CIO Weekly

GLOBAL ECONOMICS

10 March 2023

Key Points

- **United States:** Powell cautions likelihood of Fed Funds rate heading higher if upcoming economic data remains strong
- **China:** Strong macroeconomic data reaffirms our 2023 real GDP forecast of 5.5%
- **North Asia:** Tech sector faces serious pressure of destocking as global demand for electronic products remains sluggish
- **ASEAN-6:** Resilience of ASEAN-6 economies underpinned by China's reopening and terms of trade relief from oil prices correction

MACRO CALENDAR

	Date	Period	Survey	Prior
US & Eurozone				
Initial Jobless Claims (US)	16-Mar	11-Mar	--	211k
ECB Main Refinancing Rate (EU)	16-Mar	16-Mar	3.50%	3.00%
CPI m/m (US)	14-Mar	Feb	0.40%	0.50%
CPI y/y (EU)	17-Mar	Feb	--	8.60%
U. of Mich. Sentiment (US)	17-Mar	Mar	67	67
Retail Sales Advance m/m (US)	15-Mar	Feb	0.20%	3.00%
MBA Mortgage Applications (US)	15-Mar	10-Mar	--	7.40%
Housing Starts (US)	16-Mar	Feb	1310k	1309k
Asia				
Industrial Production m/m (JP)	16-Mar	Jan	--	-4.60%
Core Machine Orders m/m (JP)	16-Mar	Jan	1.50%	1.60%
Non-oil Domestic Exports y/y (SG)	17-Mar	Feb	-8.00%	-25.00%
Tertiary Industry Index m/m (JP)	17-Mar	Jan	0.50%	-0.40%
Money Supply M2 y/y (CN)	10-Mar	Feb	12.50%	12.60%
New Yuan Loans CNY (CN)	10-Mar	Feb	1500.0b	4900.0b
Industrial Production y/y (JP)	16-Mar	Jan	--	-2.30%
Capacity Utilisation m/m (JP)	16-Mar	Jan	--	-1.10%

Source: Bloomberg, DBS

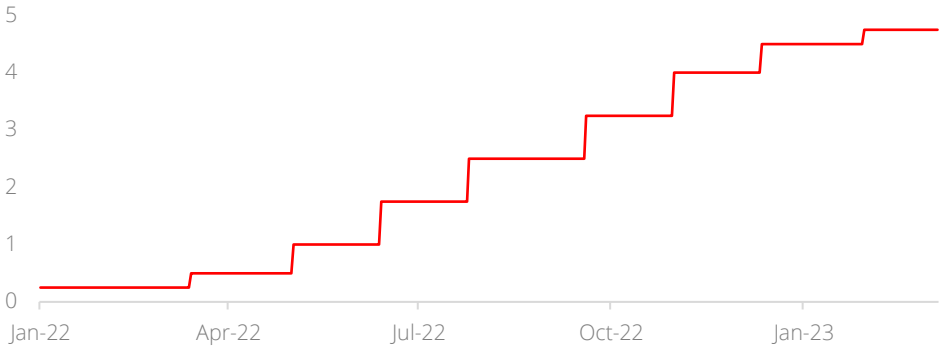
Focus of the Week

United States: Fed Funds rate to head higher. The first two months of the year have been characterised by a reassessment of global economic conditions by markets and policy makers. Recessions seem more distant and the path of ongoing disinflation looks flatter. Consequently, near-term policy rate expectations keep getting revised upward.

Fed pricing has sharply risen since end January. We are now well-priced for peak Fed rate (upper bound) of 5.50%, with more than a 50% chance of a 5.75% scenario. Pricing appears to be quite full, and 2Y UST yields are expected, in the near term, to stabilise below 5%. 10Y UST yields have relatively more room to rise, especially if markets expect the US economy to stay resilient against restrictive Fed rates. A few key US data points this week will determine if the upward momentum in US rates extends. On Friday (10 March), we are scheduled for February's jobs and wages data (nonfarm payroll, unemployment rate, average hourly earnings).

