather expensive, around the same level as they were prior to the 2007-08 global financial crisis. Short of a major economic or financial sector shock, it is hard to see the current state of investor confidence getting dented. We are tracking interest rate sensitive parts of the economy, especially as continued market rally could get in the way of Fed rate cuts.

**10Y UST yield - SP500 Dividend yield**



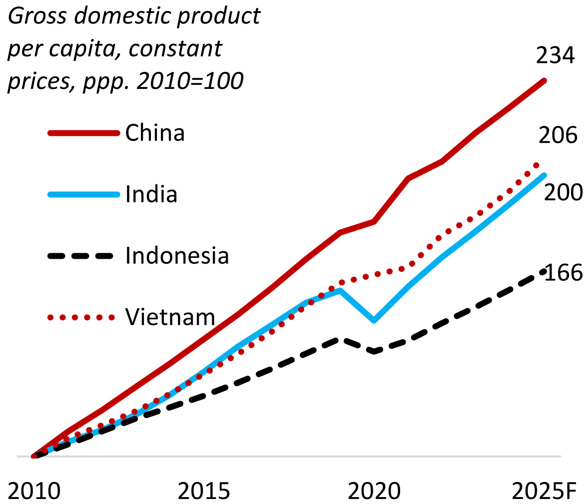

Source: Bloomberg, DBS

## Commentary: A health-check on India

India is in multiple sweet spots. From geo-strategic to demographics, there are plenty of well-discussed motivating factors for global investors to look at India favourably. Domestic infrastructure, both physical and electronic, has improved considerably, social welfare has expanded, consumer confidence has risen, and asset markets are buoyant. External balances, long susceptible to volatile investment flows and global energy shocks, are beginning to turn for the better as services surplus offsets most of the trade deficit.

All of this is remarkable given that India has faced two major shocks since 2020. First was the economic contraction during the Covid pandemic, while the second was the food/energy terms of trade shocks after Russia's invasion of Ukraine. At currently projected growth rates, it will only be in 2026 that India makes up the ground lost during the pandemic, illustrating the magnitude of the shock. Meanwhile, buying crude oil from Russia and exporting some of it in refined form was a shock absorber in 2022-23.

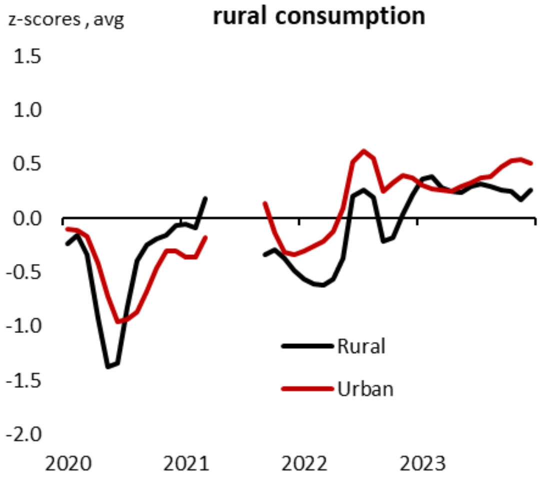
**Recovery and prospects**




Source: IMF, DBS

Looking at the 2024 outlook, although inflation remains under RBI's scrutiny, the economy seems to be doing just fine without additional monetary or fiscal easing. Looking at demand markers both at urban and rural areas, real GDP growth of 5.5-6.5% is par for the course now.

**Demand gauge - proxy for urban and rural consumption**




Source: CEIC, calculations by DBS (set of proxy variables)

What would it take for growth to head toward 7% on a sustainable basis? We see three key drivers, health, education, and trade. Some improvement notwithstanding, there is considerable room for improving literacy, technical skills, women's role in the labour force, and public health. On human capital and health indicators, India lags in many of its peers. To embrace large scale manufacturing, progress in these areas is a must.

India also needs to reduce tariff and nontariff barriers to trade and make progress toward to becoming embedded in the regional supply and value chains. No economy is large enough to do it alone in this world of complex production processes. Regional cooperation and openness to trade will provide India with the kind of high return endeavours critically needed for the prosperity the nation aspires.

