CUIRS INVESTMENT RESEARCH

18 March 2024

Global Market Wrap-up

Keep cautious tactics

KEY MESSAGE

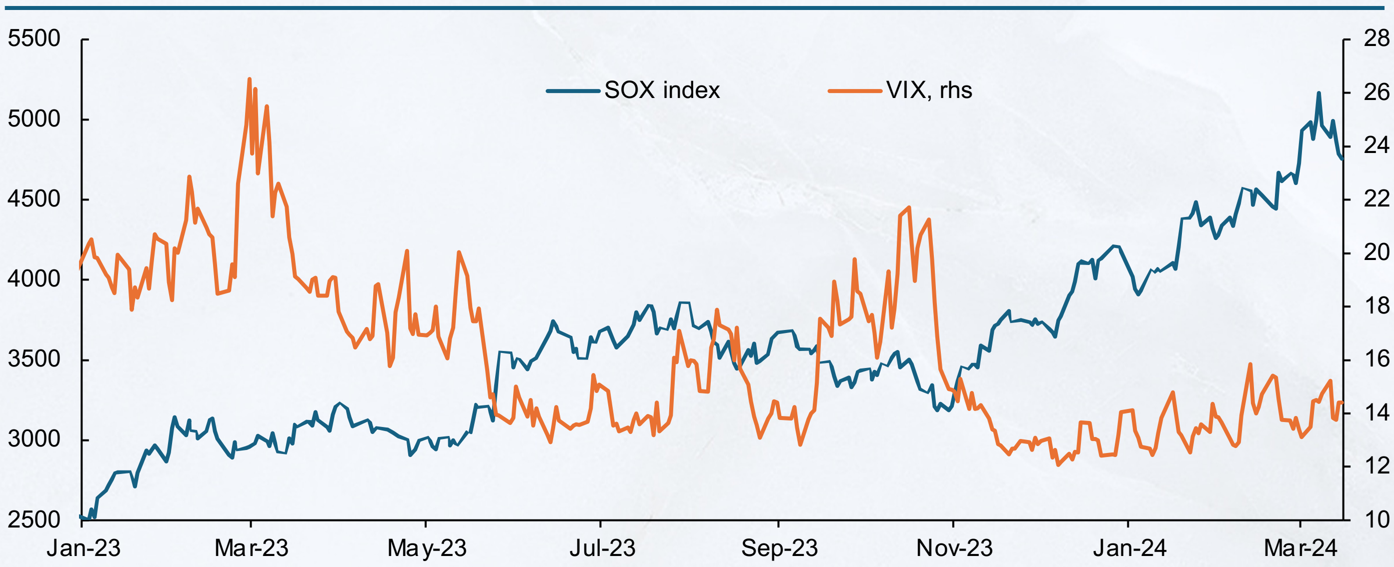
Undesirable sets of US inflation data are making people re-considering the stickiness of the inflation. Following the strong labor data at the beginning of March, the newly released CPI and PPI have both gone beyond people's expectations. Despite the fact that we have witnessed consecutive weak retail sales data (0.6%M vs 0.8%e), everyone is betting that there will no rate cut in the upcoming FOMC meeting. Besides, we think there is a higher chance for Powell to add a hawkish tilt in his tone due to the worrying inflation data.

Stagflation in Eurozone put ECB in dilemma while the GDP of UK rebounds with a weaker labor market. The stagnation is confirmed by a 0.1% contraction in GDP in Q4 and the largest drop (-3.2%) in Industrial Output in 10 months. Market expects that the first cut from ECB will most likely be in June. Meanwhile, mixed economic data adds uncertainty to the decisions of BoE as UK has a rebound in GDP but an edge in employment rate.

China CPI is back to positive, but it is still too early to claim success of escaping from deflation. CPI rebounded to 0.7% y/y, largely exceeding expectations; however, we attribute the surprising rebound to strong economic activities caused by LNY and more evidences are needed to be observed in coming months. Besides, export in Jan-Fed also beats people's expectations as it rises 7.1% y/y.

YCC & NIRP exit is locked and loaded. Strong Shunto result make NIRP exit more convinced as the wage hike pressure is supporting BoJ's inflation targets at 2%. Meanwhile, BoJ is allegedly considering a new approach targeting the amount of JGBs purchased.

Chart of the week: AI frenzy has taken steps slower with VIX gradual climbed



Source: Refinitiv, CUIRS Investment Research

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Market Overview

Foreign Exchange	Spot	1w Change	1m change	3m change	6m change	YTD change
G10						
DXY	103.432	0.70%	-0.83%	0.86%	-1.79%	2.07%
EURUSD	1.0889	-0.46%	1.09%	-0.06%	2.18%	-1.36%
GBPUSD	1.2736	-0.95%	1.08%	0.43%	2.85%	0.04%
AUDUSD	0.656	-0.97%	0.54%	-2.07%	1.99%	-3.70%
NZDUSD	0.6085	-1.49%	-0.36%	-2.00%	3.15%	-3.70%
USDJPY	149.04	-1.33%	0.60%	-4.62%	-0.80%	-5.37%
USDCAD	1.3542	-0.44%	-0.57%	-1.20%	-0.13%	-2.21%
USDCHF	0.8838	-0.76%	-0.44%	-1.50%	1.48%	-4.80%
USDNOK	10.6189	-1.83%	-0.89%	-1.50%	1.51%	-4.20%
USDSEK	10.3613	-1.48%	0.90%	-0.87%	7.99%	-2.78%
EM Asia						
USDCNH	7.2057	-0.08%	0.17%	-0.99%	1.04%	-1.11%
USDHKD	7.8223	-0.03%	-0.04%	-0.24%	0.06%	-0.14%
USDTWD	31.602	-0.55%	-0.55%	-1.11%	1.02%	-2.83%
USDKRW	1329.9	-0.76%	0.31%	-2.52%	-0.29%	-3.14%
USDTHB	35.775	-0.99%	1.12%	-2.61%	0.11%	-4.57%
USDPHP	4.7072	-0.50%	1.60%	-0.81%	-0.51%	-2.40%
USDMYR	1.3376	-0.49%	0.61%	-0.37%	1.94%	-1.29%
USDSGD	15595	-0.03%	0.16%	-0.65%	-1.55%	-1.27%
USDIDR	82.89	-0.13%	0.19%	0.13%	0.35%	0.39%
USDINR	55.528	0.09%	0.91%	0.25%	2.31%	-0.25%
USDVND	24722	-0.29%	-1.05%	-1.84%	-1.92%	-1.83%

Global Equities	Current Level	1w Change	1m change	3m change	6m change	YTD change
Americas						
Dow Jones	38714.77	-0.02%	0.22%	3.78%	11.81%	2.72%
S&P 500	5117.09	-0.13%	2.23%	7.94%	14.90%	7.28%
SOX	4757.71	-4.04%	5.08%	15.93%	36.23%	13.94%
S&P/TSX Comp	21849.15	0.51%	2.79%	5.95%	6.62%	4.25%
IBOVESPA	126741.80	-0.26%	-1.54%	-3.31%	7.15%	-5.55%
EMEA						
Euro Stoxx 50	4986.02	0.50%	4.62%	10.28%	17.43%	10.28%
FTSE 100	7727.42	0.88%	0.20%	1.48%	0.97%	-0.08%
CAC 40	8164.35	1.70%	5.10%	7.87%	12.21%	8.23%
DAX	17936.65	0.69%	4.79%	7.72%	14.05%	7.07%
Asia Pacific						
NIKKEI	38707.64	-2.47%	0.57%	18.16%	15.43%	15.67%
SSECI	3054.64	0.28%	6.59%	4.23%	-2.28%	2.68%
HSI	16720.89	2.25%	2.33%	0.55%	-6.75%	-1.92%
HSCEI	5820.50	2.90%	4.71%	3.30%	-6.26%	0.90%
ASX 200	7670.28	-2.25%	0.16%	3.28%	6.08%	1.05%
KOSPI	2666.84	-0.50%	0.68%	3.90%	3.58%	0.44%
TAIEX	19682.50	-0.52%	5.78%	11.50%	17.87%	9.77%
SPCNX NIFTY	22023.35	-2.09%	-0.08%	2.82%	9.39%	1.34%
JAKARTA COMP	7328.05	-0.02%	-0.10%	2.93%	5.65%	0.76%
FTSE/ BM KLCI	1552.83	0.84%	1.26%	5.97%	6.50%	6.75%
STI	3172.96	0.82%	-1.52%	1.92%	-2.77%	-2.08%

Source: Bloomberg, CUIRS Investment Research. As of 16 Mar 2024

United States: Hot numbers ahead of March FOMC

Over the week, the curve cheapened 20-25 bps. The labor data on Mar 8th (NFP and unemployment rate) offered the market some relief on softer wage growth, driving 10y back below 4.1%. However, CPI and PPI this week retriggered the concerns about higher for longer. Equities front, S&P 500 was flat while Nasdaq -1.2% and Russell -2.1% more macro-driven. Focus now is on March FOMC (Mar 19-20).

Fig. 1: rates selloff on hot CPI/PPI

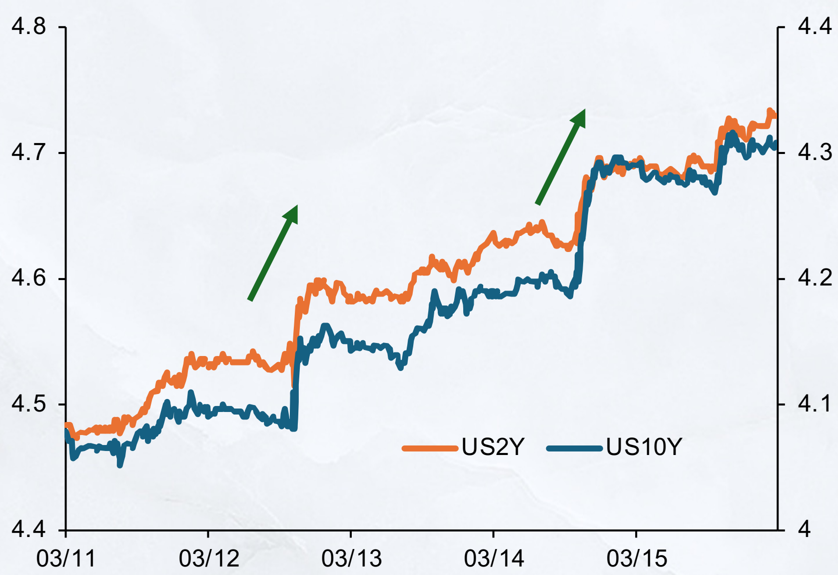
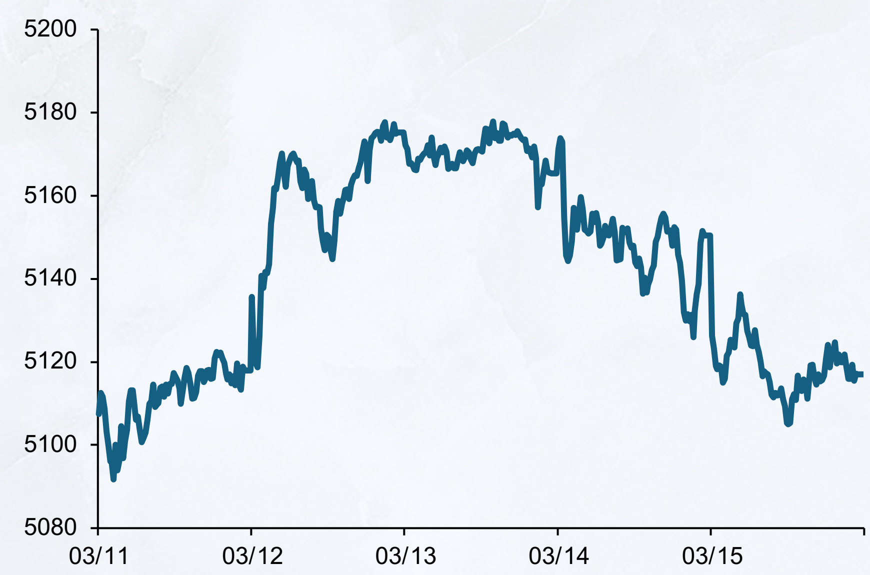


Fig. 2: S&P 500 trading in 5,100 – 5,160 range



Recap of labor data (Mar 8th): Nonfarm payroll saw a headline beat (275,000 vs 200,000e) but what gained more attention was the uptick in unemployment rate (3.9% vs 3.7%e) and soft average hourly earnings growth (0.1% vs 0.2%e). Job growth was mainly from service sectors, including healthcare, leisure and hospitality, and the government. The data appeared to reassure investors that labour market continues its softening trend and wage/service inflation will not materially affect the rate cut trajectory…until CPI/PPI.

