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Macro Insights Weekly

Notes from IMF meetings: Shocks and resilience

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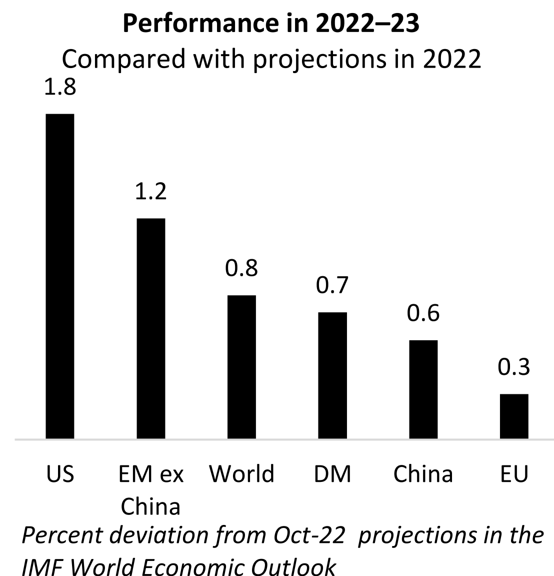
- *There was a sense of cautious optimism in the IMF Spring meetings. Global economies' resilience to high interest rates and geopolitical risks has provided some relief.*
- *Despite the sharp rise in interest rates, the world has avoided a recession.*
- *The banking system has proved largely resilient, while capital flows have not dried up.*
- *Cost of living is nonetheless a major risk for social stability.*
- *Commercial real estate sector losses could trip up the financial system.*
- *High correlation among asset markets is a concern, along with large investments in private markets.*

Key data release and events this week:

- *South Korea's 1Q GDP is expected to post an upside surprise.*
- *Singapore inflation is set to ease, alongside a contraction in industrial production.*
- *Bank Indonesia might lean towards a 25bp hike this week to backstop the currency.*

Chart of the Week: A resilient world

Numerous economic and geopolitical headwinds notwithstanding, the global economy showed considerable resilience over the last two years. The IMF estimates that virtually all major emerging and industrial economies' GDP growth rates surprised on the upside during 2022-23. Strong fiscal support, manageable household debt, and robust jobs growth are key drivers of this outcome. Outlook for 2024 also looks to be improving.



Percent deviation from Oct-22 projections in the IMF World Economic Outlook

Refer to important disclosures at the end of this report.

Commentary: Global shocks and resilience

Overall tone

Last week's annual meetings of the IMF and the World Bank, held in Washington, DC, had a hint of relief with respect to global economic and financial risks. Policy makers have spent more than two years fearful of a bumpy recovery from the Covid pandemic. But despite a sharp rise in interest rates, the world has avoided a recession, the banking system has proved largely resilient, while capital flows have not dried up. The 2021/22 inflation spurt has been followed by an encouraging period of disinflation, even if consumers are dissatisfied with the high level of some prices.

The IMF updated its growth-at-risk framework analysis, which indicated some decrease in near-term financial stability risks, which by extension points to a lessening of GDP growth risks this year.

But policy makers are not devoid of worries. Concerns remain about the steady extension of the higher-for-longer narrative, with rate cut expectations softening against the strong growth and sticky inflation narrative. **A key concern is the commercial real estate (CRE) sector, where real prices have declined by 12% globally over the past year**. The distress in the sector is a function of factors that are both cyclical (rising interest rates) and structural (work from home). This weakness is most pronounced in the US and Europe.

A wide range of risk metrics suggests that banks are well-positioned to absorb CRE losses, Nonetheless, certain countries may experience more strains given that their banks hold large amounts of CRE loans, especially if demand remains weak.

Another area of concern is the high level of correlation across asset classes. As per analysis done by the IMF's financial sector experts, average correlation across equities, bonds, credit, and commodity indices in both advanced economies and emerging markets presently exceeds the 90th historical percentile. Hence, financial shocks, including sizable inflation surprises that change investor sentiment, could cause across-the-board asset selloffs.

The list of concerns does not end there. During the meetings, we heard warnings about China's property market, ultra narrow credit spreads, DM debt market, Chinese and US banks, and the consequence of further quantitative tightening.

A section of the IMF's Global Financial Stability Report was focused on the nonbank financial sector. Open-end bond funds, including ones focused on less liquid assets, have received large inflows in recent years, with relatively less visibility on the vulnerabilities this development may have caused.

