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Macro Insights Weekly

Implications of a “no-landing” scenario

Group Research

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Taimur Baig
Chief Economist
taimurbaig@dbs.com

Chang Wei Liang
FX & Credit Strategist
weiliangchang@dbs.com

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

- *The markets have resigned to largely pricing out a March rate cut by the US Federal Reserve. We think lingering expectation for a protracted rate cut cycle is still too optimistic.*
- *High interest rates and withdrawal of Covid-era support have not yet dented consumption.*
- *Beyond buoyant consumers, US businesses are also reporting brightening outlook.*
- *We see gathering upside to our 1.5% US real GDP growth rate forecast for 2024.*
- *If growth heads toward 2%, it is hard to see sub-4% long-term bond yield.*
- *We still see some rate cuts in 2H24; but if there is no landing, the cycle will be rather short.*

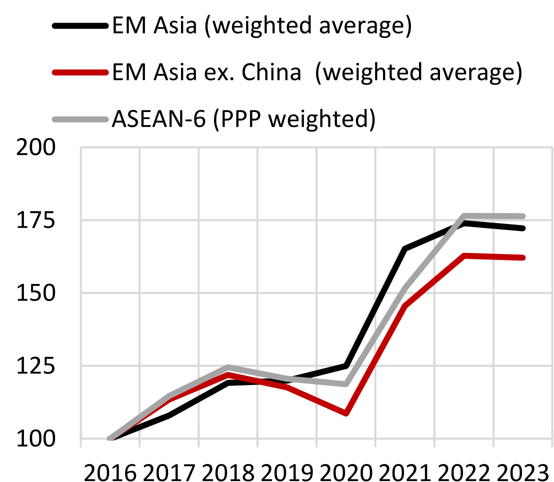
Key data release and events this week:

- *PBOC is likely to keep its MLF rate unchanged for now despite deflation.*
- *Japan’s Q4 growth to rebound on stronger exports and tourism recovery.*
- *BSP to keep rates on hold as inflation eases.*

Chart of the Week: Asia’s export resilience

From the global pandemic to ongoing supply chain realignment, Asia’s exporters have faced plenty of supply shocks and demand volatility in recent years. And yet, exports, with or without China, are up by 60-75% since 2016, underscoring the region’s status as the foremost producer of goods for the rest of the world. Looking at January exports figures of South Korea (+18%yoy), Taiwan (+18.1%yoy), and Vietnam (+42%yoy), it looks like 2024 will another banner year for Asia’s exporters.

Exports, 2016=100



Source: CEIC, DBS

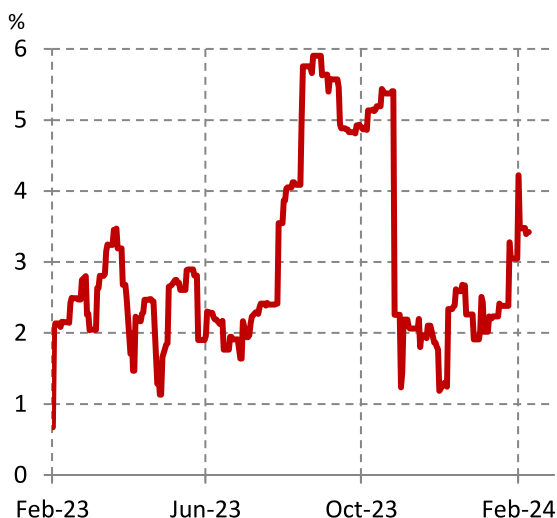
Refer to important disclosures at the end of this report.

Commentary: No-landing scenario

Having priced in a 90% chance of March rate cut in late-December, markets have swiftly shifted in the other direction over the past month, with the futures-implied probability at less than 20% presently. Between the impact of monetary policy tightening during 2022/23 and decelerating inflation (core PCE has fallen by 270bps since its early-22 peak), expectations had grown, somewhat understandably, that policy easing was around the corner.