CPI & PPI: Both CPI (headline 3.2%Y vs 3.1%e, core 3.8%Y vs 3.7%e) and PPI (headline 1.6%Y vs 1.1%e, core 2.0%Y vs 1.9%e) fully beat expectations that triggered rates to sell off. While OER (Owner's Equivalent Rent) have normalized from January anomaly as market expected, core goods (used car and apparel) surprised higher while energy deflation is halted (+2.3%M vs -0.9% 3m average) as oil rebounds.

Retail sales: February retail sales was below expected (0.6%M vs 0.8%e) for the second month (note retail sales has consistently surprised in the upside in 2023 2H especially in strong summer spendings). Initial jobless claim was 209K vs 218K expected staying at the unsurprising low. Risk of higher-for-longer/stagflation, though not base case, remains alive when investors cheer about soft landing. The totality of data points this week sees inflation stalling in 3-4% range, tight labor market and softening growth (Atlanta Fed Q1 GDP estimate went from 4.2% in early Feb to 2.3% now, though still in expansionary range).

March FOMC ahead… As the last inflation reading available to the Fed before March FOMC, CPI//PPI prints are obviously far from offering "confidence" to the Fed in cutting any more aggressively than December projections. In fact, the risk now skews towards the upside – as it only takes 2 members to shift the 2024 dot from 3 to 2 cuts, which is now more plausible with consecutive two months of CPI surprise. While other Fed governors has already been pushing back aggressive rate cuts, Powell himself has leaned rather neutral since January FOMC and even mentioned Fed is "not far from" confidence in testimony. We see a decent chance for Powell to add a hawkish tilt in his tone next week that could lead 10y to 4.4% (highest since late November).

Fig. 3: Disinflation has been stalling since June 2023

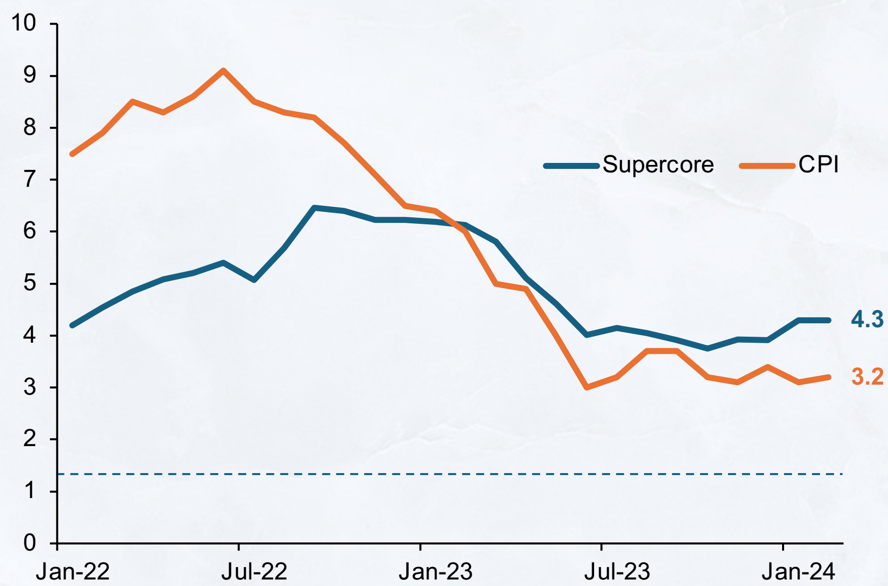
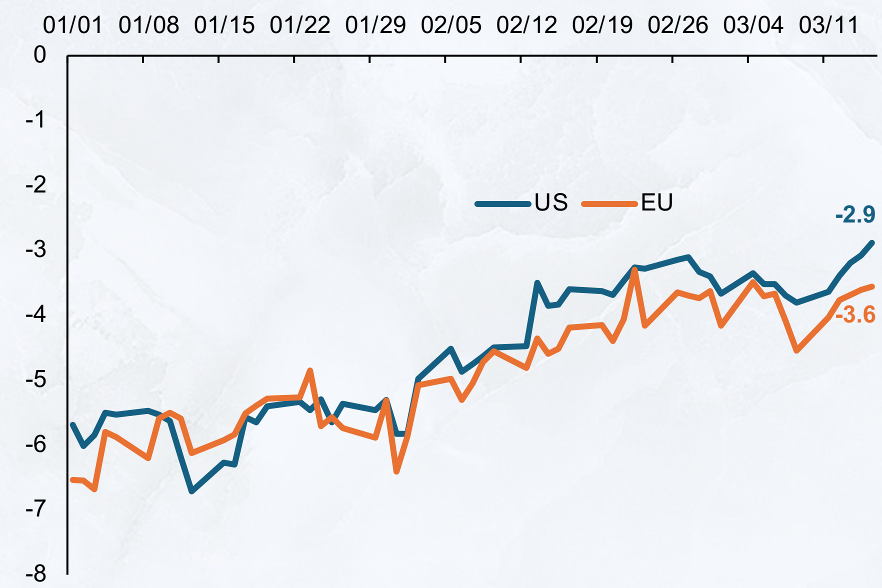


Fig. 4: FFF/OIS-implied number of cuts by year end



The curve now has reversed back to recent high (2y 4.75%, 10y 4.35%) in February, which, in our view, makes more sense than what has been trading the week before. The market is just catching up with the recent realities (vs downplaying January CPI as anomaly). We feel the rates selloff reasonable (more likely to extend than reverse).

The market has been dip buying since last October (when most of the curve is at 5%) and this leaves insufficient risk premium for inflation reacceleration, which was still in play in a tight labor market and strong service consumption. We are not seeing the base effect we have in 2023, and headline/core CPI could well settle in the mid-3% range at the recent run rate. The long end is even more vulnerable with the repricing of US r* and term premium (note how both candidates in the election are inflationary)., which means even if soft landing plays out, the curve would more likely bull steepens with long end staying at 4%. We prefer to short long-end outright (or steepeners with bearish bias).

Cross-asset pricing also felt contradictory – the stock market priced in the goldilocks soft landing and traded at a QE valuation while rates stayed elevated. The question becomes – if economy stays this resilient on elevated deficit, the Fed sees no rush in cutting rate, which could hardly justify equity valuation given S&P 500 earnings yield now in par with 10y. But if the economy does slow down or even fall into a recession that could trigger Fed put, does earnings growth at that point still support markets' valuation? We do not feel comfortable chasing the FOMO momentum from a risk-reward perspective and will not be surprised if a correction occurs mid-year.

FX: DXY rebounded to 103.5 (+0.7% over the week). The market has repriced rate cut expectation, with base case being Fed/ECB starting in June and cutting 3/4 times by year-end. While the current pricing feels much more fairer relative to the end of 2023, we still see some USD-bullish risk with Europe-China weakness. ECB could potentially lead the rate cut cycle instead if inflation undershoots 2% mid-year (while now the market expects ECB to follow the Fed on Euro concern).

With rate cut cycles set to begin, the pace of cutting rather than the timing of start becomes more of focus. We see USDJPY reversed to 149 despite solid Shunto results (5.85% demand, 5.28% received) and imminent NIRP removal since Ueda reiterated its commitment to accommodative financial conditions and consecutive hikes are fully priced out (+25 bps expected by year-end). We feel the same could apply to Europe with its weaker growth and higher rate sensitivity. It's interesting to see while the street is debating whether US short-term r* has risen to 3-3.5% on elevated fiscal and higher AI-led productivity growth, ECB's terminal/natural rate being close to 2% is less of dispute. In that sense, the strong dollar carry could persist for a couple of years that could continue to support USD at its current rich valuation.

Eurozone: Stagnant economy eyes on rate cutting

The Euro Area confirmed stagnation in 2023 Q4 with a 0.1% contraction in the previous quarter due to persistent high inflation and restrictive monetary policy. Meanwhile, the Eurozone industrial output plunged by 3.2%, marking the sharpest drop in 10 months. We continue to see a deteriorating eurozone economic performance because of weak investment which dropped by 3.5% in 2023 Q4, indicating gloomy investor sentiment and the real impact of high interest rates. As we do not see any signs of altering the situation, we expect another stagnating GDP in the first quarter of this year.

In the latest economic projections of the ECB, the inflation forecast is trimmed down from 2.7% to 2.3% this year and hitting the 2% target in 2025. While the ECB governor Lagard said they would not need to wait for headline inflation to hit the 2% target before the rate cuts, the market expects the first rate cut to start in June which "seems to be converging better with the ECB's own view" as Lagard said on Thursday. We see a more dovish ECB as seeing growth more sluggish than expected. We expect the ECB to start rate cuts in June before the Fed which encountered hotter-than-expected inflation this week.

The Swiss National Bank will meet next Thursday, 21st March 2024, in which we do not expect any announcement about changes in interest rates even though inflation dropped sharply in January. We expect the SNB to start rate-cutting in June as awaiting more signals from the ECB and the Fed which are likely to cut their interest rates in the summer. However, we stay positive that an early rate cut weakening the franc is the best insurance that prevents Switzerland from getting back to negative inflation rates and interest rates.