*Taimur Baig*

## Key forecasts for the week

| Event | DBS | Previous |
|---|---|---|
| **Feb 26 (Mon)** | | |
| Singapore: industrial production (Jan) | 4.2% y/y | -2.5% y/y |
| **Feb 27 (Tue)** | | |
| Hong Kong: exports (Jan) | 15.3% y/y | 11.0% y/y |
| - imports | 16.2% y/y | 11.6% y/y |
| - trade balance | -HKD26.6bn | -HKD59.9bn |
| Japan: CPI (Jan) | 1.8% y/y | 2.6% y/y |
| Taiwan: export orders (Jan) | -10% y/y | -16.0% y/y |
| **Feb 29 (Thu)** | | |
| Taiwan: industrial production (Jan) | 0.5% y/y | -4.0% y/y |
| India: GDP (4Q) | 6.8% y/y | 7.6% y/y |
| Vietnam: exports (Feb) | 11.0% y/y | 42.0% y/y |
| - imports | 12.5% y/y | 33.3% y/y |
| - trade balance | USD2.2bn | USD2.9bn |
| - Retail sales YoY YTD | 9.0% y/y | 8.1% y/y |
| - CPI | 3.5% y/y | 3.4% y/y |
| **Mar 1 (Fri)** | | |
| Hong Kong: retail sales value (Jan) | 7.5% y/y | 7.8% y/y |
| South Korea: exports (Feb) | 1.0% y/y | 18.1% y/y |
| - imports | -13.6% y/y | -7.8% y/y |
| - trade balance | USD2.7bn | USD0.3bn |
| Indonesia: CPI (Feb) | 2.5% y/y | 2.6% y/y |

## Central bank policy meetings

**Reserve Bank of New Zealand (28 Feb):** Look for the RBNZ to keep the official cash rate unchanged at 5.50% for the fifth meeting. RBNZ Governor Adrian Orr joined the Fed and other central banks against pivoting towards an interest rate cut anytime soon. According to an RBNZ Survey in 1Q24, the median 2-year inflation expectations of households increased to 3.2% from 3% in the previous quarterly survey, slightly above the 1-3% inflation target. However, interest rate futures have gotten ahead of themselves, expecting a slight chance of a hike in the coming meetings. The NZ economy is fragile compared to its peers. The seasonally adjusted real GDP contracted QoQ in three of the four quarters through 3Q23. The final quarter of 2023 does not look promising. Retail sales ex inflation shrank by 1.9% QoQ sa in 4Q23, worse than the 0.8% decline a quarter earlier. The unemployment rate increased for a second year to 4% in 2023 from 3.4% in 2022. On balance, the RBNZ's next move will likely be a rate cut than a hike.

## Forthcoming data releases

**Japan:** CPI inflation is expected to decelerate to 1.8% YoY in January from the 2.6% recorded in Dec23. Excluding fresh food and energy, inflation is projected to persist above the 2% threshold, reaching 3.2% in January. In light of the moderation in inflation data and the weakness in 4Q23 GDP, the likelihood of an early termination of the negative interest rate policy at the March BOJ meeting has decreased substantially. The possibility of such a move in April remains viable, given the ongoing increase in corporate profits and the potential for wage hikes during the Shunto negotiations.

**South Korea:** Exports are projected to decelerate to 1% YoY in February from the notable 18% growth observed in January, primarily due to the reduced number of working days attributed to the Lunar New Year festival. Nevertheless, the overall export growth for the initial two months of this year is expected to average 9.5%, surpassing the 5.7% recorded in 4Q23. With the concurrent decrease in inventories and the rebound in manufacturing PMI (51.2 in January), there is a strong likelihood that industrial output will experience a significant pickup in 1Q.

**Taiwan:** Export orders are expected to show some improvement, reaching -10% YoY in January, following a decline of -16% in Dec23. Industrial production is expected to experience a slight uptick, reaching 0.5% in January as opposed to the -4% recorded in Dec23. The gradual increase in semiconductor demand and gradual digestion of excess inventories continue to contribute to the outlook for a U-shaped growth recovery.

**Hong Kong SAR:** Retail sales growth is expected to moderate from 7.8% YoY in Dec to 7.5% YoY in Jan. Hong Kong saw 7.5 million local resident departures in Jan, equivalent to 51% of the total visitor arrivals. This ratio exceeded the 2023 monthly average of 46%. The robust HKD is constraining the spending capacity of tourists and encouraging local residents to travel. Weakened asset markets are also adversely affecting consumer confidence, creating a negative wealth effect. The value of total exports of goods is projected to increase from 11.0% YoY to 15.3% YoY, while simultaneously, the value of imports of goods decreased by 16.2% YoY. The low base effect largely contributes to such improvement. External demand from Mainland China and the rest of the world continues to face challenges due to high interest rates.