At the US congressional hearings, Fed chair Jerome Powell came across as deviating from the consensus formed in the February Federal Open Market Committee meeting. Noting the recent string of strong economic data, he expressed the likelihood of the Fed Funds rate heading higher than previously anticipated. Chair Powell was clear in his arguments: (i) the labour market has remained strong despite interest rate hikes, (ii) the risk of insufficient tightening is greater than the risk of doing too much, and (iii) the strength of incoming data would determine the Fed's near-term action. The third point makes the February employment, inflation, and retail sales data critical. We are maintaining our forecast of a 25 bps hike but will be ready to revise the call next week if data continues to surprise on the upside.

Figure 1: Higher-for-longer Fed Funds rate (%)



Source: Bloomberg, DBS

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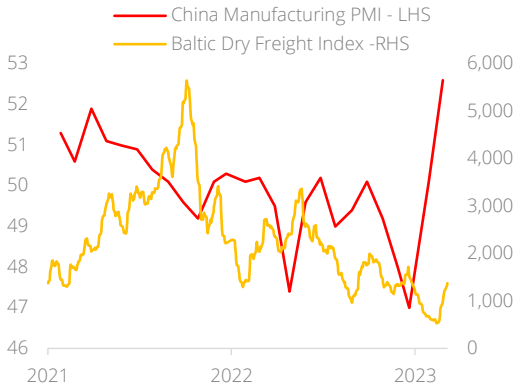
Figure 2: Baltic Dry Freight Index vs China Manufacturing PMI



Source: Bloomberg, DBS

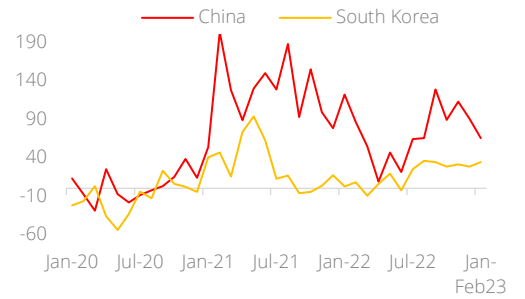
China: China's recovery momentum. Setting macroeconomic stabilisation as a key priority, China's National People's Congress kicked off on Sunday with a 2023 growth target of 5% and fiscal deficit projection of 3% of GDP. These figures reflect the somber realisation that after the sharply below-trend out-turn of 2022, growing in 2023 would come with its set of challenges. Substantial support for local governments was promised as tax revenue remains a drag due to the lackluster property market. Investment in technological self-reliance, as expected, is a cornerstone of public sector policymaking.

Attaining 5% growth in 2023, even with the presence of a favourable base effect, would require substantial rebound in household spending and business activity. Additionally, an enabling macroeconomic environment, with ample liquidity, low interest rates, and credit spreads would be necessary.

Early indications are somewhat encouraging. Manufacturers have breathed a loud sigh of relief with the reopening in January-February, pushing up the PMI sharply. Freight index rates, which displayed utter despondency around China's slowdown last year, have at long last begun showing signs of life. Overall, China's macro data have begun surprising on the upside sharply, outpacing the US and Euro area. This helps add confidence to our 5.5% real GDP growth forecast for 2023. Besides improving business expectations, high frequency indicators suggest that consumer demand, market distribution, and industrial production are also picking up. We expect to see travel, tourism, and events to surge, as has been the case in a typical post-pandemic recovery seen worldwide.

Consumption and business activities will get a major nudge from the public sector. Even before announcing a slight increase in the fiscal deficit for the year, the authorities have stepped up spending and liquidity measures to support overall economic activities. Total social financing and new bank loans have jumped this year, which would translate into higher consumption and investment. The rise in new bank loans is particularly notable, as there have been hardly any instances of confidence expressed by the banking sector in recent years.

