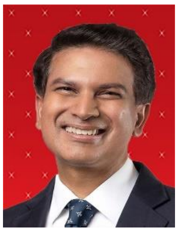
Macro Insights Weekly

Global growth looks good for 2Q24

Group Research **April 29, 2024**



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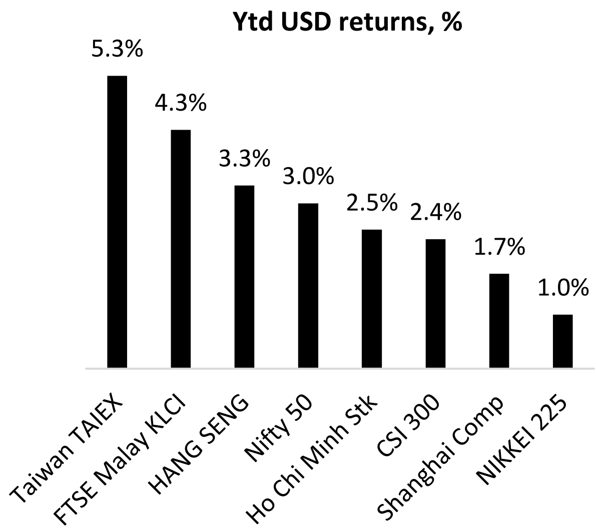
- *Growth resilience in the face of high interest rates and geopolitical uncertainty has been a feature of the global economy during the past couple of years. We see the trend last through 2Q24.*
- *US growth in 1Q was below expectations; but consumption and investment would stay strong in 2Q.*
- *China has seen growth momentum ease, but 2Q growth is on track to be 5%+.*
- *India has strong domestic sentiments, tempered by inflation/rates/INR worries.*
- *Indonesia is facing headwinds, but despite modestly tighter policy, growth to be around 5%.*
- *Singapore looks to be on track for 2.5-3% growth year, supported by exports and tourism.*

Key data release and events this week:

- *Taiwan's preliminary estimate of 1Q GDP expects a robust reading of 5.7% YoY.*
- *Hong Kong's 1Q GDP growth is anticipated to decelerate to 1.8% YoY in 1Q24.*
- *April's inflation in Vietnam and Indonesia are expected to tick up.*

Chart of the Week: Asia's stocks in 2024

S&P500 is up nearly 7%ytd, while feeling some pressure lately over the rising likelihood of rates remaining higher for longer. Its major counterparts in Asia, when their returns are converted to the mighty USD, have lagged. Still, Taiwan, Malaysia, Vietnam, and India's markets have provided positive returns. China and Hong Kong's gains are noteworthy, with sentiments appearing to have bottomed. Japan, despite strong yen returns, has been hurt by the sharp slide of the yen against the USD.



Source: Bloomberg, DBS

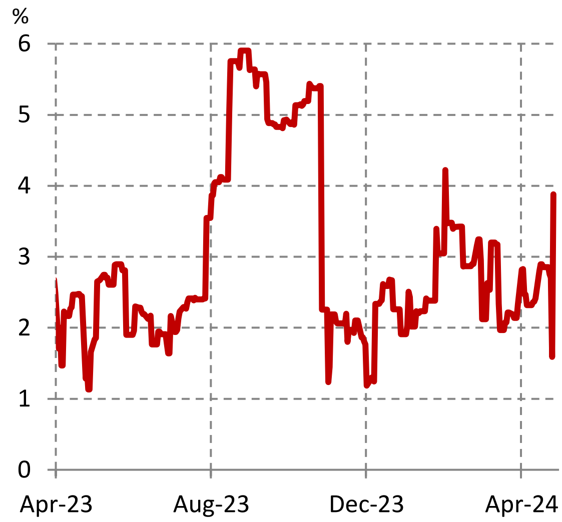
Commentary: 2Q24 global growth looks good

Growth resilience in the face of high interest rates and geopolitical uncertainty has been a feature of the global economy during the past couple of years. Just like last year, large industrial economies are on course to grow by nearly 2% in 2024, led by the US. Emerging market economies will likely chalk up 4¼%+ growth this year, same as last. Looking at high frequency data available so far, as well as leading indicators, we see the makings of a decent 2Q24, building on a fairly good 1Q.

