BNY MELLON

iFlow

MACRO MORNING BRIEFING

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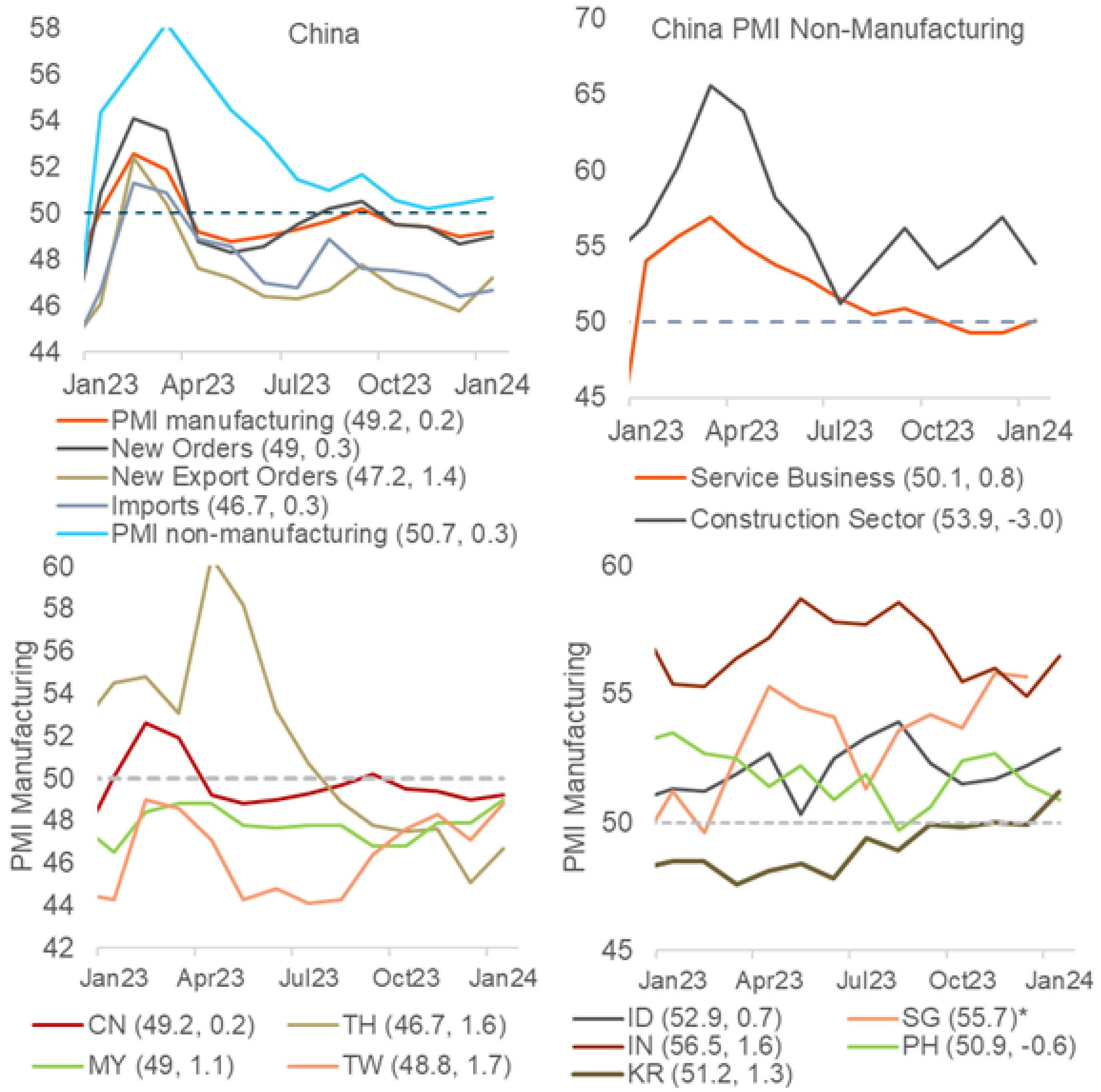
APAC PMIs Improve; South Korea Exports, Too

Underlying momentum in the recoveries across APAC economies remains sound despite still-fragile risk sentiment amid heightened geopolitical uncertainties, volatile commodity prices and renewed US-China tech tensions. The rout in regional equities and foreign-investor outflows at the beginning of the year have shown signs of abating of late. Aggressive policy easing in China, including a larger-than-usual 50bp cut in banks' required reserve ratio (RRR) and a 25bp reduction in re-lending rates, along with a further relaxation of housing purchase restrictions and widening the uses of commercial property loans, have helped to stabilise sentiment somewhat. But it's still too early to say "out of the woods", and we expect further policy support heading into the National Two Sessions in early March.