Figure 3: Automobile exports (% y/y)

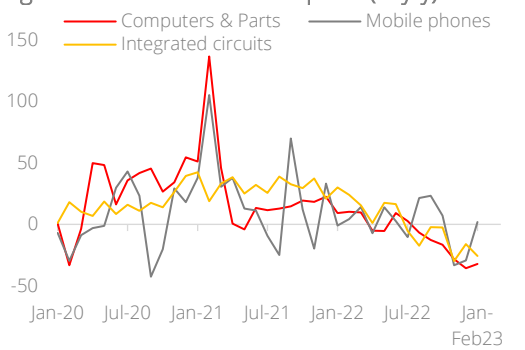


Source: CEIC, DBS

North Asia: Automobile exports faring relatively well. China's automobile exports recorded a strong 65.2% growth in the first two months of this year, albeit more moderate than the 90.7% in December 2022. South Korea's automobile exports also grew strongly by 34%, a steady pace compared to the 28.3% in December 2022.

The outperformance of automobile exports could be explained by the combination of demand and supply factors. These include the rise in global demand for electric vehicles amid the net-zero carbon transition, as well as the easing of automotive chip shortage and general supply chain pressures. According to Counterpoint Research, China's BYD (1211 HK) has emerged as the world's largest electric vehicle supplier over the past one year, making up a market share of 20% in 3Q22, surpassing Tesla's (TSLA US) 13%.

Figure 4: China electronic exports (% y/y)



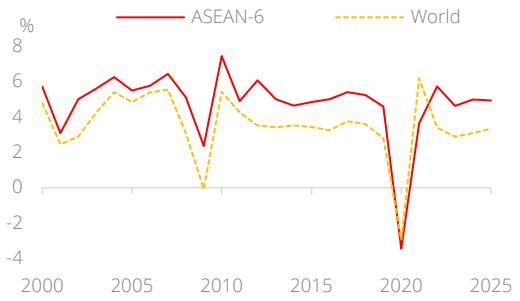
Source: CEIC, DBS

Tech sector still facing serious pressure of destocking. China's computer exports fell sharply by 32.2% during January-February, while shipments of integrated circuits also declined by 25.8%. South Korea's semiconductor exports plunged by 43.5% during January-February, worse than the 29.1% decline in December 2022. Taiwan's exports of electronic components also slumped 18.9%, far worse than the -1.3% in December 2022.

Global demand for electronic products remains sluggish as high inflation and high interest rates restrict consumers' discretionary spending. Meanwhile, the escalation of US-China tech tensions constrain China's capabilities of importing and exporting some critical products. This indirectly affects Japanese, Korean, and Taiwanese firms supplying semiconductor equipment and advanced chips to China.

Notably, the inventory-to-shipment ratio in Taiwan's electronic component sector has spiked to 2.3, a level similar to the historical peaks during the 2001 tech bubble burst and the 2008 Global Financial Crisis. There is a high chance that the current destocking process will take longer than the typical two-quarter period. We reckon that a cyclical rebound will only emerge in the latter part of this year, in end-3Q at the earliest.

Figure 5: Real GDP growth (PPP-weighted)



Source: IMF, DBS

ASEAN-6: Vibrant ASEAN-6 backdrop. Besides digital adoption gains, we expect ASEAN-6 to be carried by structural tailwinds from favourable demographics, increasing regional integration, and supply chain diversification. A rebounding China, coupled with terms of trade relief from correcting energy prices, would keep ASEAN-6 economies resilient from the challenging global economic climate beset by still-elevated inflation and tighter monetary conditions in advanced economies.

ASEAN-6 has tended to emerge stronger following major crises, and this time will be the same. Following the 1997/98 Asian Financial Crisis, the region achieved robust economic expansion of c.5% over the past two decades. The bloc has punched its weight above global growth of 3.6%, as it benefitted from greater regional economic integration and China's growth success, coupled with much improved fundamentals.