US: 1Q24 GDP data, released last week, was below expectations, with real GDP up 1.6% saar (+2.9%yoy), although we still find the figures strong. Americans, buoyed by strong jobs and income growth, spent robustly in 1Q, especially on services. Spending on healthcare and insurance was particularly brisk, although weakened a tad on goods, including gasoline and cars. Public sector spending and investment also continued to support growth. Inventory corrected for yet another quarter, contributing negatively to growth, but suggesting upside to investment in the rest of the year. Nowcast measures show growth maintaining momentum in 2Q.

For the Federal Reserve, the GDP growth aspect would not be particularly material, but the accompanying real personal consumption expenditure data is a source of concern, we're sure. Core PCE for 1Q24 was up 3.7% saar, above expectations. The rates narrative for 2H24 (we expect one cut each in 3Q and 4Q) could well get challenged if prices don't ease in April and beyond.

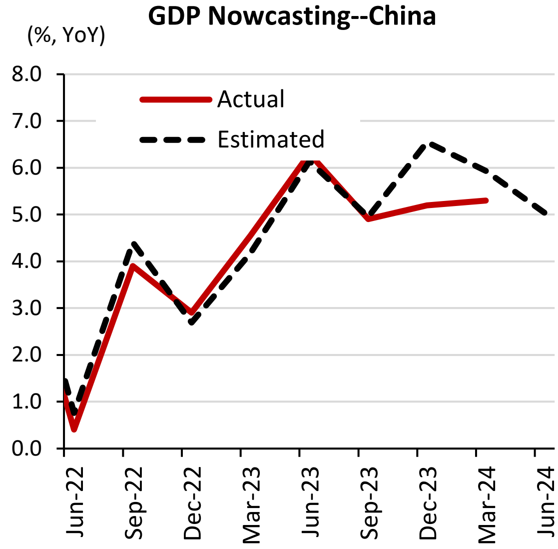
US GDP Nowcast (Atlanta Fed)



Source: Bloomberg, DBS

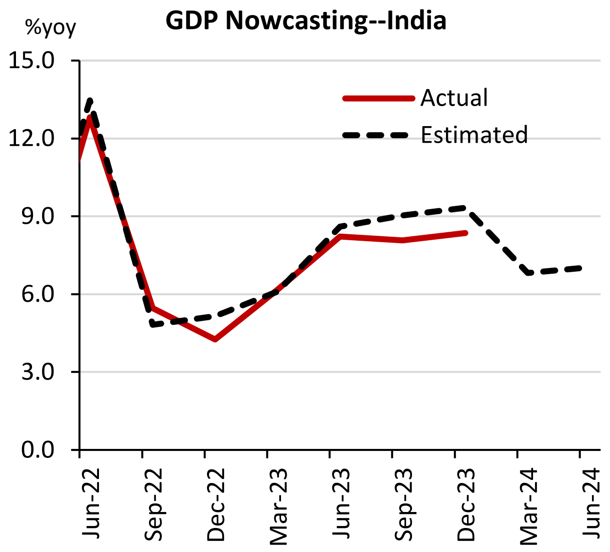
China: Our Nowcasting model has been tracking China at 5%+ growth since 4Q last year. We expect growth momentum to wane a tad in 2Q, on the back of some softening of trade and production, as well as an unfavourable base effect. Industrial profits waned in March, although they were up 4.3%yoy in 1Q. We also expect a softening of credit growth, retail sales, and real estate activities, unless some policy support measures come through from the PBOC. Still, China's economic outlook does not look as concerning as it has in the recent past; overhangs remain, but policy support is helping.