Fig. 1: Euro Area economy stagnated in 2023 Q4

Fig. 2: ECB trimmed down inflation forecast

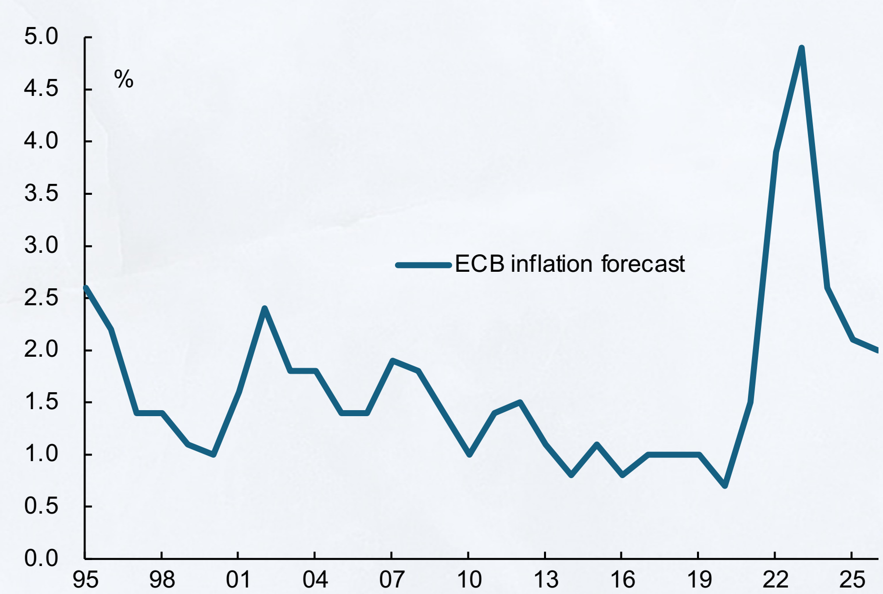


Fig. 3: Eurozone Industrial output declined the most in 10 months

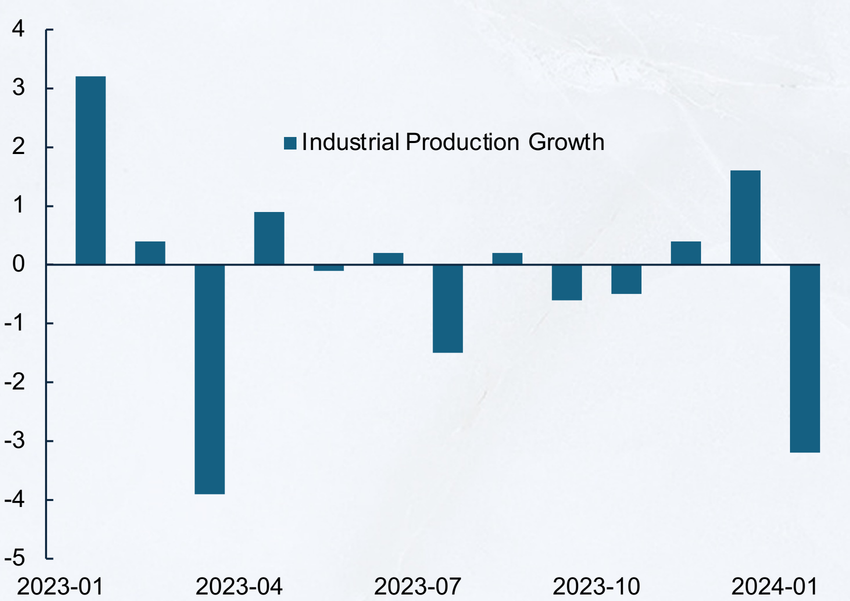
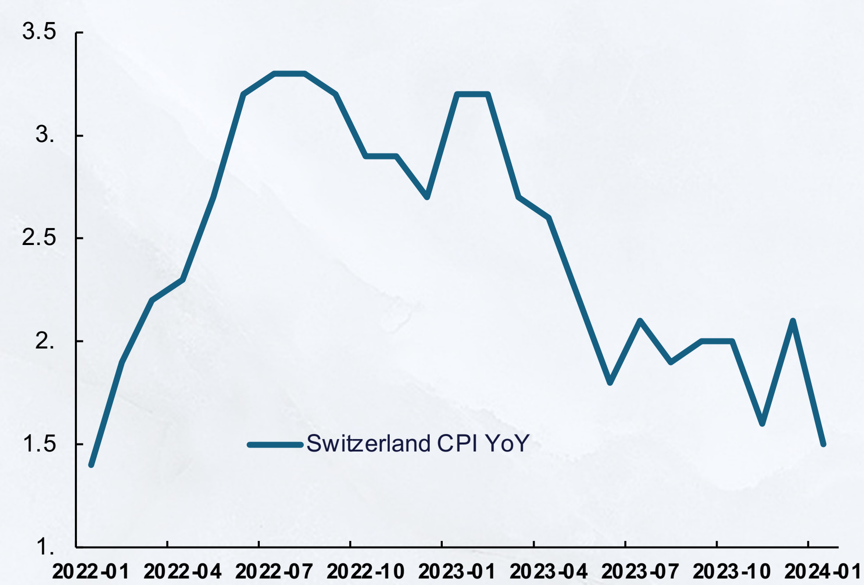


Fig. 4: Switzerland inflation declined sharply



United Kingdom: GDP rebounds with a cooling labor market

The UK 10-year government bond yield edged up to above 4.1% this week, as the GDP data in January indicated a rebound in the UK economy after experiencing a shallow recession in the second half of 2023 which is driven by strong retail sales boosted by decreased national insurance and construction activity. This increased the confidence of the Bank of England to maintain the rates higher for longer while preventing the economy from heading into recession. However, we still stay cautious about the outlook of the UK economy amid the risk of stagflation.

The UK job market showed signs of weakness in which the unemployment rate rose to 3.9% in January from 3.8% and wage growth fell to 5.6% in the three months to January from 5.8% previously, marking the slowest pace since the three months before October 2022. We think the cooling labor market will provide more incentives for the BoE to alter to a dovish stance in the upcoming rate-decision meeting.

We expect the BoE to hold rates at 5.25% in their rates decision meeting next Thursday, 21st March 2024, while the market pricing in the BoE starts cutting rates in August and UK interest rates to be the highest in the G7 by the end of 2024 amid stickier inflation and wage pressure than other major economies. Meanwhile, the CPI for February will come out on Wednesday before the meeting, providing more evidence for the Monetary Policy Committee to make up their minds.

Fig. 1: UK GDP rebounds in Jan

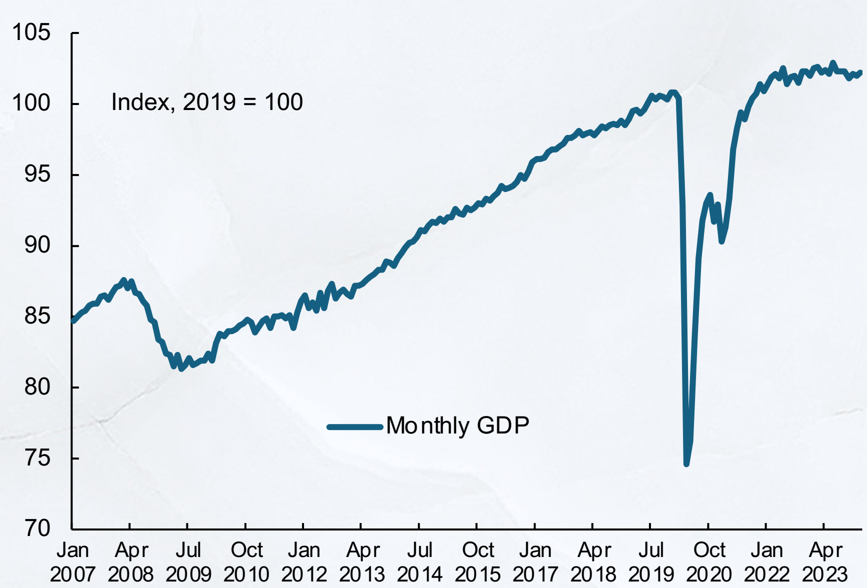


Fig. 2: Gilt yield edged up after GDP rebounded

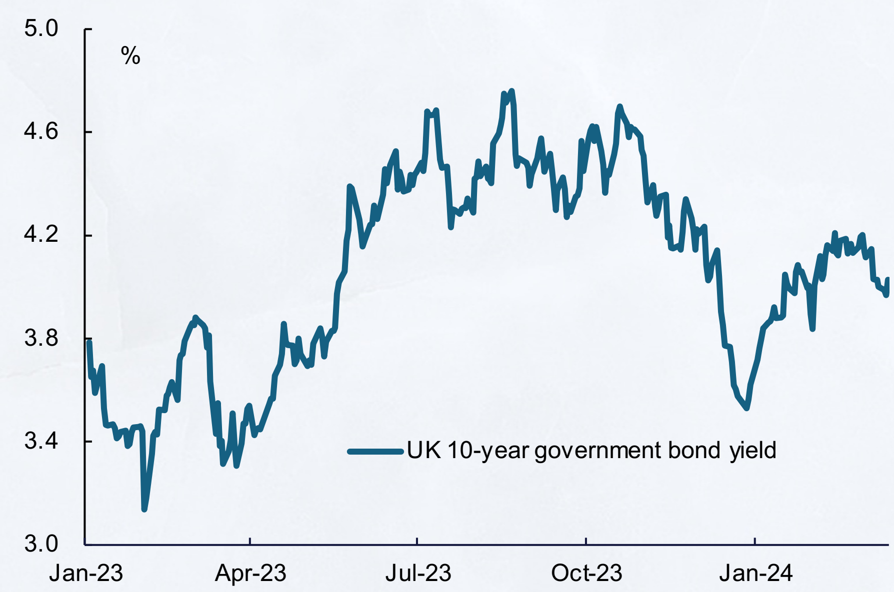


Fig. 3: UK unemployment rate

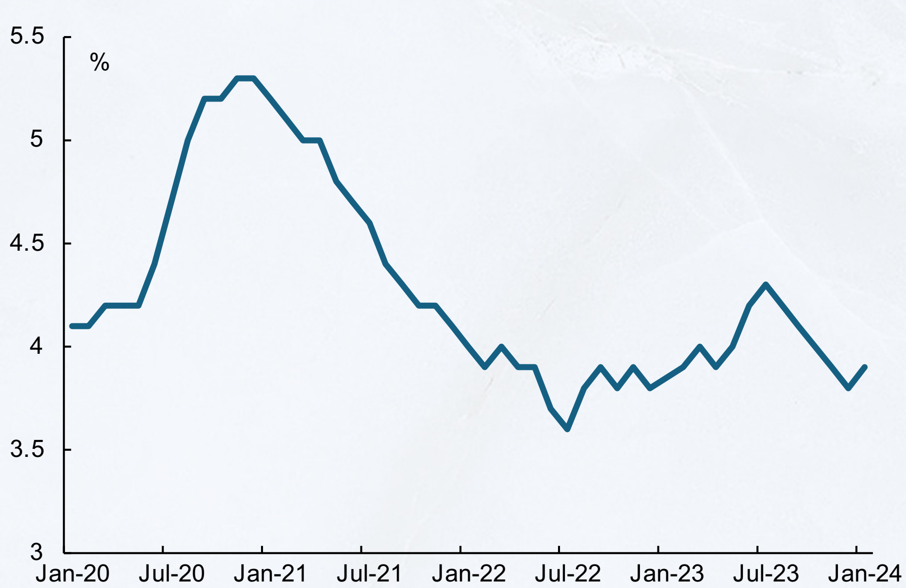


Fig. 4: UK wage growth continues to fall

Antipodean: Range-bound through 2024

Our expectation has been for Antipodean currencies to face downward pressure in early 2024, linked to three headwinds: 1) Markets have aggressively reduced rate cut expectations for the Fed; 2) China's growth outlook remains challenging. Property sector downturn has not alleviated, leading to a sharp decline in Australia's terms of trade. New Zealand fared slightly better with rising dairy prices, but mostly linked to supply- side reasons rather than robust demand growth from China; 3) The rate cut outlook between Antipodean central banks and the Fed have continued to converge, particularly for the RBA.

We think hawkish repricing of Fed rate expectations should become a less potent headwind, linked to three considerations:

1) **Markets have become a lot less complacent about smooth disinflation and the degree of hawkish repricing might have exceeded improvements in fundamentals in the US**. Indeed, two-year US breakeven has risen 77bp YTD to 2.79%, now exceeding where the Fed expects US headline PCE growth to be over the next two years. Meanwhile, option contracts on December 2024 SOFR futures are implying a 20-30% chance of no cut by the Fed or even hikes being delivered in 2024 versus a roughly 10% chance in early January – hedges for a hawkish Fed are well-owned.

2) **US exceptionalism has been narrowing lately, making hawkish repricing less idiosyncratic**. Eurozone-US 2-year rate differential is broadly unchanged YTD. Importantly, the current convergence is driven by both downside surprises in the US and upside surprises elsewhere, in line with an expansionary global manufacturing PMI. This reduces the concern that narrowing US exceptionalism would coincide with a broad-based growth downturn.

3) **Hawkish repricing among developed market central banks has been driven by stronger- than-expected growth**. We think this is exemplified by the upward parallel shift in most of G10 front-end OIS curves, while markets are not compensating near-term hawkish repricing with more aggressive easing later. Markets expect resilient growth to be able to withstand a more hawkish near-term policy trajectory without eyeing emergency rate cuts later.

This may help explain why despite a notably more hawkish policy outlook for the Fed, global equities – a key driver for Antipodean currencies – have been quite resilient, even outside of the US or tech sector. Of course, equity performance has varied greatly among sectors. Antipodean currencies are most consistently correlated with the Basic Materials sector, which has been the largest underperformer YTD. This explains why Antipodean currencies have underperformed global equities YTD. But even Basic Materials sector has shown strong upward momentum since mid-February.

Altogether, we expect hawkish repricing of Fed rate expectations to fade as a major headwind. If the combination of slowly unwinding US exceptionalism, improvements elsewhere, and strong risk appetite is sustained, we will see a more supportive dynamic for Antipodean currencies.

