ALLIANCEDBS RESEARCH

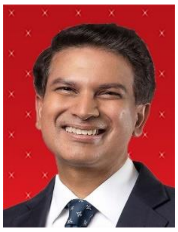
DBS

# Macro Insights Weekly

# Assessing global growth momentum

Group Research

September 9, 2024




**Taimur Baig**
Chief Economist
taimurbaig@dbs.com

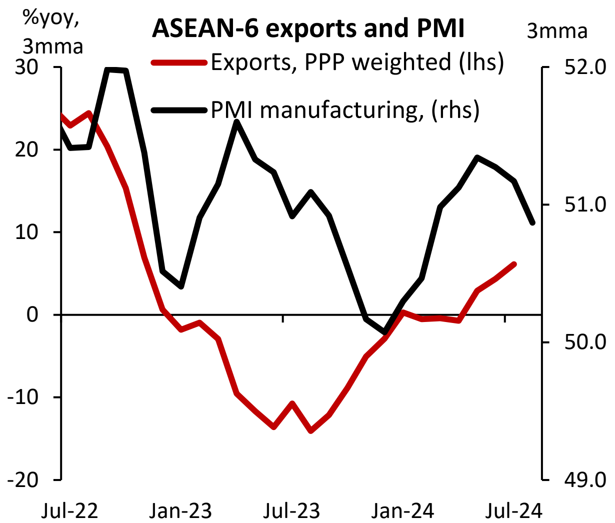
**Nathan Chow**
Senior Economist
nathanchow@dbs.com

**Please direct distribution queries to**
Violet Lee +65 68785281 violetleeyh@dbs.com


- *There is rising clamour in the markets for easier monetary policy around the narrative of slowing economic growth momentum. We however don't believe major policy support response is warranted.*
- *Goods demand has slowed but is stable. Services are doing very well globally.*
- *Trade cycle is humming, with Asian exporters' order books looking good.*
- *US/EU cycle may be maturing, Asia is still on the post-pandemic upswing and investment surge.*
- *Nowcasting estimates show healthy 3Q economic growth in major economies.*
- *US labour market, focus of much attention lately, is slowing but remains strong. No panic needed.*

## Chart of the Week: Global demand, Asian trade

Expectations of a global economic slowdown is rife, with a series of forthcoming interest cuts already priced in by the markets. But goods trade is holding up for this region. Asean-6 exports have been on an upswing from the beginning of this year, while regional PMI remains comfortably in expansion territory. Some weakness may be in store in the coming months, but the cycle is far from being in a worrisome state.



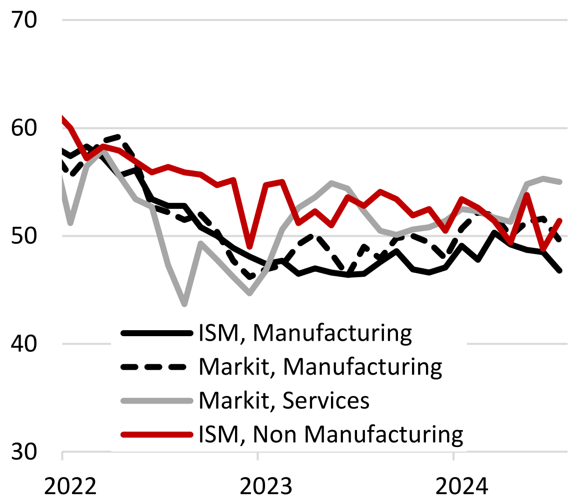

Source: CEIC, DBS. PMI through August, exports through July

## Commentary: Assessing global momentum

There is rising clamour in the markets for easier monetary policy around the narrative of slowing economic growth momentum. To assess the state of the global economy, a few considerations are key:

First, goods demand, which, after major pandemic induced volatility in the past few years, has stabilised. It is, however, by no means reflecting substantial stress in affordability on the demand side or earnings on the producers' side. PMI manufacturing is still hovering around 50 globally. The services sector, meanwhile, continues to roar ahead, characterised by strong 50+ PMI readings.

**US Purchasing Managers' Survey**




Source: CEIC, DBS. Data through July 2024

Second, the global trade cycle, which, despite weak commodity prices, continues to hum along. Supply chain expansion, friend-and-nearshoring, industrial policy, and the AI tech cycle have fuelled substantial demand for parts, machinery, and electronics. From China to Singapore, South Korea to Taiwan to Vietnam, exports are growing by high-single to double-digit rates. Order books are in good shape too.

Third, the state of the cycle. US and EU may be showing signs of a maturing cycle, having grown on the back of strong public sector-supported spending the last few years, it is far from that case in Asia. The region is still undergoing the process of post-pandemic normalisation of its travel/tourism industry. The region is also benefitting from supply chain realignment, with investments rising from both Western and Chinese companies.