GDP Nowcasting--China



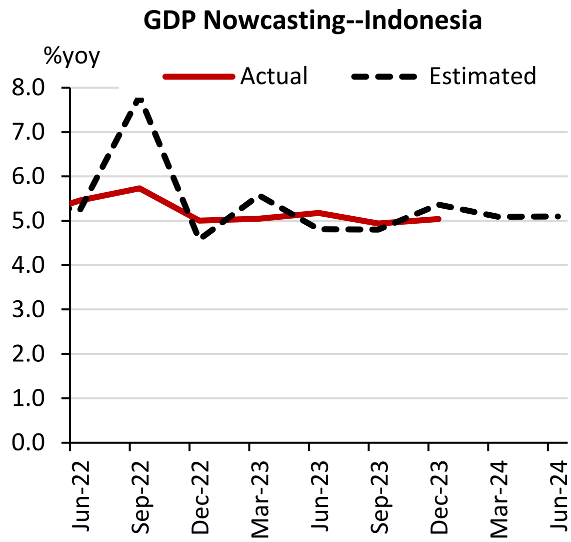
Source, CEIC, DBS

India: Domestic sentiment is strong, but concerns about inflation, interest rates, and the exchange rate have gathered pace in recent months. External environment is a tad unfavourable, with oil price and US interest rates rising, on the margin. We see growth staying at over 6% in 1H24, but also expect the economy to lose some momentum relative to the brisk pace seen last year.



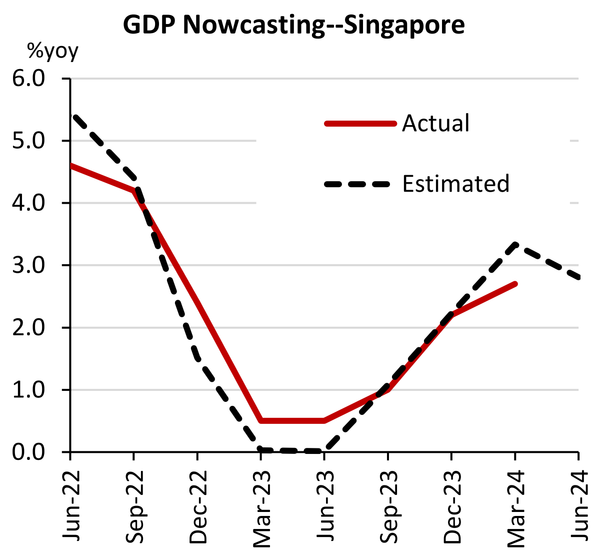
Source: CEIC, DBS

Indonesia: Indonesia has been in somewhat tough waters lately, with declining commodity prices hurting exports and narrowing the trade surplus. Also, as USD rates have remained elevated, foreign investors have been reducing their IDR bond holdings. Recognising heightened external risks to the currency, Bank Indonesia hiked policy rates last week, although the hawkish signal was muted by growth supportive measures, including incentives to boost lenders' liquidity. We see Indonesia's post-election macroeconomic environment marked by a steady 5% growth outturn in 1H24. Public spending and household consumption are two key drivers of demand, with both likely boosted by election spending, Eid festival spending, and higher salary for government workers. Fiscal trends have been stable, with the budget running a small surplus, a welcome news for bond investors.



Source: CEIC DBS

Singapore: 1Q24 economic growth cooled sequentially to 0.1%qoq sa from 4Q23's 1.2% qoq sa. Yet, 1Q24 real GDP rose by 2.7%yoy from 4Q23's 2.2%, supported by favourable base effects. We think between the upside to external demand and domestic tourism, Singapore's activity markers will be pointing to a GDP growth rate of 2.5-3% this year.