Fig. 1: Both AUD & NZD perform robust in 2024

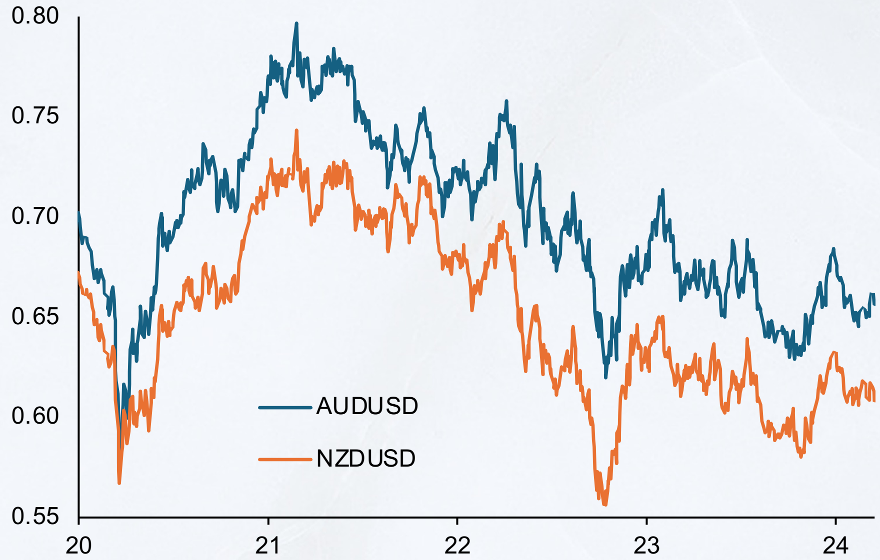
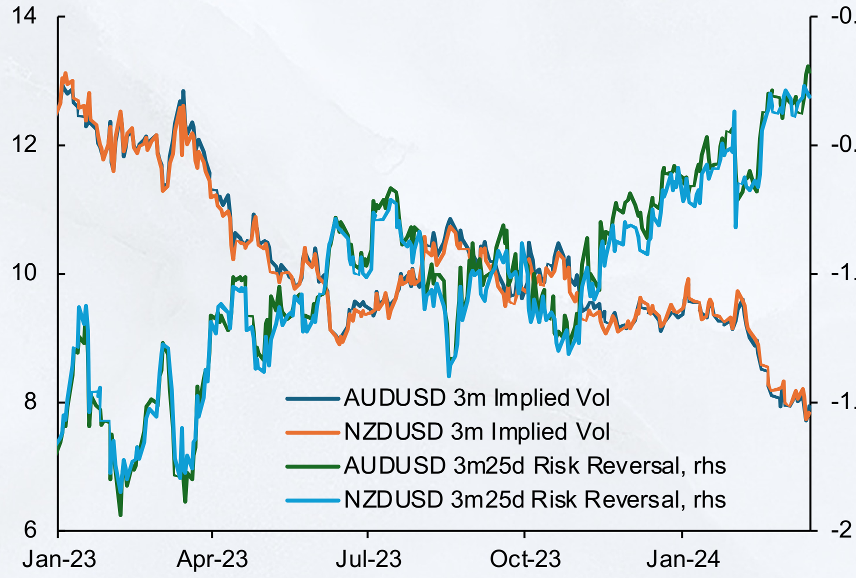


Fig. 2: Options market expects a fairly range-bound outlook



Commodity: Gold holds strong, copper may surge. Ferrous futures hit historic lows

International gold spot and futures prices have consistently reached new historic highs, surpassing the $2,200 mark and achieving a 10% increase in the past two weeks. Several factors are currently supporting the upward trajectory of gold prices. Geopolitical conflicts are intensifying globally, multiple economies face recession risks, and central banks continue to purchase gold. Will the upward trend in gold prices continue? While the market sentiment is largely optimistic, there are still short-term risks associated with chasing after further gains in the gold market. It is important to recognize that factors beyond expectations can influence gold price fluctuations at any given time.

Copper futures have reached an 11-month high, with LME copper futures recording a new high since April 2023 at $9,098 on March 15, marking a 5.74% increase. In China, copper prices surged by 4.08% on March 14, reaching a new high since June 14, 2022, at 71,881.67 yuan per ton. Industry insiders suggest that the volatility in copper prices may be closely related to news of potential production cuts by domestic smelters. Research indicates with power infrastructure expected to maintain high growth rates. The demand for copper in applications such as electrical wires and cables remains strong, potentially leading to a widening copper supply-demand gap and supporting price increases. However, the high copper prices may have an impact on demand, emphasizing the need to closely monitor market dynamics and supply-demand changes。

The ferrous metals market has experienced a cumulative price decline of nearly 10% due to slow demand recovery and significant inventory backlog. Rebar futures have dropped by 9.34%, hot-rolled coil futures by 7.78%, and iron ore futures by 17.96% since the beginning of the year. The real estate market's recovery has been below expectations, with a 14% year-on-year decrease in second-hand home transaction area. Infrastructure projects have also slowed down this year, with some regions reducing projects to manage debt levels. New policies encouraging technological upgrades and equipment renovations may increase industrial steel demand, but the market remains relatively stable. Financial analysts suggest the industry may need further regulation and could consider restarting supply-side structural reforms to address excess production capacity.

Fig. 1: Gold futures prices remain volatile at elevated levels

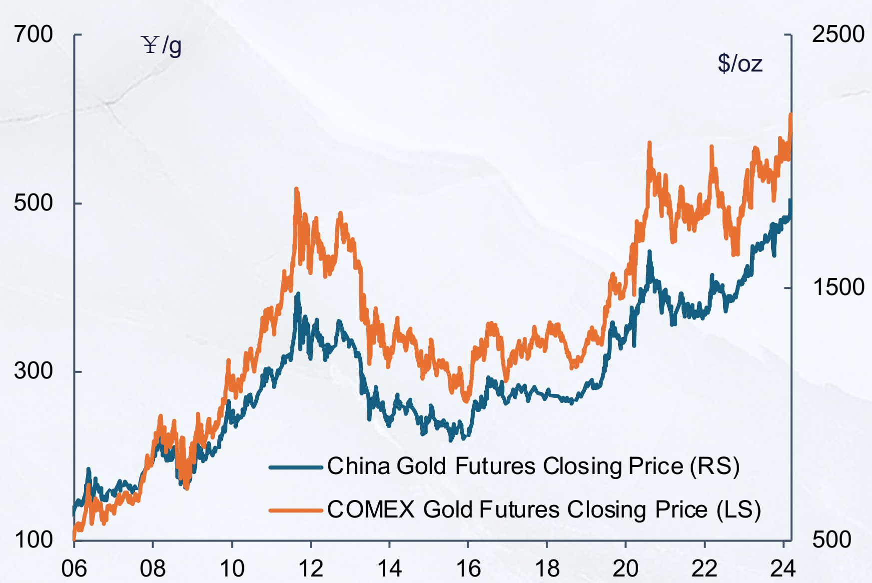


Fig. 2: Global copper futures prices reach new highs

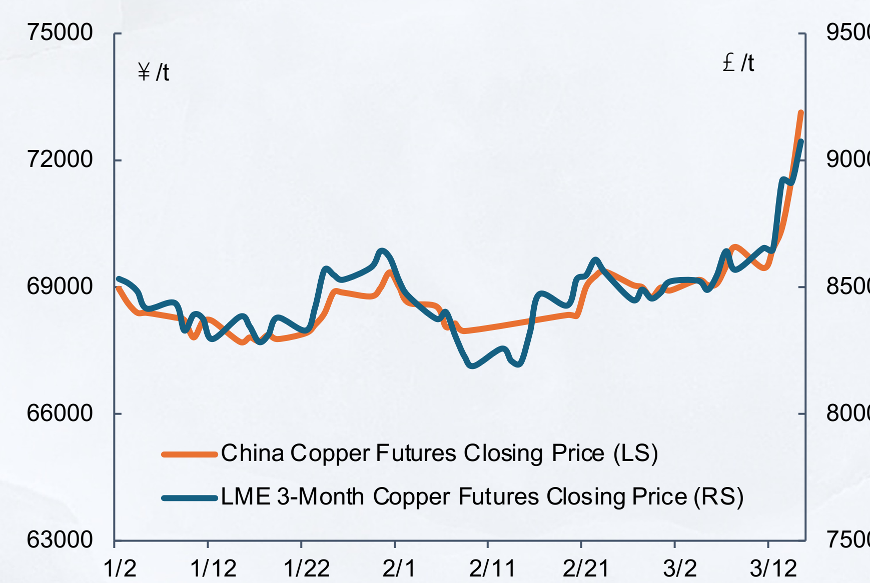


Fig. 3: Ferrous metals Futures prices are all trending downward

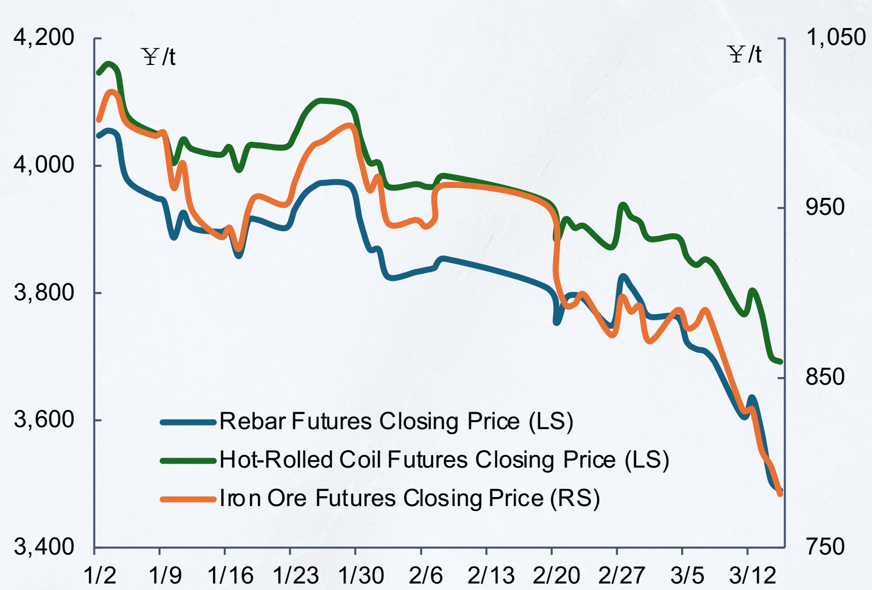
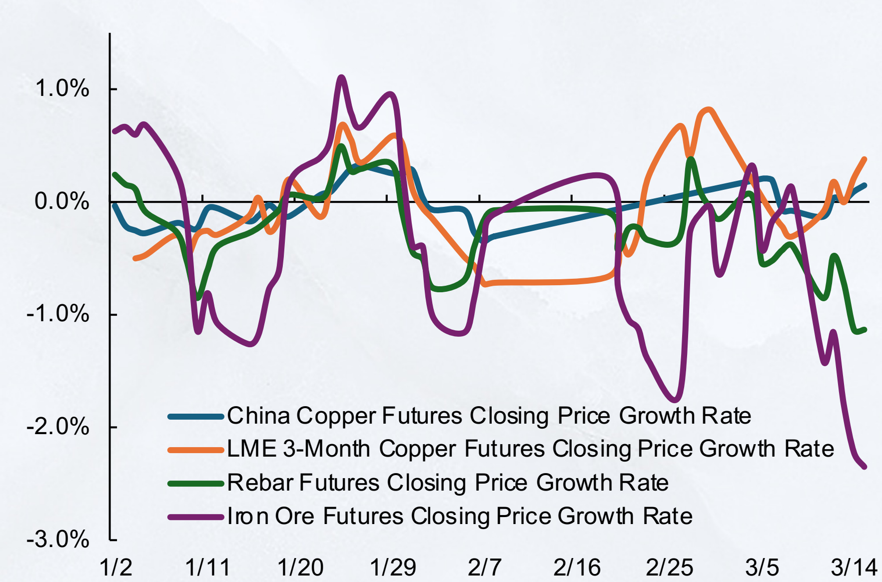


Fig. 4: Ferrous metals recorded the largest decline midweek, while copper showed limited gains



China: Not yet out of the woods

Headline CPI rebounded to 0.7% y/y, largely exceeding expectations (Bbg: 0.3%); core CPI lifted to 1.2% y/y on the back of strong LNY activities with record highs in travel and entertainment price growth. Even taking into account base effects, the jump was larger than expected, pointing to positive momentum in the domestic demand recovery fuelled by strong consumption during the Lunar New Year. That said, it is too soon to say we have fully shaken off disinflationary pressures and more policy support is still needed to solidify growth to reach the “around 5%” GDP target this year.

