



Key Points

- **Global:** Expect 400 bps and 300 bps of disinflation in the US and Eurozone respectively; Disinflation trend in Asia less pronounced
- **China:** Rebound mainly due to low base effects from 2022's lockdown; Weakness evident in month-on-month data and leading indicators
- **Thailand:** Thai banks remained well capitalised, leaving them in a good position to absorb any unexpected losses

MACRO CALENDAR

	Date	Period	Survey	Prior
US & Eurozone				
Initial Jobless Claims (US)	25-May	20-May	--	242k
GDP Annualised q/q (US)	25-May	1Q	1.10%	1.10%
U. of Mich. Sentiment (US)	26-May	May	57.7	57.7
Durable Goods Orders (US)	26-May	Apr	-1.00%	3.20%
MBA Mortgage Applications (US)	24-May	19-May	--	-5.70%
S&P Global US Manufacturing PMI (US)	23-May	May	50	50.2
HCOB Eurozone Manufacturing PMI (EU)	23-May	May	46	45.8
New Home Sales (US)	23-May	Apr	660k	683k
Asia				
CPI y/y (SG)	23-May	Apr	--	5.50%
Core Machine Orders m/m (JP)	22-May	Mar	0.50%	-4.50%
Tokyo CPI Ex-Fresh Food y/y (JP)	26-May	May	3.50%	3.50%
Jibun Bank Japan PMI Mfg (JP)	23-May	May	--	49.5
GDP y/y (SG)	25-May	1Q	--	0.10%
Industrial Production y/y (SG)	26-May	Apr	--	-4.20%
Industrial Production SA m/m (SG)	26-May	Apr	--	9.30%
Jibun Bank Japan PMI Composite (JP)	23-May	May	--	52.9

Source: Bloomberg, DBS

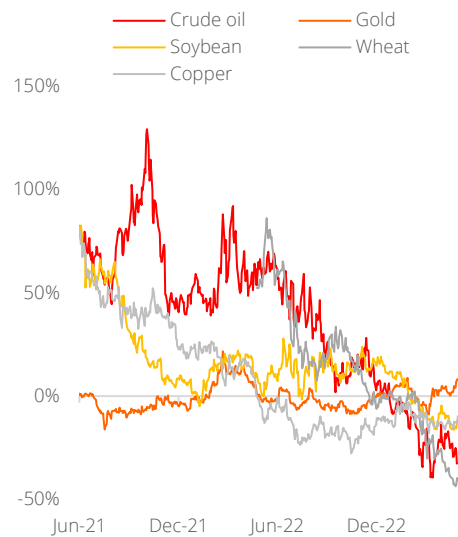
Focus of the Week

Global: Taking stock of inflation. It has been half a year since headline inflation peaked. Presently, a strong disinflationary trend is underway, particularly pronounced in the US, and quite striking in the Eurozone. Favourable base effects, substantial easing of food, energy, and electronics price pressures, normalisation of the global supply chain, and easing of business investment demand are all at play. Consequently, we expect over 400 bps of disinflation in the US this year and nearly 300 bps in Eurozone, although service sector inflation may remain sticky.

In Asia, disinflation is less pronounced. In the absence of a vigorous demand recovery, inflation in most of Asia did not spike this cycle, hence the room for disinflation is also modest. But there are three exceptions where cumulative inflation has been substantial, and disinflation could present itself: (i) India, which doesn't have a low inflation track record, and has seen sustained pressure on food and energy commodity inflation; (ii) the Philippines, which seems to be characterised by external imbalances that are fuelling a weak currency and substantial imported inflation; and (iii) Singapore, which has domestic (rent, GST, tight labour market) and external factors (imported inflation partially offset by SGD NEER appreciation) keeping prices elevated. In all these three cases, we worry that inclement weather could slow the pace of disinflation.

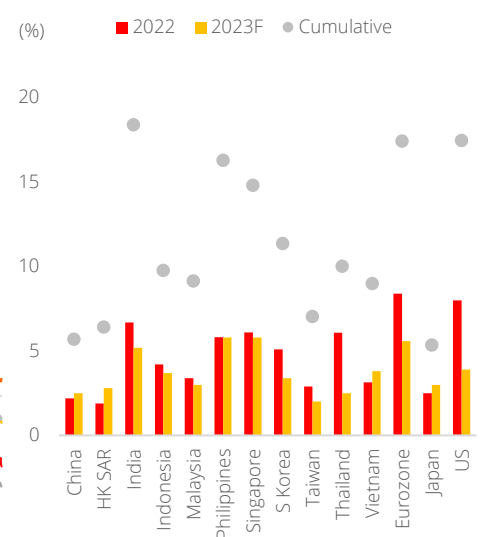
It is likely that even in these three cases, inflation will be easing somewhat later this year. But cumulative inflation has been substantial, from the US to Singapore. As inflation moderates, the impact of the high level of prices will be felt on consumption and wage demand for many quarters.