Source: CEIC, DBS

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Apr 29 (Mon)		
Vietnam: exports (Apr)	13.3% y/y	14.2% y/y
- imports	15.2% y/y	9.7% y/y
- trade balance	USD1.2bn	USD2.9bn
- Retail sales YTD (Apr)	8.3% y/y	8.2% y/y
- CPI (Apr)	4.3% y/y	4.0% y/y
Apr 30 (Tue)		
China: PMI manufacturing (Apr)	50.6	50.8
South Korea: industrial production (Mar)	5.5% y/y	4.8% y/y
Japan: industrial production (Mar)	-5.3% y/y	-3.9% y/y
Taiwan: GDP (1Q A)	5.7% y/y	4.9% y/y
May 1 (Wed)		
South Korea: export (Apr)	12.0%y/y	3.1% y/y
- imports	-4.6% y/y	-12.3% y/y
- trade balance	USD5.8bn	USD4.3bn
May 2 (Thu)		
US: FOMC rate decision	5.50%	5.50%
Hong Kong: GDP (1Q A)	1.8% y/y	4.3% y/y
South Korea: CPI (Apr)	3.1% y/y	3.1% y/y
Indonesia: CPI (Apr)	3.2% y/y	3.1% y/y
May 3 (Fri)		
Hong Kong: retail sales (Mar)	1.7% y/y	1.9% y/y

Forthcoming data releases

China: Manufacturing PMI is expected to decrease from 50.8 in March to 50.5 in April. High-frequency data have consistently indicated a slowdown compared to the previous month. The operating rates of major steel mills and petroleum asphalt plants decreased slightly from 40.7% and 33.0% in March to 39.2% and 27.0% respectively in April month-to-date. Additionally, load rates in the PTA industry chain have also declined as we move into April.

South Korea: April trade and inflation figures will be released this week. Initial data from the first 20 days suggests a promising uptick in export growth, reaching 12% YoY compared to 3.1% in March and 11.5% in Jan-Feb. Meanwhile, CPI inflation is forecasted to hold steady at 3.1%, mirroring the trend of the preceding three months. As the leading global producer of memory chips, South Korea stands to gain from the recovery in the semiconductor sector, propelled by the adoption of AI technology. On the other hand, the nation's susceptibility to fluctuations in global oil prices and the strengthening of the USD, owing to its heavy reliance on oil imports and the openness of its financial markets, poses challenges. With inflation persisting above the 2% mark, the Bank of Korea is expected to maintain its current monetary policy stance and postpone potential rate cuts until later in the year.

Taiwan: The preliminary estimate of 1Q GDP will be released this week, with a robust reading expected at 5.7% YoY. Real export growth accelerated to 12.9% YoY in 1Q, primarily owing to the resurgence in electronics exports amidst the global upswing driven by AI technologies. The decline in capital goods imports also showed signs of easing in 1Q, indicating a potential stabilization in machinery investment amid improving capacity utilization. Retail sales growth remained steady in 1Q, buoyed by a resilient labor market and positive wealth effects stemming from the rise in equity prices and the rebound in property prices. With clearer indications of growth recovery and lingering inflation risks due to energy price increases, the central bank is likely to maintain a neutral policy stance with a tightening bias for the remainder of the year.

Indonesia: April inflation is expected to tick up to 3.2% yoy from 3.1% month before, in the upper end of the BI's target 1.5-3.5% range. Food has been the main contributor to the headline, driven by higher rice, chilies, and onion, amongst others. Authorities had been steadfast to limiting price increases during the Ramadhan period and we expect that to be prioritized in 2Q as well to prevent unanchoring in inflationary expectations. Run-up in global oil prices is, however, unlikely to translate into higher domestic fuel costs as further subsidy reduction is not in the offing. BI hiked the 7D policy rate by 25bp to 6.25% last week to instill confidence and build in a higher real rate support for IDR (Bank Indonesia's proactive hike).