China's January manufacturing PMI and the three key subcomponents we track remained in the contraction zone but exhibited recovery momentum: New Orders at 49.0 (+0.3), New Export Orders at 47.2 (+1.4) and Imports at 46.7 (+0.3). Most encouraging to us was the rebound of service business activities index to 50.1, as it bodes well for consumption. Construction business activities eased three points to 53.9 but remains well above the neutral level. January PMIs for other APAC economies posted broad recoveries, with the exception of the Philippines (eased to 50.9 but remains in the expansion zone). While China, Thailand, Malaysia, and Taiwan manufacturing PMIs all improved in the month, to 49.2, 46.7, 49.0 and 48.8, respectively, all still signaled contraction. We nevertheless see a good likelihood of moves into the expansion zone as soon as Q1, if not then Q2.

The standout recovery story is South Korea: its PMI surged to 51.2, the most optimistic level since June 2022. Output, new orders and exports all returned to expansion territory.

Exhibit #1: APAC January PMIs Improve Broadly



Source: BNY Mellon Markets, Bloomberg L.P.

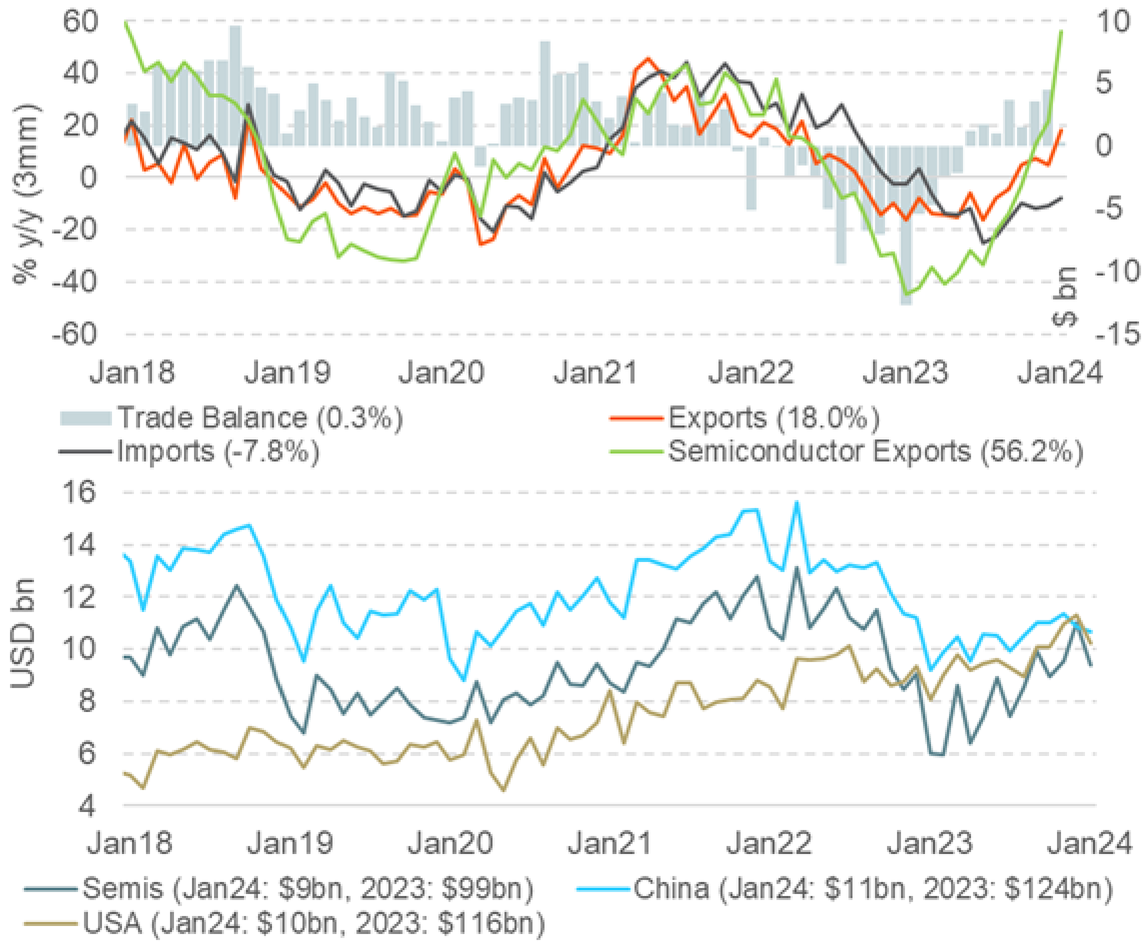
The recovery of sentiment in South Korea is significant and we expect further positive momentum ahead, supported by the recovery in the tech sector. We note that the rough start to the year for the KOSPI – down 8.3% year-to-date in mid-January, the worst start to a year since the 1980s – was not accompanied by foreign investors selling. Instead, official capital flow data shows persistent foreign demand throughout January. What's more, year-to-date net buying reaching $3.1bn worth as of Feb 1. We interpret that as a sign of investor confidence, even with the KOSPI still down 4% so far this year.