Looking into details, stronger travel and services activities helped to push price levels higher with records in the amount trips take and trip spending. Tourism prices rose by 23.1% y/y or 13.1% m/m, both the fastest pace on record. Overall entertainment prices also rose by 3.9% y/y. Core CPI recovered to above 1% growth for the first time since January 2023. However, consumption of consumer goods still needs support as discretionary products like clothing and household appliances was muted, contracting 0.2% m-o-m and flat m-om, respectively.

On the volatile items front, food prices picked up strongly driven by a sharp rebound in pork prices. Pork, one of the major culprits behind weak inflation print in the previous months, saw positive price growth both sequentially and in y-o-y terms. Pork prices increased by 0.2% y/y or 7.2% m/m, compared with contractions of 17.3% y/y and 0.2% m/m in January. A boost from demand during the holidays and some easing of oversupply may play a role. Even as some holiday demand fades, we think pork prices should gain more support in the coming quarters given the supply of breeding sows has been contracting since last July and recorded a decline of 6.9% y/y in January.

PPI deflation deepened to 2.7% y-o-y given a still lukewarm property market, though more policy support is on the way to provide a cushion. On the producer front, price pressures persisted, partly on the back of a still weak property market as well as slower production activity during the Lunar New Year. Downward pressures were seen in property-related sectors with building material prices down by 6.5% y/y in February or down by 6.8% y/y in the Jan/Feb period. Ferrous and non-ferrous metals manufacturing both saw their performances weaken from the previous month in sequential and y/y terms as well. That said, government support can help provide a cushion. Last year’s RMB1trn of sovereign bond issuance, with most to be used this year, as well as another RMB1trn ultra-long special treasury issuance in the pipeline should provide a further lift for infrastructure activity and can help pick up the slack and support price levels. A government push to encourage more equipment upgrading (estimated RMB5trn annual demand) will likely also help.

Exports exceeded expectations, rising 7.1% y/y in Jan-Feb, boosted primarily by a low base, and saw mixed performance. Trade flows came with a lift at the start of the year with both figures surprising on the upside as exports grew by 7.1% y/y in Jan-Feb (Bbg: 1.9%) while imports picked up to 3.5% y/y. However, a closer look shows that base effects were at play, as exports had fallen by c7% y-o-y and imports by c10% last year.

Exports showed wide divergences across regions. Exports to some DM markets like EU, Japan and Australia continued to fall, while exports the US were up 5% y-o-y, but faced an even lower base. There were some bright spots in EM as ASEAN demand bounced back to expansionary territory following 8 months of decline to 6.0% y/y growth, though, within it, markets were mixed.

Fig. 1: CPI & PPI

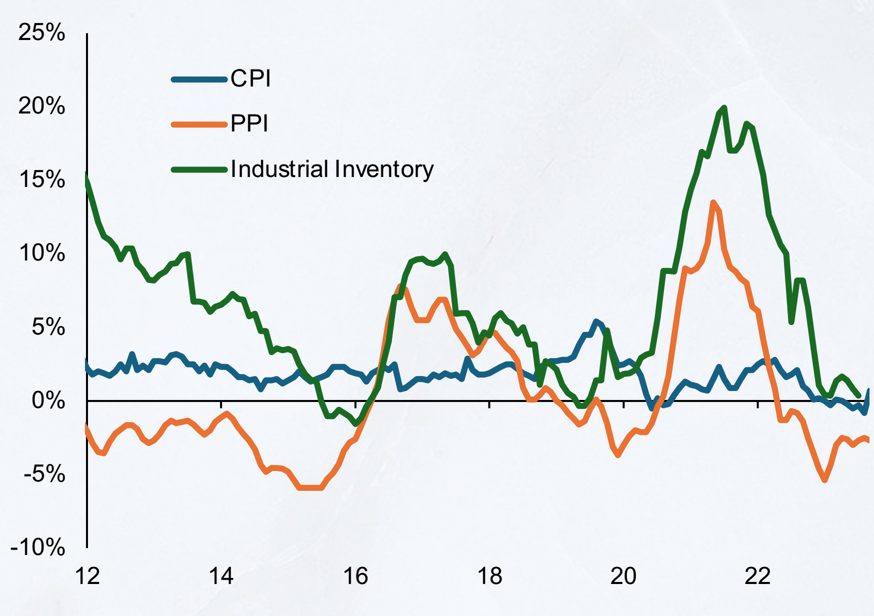
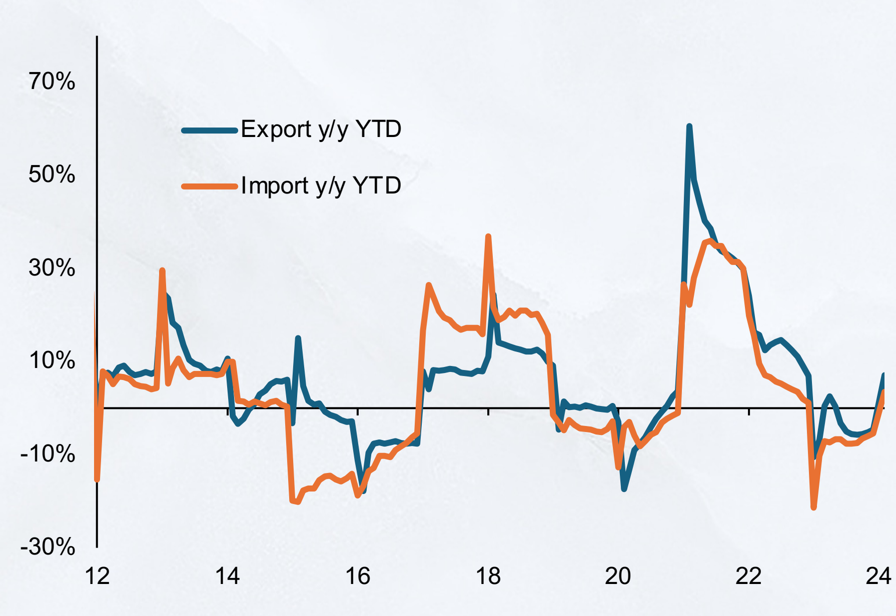


Fig. 2: YTD trade perform well



Export by-products saw some mixed performance as well. Overall electronics rose by 8.5% but was mixed as laptops (3.9%) and TV sets rose (13.4%) but cell phone exports were still weak (-18.2%). Auto exports maintained expansionary and recorded a 12.6% growth in y-o-y terms.

At the current juncture, it is likely too soon to call for a revival in China's trade sector. We hold the view that trade uncertainty is likely to persist as global growth may still see soft amid high interest rates and still strong preferences for services demand. In the latest economic press conference, Wang Wentao, Minister of the Ministry of Commerce said that foreign trade might stay in a severe situation this year amid still mounting pressures of weak international demand as well as trade restriction measures globally (CCTV, 6 March).

Credit supply missed expectations in February as TSF growth slowed to 9% y/y, the softest pace since September. The increase in TSF reached RMB1.6trn, below consensus expectations (BBG: RMB2.3trn), driven in part by some exaggerated seasonality from fewer working days and less need. The more exaggerated readings of a strong January and disappointing February has likely been affected by the holiday seasonality. Taking the combined January-February period, we see a relatively neutral tone on credit supply thus far (TSF YTD: RMB8.1trn vs average RMB7.8trn in previous three years for the same period).

Household lending weakened with both short and longer-term household lending contracting, likely reflective of the weak property market as well as muted consumer sentiment. The contraction in short-term household loans was the largest on record. That said,recent policies to encourage consumer upgrading of large ticket items like automobiles and household appliances should help to provide some relief. Specific policies like lowering downpayment ratios for auto loans or subsidies for upgrades are part of the recent 20-point action plan for upgrading consumer goods and equipment. Meanwhile, more support for the property sector is still needed. Further policies to remove home purchase restrictions in more cities such as those on second-hand home sales as taken by Hangzhou (Cailianshe, 14 March) as well as direct government support for building up public housing supply (e.g. via PSLs) can help to support an eventual stabilisation in the sector.

Meanwhile, financing demand from enterprises continued to outperform as new mid-long term corporate lending increased by RMB1290bn, beating the prior three-year average of RMB905bn for the same period. Similar to the consumer upgrading policies, the equipment upgrading policies will also provide support. The government estimates equipment upgrading to be a minimum RMB5trn market. These will include new policies such as tax cuts and targeted relending tools which should help keep corporate lending fairly buoyant this year.

Given the more ambitious growth target this year, we think Beijing will need to keep a proactive stance. This will be led by fiscal policy, but also coordinated with other areas like monetary policies, capital markets, property markets and targeted policies to support areas such as equipment upgrading and consumption. On the monetary front, we expect the PBoC to prefer to use liquidity tools (50bp RRR cut) and structural tools as it aims to also maintain stability in the exchange rate. That said, we see more space for two 10bp rate cuts in H2 this year once other major central banks begin to pivot.

Fig. 3: TSF breakdown

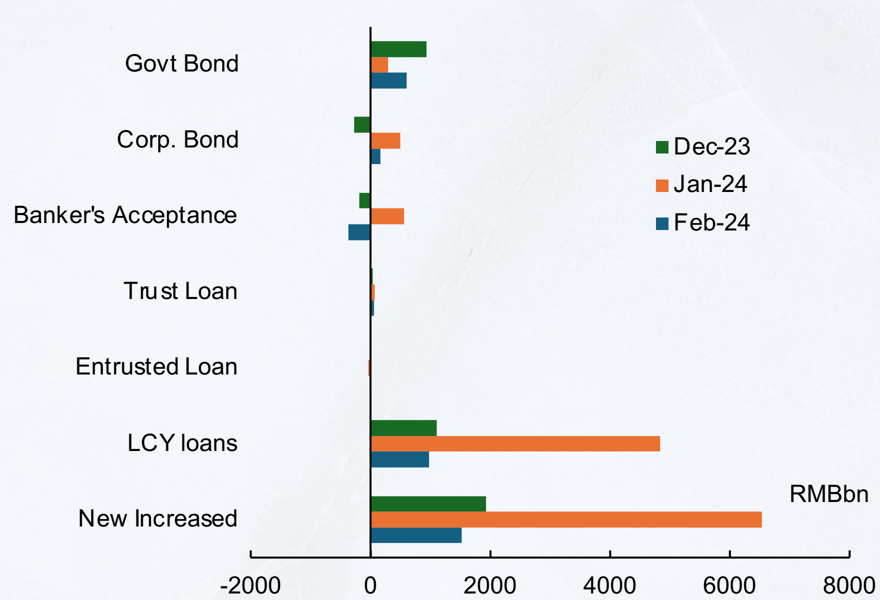
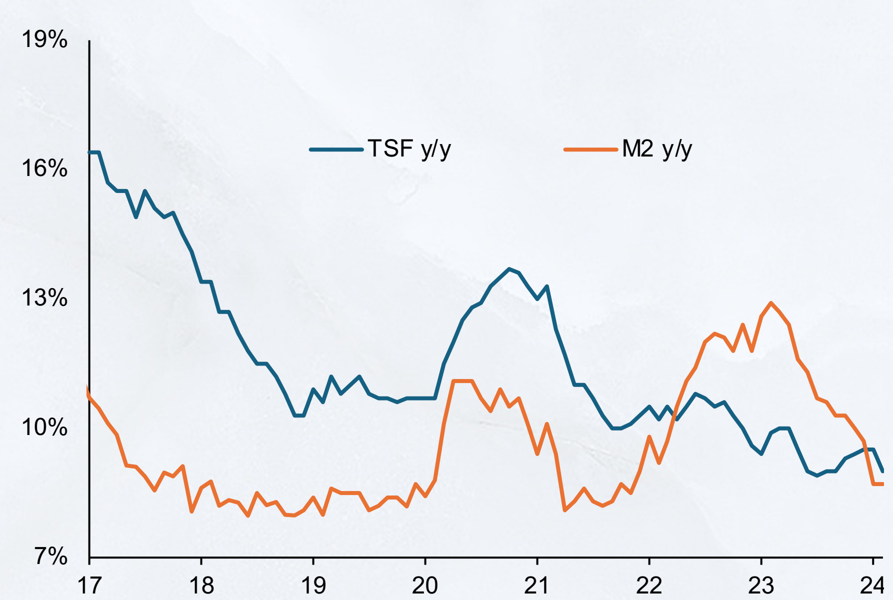


Fig. 4: TSF & M2



Hong Kong: Fireworks bring no spark light

This is largely an excerpt from Hong Kong FY24-25 Budget: Eyes on China (published 29 February 2024).