Vietnam: Vietnam's goods exports rebounded to double-digit expansion of 14.2% YoY in March 2024, and we expect sustained growth of 13.3% YoY in April 2024. Electronics exports likely remained supportive, in line with the recovery in the global cycle. Retail sales rose by 8.2% YoY in 1Q24, and likely remained resilient in April 2024, supported by a stable labour market and increased foreign tourist arrivals. Separately, we see April 2024's headline inflation edging up to 4.3% YoY, after steady 4.0% YoY prints in the previous two months. Beyond adverse base effects, the key contributors to the uptick were likely housing and education, while the pace of food and transport price increases was broadly stable. A weakening Vietnamese dong vs the US dollar continues to pose upside risks to imported inflation.

Hong Kong SAR: 1Q GDP growth is anticipated to decelerate from 4.3% YoY in 4Q20 to 1.8% YoY in 1Q24, primarily due to the dissipation of the post-reopening base effect. On the consumption front, retail sales growth is expected to slow from 1.9% YoY in February to 1.7% in March. The robust Hong Kong Dollar continues to constrain the spending power of tourists and encourages local residents to travel overseas instead. In March, the daily average resident departures reached 232k, surpassing the post-pandemic peak of 220k departures in December 2023. During the Easter holiday, the number of local residents traveling exceeded the levels seen in 2018-2019 by 25.4%. On the trade front, although Hong Kong outperformed China's export growth by 6.5% in Jan-Mar, this strong growth was primarily due to the base effect of a 17.6% YoY decline in 1Q of last year.

Economics Team

South Korea: GDP forecast upgrade

The preliminary estimate for 1Q GDP revealed a robust growth of 3.4% YoY, surpassing the 2.2% recorded in 4Q23 and marking the fastest expansion in nine quarters since 1Q22. This exceeded both the consensus forecast of 2.5% and our own above-consensus projection of 2.9%. On a QoQ (sa) basis, growth also surged notably to 1.3%, higher than the 0.6% in 4Q23 and the strongest rate seen in nine quarters.

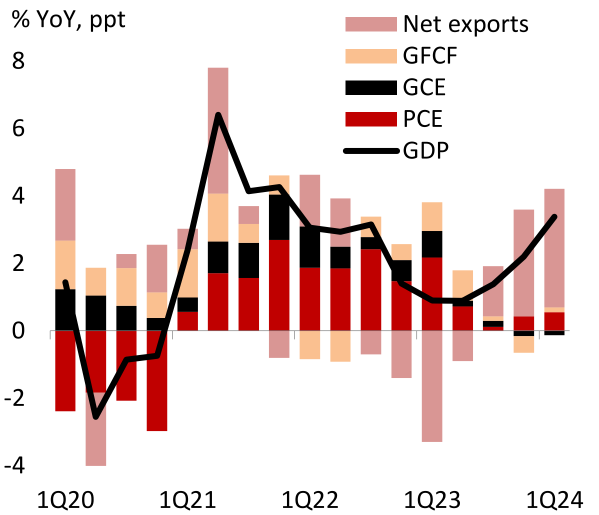
Net exports acted as the primary driver of growth upside. Exports of goods and services rose by 7.1% YoY while imports declined by -0.8%, resulting in net exports contributing 3.5ppt to the headline GDP growth in 1Q. Conversely, the recovery in domestic demand remained subdued. Private consumption saw a modest growth of 1.1% YoY, slightly faster than the 0.9% in the previous quarter and weaker than the long-term average of 2.5%. Gross fixed capital formation also experienced modest growth of 0.5% YoY in 1Q, insufficient to reverse the -1.6% decline in the previous quarter.

With the export recovery proving stronger than expected, we are revising our 2024 GDP growth forecast upward, from 2.4% to 3.0%. South Korea is benefiting from the upturn in the global semiconductor cycle driven by the increasing adoption of AI technology and rising demand for high-capacity servers, storage, and memory chips. Inventory-to-shipment ratio in the semiconductor sector has fallen to the historical par level of 1.0. Manufacturing operation ratio in the semiconductor sector has also returned to historical normal levels. There is strong potential for semiconductor companies to ramp up production and investment in the quarters ahead. On a micro level, SK Hynix has also indicated that the memory chip market is entering a full-fledged recovery, following its far stronger-than-expected 1Q earnings report last week.