While comforted by the inflation data, we didn't join the consensus over the past few months in calling for a rate cut. Instead, our eyes were set on the remarkably resilient data on consumer demand. High interest rates and the expiration of pandemic-era support measures have not managed to dent the confidence or balance sheet of US consumers. Retail sales, with or without autos, have been robust, housing has made a comeback, services are on an upswing, and sharp rallies in stock and bond markets have boosted household net worth. Remarkably, 1Q24 Nowcast of Atlanta Fed is pointing 3-4% real growth.

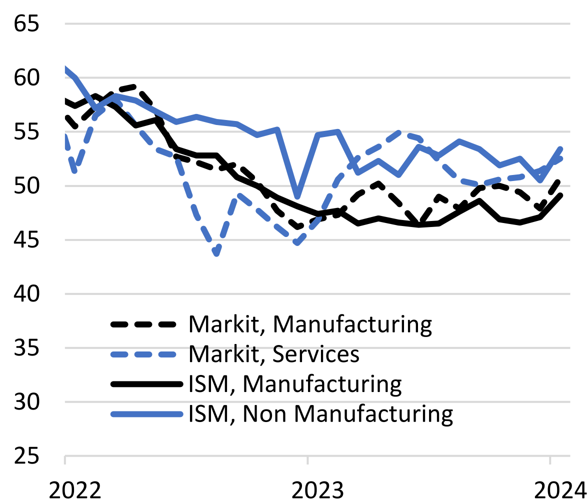
US GDP Nowcast (Atlanta Fed)



Source: Bloomberg, DBS

Looking forward, in addition to consumer sentiment's steady climb, businesses are also reporting an improvement in their outlook. PMI and ISM surveys show that purchasing managers have perked up in recent months.

Purchasing Managers' Survey



Source: CEIC, DBS. Data through January 24

These developments suggest gathering upside to our 2024 US GDP growth forecast of 1.5%. If growth indeed heads toward 2%, it is hard for us to see how that can be consistent with sub-4% long-term bond yield, suggesting that the fixed income market may have peaked. In addition to real growth outlook, another related consideration is how can such strong and resilient demand can be consistent with 2% inflation, especially if the labour market remains tight.

All of this is going to make a protracted Fed rate cut cycle an unlikely one, in our view. We think some rate cuts are possible in 2H24 if inflation remains well behaved, but market pricing for at least 200bps in cuts in 2024-25 might be too optimistic. Growth would have to slow materially, perhaps driven by instability in the financial sector, for that to happen. No sign of such a scenario for now.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Feb 13 (Tue)		
India: exports (Jan)	0.6% y/y	1.0% y/y
- imports	6% y/y	-4.8% y/y
- trade balance	-USD20bn	-USD19.8bn
Feb 15 (Thu)		
Japan: GDP (4Q P)	1.6% q/q saar	-2.9% q/q saar
Indonesia: exports (Jan)	-7% y/y	-5.8% y/y
- imports	-2.8% y/y	-3.8% y/y
- trade balance	USD2.7bn	USD3.3bn
Philippines: BSP o/n rate	6.50%	6.50%
Singapore: GDP (4Q, F)	2.4% y/y	2.8% y/y
Feb 16 (Fri)		
Singapore: non-oil domestic exports (Jan)	8.2% y/y	-1.5% y/y
Malaysia: GDP (4Q, F)	3.4% y/y	3.4% y/y
Feb 18 (Fri)		
China: 1Y MLF Rate	2.50%	2.50%

Central bank policy meetings

Bangko Sentral ng Pilipinas (Feb 15): The Philippine central bank, BSP, is expected to leave the benchmark rate unchanged at 6.5%. January's inflation eased sharply to 2.8% yoy, to a three-year low on base effects, limiting the need for policymakers to adopt a defensive posture. Nonetheless, rising rice prices are a flash point, which will require direct price/ administrative measures to contain further increase. In the interim, the US Fed's policy leaning, and the spillover of the US yields and dollar index will be under watch. Against this backdrop, the BSP will prefer to keep rates on hold this week.