Real time estimates show key economies growing at trend rates. A snapshot of 3Q Nowcasting shows India at +7% real GDP growth, Indonesia: +5%, China: a tad below 5%, Singapore: +2.5%, and the US: +2%. These number by no means indicate a global economy at risk of a major slowdown.

US labour market looms about all else, goes the market narrative. Recent dataflow, showing a reduced pace of hiring and decline in vacancy rates, supports Fed rate cuts to begin from this month onward. We think Fed officials will look at these developments along with the fact that the labour force continues to expand, bringing in previously discouraged workers to the fray, and hourly wage growth is well ahead of inflation. With unemployment at low-4%, these data are supportive of an economy with still-strong underpinning for consumption. Kansas Fed's labour market conditions indicators suggest the level of activity is little changed (above historical averages), although momentum decelerated moderately in July.

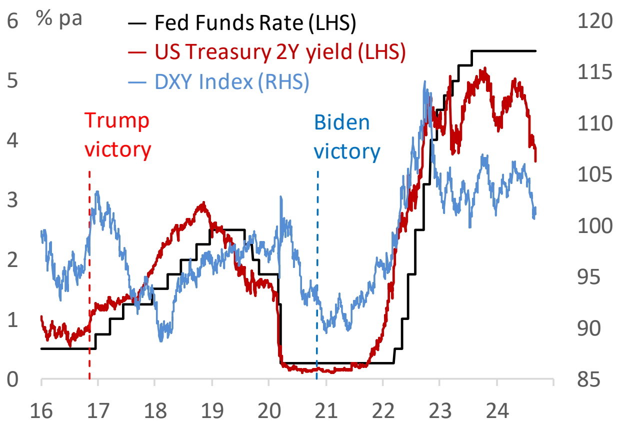
We find little to warrant major policy response to support the global economic cycle. It may not be red hot, but the ongoing cooling is orderly. No panic response needed whatsoever.

*Taimur Baig*

## FX: US Presidential debate first, ECB vs. Fed cuts next

**The US Presidential debate on September 10 will be significant for the USD.** In the first debate in July, President Joe Biden and former President Donald Trump largely traded accusations, each labelling the other as the worst president. Trump is expected to maintain a similar strategy against Vice President Kamala Harris. Meanwhile, Harris will aim to introduce herself more fully to voters, focusing on her vision for addressing critical social and economic issues, emphasising equality, justice, and opportunity for all Americans.

**Next US presidential term will be about Fed cuts, not hikes**




Sources: DBS Research, Bloomberg data

**However, it is important not to generalize the potential effects of the election on the USD**, i.e., assuming a stronger USD if Trump wins or a weaker USD if Harris prevails. Unlike the last two election cycles, the next presidential term will begin amid a monetary easing cycle, not rate hikes. The Fed is preparing to join other central banks in cutting rates, potentially as soon as next week.

Last Friday, US nonfarm payrolls came in below 200k for the third month, while the unemployment rate remained at or above 4% for a fourth month in August. This Wednesday's August CPI and core inflation data are expected to remain unchanged from July's 0.2% month-on-month, levels the Fed considers consistent with its goal of bringing inflation back to its 2% target.

**EUR/USD recovered its losses from earlier this year three weeks ago and has been gaining since.** We view the European Central Bank's second rate cut expected this Thursday as having a more negligible downside risk for the EUR than the Fed's expected first reduction next Wednesday for the USD. While the ECB is easing due to expectations of inflation falling towards its 2% target amid historically low unemployment in the Eurozone, the Fed is cutting rates to counteract cooling labour market conditions, which have heightened recession fears and kept US stock investors on the defensive.

**The ECB will likely deliver fewer cuts than the Fed through 2025.** Currently, the ECB's deposit facility rate stands at 3.75%, lower than the Fed's 5.25-5.50% range. ECB officials estimated an inflation-adjusted neutral rate of 1-2%, higher than the 0-1% estimate from some Fed officials. Following the expected 25 bps cuts from both central banks this month, the futures and OIS markets expect US rates to decline by another 200 bps by June 2025, while Eurozone rates are only expected to drop by 125 bps. As a result, the guidance provided at this week's ECB meeting and the Federal Reserve's Summary of Economic Projections next week will be crucial in shaping the downside expectations for the USD.

*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
China/HK SAR
byronlamfc@dbs.com

**Radhika RAO**
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

**Samuel TSE**
Economist/Strategist
China/HK SAR
samueltse@dbs.com

**Violet LEE**
Associate
Publications
violetleeyh@dbs.com

**Philip WEE**
Senior FX Strategist
Global
philipwee@dbs.com

**Sources**: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)