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MACRO MORNING BRIEFING

September 5, 2024

APAC PMI and Housing Market Update

China's August manufacturing PMI contracted for the fourth straight month, coming in at 49.1. The three key subcomponents we track are below 50, and thus in the contraction zone: new orders at 48.9 (-0.4), new export orders at 48.7 (+0.2) and imports at 46.8 (-0.2). The weakness in imports along with the depressed producer prices and input prices subcomponents fueled further concern on faltering domestic demand and a renewed disinflationary trend. The input prices component plunged to 43.2, the lowest level since May 2023. Note that China's headline and core CPI came in at 0.5% y/y and 0.4% y/y, respectively. The accelerated downside momentum of crude oil prices is worth monitoring as a disinflationary force. Crude oil futures hit highs of $80 in mid-August before correcting more than 10% to around $70 at the time of writing.

China's August nonmanufacturing PMI improved a touch from 50.2 to 50.3. The breakdown of subcomponents suggests a much less optimistic outlook. Services business activities index stood at just above the neutral level at 50.2, while the construction business activities index fell to historically low levels, excluding the one-off Covid-related collapse in February 2020.

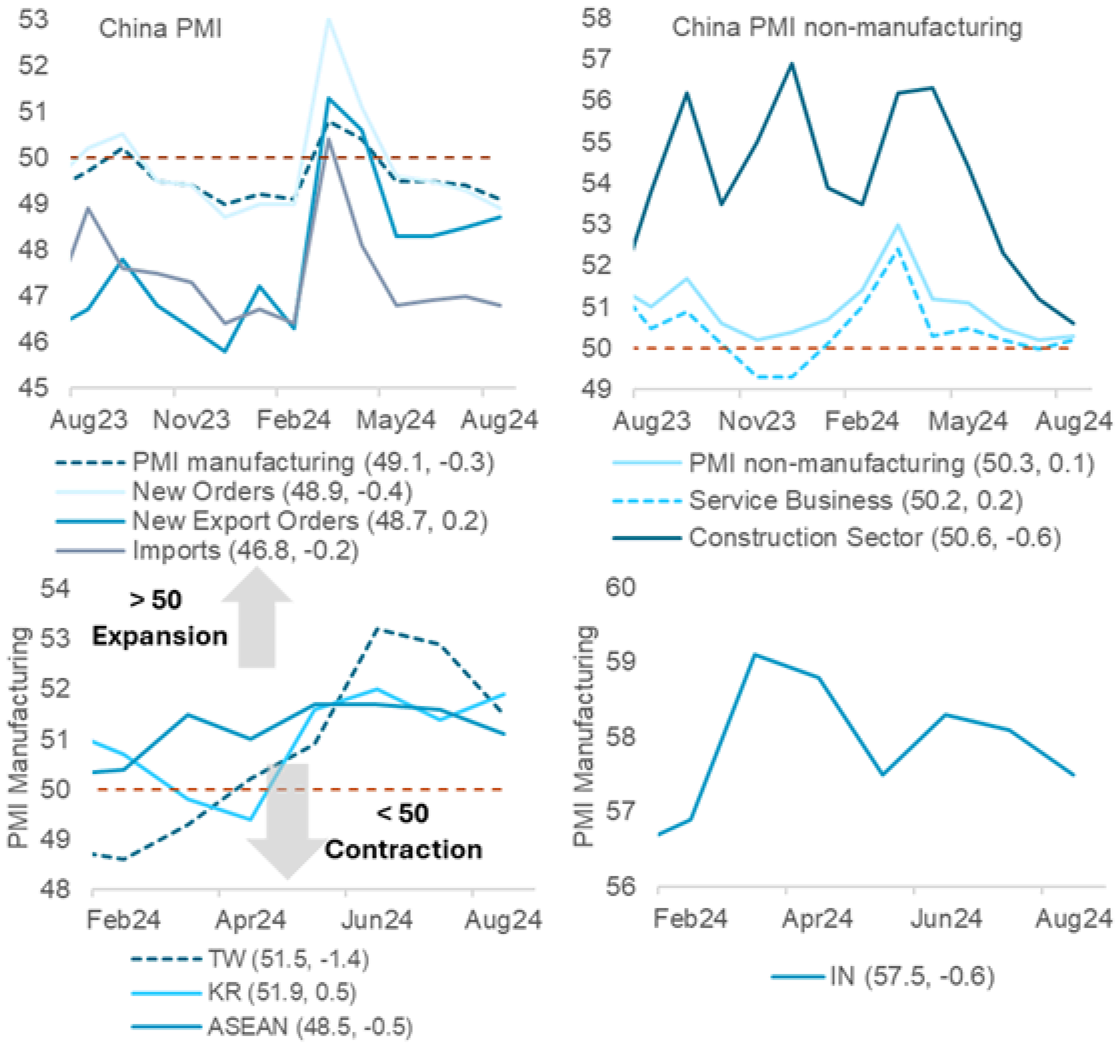
The latest PMI reports highlighted the ongoing issue of growth recovery concerns in China. The country has been pressured globally by technology, automobiles and trade tensions, and weakened domestically by consumer sentiment and slowing credit growth. In our view, the sluggish real estate sector recovery is one of the main drags, and it has had a profound impact on sentiment. For example, China's consumer confidence, at 86.0, is near historically low levels. The Overall Loan Demand Index in the quarterly People's Bank of China Bankers Survey fell under September 2016 lows to reach a new historical low of 55.7. The lack of demand for loans can also been seen in the credit data, with total financial institutions loan growth recording a new low in July of 8.7% y/y.