People's Bank of China (Feb 18): We expect the PBoC to keep the 1Y MLF rate unchanged at 2.50% this week. Deflation in CPI has worsened to from -0.3% in Dec to -0.8% in Jan amid a gloomy labor market. The average hiring wages in 38 major cities have recorded a third consecutive quarter of decline. China's real policy rate has surged from 0.85% in late 2022 to 4.25% recently. Such elevated funding costs are restraining credit demand. The combination of decreasing CPI and faltering credit growth will necessitate further easing. However, we are not of the view that the PBOC will implement an MLF rate cut after the week-long holiday. The policymakers are awaiting the first cut from the Fed to maintain a stable CNY exchange rate.

Forthcoming data releases

Japan: The preliminary GDP estimate for 4Q23 is expected to show a 1.6% QoQ (saar) growth, marking a significant rebound from the -2.9% contraction observed in 3Q23. Industrial production exhibited notable improvement during the same period, indicating ongoing inventory restocking within the manufacturing sector. Additionally, exports experienced a marginal upturn in 4Q23, attributed to increased global tech demand, a continued recovery in inbound tourism, and the favorable impact of a weak yen. On the other hand, there appears to be a slowdown in consumption, attributed to the waning effects of domestic reopening and the decline in real wage growth. The full-year GDP growth for 2023 is projected to reach 2.0%, marking the third consecutive year of post-Covid recovery and fully offsetting the 4.1% output loss incurred in 2020.

India/ Indonesia trade: Indonesians will vote in their general elections on February 14, with three contenders in lead. The key watch factor is whether the front-runner pair of Prabowo-Gibran (VP candidate) can garner over 50% of the vote to avoid a second run-off. On the data front, we expect Indonesia's trade balance to post a narrower trade surplus of $2.7bn on slower exports, even as import growth moderates ahead of the elections. As noted earlier, easing commodity prices have weighed on headline export growth, but rising volumes in certain commodities (for instance coal) had lifted the overall shipments in 2H23. For India,

easing oil prices, despite narrowing discount in Russian oil, will help lower the nominal import bill. Nonetheless the trade balance is likely to stay in red as export growth kickstarts the year on a soft note.

Singapore: Budget 2024, to be announced on February 16, will be the key highlight. We expect a slightly expansionary fiscal stance in FY2024, with overall fiscal deficit of SGD3.0bn (0.4% of GDP). More measures and allowances to tide through high cost, job disruption, and retirement are likely. The priority will also be on lifting capabilities by upskilling, riding emerging trends, and remaining attractive *(see 'Singapore Budget 2024: Growth supportive stance' for detailed report).*

On 4Q23 real GDP growth, we anticipate it to be marked down to 2.4% YoY (1.3% QoQ sa) in the second GDP release, vs the 2.8% YoY (1.7% QoQ sa) advance estimate (AE). Consequently, full-year 2023 growth was likely a tad softer at 1.1%, vs AE's 1.2%. This was mainly due to weaker-than-expected 4Q23 manufacturing growth of 1.4% YoY, which was less than half of the AE's 3.2% YoY expansion, owing to the plunge in biomedical activity. Our 4Q23 real GDP growth number also assumed robust construction growth and resilient services expansion, similar to AE.

For January 2024's non-oil domestic exports (NODX), we expect a return to 8.2% YoY expansion, after December 2023's slip-back to 1.5% YoY contraction. Part of the upside was due to favourable base effect, with January 2023's print coinciding with the Lunar New Year, dampening last year's figures. Improving new exports orders of the manufacturing purchasing managers index (PMI) also suggest that Singapore's overseas shipments are likely to see better prospects in 2024. Yet, the global economic environment remains uncertain, and we continue to be watchful of various risks. These include high interest rates in advanced economies, bumpy economic conditions in China, lingering geopolitical tensions, and Red Sea developments that could disrupt supply chains, and hinder the still-fragile trade recovery.

