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Macro Insights Weekly

Time to shed complacency

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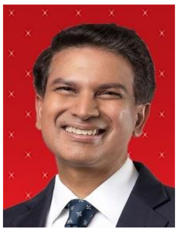


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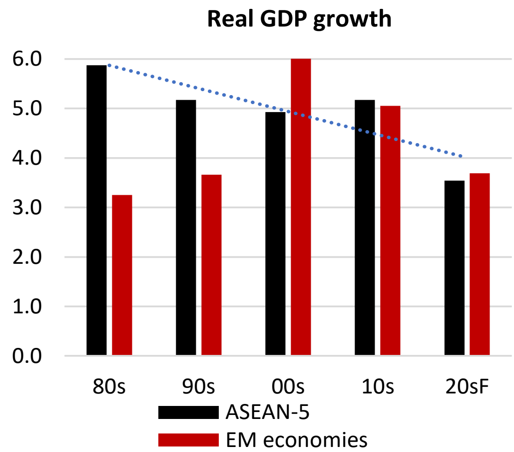
- *Fed communication after its March meeting cheered the markets. Expectations of sizeable rate cuts in 2H24 are fuelling record highs in asset markets. What are the risks to this narrative?*
- *Rallies are not restricted to the US. Stocks in Europe and Asia are also buoyant.*
- *Asia's exports have turned a corner, supporting regional growth outlook.*
- *But it would take only one or two more sticky inflation prints to damage rate cut expectations.*
- *Some real economic data stand on the edge, between "resilient" and "weak."*
- *We think the markets are not pricing sufficiently election and security risks.*

Key data release and events this week:

- *February inflation likely to accelerate in Singapore and stay stable in Malaysia*
- *Industrial production likely to slow across Singapore, South Korea, and Taiwan*
- *Vietnam's 1Q GDP expected to maintain strong 6.5% growth.*

Chart of the Week: Asean-5 slowdown

Emerging economies, led by Asean-5, had a golden era of growth for four decades. But between the pandemic's scar, rising protectionism against trade, and soaring inflation, growth momentum has been sapped this decade. The 2020s are likely to be the worst in terms of GDP growth for Asean-5 in half a century. Perhaps the ongoing realignment of the global supply chain will help the region aspire for a better 2030s, but it will take deep reforms and visionary policy.

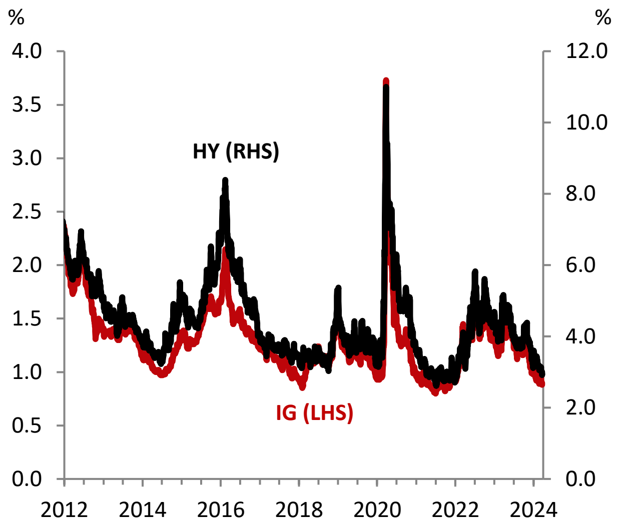


Source: IMF, DBS. ASEAN-5: Indonesia, Malaysia, the Philippines, Singapore, and Thailand

Commentary: Time to shed complacency

The March meeting of the US Federal Reserve came and went with the markets and policy makers at a confident juncture. Inflation may have been a tad sticky in recent months, but the Fed's view--policy rates will be 75bps lower before the year is over--remains in place. Perhaps the Fed officials see economic activities slowing in the coming months; bringing growth down toward 2%, perhaps they see that spilling over into a muted price dynamic. The bottom line is that there is ample signalling to cheer on the markets right now. Neither growth nor inflation seem to be in a territory that worries the Fed sufficiently to re-examine its forward guidance. A plan to taper quantitative tightening will likely be announced in May, which would be of further relief to the markets.

Credit Spreads - US Corporate



Source: Bloomberg, DBS

It should therefore be of no surprise that equity markets have been setting record highs, and corporate credit spreads have narrowed to two-decade lows. Volatility marker VIX is at 13, a level almost never seen in history. Stock market IPOs, after being in the doldrums in 2022-23, are coming back strongly, reflecting increased buoyancy in investor sentiments.