View from US officials

- Secretary Yellen's China trip in early April was useful in deepening dialogue with the Chinese authorities. Both sides were engaged, while many areas of disagreement remain. The media has covered the trip extensively, but did not adequately capture the constructive nature of the trip.
- Yellen's argument that China's manufacturing overcapacity is creating global deflation risks is something the Treasury feels strongly about, and it wants the IMF to examine it from a multilateral

perspective. The key evidence cited by the US Treasury is that China's industrial production and industrial policy are structurally misaligned from domestic demand. Consumption boosting policies ought to help ameliorate such imbalances.

- US officials are also concerned about currency misalignment and associated financial stability risks around global markets. The recently published Japan-Korea-US ministerial statement underscored this concern, with explicit reference to the yen and won's recent depreciation. China's currency practice remains under scrutiny, including the data on reserves and balance of payments that are providing inadequate insights into external account dynamics.
- US officials tend to push back on concerns that US fiscal debt and deficit path pose systemic risk to the US or beyond. There remains considerable dearth of safe assets in this world, keeping US debt issuance well-bid. This dynamic is unlikely to change in the coming years.
- The Treasury and the Department of Commerce are examining the "rules of origin" around China's offshoring of production. It is clear that some of the US imports from Mexico/Vietnam and a few other countries have substantial Chinese inputs and capital.

View from IMF staff

- The IMF is not in alignment with the US government's push to examine China's "overcapacity." The fact that China is a major exporter of a wide variety of manufactured products, some of which are facilitated by industrial policy, is hardly a China-specific or a new phenomenon. Also, China's current or trade account trends in recent years don't reflect chronic or rising surpluses, which renders arguments related to overcapacity or exporting of deflation impulse non-tenable.
- **The IMF does not consider the USD misaligned**. The current account does not appear to be widening, nor is it away from the medium-term trend. It is plausible to consider US debt path as a risk to the dollar going forward, but even that seems like a stretch after two factors are considered: (i) USD's privilege as a reserve currency and (ii) the persisting dearth of safe assets globally.
- In any case, a path toward fiscal adjustment is much surer way to rebalance the US economy than through a depreciation of the dollar, which is the more likely path of adjustment for an EM economy.
- On inflation and Fed, the IMF staff are quite relaxed. They expect inflation to ease up in the coming months on the back of rentals and fading of one-offs like auto insurance. They still see the Fed cutting rates 2-3 times in 2H24, and by 4-5 times in 2025. The expectation is neutral rate will be revised up to 3%, and the cycle can settle around that by early 2026.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Apr 22 (Mon)		
Indonesia: exports (Mar)	-8.5% y/y	-9.5% y/y
- imports	5.6% y/y	15.8% y/y
- trade balance	$1.9bn	$0.9bn
Taiwan: export orders (Mar)	4.1% y/y	-10.4% y/y
Apr 23 (Tue)		
Singapore: inflation (Mar)	3.0% y/y	3.4% y/y
Hong Kong: inflation (Mar)	1.7% y/y	2.1% y/y
Taiwan: industrial production (Mar)	7.5% y/y	-1.1% y/y
Apr 24 (Wed)		
Indonesia: 7D reverse repo	6.25%	6.00%
Apr 25 (Thu)		
S.Korea: GDP YoY (1Q)	2.9% y/y	2.2% y/y
Malaysia: inflation (Mar)	2.0% y/y	1.8% y/y
US: GDP (1Q) - q/q annualised	2.1%	3.40%
Hong Kong: exports (Mar)	-3.4% y/y	-0.8% y/y
- imports	-1.8% y/y	-1.8% y/y
- trade balance	-HKD45.7bn	-HKD41.7bn
Apr 26 (Fri)		
BOJ target rate (upper bound)	0.1%	0.1%
Singapore: industrial production (Mar)	-1.8% y/y	3.8% y/y

Central bank meetings

Bank Indonesia (April 26): Bank Indonesia’s rate review this week is set against a tricky macro backdrop. Domestic inflation has ticked up on higher food and religious observance. Concurrently, the rupiah has come under pressure from a bid dollar, as US data outturns continue to surprise on the upside. Alongside sustained intervention, the state oil company has also been reportedly asked to stagger its demand for dollars. With an all-hands-on-deck approach, policymakers are likely to weigh a measured rate hike to defend the currency, even if it might not be a panacea, considering that the rupiah depreciation pressures are driven by a one-sided surge in the greenback. We lean towards a 25bp hike, with hawkish commentary to signal their discomfort with recent IDR moves, while also addressing concern over imported inflationary pressures and widening the spread vs US benchmark rates. We will take stock our existing call of two rate cuts in 4Q24 after this week’s rate review.