FY24-25 Budget introduces measures to support recovery, attract businesses and talent, and boost tourism with events like pyrotechnic shows and arts festivals. Inbound tourists are expected to increase, driving growth in tourism and related sectors. The economy is projected to expand by 2.5% to 3.5% this year, with anticipated cost pressures. Financial Secretary Paul Chan predicts a 3.2% CAGR from 2025 to 2028, with average inflation of 2.5%.

Government aims to achieve a fiscal surplus in 2026. A two-tier progressive tax system for salaries and income tax will be implemented, along with amendments to the progressive rates regime for residential properties. Deficits are expected to narrow, and fiscal reserves are projected to reach HKD832.2bn by 2029. The government plans to issue bonds for infrastructure and retail, but these funds will not be used for recurrent expenditure. The government aims to maintain fiscal discipline, with government debt to GDP ranging from 9% to 13%.

Real estate market has seen price declines and reduced transactions. Demand-side measures for residential properties have been repealed, and property mortgage loan regulations have been relaxed. The market's outlook depends on China's recovery and sentiment. Lower mortgage rates and increased loan-to-value ratios may offer some support.

HKD peg is not expected to be impacted by fiscal activities. The backing portfolio and ability to raise interest rates provide defense. The likelihood of hitting the strong-side CU is low. interest rate differentials support a weaker HKD. FX swap 3x12 steepener is recommended, while a receive 5-year HKD IRS is favored due to limited front-end rally.

Fig. 1: Hong Kong GDP registered a 3.2% growth in 2023...

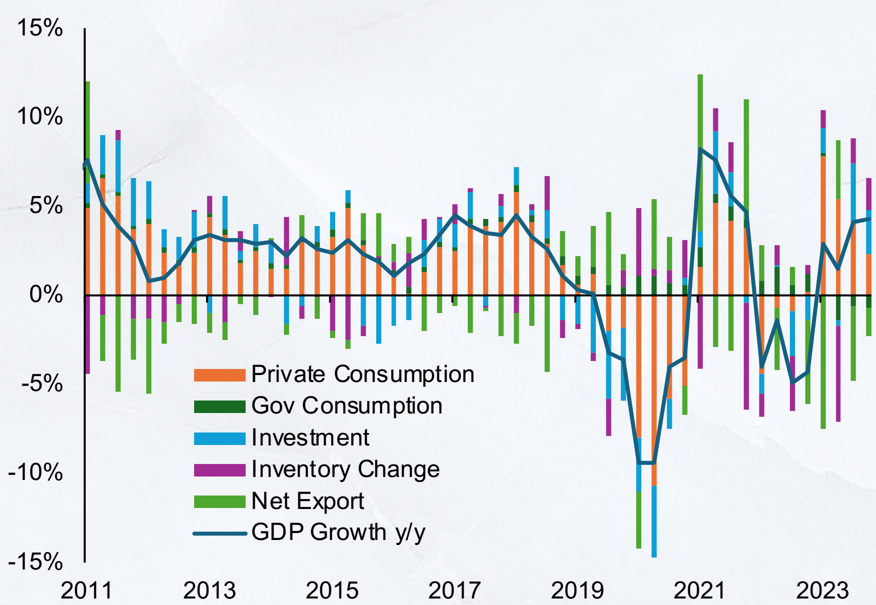


Fig. 2: ...with budget balance deficit

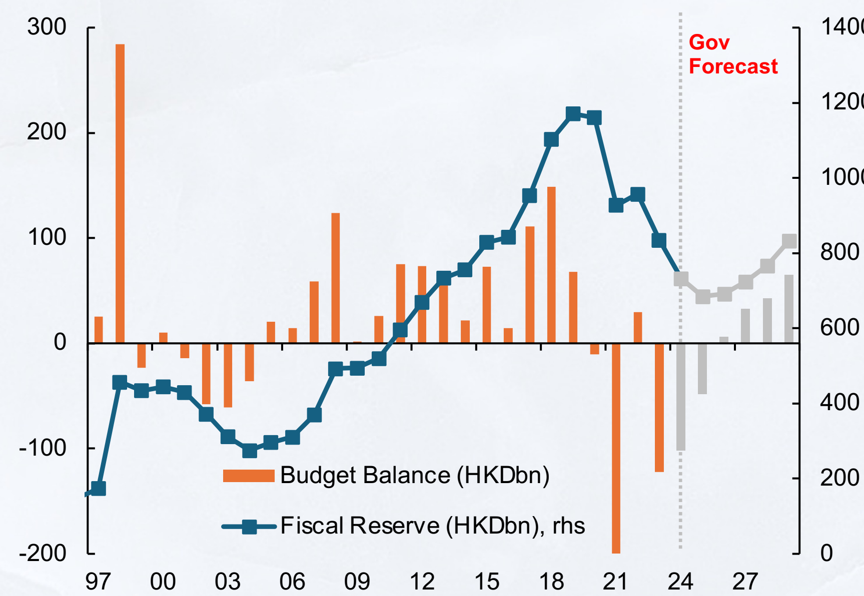


Fig. 3: Housing prices continue to contract

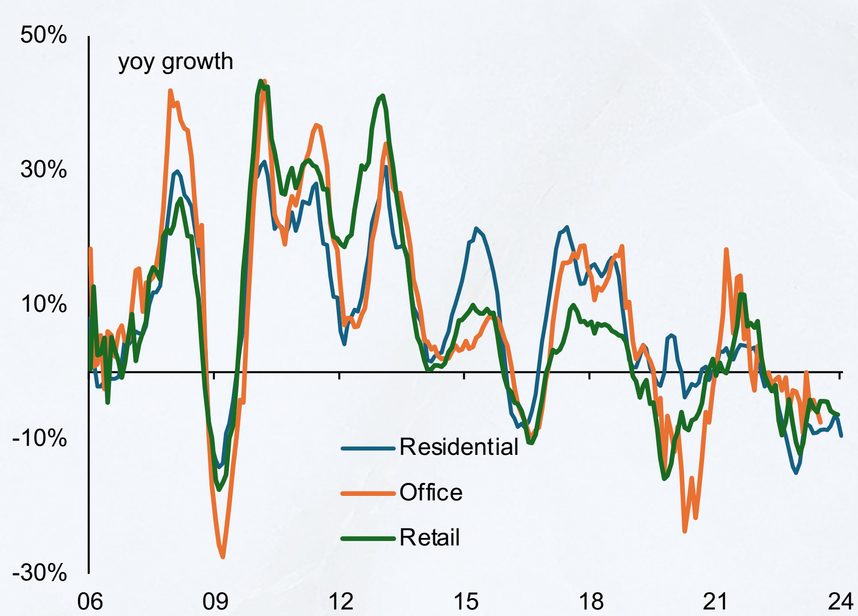


Fig. 4: USDHKD is well capped at 7.75-7.85 range

Japan: March NIRP exit is almost in sight

This is largely an excerpt from Japan: Back to "Normal" (published 18 March 2024).

Strong Shunto result make NIRP exit more convinced. Wage hike pressures are driving up prices, with core inflation set to climb back to just below 3%. Strong wage growth is supporting the sustainability of 2% inflation. Anemic growth is attributed to supply constraints, but corporate earnings are strong, and firms show eagerness to invest despite labor shortages.

BoJ is considering a shift away from its YCC framework to a new approach targeting the amount of JGBs purchased. This change would remove guidelines on 10y yields and provide flexibility for the BoJ to normalize its balance sheet in the future through passive QT. The transition out of NIRP may involve raising RRR to incentivize interbank market functioning. However, future rate hikes may be limited due to tons of existing and unknown uncertainties.

Fig. 1: Japan CPI

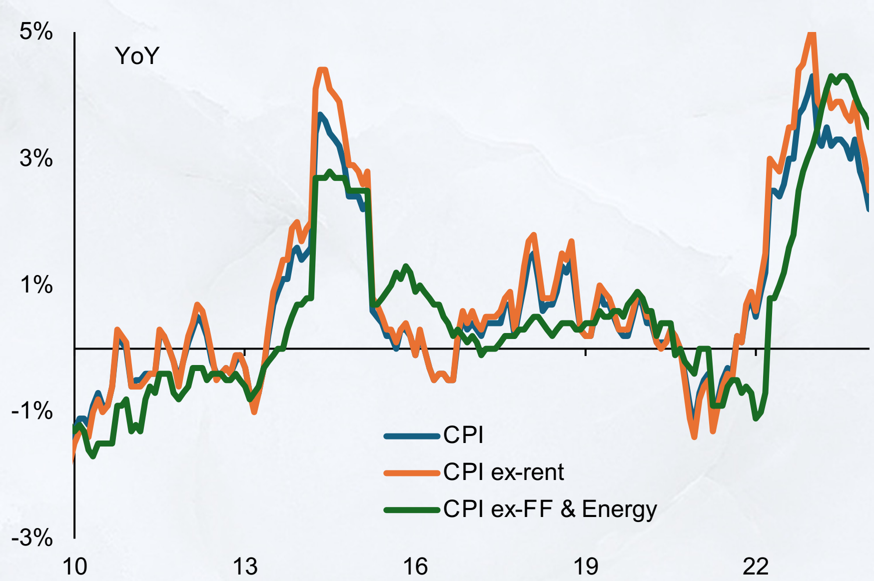
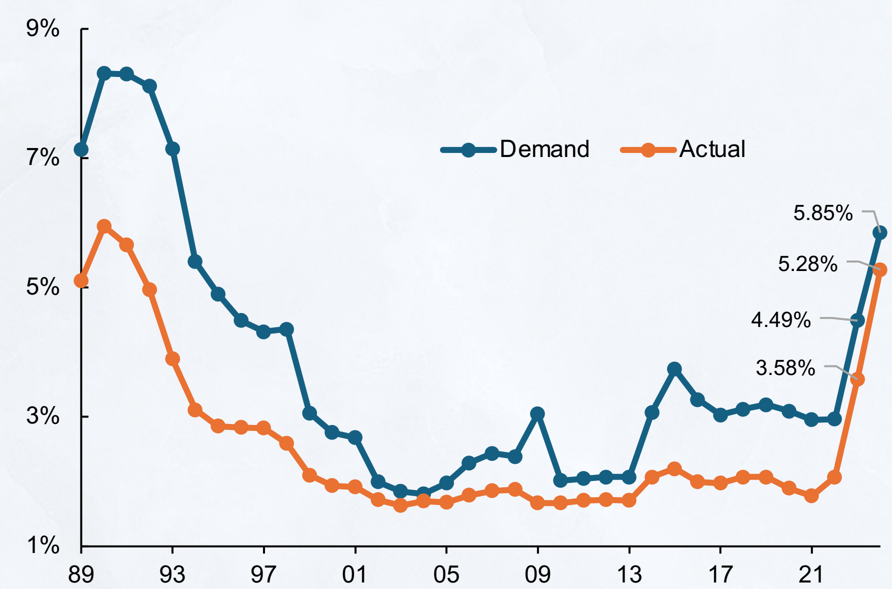