With strong economic expansion, ASEAN-6's prominence has increased over the past two decades. Its nominal GDP is set to exceed USD4t by 2025. This would make it the fifth largest (as a bloc) globally, just behind the US, China, Japan, India, and Germany, and fourth within Asia.

DBS Forecast

	GDP growth, % y/y				CPI inflation, % y/y, avg			
	2021	2022F	2023F	2024F	2021	2022F	2023F	2024F
China	8.1	2.9	5.5	5.0	0.9	2.2	2.5	2.2
Hong Kong SAR	6.3	-2.5	6.5	2.0	1.6	1.9	2.8	2.0
India	9.0	7.2	5.5	5.8	5.1	6.8	5.4	5.1
India (FY basis)*	8.7	7.0	5.8	6.0	5.5	6.8	5.2	5.0
Indonesia	3.7	5.3	5.0	5.0	1.6	4.2	3.7	3.2
Malaysia	3.1	8.7	4.0	4.8	2.5	3.4	3.0	2.5
Philippines	5.7	7.6	5.8	6.5	3.9	5.8	5.8	3.2
Singapore	7.6	3.6	2.2	2.8	2.3	6.1	5.8	4.3
South Korea	4.1	2.6	1.5	2.4	2.5	5.1	2.8	2.0
Taiwan	6.5	2.5	1.6	2.8	2.0	2.9	1.8	1.4
Thailand	1.5	2.6	3.4	3.8	1.2	6.1	2.5	2.0
Vietnam	2.6	8.0	6.0	6.5	1.8	3.2	3.8	3.5
Eurozone	5.3	3.3	0.9	1.5	2.6	8.4	5.6	2.5
Japan	2.1	1.1	1.2	1.0	-0.2	2.5	3.0	1.0
United States	5.9	2.1	1.2	1.2	4.7	8.0	3.9	3.0

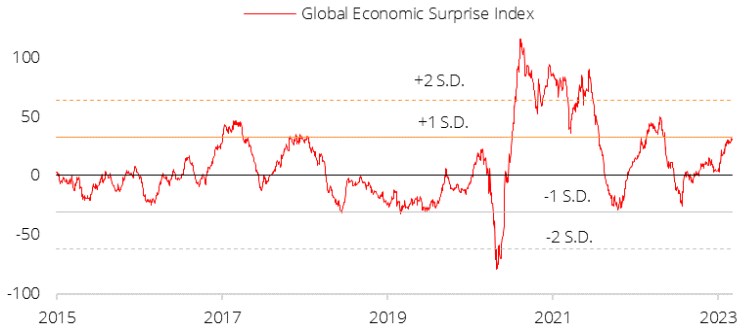
Source: CEIC, Bloomberg, DBS
*2020 represents Fiscal 21; ending March 21

	Policy interest rates, eop								
	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
China*	3.65	3.65	3.55	3.45	3.45	3.45	3.45	3.55	3.65
India	6.25	6.50	6.75	6.75	6.75	6.25	6.25	6.00	6.00
Indonesia	5.50	5.75	5.75	5.75	5.75	5.50	5.25	5.00	5.00
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	5.50	6.25	6.75	6.75	6.75	6.75	6.75	5.75	5.25
Singapore**	3.28	3.58	3.62	3.62	3.62	3.62	3.58	3.20	2.90
South Korea	3.25	3.50	3.75	3.75	3.75	3.25	2.75	2.50	2.50
Taiwan	1.75	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88
Thailand	1.25	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25
Vietnam***	6.00	6.50	7.00	7.00	7.00	6.50	6.25	6.25	6.25
Eurozone	2.50	3.50	3.75	3.75	3.75	3.75	3.75	3.50	3.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United States	4.50	5.00	5.25	5.25	5.25	5.25	5.25	4.75	4.25