Bank of Japan (April 26): The BOJ is expected to maintain the policy rate at 0.1% (upper bound) during this meeting, following the cessation of the negative interest rate policy and yield curve control in March. Both core CPI and core-core CPI saw further easing to 2.7% and 2.8% YoY respectively in March, with MoM growth slowing to 0-0.1%, indicating a lack of immediate pressure to raise rates. Although total wage and base wage growth reached 1.8% and 2.2% YoY in February, the attainment of a 3% level post the recent Shunto remains uncertain. Furthermore, GDP performance seems lackluster, with the potential for a QoQ contraction in 1Q. Attention will be directed towards the BOJ’s guidance regarding the future trajectory of rate adjustments and JGB unwinding. Given the recent depreciation of the JPY and resurgence in oil prices, there's a possibility that the governor may adopt a hawkish tone, hinting at the potential for a 25bps rate hike within the year.

Forthcoming data releases

Malaysia: We expect Malaysia’s headline CPI inflation to extend its increase in March 2024, coming in at 2.0% YoY from February 2024’s 1.8% YoY. Energy prices reversed to positive increment in February 2024 and likely ticked up in March 2024, with more adverse base effects, but contained by existing government subsidies. Food and core inflation likely remained rather steady. We will continue to watch for potential upside price pressures from the anticipated shift to targeted subsidies.

South Korea: The preliminary estimate for 1Q GDP is expected to deliver an upside surprise. We expect a significant growth pickup to 0.9% QoQ sa, surpassing the 0.6% seen in the previous three quarters. YoY growth is also

poised to accelerate notably to 2.9%, compared to 2.2% in 4Q23. Exports have exhibited further momentum, buoyed by the upturn in the global semiconductor cycle. Investment has also seen a modest improvement, attributed to the enhanced capacity utilization within the manufacturing sector. However, consumption has remained subdued, influenced by weakness in the property and stock markets, high interest rates, and a weakened KRW. With the export recovery proving stronger than expected, there are upside risks to our above-consensus GDP growth forecast for the whole year, currently standing at 2.4%. Nevertheless, the uneven nature of the recovery prompts us to maintain the 50bps rate cuts for 2H of this year.

Taiwan: March export orders are expected to rebound by around 4% YoY, countering the previous decline of -4.3% in Jan-Feb. Industrial production is also forecasted to climb to 7.5% YoY in March, a similar pace to the 7.3% seen in Jan-Feb. Notably, exports exhibited robust performance, soaring by 18.9% YoY in March. The slower recovery in industrial production signals a lingering surplus inventory situation within the manufacturing sector. The subdued performance of export orders likely reflects the challenges encountered by Taiwanese exporters based in mainland China. Looking ahead, we expect the recovery to gain momentum in 2Q, supported by the rising global demand for semiconductors/electronics, albeit with a temporary and modest slowdown in April due to the Hualien earthquake.

Singapore: March 2024's data releases are likely to show easing CPI inflation and contracting industrial production (IP). We expect core inflation at 3.5% YoY in March 2024 vs February 2024's 3.6% YoY. Food inflation likely normalised lower in March 2024 after the pick-up due to the Lunar New Year in the previous month. Yet, services inflation was likely supported by travel-related prices due to the upside impact from the Taylor Swift concerts in early-March. Factoring in core dynamics, as well as contained accommodation and private transport price increases, we expect headline inflation to moderate to 3.0% YoY in March 2024 from February 2024's 3.4% YoY.

IP was likely volatile in March 2024, and plunged sharply by 1.8% YoY, as per our estimates. This would be roughly in line with the manufacturing estimates in the 1Q24 advance GDP data, and the significant 20.7% YoY drop in March 2024's non-oil domestic exports. This reflects bumpy manufacturing conditions in early-2024, but the continued expansion in Singapore's headline and electronics manufacturing purchasing managers indices (PMI) continue to point to better factory prospects in 2024 vs the doldrums in 2023.