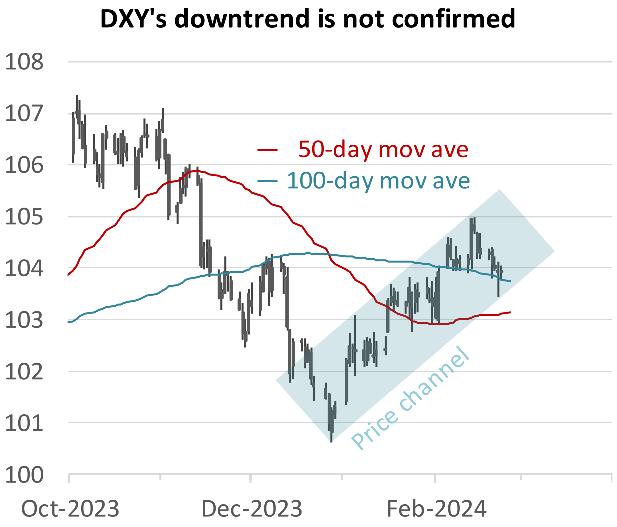
**Singapore:** We expect Singapore's industrial production to rebound and return to expansion of 4.2% YoY in January 2024, after decelerating in 2023's final two months. Part of the upside was due to favourable base effect, with January 2023's print falling by 2.9% YoY, as it coincided with the Lunar New Year. January 2024's improvement was possibly driven by electronics, precision engineering, and chemicals.

**Vietnam:** Vietnam's exports growth likely normalised to 11.0% YoY in February 2024, after January's surge of 42.0% YoY, due to the Tết holidays. Despite the volatility, the continued expansion remains in line with our expectations for better exports performance in 2024 vs 2023, amid a turnaround in the global electronics cycle. We expect faster retail sales growth in February 2024, due to seasonal impact from the holidays. In our view, headline inflation was likely 3.5% YoY in February 2024, hovering near the 3.4% YoY to 3.6% YoY range since October 2023. Food and transport inflation remained contained, even though administered health price increases have quickened due to upward adjustments since November 2023 to align nationwide prices.

*Economics Team*

## FX: No clear sign that DXY will keep falling or EUR and NZD will keep rising

The **DXY Index retreated to 104** last week **after failing to break above 105** on 13-14 February. The Fed has successfully pushed back the market's aggressive rate cut bets for 2024. As of last Friday, interest rate futures discounted 3-4 cuts this year, fewer than the 7 reductions in December. They also see the Fed delivering its first cut in June instead of March.



Sources: DBS Research, Bloomberg data

However, last Thursday, **DXY bounced off 103.4, the floor of a price channel**. Fed officials are determined that the market does not deviate from the 3 cuts projected in December's dot plot. They have also rallied around Fed Chair Jerome Powell's guidance that a rate cut was not the base scenario at the next FOMC meeting on 20 March. At his semi-annual congressional testimonies on 6-7 March, Powell will likely warn that excessive easing amid a resilient US economy could lead to a stalling or reversal in the progress achieved so far to restore price stability. On 29 February, look for the **PCE deflators to mirror the surprises in CPI.** Consensus sees headline inflation rising to 0.3% MoM in January from 0.2% in December and core inflation to 0.4% from 0.2%. With initial jobless claims declining a third week to 201k for the 17 February week, those looking for nonfarm payrolls (on 8 March) to fall below 200k in February may be disappointed again.

**EUR/USD rose into a higher 1.08-1.09 range last week** vs. 1.07-1.08 the previous fortnight. This week, a fall in the Eurozone's CPI inflation will not lead the European Central Bank to lower rates at next week's governing council meeting. Today, ECB President Christine Lagarde will tell the EU Parliament that the spring wage negotiations need to affirm the sustainability of disinflation for an interest rate cut this summer. **However, EUR/USD could slip below 1.08 again.** Interest rate futures see the ECB lowering rates by the same 75-100 bps as the Fed this year. The risks could tilt in the USD's favour if the CPI estimate on 1 March affirms the ECB's expectation to reach the 2% target by summer or autumn. Consensus expects headline inflation to slow to 2.5% YoY in February from 2.8% in January and core inflation to 2.9% from 3.3%.

**NZD/USD's rise to 0.62 last week is as tenuous as the fragile New Zealand economy.** With inflation expectations above the 1-3% target, we expect inflation the Reserve Bank of New Zealand to keep rates unchanged at 5.50% on 28 February. However, interest rate futures have gotten ahead of themselves in their mild bets for a hike at the April or May meetings. After contracting QoQ sa in three of the four quarters through 3Q23, real GDP looks weak in 4Q23. Apart from retail sales ex inflation contracting by a deeper 1.9% QoQ sa in 4Q23 vs. the 0.8% decline in 3Q23, the jobless rate increased to 4% in 4Q23 for the first time since 2Q21. Despite its concern about high rates weighing on the economy, the Treasury Department hinted at spending cuts in the May budget announcement.

*Philip Wee*

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