Fig. 2: Spring wage negotiation (Shunto) in focus

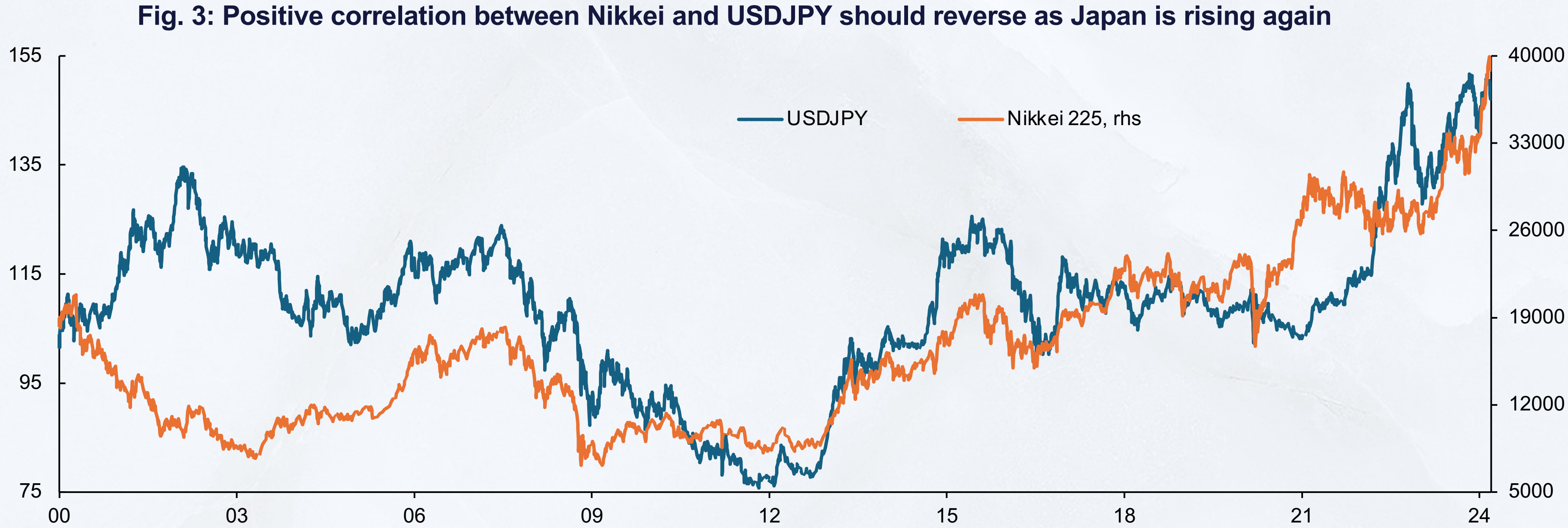


Robust US economy could trigger duration sell-off, supporting USDJPY in the short term. The market doesn't anticipate a hawkish stance from BoJ, but there is room for upside correction. Short JPY positions may unwind, but in the medium term, monetary policy divergence favors greenback. Retail investor outflows and portfolio flows add to the volatility. JPY may appreciate marginally but carry trade remains popular. Our 2024YE forecast for USDJPY is 135.

Market pricing of rate hikes by BoJ remains cautious, with 2y OIS trading at merely 0.22%. Disappointment from the BoJ's cautious stance in the past has made the market reluctant to aggressively price in a hike. JGB yields are expected to rise slowly until the BoJ demonstrates a clear path towards monetary policy normalization. We recommend trade ideas included JGB 20s30s flattener and Pay IRS 1y1y to mitigate tail risks.

We expect Japan's equity market momentum to persist, fueled by stable earnings, ongoing corporate governance reformation, and favorable macro factors. We overweighted on semiconductor, precision, machinery, and IT services sectors given solid profitability driven by the favorable exchange rate, industry recovery, and strengthening in core businesses.

Fig. 3: Positive correlation between Nikkei and USDJPY should reverse as Japan is rising again



Korea: BoK pivot still not in sight

February's MPC minutes reaffirmed the governor's remark that a rate cut is hard to justify in H1 24. February's MPC minutes suggested a policy pivot is the next step, but continued to stress that there is no significant pressure to implement an early cut. MPC members also see deleveraging efforts and the Fed as key factors and pushed back against the need to rush to a pivot.

On balance, we believe this corroborates the governor's personal view at the February MPC press conference that a rate cut is hard to justify in H1 24. While we also believe the BoK is preparing for a policy pivot, discussion of a pivot does not mean that a cut is in sight. We maintain the view for the BoK's first cut in August 2024, followed by another in November, and the final one in July 2025, with the terminal rate of 2.75%.

However, the growth momentum of DRAM and NAND spot prices has been impacted by the weakening terminal demand for electronic products. Prior to the Lunar New Year (LNY), there was significant optimism among buyers, leading to substantial inventory purchases. However, since the LNY, there has been a failure to see improvement in terminal demand, resulting in a reversal and decline in overall pellet prices. Spot traders have also faced selling pressure as a consequence. Although the price drop has been modest, it unequivocally reflects the poor demand situation. Moving forward, it is crucial to closely monitor whether the original factory's supply control will be relaxed and the extent to which the sluggish demand will affect transaction volume.

Fig. 1: it take times to bring CPI back to BoK's target

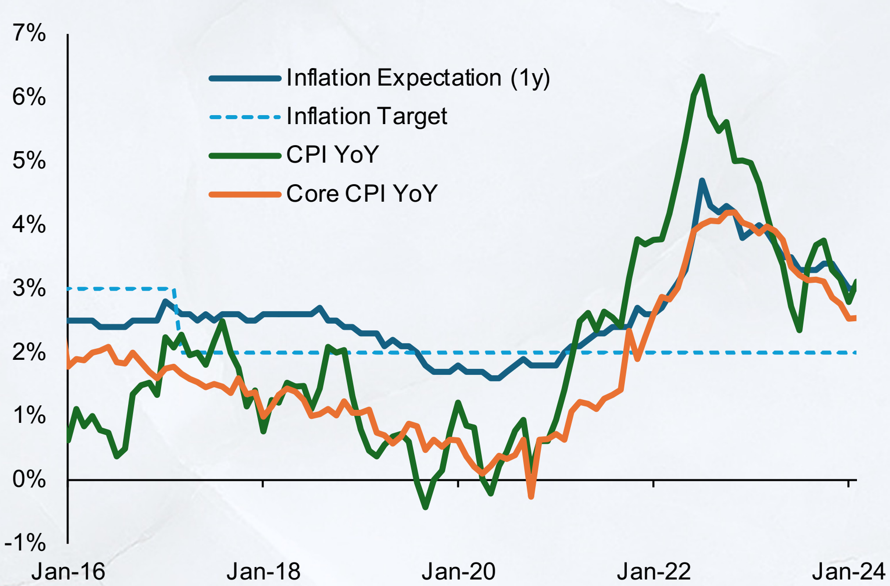
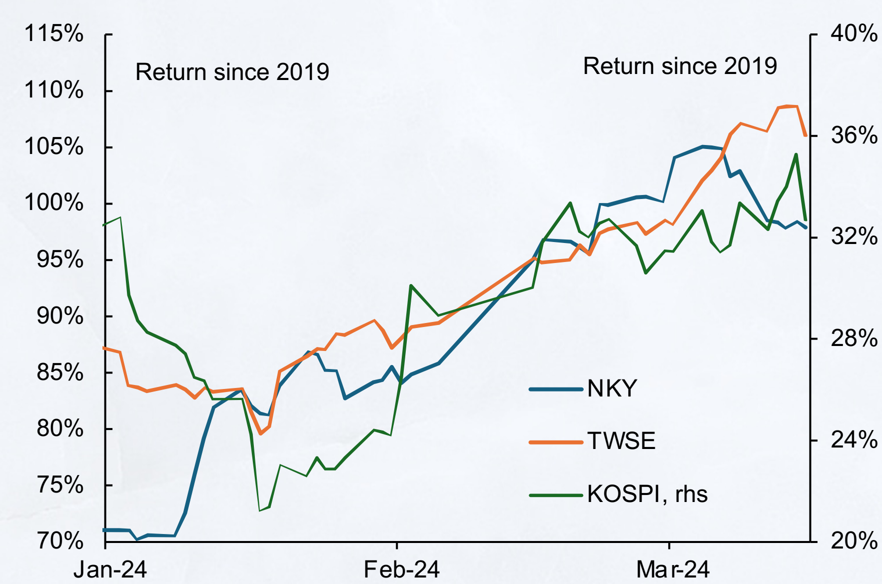


Fig. 2: Asia tech equities has corrected recently



Taiwan: CBC send a hawkish reminder with Sui Generis tightening cycle

In the meeting with Legislative Yuan, CBC governor Yang stated that Taiwan rates won't stay as low as they were if there's structural upward trend in inflation. And the monetary authority is concerned about knock-on effects and inflation expectations from the government's proposed power-rate hikes. They will focus on inflation expectations as the longer time of above 2% inflation is likely to well-anchor it. In our view, the off-cycle hike is unlikely as it points to an error in monetary policy decision-making. We believe CBC will keep a hawkish tone through 2024 as the ambiguity could leave more flexibility in monetary policy. And the spike on IRS create a attractive opportunity to receive from here. **Hence, we recommend Rec 1y NDIRS (Target: 1.40%, Stop loss: 1.60%, Entry: 1.57%)**

Fig. 3: Inflation has long-stayed above CBC's threshold

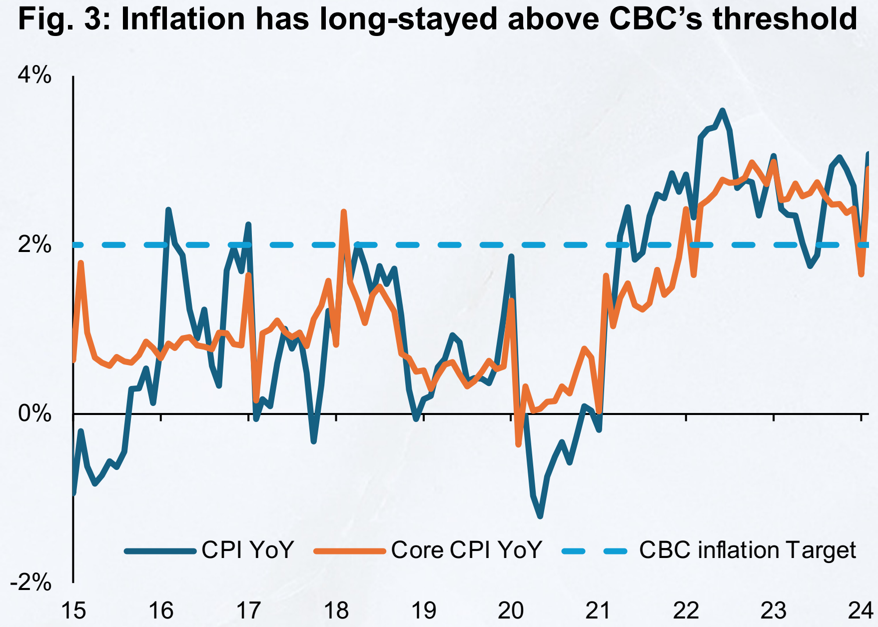
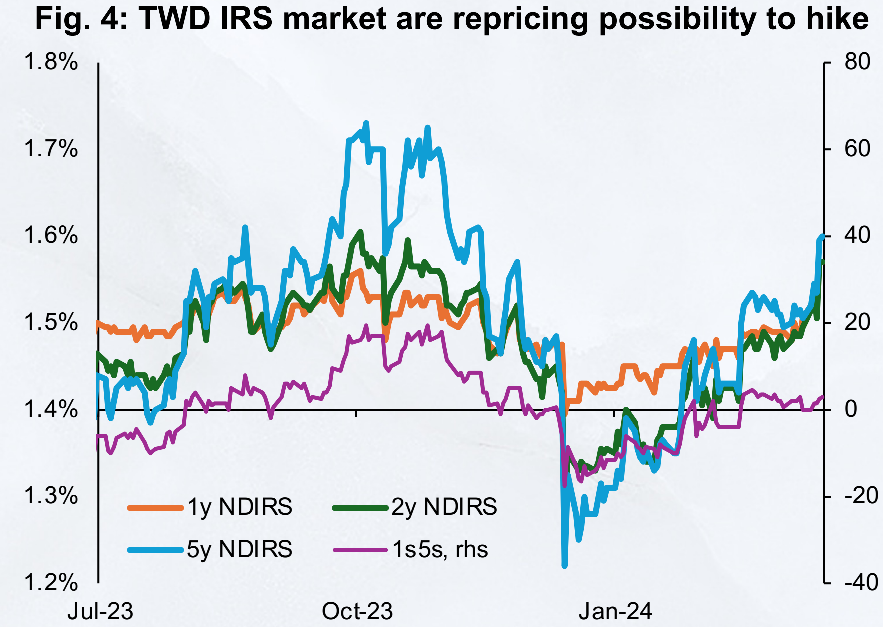


Fig. 4: TWD IRS market are repricing possibility to hike



Indonesia: New president's policy to boost the economy

CPI growth slightly exceeds expectation

The annual inflation rate in Indonesia increased to 2.75% in February 2024 from 2.57% in the previous month, above expectations of 2.6%. It was the highest inflation rate since last November, with food prices rising the most in three months (6.36% vs 5.84%) but the latest reading remains the central bank's target range of 1.5 to 3.5% for 2024.