The recovery in consumption is expected to remain relatively gradual and lagging. With the increase in oil prices and the depreciation of the KRW boosting imported prices, CPI inflation is likely to hover around the 3% mark for an extended period into 2Q, which will continue to constrain household real incomes. Meanwhile, the high interest rates will continue to weigh on household debt burdens and constrain the recovery in the residential property market.

The Bank of Korea is highly likely to revise up its 2024 GDP forecast during the May 23 policy meeting, from 2.1% to the 2.5-3.0% range. Nonetheless, **policymakers are also likely to acknowledge the uneven nature of the recovery**. We expect that the BOK will keep the door open for potential rate cuts in the latter part of this year, after inflation eases and converges with the 2% policy target.

South Korea: GDP growth and contributions



Source: CEIC, DBS

Ma Tieying

FX: FOMC and European risks dominate

Markets will be closely following the FOMC's meeting on 2 May, even with no policy change is expected. Given upside surprises to US core CPI and PCE inflation since the March FOMC, the Fed will have to acknowledge slower progress in returning inflation back to the 2% target. As such, **guidance could change towards a greater focus on lowering inflation and lesser rate cuts than the three cuts in the March dot-plot**, while keeping alive prospects of a 2H rate cut given a growth slowdown. With the Fed likely to veer away from near-term cuts, the USD should bump higher into FOMC, barring surprises from ISM and ADP. Post-FOMC, non-farm payrolls pose yet another critical data point, and markets will watch if labour market strength could ease enough for 2H rate cuts.

Besides FOMC and NFP, EUR/USD will be driven by key European data, with the Eurozone announcing CPI for Apr and Q1 GDP on 30 Apr. Core inflation in the Eurozone has been on a steady downward trajectory and is expected to slip to 2.6% y/y for Apr (Mar: 2.9%). Softer inflation and tepid Q1 growth should reinforce the case for an ECB rate cut on 6 June. **As markets have priced in a near 90% chance of an ECB cut in June, EUR/USD dips below 1.07 may be shallow without a strong USD follow through post-FOMC.**

The JPY has depreciated sharply post-BOJ even without any new announcements, evident from the small easing of 2Y and 10Y JGB yields by just 1bps. Markets (and us) have given much credence to the risk of FX intervention with the context of a trilateral agreement underscoring concerns of JPY weakness, and an unmoved BOJ ahead of the start of Japan's Golden Week when Tokyo trading desks are less well staffed. Therefore, a lack of intervention was enough to precipitate more forceful shorts and drive a large JPY decline. **But with thin liquidity and reduced resident supply in the Golden Week holidays, USD/JPY upward momentum may slow.** Historically, USD/JPY trades with lesser volatility during the Golden Week, with only 1 out of the last 10 years seeing a weekly return of more than 1%, and the average weekly return being just -0.2%.

USD/CNH could only see limited strength even with a firmer USD post-FOMC, given that the onshore USD/CNY fixing should be kept around 7.10, while China is also out for holidays starting 1 May. JPY weakness is also not necessarily a big concern for China, given the different stages of supply chains occupied by Chinese firms compared to Japanese firms. Moreover, despite the soaring CNY/JPY rate, foreign equity investor sentiment towards China has improved noticeably in recent weeks. Investor positivity could be further reinforced if China's manufacturing PMI for April stays above the expansionary zone.

AUD has been the standout performer in G10 last week with a 1.8% gain, as **concerns over Australia's sticky inflation build.** Private sector credit growth for Mar could surprise on the upside this week, with Australian home prices setting a record high for the fifth consecutive month in March. Iron ore prices have also climbed supported by Chinese stimulus and new subsidies for Chinese consumers to scrap old cars and buy new ones. The AUD rally could pick up if RBA rate hike odds shorten, with **EUR/AUD most likely to ease further amid prospects of ECB-RBA policy divergence.**

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