Figure 1: Key commodity price trend



Source: Bloomberg, DBS

Figure 2: Inflation



Note: Cumulative inflation since 2020
Source: CEIC, DBS,

Figure 3: Purchasing Manager's Index

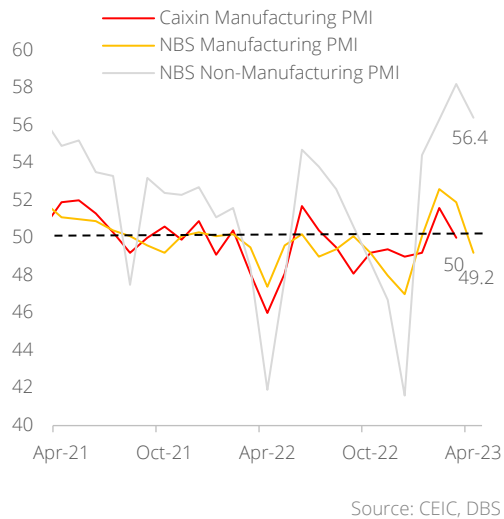


Figure 4: New increases in loans

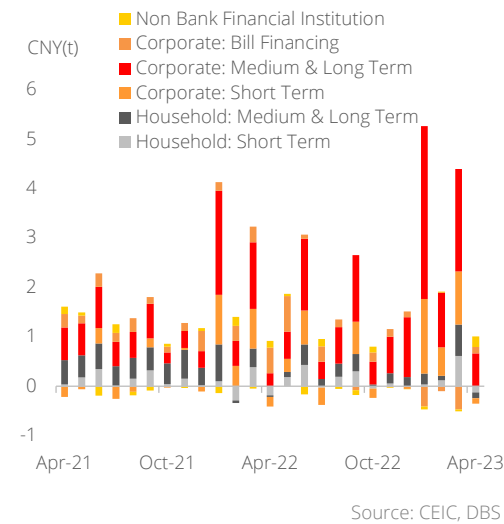
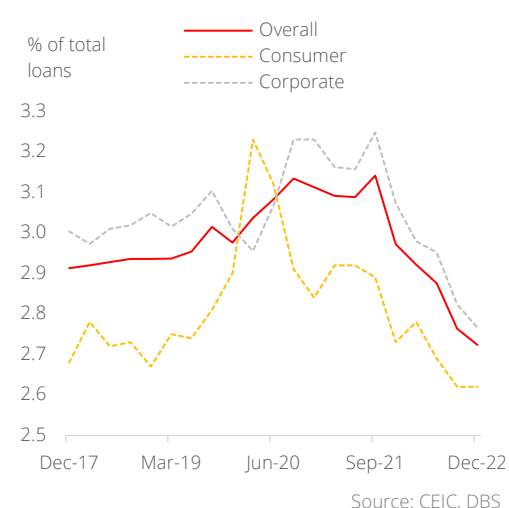


Figure 5: Banking system non-performing loans



China: Mixed signals beneath the surface. The y/y growth in China's April economic data may at first glance seem promising. Retail sales grew at an impressive 18.4% y/y in April, pointing to resurgent consumer demand. Fixed asset investment increased 4.7% in the first four months, with resilient infrastructure spending by state-owned companies offsetting soft property construction. Industrial production rebounded at a 5.6% pace, up from 3.9% in March.

However, much of the rebound stems from low base effects compared to last April when Shanghai and other cities were largely shut down. This artificially boosts the y/y growth rates and masks underlying weaknesses. On a m/m basis, industrial production contracted 0.5% in April compared to March. Monthly automobile sales also declined as consumers adopted a cautious stance while automakers reduced prices.

While high-frequency data showed spending surged during the Golden Week holiday, it likely represented pent-up demand rather than sustainable consumption growth. Consumers have probably already taken most "revenge travel" trips, evidenced by the cooling services PMI. Modest 3.8% real income growth – below pre-Covid's 6.7% – indicates households lack the purchasing power for persistently higher spending. This is reflected in the benign core inflation of 0.6%-0.7% over the past three months. Both NBS and Caixin manufacturing PMIs slipping below the expansion threshold in April is evidence that the manufacturing sector is in no position to pick up the growth baton from consumption.