Free lunch program: expectation to create jobs and boost growth

Indonesia's presumed incoming president, Prabowo Subianto, has announced plans to launch a project worth 450 trillion rupiah ($28.67 billion) in 2025. The initiative aims to provide lunch for approximately 83 million Indonesian students and pregnant women. To facilitate this, 48,000 kitchens will be established, leading to the creation of 2.5 million new jobs. Once fully implemented by 2029, the program is expected to contribute 2.6 percentage points to economic growth. However, economists and rating agencies have expressed concerns about the country's fiscal capacity to support the program, as it could jeopardize its reputation for fiscal discipline. Saraswati, an official, mentioned that various funding options are under consideration, including reducing state financing for non-core infrastructure projects and reallocating resources from welfare programs.

Possibility of tax base widening

Prabowo has promised to uphold the policies implemented by the current president, Joko Widodo, who has focused on modernizing the country's infrastructure. Prabowo aims to improve tax ratios by broadening the tax base rather than increasing taxes. He has expressed the possibility of widening the fiscal gap to a maximum of 2.8% of the gross domestic product (GDP), compared to under 2% in 2023, while still adhering to the mandatory deficit ceiling of 3% of GDP.

Philippines: The concern for inflation is far from over

CPI growth exceeded expectation in Feb. The annual inflation rate in the Philippines increased to 3.4% in February 2024, remaining within the central bank's target range of 2% to 4%. The rate exceeded market expectations of 3.1%, providing little incentive for the central bank to consider lowering interest rates. The main contributors to the upward pressure were higher inflation in food and non-alcoholic beverages, housing and utilities, and transportation. The core inflation rate, excluding food and fuel, decreased to 3.6%, the lowest reading since May 2022.

BSP likely to stick to hawkish tone for now. While the monthly CPI growth remained steady at 0.6%, the central bank expressed concerns that inflation could surpass its target range in the coming months due to the impact of the El Nino weather phenomenon on farm production and slower prior inflation. Rising prices for rice played a significant role in the uptick, with the inflation rate for rice reaching its highest level in 15 years at 23.7%, influenced by elevated rice prices in the global market and the effects of previous price decreases.

Fig. 1: Indonesia CPI Growth & sector breakdown

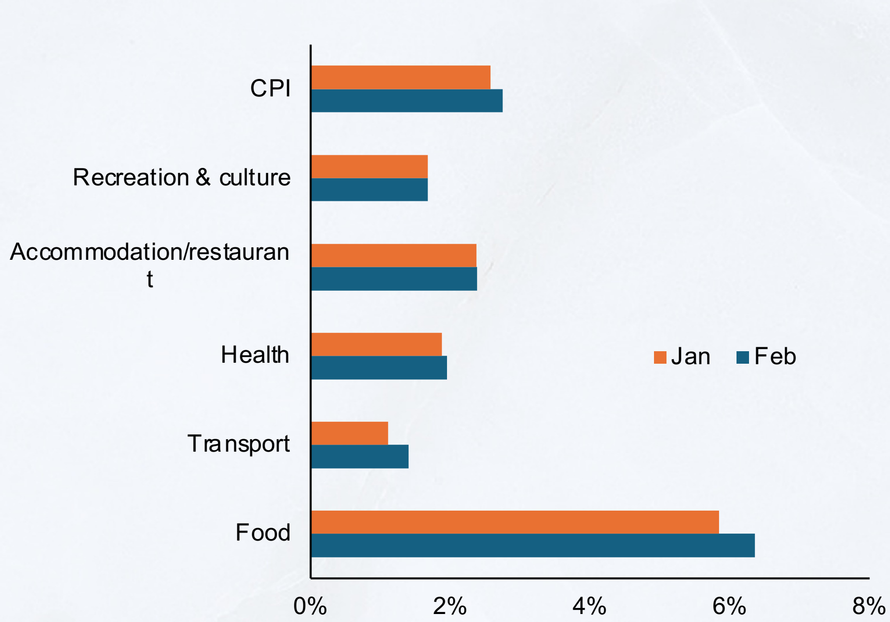
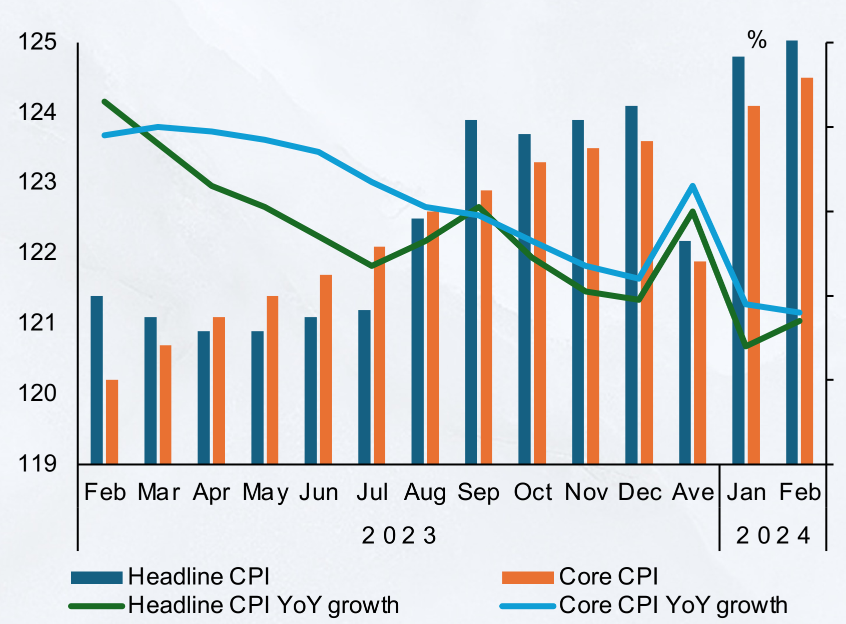


Fig. 2: Philippines CPI index & YoY growth



Thailand: Approach to resolve economic challenges

Deflation trend persists

The consumer prices in Thailand fell 0.77% year-on-year in February 2024, easing from an almost three-year low of 1.11% drop in January and was almost in line with market forecasts of a 0.80% decline. It marked the fifth consecutive period of falling consumer prices, due to an ongoing deflation for food sector and lower costs of diesel oil and electricity amid government assistance measures.

Free trade agreement with EU

Thailand expects to complete negotiations over a free trade agreement with the European Union in 2025, Prime Minister Srettha Thavisin said on Mar 12, as the government seeks to draw trade and investment to boost the economy. Thailand exported $21.8 billion worth of goods to the EU last year, including autos, computers, jewellery and electric circuits, government data shows, making the bloc its fourth-largest trading partner.

Thailand targets 40 million tourists, seeks visa exemption

Srettha, a government representative, announced the target of attracting approximately 40 million international travelers to Thailand, around the same amount that visited the country in 2019, the last full year before the pandemic. This includes a specific focus on attracting more than 8.5 million travelers from Europe, Africa, and the Middle East. Srettha mentioned that Macron, the French president, would support Thailand's request for visa exemption for Schengen states, with consideration taking place after June and potential completion by year-end. Although tourism arrivals and the overall economy are still significantly impacted by COVID-19, the Thai government has implemented measures such as temporary visa waivers for visitors from China, Kazakhstan, Russia, India, and Taiwan. Furthermore, Thailand has established a permanent visa-free travel arrangement with China for Thai nationals. In the previous year, approximately 28 million people visited Thailand.

Malaysia: Industrial output to bounce back

In January 2024, Malaysia's Industrial Production Index (IPI) rebounded by 4.3%, following a slight decline of 0.03% in December 2023. The recovery aligns with the positive trends observed in neighbouring countries like Singapore and Vietnam. The upswing was attributed to increased production in the manufacturing and electricity sectors, coupled with sustained growth in the mining sector. The data indicates a favourable economic environment, with multiple sectors contributing to Malaysia's industrial production growth.

Fig. 3: Thailand deflation trend eased slightly but still far from the target range

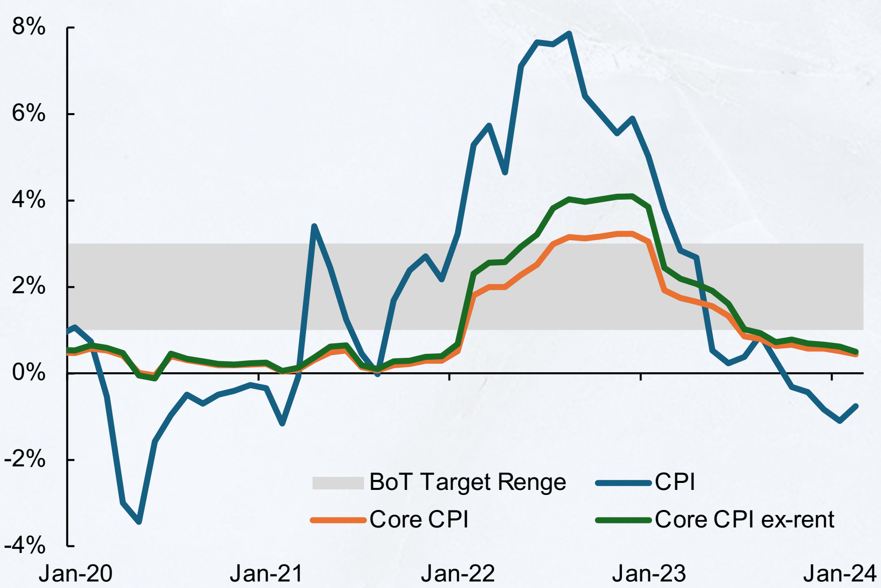
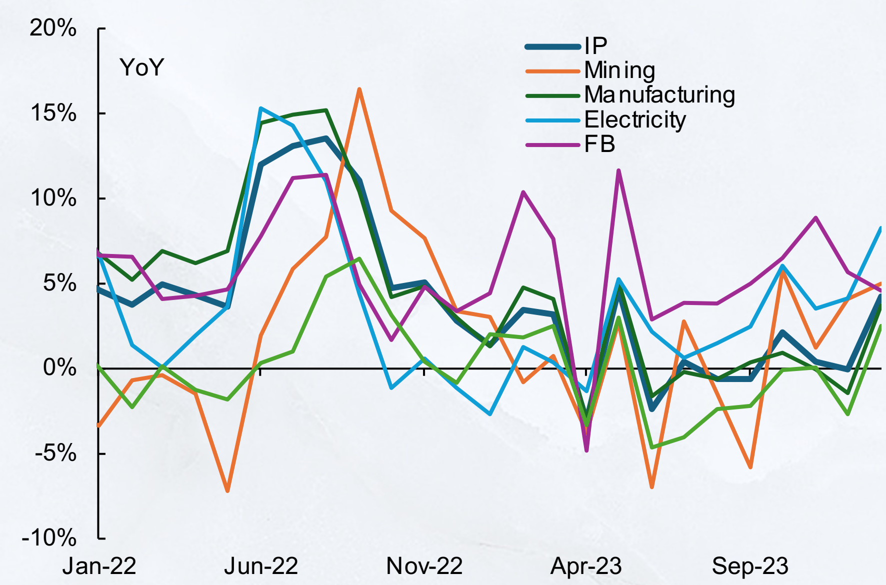


Fig. 4: Malaysia IP growth and key drivers



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