The APAC regional PMI for August was mixed and fell short of the upward momentum we had hoped for. Indonesian PMI posted its second contractionary month and is the lowest in APAC at 48.9, despite the strong recovery of asset prices, including all-time highs for the equities index and accelerating exports growth at 6.5% as of July 2024. Malaysian PMI sentiment remained unchanged at 49.7, against reported strong foreign inflows and the strength of the country’s currency. At +5% year-to-date, MYR is one the best performing currencies globally.

Elsewhere, the ongoing tech export boom seems to be having a diminishing impact on sentiment. Taiwan’s PMI eased to 51.5 from a high of 53.2 in June2024. Korean confidence indices were mixed, with higher a PMI manufacturing index, at 51.9, but the Bank of Korea’s Business Sentiment Index has peaked and started to turn lower. Overall, ASEAN August PMI manufacturing eased to 51.1, the lowest level since April 2024.

We don’t understand why the positive regional macro data in APAC ex-China and the solid performance of asset prices has not translated into better business confidence, and it makes us wonder if the market might have run ahead of itself. We will continue to monitor the relationship between the markets, data and sentiment.

Exhibit #1: China and APAC Regional PMI



Source: BNY, Bloomberg L.P.

The housing market slowdown has been one of the most frequently cited reasons for the slowdown of the Chinese economy. As of July 2024, total residential and commercial inventory amounted to 739mn square meters. China is undergoing a de-stocking program, and it is likely to be a multiyear process. To date, the authorities have rolled out a series of housing-related measures, including lowering mortgage rates, relaxing restrictions on home purchases, and implemented policies to allow local governments to buy unsold homes.

While the Chinese and Hong Kong housing markets are experiencing a downturn, with the average new home price in 70 Chinese cities down -5.3% y/y and the relevant price down -13% in Hong Kong this year, the rest of the APAC region is witnessing a healthy housing recovery. Indeed, higher house prices and the accompanying household debt have given rise to concerns about financial stability, especially in South Korea and Taiwan.

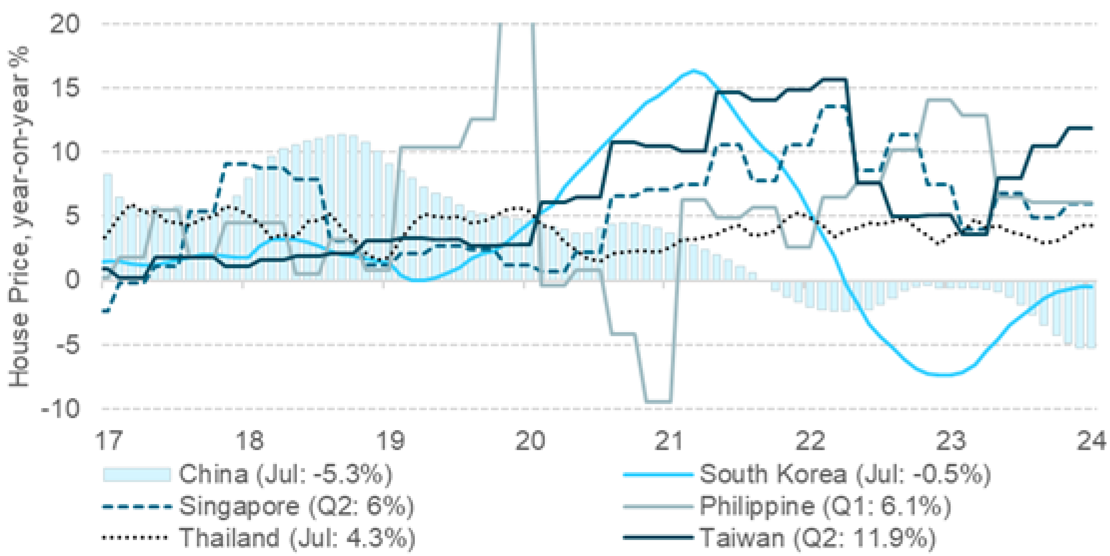
The Central Bank of the Republic of China (Taiwan) (CBC) has adjusted targeted macroprudential measures six times since December 2020 to mitigate credit risk and manage the pace of the housing market boom. That said, efforts have been in vain due to a resurgence caused by the artificial intelligence-induced tech boom.