Economics Team

FX: Fed officials to keep tempering interest rate cut expectations

With good reasons, the DXY Index found support at 104 for the past week. Richmond Fed President Thomas Barkin warned of continued inflationary pressure from the reluctance of US businesses to give up raising prices. His concern was substantiated by the spikes in the prices paid indices in January's ISM PMI Surveys for the services and manufacturing sectors. ISM also reported a jump in the services employment index to 50.5 in January from 43.8 in December, consistent with the above-300k readings in the nonfarm payrolls.

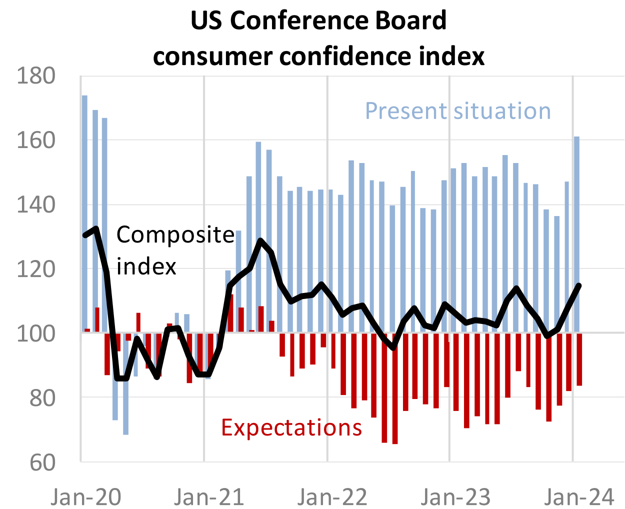
US CPI inflation may surprise

Month	CPI inflation		Core inflation		ISM prices paid	
	% YoY	% MoM	% YoY	% MoM	Services	Mfg
Jun 23	3.0	0.2	4.8	0.2	54.8	41.8
Jul 23	3.2	0.2	4.7	0.2	57.6	42.6
Aug 23	3.7	0.5	4.3	0.2	58.7	48.4
Sep 23	3.7	0.4	4.1	0.3	58.6	43.8
Oct 23	3.2	0.1	4.0	0.2	58.0	45.1
Nov 23	3.1	0.2	4.0	0.3	57.6	49.9
Dec 23	3.4	0.2	3.9	0.3	56.7	45.2
Jan 24	***2.9***	***0.2***	***3.7***	***0.3***	64.0	52.9

Bloomberg consensus in bold italics

Sources: DBS Research, Bloomberg data

According to the New York Fed's Survey of Consumer Expectations for January, **US consumers were also more optimistic about their financial situation and credit access**. The percentage of respondents expecting to be financially the same or better off 12 months from now was 76.5%, the highest level since September 2021. The findings were consistent with the spike in the Conference Board's **consumer confidence index** from 105.8 in December to 114.8 in January, its **highest level since December 2021**. Over the next 6 months, consumers were less worried about fewer jobs, a decrease in income, or a weaker business outlook, obviously buoyed by stronger payrolls data, the record high US stock markets, and the market's aggressive rate cut bets.



With many risks still on the table for the Fed's inflation fight, Fed Governor Michelle **Bowman reckoned it was too soon to project when and how much the Fed would cut rates**, echoing Fed Chair Jerome Powell's view that a rate cut was not the base scenario at the FOMC meeting on 20 March. Look for the same message from the Fed Presidents speaking this week, i.e., Austan Goolsbee (Chicago) on 14 February, Raphael Bostic (Atlanta), and Mary Daly (San Francisco) on 16 February.

On 15 and 16 February, Fed Vice Chair for Supervision Michael Barr will comment on monetary policy, bank regulation, and supervision. He will likely echo US Treasury Janet **Yellen's message** to the Senate Banking Committee that the stress and losses from falling valuations in the **commercial real estate sector was unlikely to pose a systemic risk to the banking sector**. However, Yellen is closely monitoring the non-bank mortgage lenders, which lack access to deposits and the Fed's discount window, rendering them reliant on short-term financing and vulnerable to having their credit lines pulled in stressful times.

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

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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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