South Korea's exports in January reached $54.7bn (+18% y/y), of which the semiconductor and automobile sectors accounted for $9.4bn (+56.2% y/y) and $6.2bn (+24.8% y/y), respectively. Export gains by destination were broad-based: China $10.7bn (+16.1% y/y), the US $10.2bn (+26.9% y/y), and Europe $5.7bn (+5.2% y/y). This data affirms our view for an export recovery – we see further momentum ahead. Of interest: the World Semiconductor Trade Statistics (WSTS) organization projects semiconductor sales in 2024 to rebound to +13.1% y/y, compared with -9.4% y/y last year.

Absent a further, substantial rise in crude oil prices towards $90/bbl or beyond, South Korea's import costs are likely to be contained and so not too detrimental to the projected trade balance surplus, which is likely to be positive for the currency. Another factor we see supportive of KRW is the Bank of Korea's relatively hawkish (or non-dovish) stance. BoK Governor Rhee's comment that monetary policy needs to stay restrictive for a long time is in our view important to anchor front-end rates and, in turn, KRW valuation.

While monitoring the recovery in exports, we will also be paying close attention to potential risks. One is the reacceleration of lending to households, which last year rose to KRW 1095trn after bottoming at KRW 1060trn. Project finance-related refinancing issues also bear watching, although Korean authorities appear to have this broadly controlled. Lastly, the April legislative elections could be an additional source of market volatility.

Exhibit #2: Exports Recovery On The Way

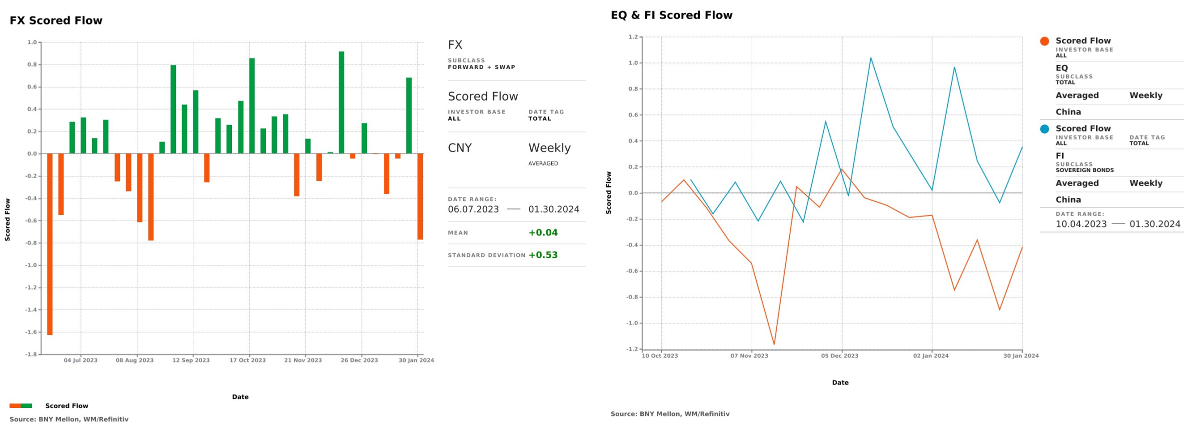


Source: BNY Mellon Markets, Bloomberg L.P.

iFlow shows APAC FX flows relatively muted over the past week amid inflows elsewhere. CE3 currencies drew the strongest interest, taking over from LatAm as the most favoured carry candidates. Regionally, CE3 is most overheld and APAC most underheld. By currency, HUF is the most overheld (weekly scored holdings of 3.1), while THB and HKD are the top two most underheld among currencies we track, with weekly scored holdings of -2.8 and -2.1, respectively. Within APAC, CNY flows exhibited volatility, with weekly average scored flows turning negative after strong buying the prior week. Otherwise, IDR, INR, and KRW posted buying momentum, while MYR and THB faced selling pressure.

Flows in the equities and fixed-income complexes were broadly balanced – little sign of a risk of capital outflows. China equities were sold but at a moderate pace, while demand for China sovereign bonds continued at steady pace. Demand for Taiwan equities continued. South Korea equities posted the first weekly net buying after 11 weeks of selling. Indonesia sovereign bonds posted good buying momentum. India corporate bonds saw significant and historically high selling pressure: weekly scored flows of -1.3.

Exhibit #3: Inflows Into China Currency, Equities & Bonds



Source: BNY Mellon Markets, Bloomberg L.P.

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