Plunging new loans in April point to deeper challenges. The slowdown in medium to long-term corporate loans suggests that private investment is unlikely to rebound swiftly. Declining mortgage lending despite supportive measures shows profound difficulties for the property sector. Externally, persisting strains in the banking sector and higher interest rates in the US and Europe are expected to pose lingering pressure on China's exports.

The People's Bank of China (PBOC) decision to hold the medium-term lending facility rate steady on Monday makes sense given the unlikelihood of Fed rate cuts at this juncture. Yet, the authority still has tools at its disposal to keep monetary conditions accommodative. By lowering banks' deposit rate ceilings recently, the PBOC has reduced lenders' liability costs. This creates room for banks to cut loan prime rates in the coming months.

The PBOC may also trim the required reserve ratio (RRR) in 2H as around CNY2.9t worth of medium-term lending facilities mature. Replacing these expiring funds through broad RRR cuts would inject permanent, low-cost liquidity into the banking system. The authority is also expected to deploy structural tools complementing fiscal policy to bolster credit growth, such as re-lending programmes for infrastructure financing.

Thailand: Banking sector stability. As of 1Q23, the Thai banking system's investment holdings represents c.13% of total assets whereas loans represent c.61% of total assets. Thai banks' higher exposure to loans, rather than investment holdings, limits the impact of unrealised investment losses. Monitoring credit risk will become more crucial due to the significant portion of loans in their total assets.

Thai banks remained well-capitalised, having capital adequacy ratio of 19.4% as of end-2022, leaving them in a good position to absorb any unexpected losses. System-wide capital adequacy ratio is the second highest among emerging ASEAN peers. Loan quality of Thailand's banking system has been improving, helped by the ongoing economic recovery from the pandemic. The improvement is seen across consumer and corporate loans. The Thai banking sector's liquidity coverage ratio remained high in 1Q23. Liquidity is likely to be stable, supported by domestic deposit funding.

DBS Forecast

	GDP growth, % y/y				CPI inflation, % y/y, avg			
	2021	2022	2023F	2024F	2021	2022	2023F	2024F
China	8.1	3.0	5.5	5.0	0.9	2.2	2.5	2.2
Hong Kong SAR	6.3	-3.5	6.5	2.0	1.6	1.9	2.8	2.0
India	9.6	7.0	5.5	5.8	5.1	6.7	5.4	5.1
India (FY basis)*	9.1	7.0	5.8	6.0	5.5	6.7	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	3.4	2.0
Taiwan	6.5	2.5	0.5	3.5	2.0	2.9	2.0	1.4
Thailand	1.5	2.6	3.4	3.8	1.2	6.1	2.5	2.0
Vietnam	2.6	8.0	5.5	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	1.0	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

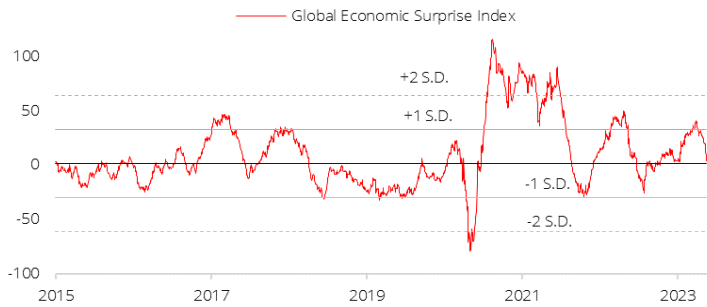
Source: CEIC, Bloomberg, DBS
*2020 represents Fiscal 21; ending 21 March

	Policy interest rates, eop							
	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
China*	3.65	3.55	3.45	3.45	3.45	3.45	3.55	3.65
India	6.50	6.50	6.50	6.50	6.25	5.75	5.50	5.50
Indonesia	5.75	5.75	5.25	5.00	4.75	4.75	4.75	4.75
Malaysia	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Philippines	6.25	6.25	6.25	6.25	5.75	5.25	5.25	5.25
Singapore**	3.53	3.62	3.62	3.54	3.25	2.90	2.80	2.80
South Korea	3.50	3.50	3.50	3.50	3.25	3.00	2.75	2.75
Taiwan	1.88	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Thailand	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25
Vietnam***	6.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Eurozone	3.50	4.00	4.00	4.00	4.00	3.50	3.00	3.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United States	5.00	5.25	5.25	5.25	4.75	4.25	4.00	4.00