For South Korea, the housing market has recovered steadily from -7% in July 2023 to nearly flat y/y in July 2024. The rebound of household credit in Q2 to an all-time high of KRW 1896trn is increasing concerns about financial instability. The Bank of Korea said this week that the Korean housing market has entered a bubble stage and has started to tighten mortgage loans, not to mention the ongoing debt risk of property developers.

Elsewhere, in Singapore residential prices are up 6% on the year as of Q2 2024, and real estate prices in the Philippines are up 6.1% as of Q1 2024, while prices in Thailand are up 4.3% y/y as of July 2024.

Financial stability, ranging from debt issues to capital flows, is a prominent feature in regional policymaking. That said, it is more suitable to address these issues via macroprudential policies and they might not always be in conflict with an easing policy stance.

Exhibit #2: China and APAC Housing Market Performance



Source: BNY, Bloomberg L.P.

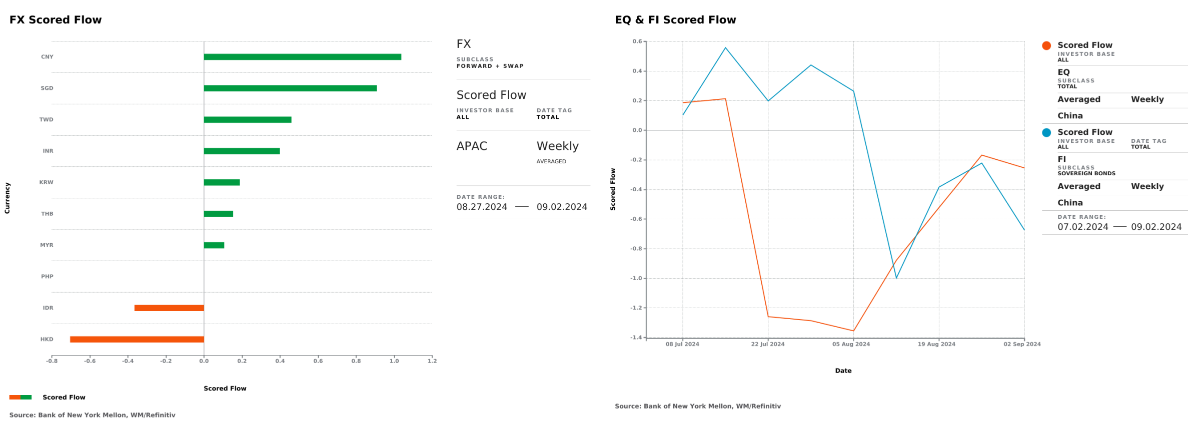
Over the past week, renewed USD outflow pressure has benefited most APAC and LatAm currencies but has had less of a positive impact on CEE currencies. The overheld and profitable condition of CEE currencies has made it susceptible to unwinding pressure.

APAC currencies posted broad inflows last week except for outflows in HKD and IDR. There are a few notable observations and trends worth monitoring. First is the strong pickup of CNY inflows. CNY, with weekly average scored flow of 1.04, had the most inflows in the iFlow universe over the past week. While strong inflows are welcome, the simultaneous renewed outflow pressure over the past few weeks in both Chinese sovereign bonds and equities suggests that the CNY inflows may have been motivated by the unwinding of hedges. Indeed, CNY scored holdings narrowed to within -1 for the first time since the end of 2023.

The Korean won resumed its buying trend after a brief period of one week of outflows, drifting deeper into overheld zone. Meanwhile, INR posted its tenth straight weeks of inflows last week and there was significant appetite for Indian equities and sovereign bonds.

Lastly, turning to tech-related flows in the equities complex, iFlow equities data showed that investors unwound their entire allocation in the information technology sector in EM APAC, where year-to-date cumulative scored flows turned negative at the end of August. We will be monitoring the outflow momentum in the technology sector closely, especially the spillover into Korea. Note that Korean equities posted a rare outflow last week, the fifth time in the past six months.

Exhibit #3: Broad APAC FX Inflows but Chinese Equities and Bonds were Sold



Source: BNY, Bloomberg L.P.

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Please direct questions or comments to: iFlow@BNY.com

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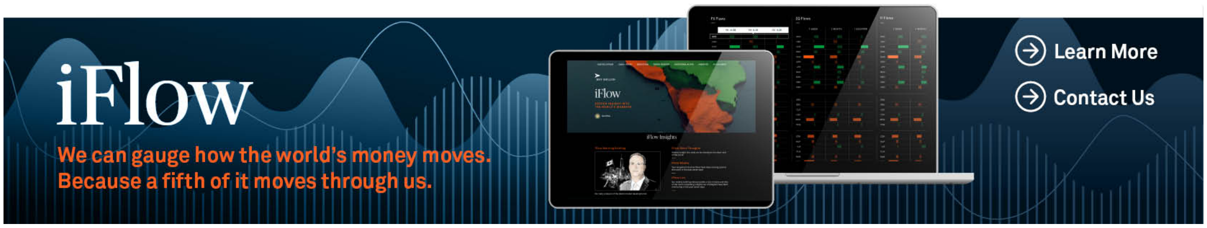

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