Hong Kong SAR: Consumer price growth is expected to slow from 2.1% YoY in February to 1.7% in March. This slowdown is largely due to weak consumer spending amid strong HKD continues to limit the spending power of tourists and encourages local residents to travel overseas instead. During the Easter holiday, the number of residents traveling exceeded the levels seen in 2018-2019 by 25.4%, and the traffic departing via the Hong Kong–Zhuhai–Macau Bridge recently reached a single-day record high. Moreover, the rising jobless rate is likely to lower labor costs, thereby adding downward pressure on rental costs and inflation. Exports are projected to contract further, from a decline of -1.8% YoY in February to -3.4% in March. This contraction is smaller

than the 7.5% decrease in China's exports, as the positive momentum in electronics exports remains strong in China. On the other hand, imports are expected to see a smaller contraction, from -0.8% YoY in February to -1.8% in March, thanks to the strong currency exchange rate.

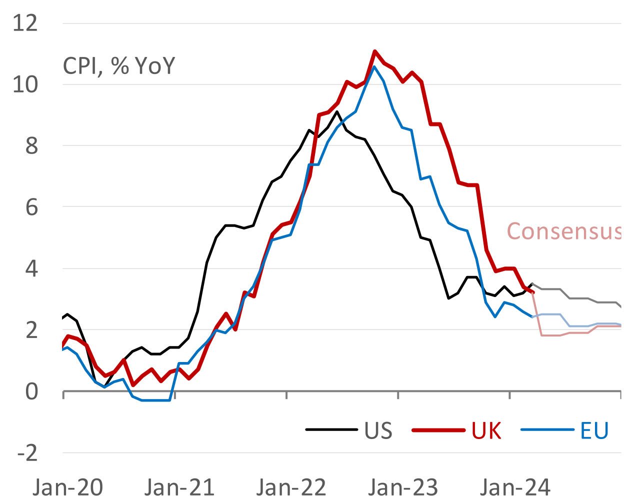
Economics Team

FX: USD strength meets resistance

The DXY Index is not deviating from 106 and is eyeing last October's high of 107.3. The Fed has entered a blackout period this week before next week's FOMC meeting on May 1. This week's **US data will likely affirm the Fed's patience to lower interest rates due to sticky inflation and a resilient economy in the US**. On April 25, economists polled by Bloomberg expect US **advanced GDP growth to slow to 2.5%** QoQ saar in 1Q24 from 3.4% in 4Q24. On April 26, consensus sees the **PCE deflators**, both headline and core, **increasing by 0.3% MoM for a second month** in March, mirroring the surprises in the CPI data. Hence, the Fed will likely, at the June FOMC meeting, roll back the three cuts it forecasted for this year. In March, nine of the 19 Fed officials voted for two or fewer cuts in the Summary of Economic Projections. **Despite its strong bias, the greenback will face countervailing pressures** from the European Central Bank pushing back rate cut expectations beyond the one anticipated in June and intervention risks in USD/JPY near 155.

EUR/GBP has the potential to keep appreciating to 0.8650-0.8700 after its best weekly surge since late December. Last week, EUR/GBP appreciated 0.8% to 0.8614, its highest close since the start of 2024. The currency pair has not been able to depreciate below 0.85 ever since the Fed paused its hiking cycle in late July 2023. **The OIS market will likely increase the odds from 40% last week to more than 50% for the Bank of England to join the ECB in lowering rates in June** before the Fed. BOE Deputy Governor Dave Ramsden noted that UK CPI inflation was below its US counterpart and converging with the EU. consensus sees CPI inflation dropping slightly below its 2% target in 2Q24 and 3Q24, taking BOE Governor Andrew Bailey's comments seriously about a sharp drop in inflation.

UK inflation below the US, closing in on the EU



Sources: DBS Research, Bloomberg data

USD/JPY did not deviate far below 155 last week despite a brief flight to safety to 153.6 on Israel's restrained response to Iran's earlier missile attack. During their first trilateral meeting last week, the finance ministers of the US, Japan, and South Korea issued a **joint statement acknowledging the potential for disorderly and excessive depreciation in the JPY and KRW from the USD's strength**. Japan's vice finance for international affairs, Masato Kanda, did not rule out any options if appropriate actions were needed to address excessive JPY volatility. Hence, the **Bank of Japan meeting on April 26 will be significant**. We cannot rule out BOJ Governor Kazuo Ueda adopting a hawkish tone or hinting at another rate hike later this year. More so now that the BOJ did not see any disruption from the end of its negative interest rate policy and yield curve control framework in March.

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