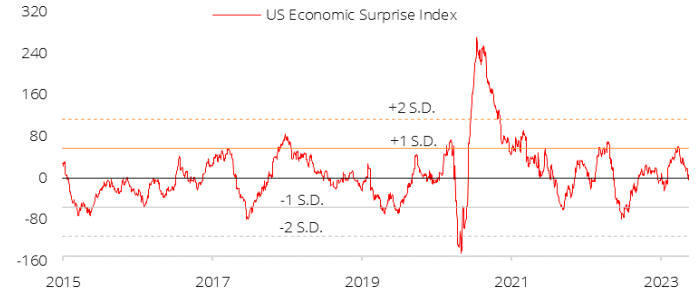
Source: CEIC, Bloomberg, DBS
* 1-yr Loan Prime Rate; ** 3M SORA OIS; *** refinancing rate

CIO Economics Watch

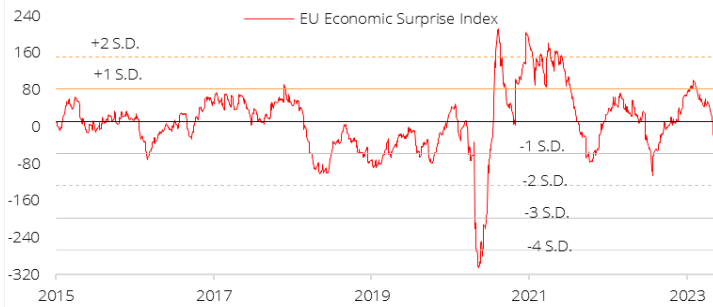
Global Economic Surprise



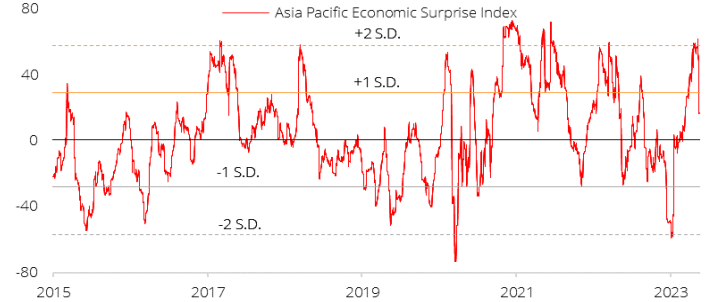
US Economic Surprise



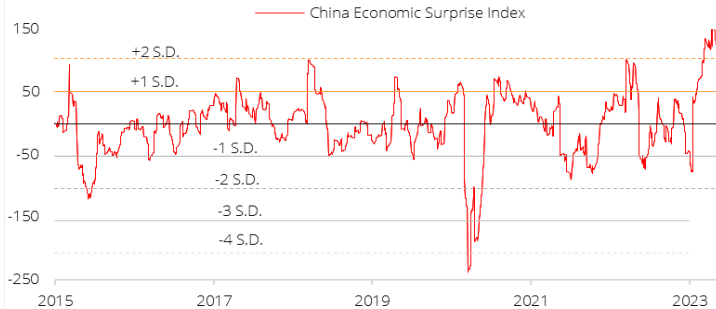
Europe Economic Surprise



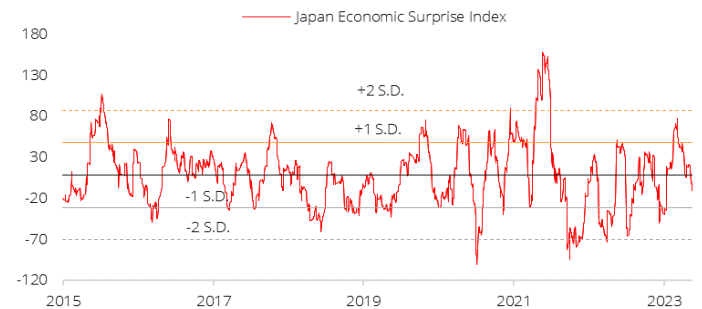
APAC Economic Surprise



China Economic Surprise



Japan Economic Surprise



Source: Bloomberg, DBS

US MACRO INDICATORS

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
CORE CPI (%)	6.0	5.9	5.9	6.3	6.6	6.3	6.0	5.7	5.6	5.5	5.6	5.5
Headline CPI (%)	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9
ISM Manufacturing PMI	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1
ISM Service PMI	56.4	56.0	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9
Initial Jobless Claims	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4
Michigan Consumer Sentiment Index	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5

Source: Bloomberg, DBS

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