Markets are not just happy in the US; there is some cheer elsewhere as well. From Europe to Asia, many stock markets are up by 8-13% so far this year. Even the Hang Seng Index in Hong Kong, long under pressure, has rebounded by 10%+ since end-January. Chinese stocks are also showing some signs of life at along last.

On the trade front, for Asean-6 economies, January exports growth turned positive, first such development in a year. Jan-Feb trade data from China, Japan, South Korea, and Taiwan offer strong indication that an uptrend in the electronics cycle is here. Offering broader encouragement is the fact that China/Europe/US macro data surprises have been on the positive side so far this year.

What could cause such a surprisingly goldilocks environment to fall apart? Firstly, current complacency notwithstanding, it would take only one or two more sticky inflation print to push Fed expectations toward no more than 50bps of rate cuts this year. Secondly, early-2024 data have some noise and seasonality, for example with respect to retail sales, that could soon change the overall demand narrative from "resilient" to "slowing," casting shadows on earnings. Thirdly, the markets are presently ignoring political and security risks, which in our view, have not faded at all. From wars in Ukraine and Palestine to this year's US elections, several developments are in the pipeline that could affect investor confidence in a profound manner. Trump 2.0 could hit global trade and inflation; an exacerbation in Ukraine or the middle east could hit energy prices. Early 2024 could turn out to be the market's last hurrah for a while.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Mar 25 (Mon)		
Malaysia: CPI (Feb)	1.5% y/y	1.5% y/y
Singapore: CPI (Feb)	3.5% y/y	2.9% y/y
Taiwan: industrial production (Feb)	3.5% y/y	16.0% y/y
Mar 26 (Tue)		
Singapore: industrial production (Feb)	0.2% y/y	1.1% y/y
Hong Kong: exports (Feb)	10.0% y/y	33.6% y/y
- imports	5.4% y/y	21.7% y/y
- trade balance	HKD63.0bn	-HKD3.6bn
Mar 29 (Fri)		
South Korea: industrial production (Feb)	7.1% y/y	12.9% y/y
Japan: industrial production (Feb)	-2.9% y/y	-1.5% y/y
Vietnam: GDP (1Q)	6.5% y/y	6.7% y/y
- exports (Mar)	6.0% y/y	-5.0% y/y
- imports	2.8% y/y	1.8% y/y
- trade balance	USD2.4bn	USD1.1bn
- Retail sales YoY YTD (Mar)	8.1% y/y	8.1% y/y
- CPI (Mar)	4.0% y/y	4.0% y/y

Forthcoming data releases

Malaysia: Malaysia's headline CPI inflation, which has been steady at 1.5% YoY since November 2023, is likely to come in at a similar rate in February 2024. Overall price pressures remain manageable, amid stable demand and contained cost pressures, as described by Bank Negara Malaysia during its early-March policy decision. We continue to watch for potential upside price pressures from the anticipated shift to target subsidies. This shift could be rolled out as early as 2Q24, as hinted by Economy Minister Rafizi Ramli in mid-January.

Hong Kong SAR: Exports and imports are anticipated to grow by 10.0% and 5.4% YoY in February, following the dissipation of the seasonal effect observed in January, which saw a decline of 33.6% and 21.7% YoY, respectively. External demand has pleasantly surprised on the upside, particularly with regional electronics exports showing signs of bottoming out. Electronic exports within the ASEAN-6 region rebounded from a 2.4% YoY decline in December to a 7.8% YoY increase in January. Moreover, the overall ASEAN manufacturing PMI has returned to expansionary territory. With close to 70% electronics exposure in exports, China's exports to Hong Kong soared by 16.4% YoY in both January and February.

Singapore: February 2024's data releases are likely to show CPI inflation edging up, while industrial production (IP) ease. We anticipate an uptick in core inflation to 3.5% YoY in February 2024 from January's 3.1% YoY, due to the Lunar New Year effect for e.g. in the food category. We also expect headline inflation to rise to 3.5% YoY in February 2024 from January's 2.9% YoY. Apart from higher core inflation, accommodation inflation likely normalised up in February, after last month's print stepped down due to January 2024's bigger Service & Conservancy Charges (S&CC) rebate vs last year, while private transport % YoY increase was probably steady.

Volatile IP growth likely moderated to 0.2% YoY in February 2024, vs January's 1.1% YoY, but partly supported by last year's low base. While this represented a soft start to 2024, the performance was better than the double-digit weakness seen in some months of 2023. The continued expansion in Singapore's headline and electronics manufacturing purchasing managers' indices continues to point to better factory prospects in 2024 vs 2023.