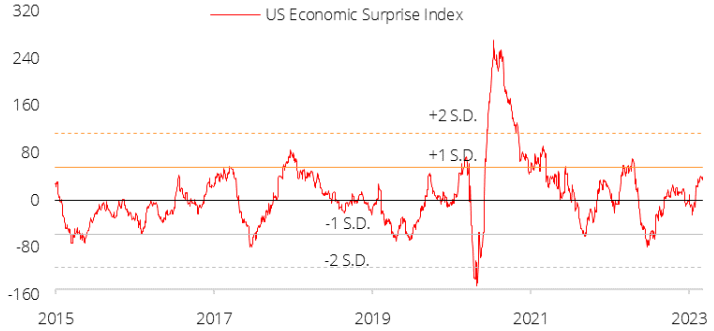
Source: CEIC ,Bloomberg, DBS
* 1-yr Loan Prime Rate; ** 3M SORA OIS ; *** refinancing rate

CIO Economics Watch

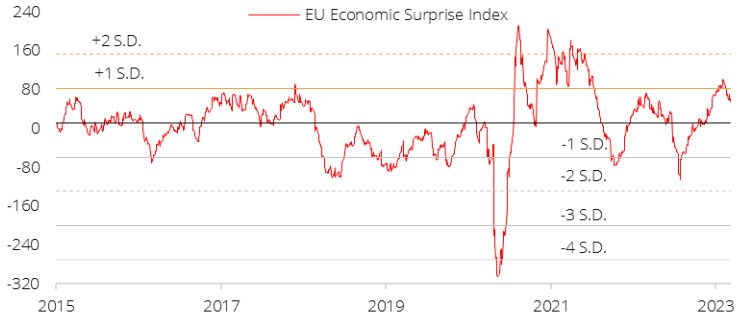
Global Economic Surprise



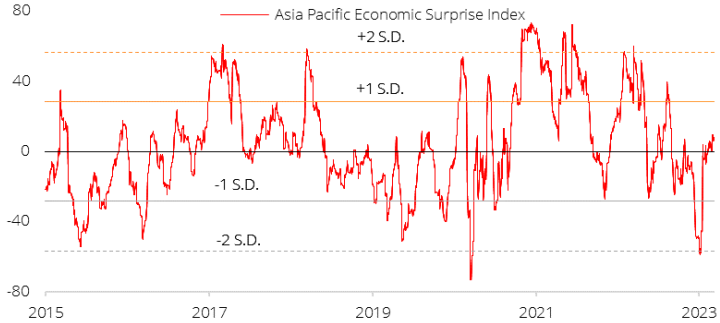
US Economic Surprise



Europe Economic Surprise

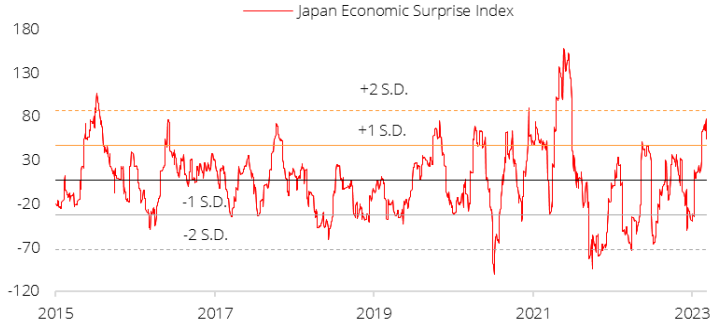


APAC Economic Surprise



China Economic Surprise

Japan Economic Surprise



Source: Bloomberg, DBS

US MACRO INDICATORS

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
CORE CPI (%)	6.5	6.2	6.0	5.9	5.9	6.3	6.6	6.3	6.0	5.7	5.6	-
Headline CPI (%)	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	-
ISM Manufacturing PMI	57.0	55.9	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7
ISM Service PMI	58.4	57.5	56.4	56.0	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1
Initial Jobless Claims	3.6	3.6	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	-
Michigan Consumer Sentiment Index	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0

Source: Bloomberg, DBS

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