South Korea & Taiwan: Both economies are expected to witness a slowdown in industrial production, transitioning to single-digit growth rates in February following a surge of over 10% in January, attributable to the seasonal effects of the Lunar New Year festival. South Korea is poised to outperform Taiwan, with its manufacturing sector experiencing relatively lean inventory levels, facilitating a swifter restocking process. Both economies are undergoing a recovery in exports, progressing at comparable rates, propelled by the rebound in global electronics/semiconductor sectors.

Vietnam: Vietnam's 1Q24 economic growth likely sustained its momentum from 4Q23. We expect real GDP growth of 6.5% in 1Q24 vs 4Q23's 6.7% YoY. High frequency indicators showed continued support from the industrial and services sectors, but public investment cooled. Industrial production expanded by 5.7% YoY in the first two months of 2024, and likely rebounded in March, vs 4Q23's average 5.3% YoY growth. Retail sales grew by 8.1% YoY in January to February 2024, keeping pace with 4Q23's average 8.8% YoY increment, partly supported by increased foreign tourism. Public investment, however, slowed to just 5.0% YoY in the first two months of 2024, much lower than the double-digit rate of ~20% YoY in the previous quarter. Separately, headline inflation picked up to 4.0% YoY in February from January's 3.4% YoY, spurred mainly by higher food price increases due to Tet, and is likely to be close to the current rate, with transport inflation ticking up.

Economics Team

FX: Guarded against sentiment

We are cautious about reading too much into last week's developments that propelled the USD. The DXY Index appreciated 1% to 104.4 for the second week after the FOMC. However, the market and the Fed are aligned on their rate cut expectations. DXY has a resistance at 104.7 or its 100-week moving average.

Although the **Fed** maintained its forecast for three rate cuts in 2024, it **projected two instead of three cuts for 2025** after upgrading its 2025 forecasts for GDP growth to 2% from 1.8% and PCE inflation to 2.2% from 2.1%. That said, the **Fed maintained the call for three rate cuts despite upgrades to its 2024 forecasts** to 2.1% from 1.4% for GDP growth, 2.6% from 2.4% for PCE core inflation, and 4% from 4.1% for the unemployment rate. On March 29, the consensus expects the **PCE deflator to mirror the rise of CPI inflation** by increasing to 0.4% MoM (2.5% YoY) in February from 0.3% MoM (2.4% YoY) in January. **However, PCE core inflation is seen slowing** to 0.3% MoM from 0.4% and staying unchanged in YoY terms at 2.8%. With the PCE deflators close to the Fed's forecasts, the Fed officials speaking this week should affirm that the Fed is near to attaining the confidence to lower rates.

The Atlanta Fed GDPNow model sees US GDP growth slowing to an annualized 2.1% QoQ saar in 1Q24 from 3.2% in 4Q23. Last week, the **National Retail Federation predicted slower US retail sales growth** of 2.5-3.5% in 2024 vs. 3.6% in 2023. Tomorrow, the Consumer Confidence Index should show caution from receding Fed cut bets and the rise in the unemployment rate to a two-year high of 3.9% in February. Consensus sees nonfarm payrolls slowing towards 200k in March.

At the post-FOMC press conference, Fed Chair Jerome **Powell hinted at tapering quantitative tightening** at the coming FOMC meetings. Powell also told US lawmakers at his semi-annual congressional testimonies earlier this month that some banks would fail due to their commercial real estate sector exposure.

USD/JPY rose to 151.41 despite the historic end to the Bank of Japan's negative interest rate policy and yield curve control framework on March 19. However, USD/JPY **backed off whenever it neared 152** in the next three sessions. JPY bears backed off last Friday on Japan's policymakers. Finance Minister Shunichi **Suzuki warned against sharp JPY depreciation** with a "high sense of urgency." BOJ Governor Kazuo **Ueda** said the central bank would eventually scale back bond purchases, **affirming that Japan was only at the start of normalizing its ultra-loose monetary policy**. BOJ board member Naoki **Tamura**, a leading advocate of unwinding monetary stimulus in early 2024, **speaks on March 27**. Last Friday, Japan's largest trade union confederation, Rengo, confirmed that wages would increase by 5.25% this year, near the preliminary 5.28% rise announced a week earlier. **This Friday**, consensus expects the **Tokyo CPI inflation** to stay at **2.5% in March**, and excluding fresh food, to moderate to 2.4% from 2.5%.

As the end of the first quarter approaches, **markets need to assess if the recent sell-off to technical support levels can continue.** For example, USD/CHF rose three months from 0.8330 to 0.90 into the Swiss National Bank's rate cut last week. GBP/USD is back at 1.26 after its failed attempt to push above 1.28. Similarly, EUR/USD and AUD/USD are back at familiar support levels at 1.08 and 0.65, respectively. Markets will assess if they have overreacted to last week's fixing in pushing USD/CNY above 7.20 to four-month highs.

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