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MACRO MORNING BRIEFING

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Tourism Revival A Boost For ASEAN Economies

Tourism activity across ASEAN countries – Indonesia, Malaysia, the Philippines, Singapore and Thailand – has shown broad and strong momentum, boding well in several respects.

Thailand posted the most gains in 2023: tourist arrivals of 28mn were in line with the official target but 2.5 times the 11mn arrivals in 2022. Monthly tourist arrivals in December 2023 and January 2024 broke above 3mn for the first time since January 2020, prior to COVID. Tourist arrivals last year from Europe (6mn), Malaysia (4.6mn), South Korea (1.7mn), India (1.6mn) and Russia (1.5mn) fully normalised, indeed exceeded the number in 2019. Intra-region tourism continued to dominate in 2023, with ASEAN visitors accounting for 35% (9.8mn) of total arrivals, followed by Europe at 21%. The 3.5mn Chinese tourist arrivals last year was -13% vs. 2022 and -29% compared to 2019. However, the visa-free arrangement, including the permanent arrangement with China, is expected to provide a boost, with Thailand's tourism authority aiming for 8mn Chinese visitors this year. In terms of revenue, the tourism industry generated upwards of THB 1.2trn (or ~$34bn based on the yearly average USDTHB exchange rate) for the economy in 2023, leaving plenty of room to get back to the THB 1.9trn in revenue the industry generated in 2019.

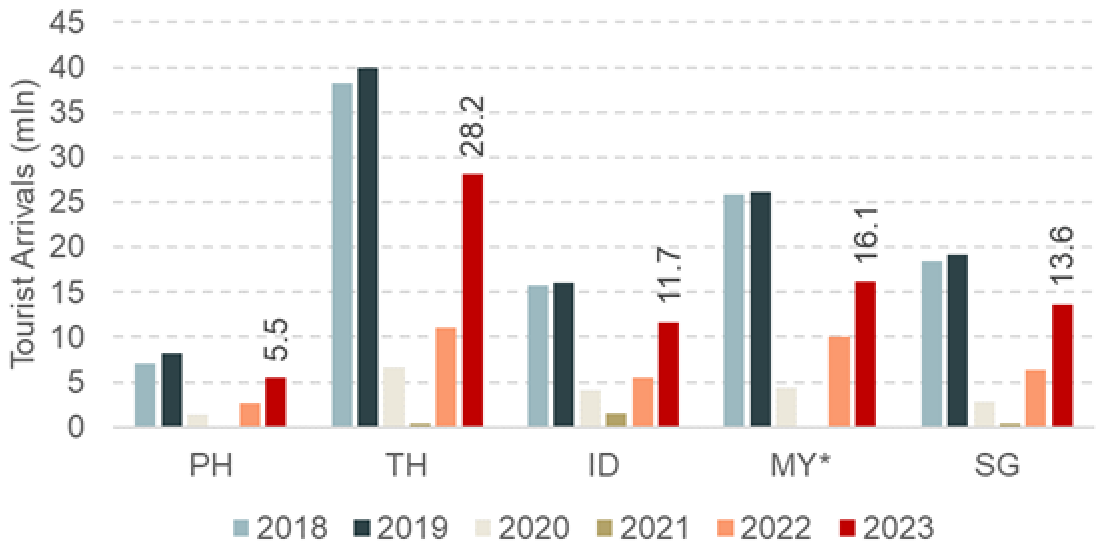
The tourism landscape in the Philippines also made significant progress in 2023. While the 5.5mn tourist arrivals was less than the 8.2mn in 2019, tourism receipts of PHP 482.5bn (~$8.7bn) marginally exceeded pre-pandemic levels – and surged nearly 125% y/y (DOT press release). According to official statistics, the contribution of tourism to the Philippines' GDP collapsed from 12.7% in 2019 to 5.4% in 2020, then sank further to 5.2% in 2021 before accelerating to 6.2% in 2022. When the 2023 numbers are in (not available yet), we expect this contribution to rise further – possibly nearing the 12.5% observed in 2017-2019.

Tourism in Singapore continues to normalise as well, with strong rebounds in both tourist arrivals and tourism-related receipts. International visitors in 2023 of 13.6mn was up from

6.3mn in 2022, putting the number on track to meet the 19mn visitors in 2019. Tourism-related receipts in 2023 are estimated to exceed expectations for around $25bn, compared with $14bn in 2022. Tourism revenue in 2019 (pre-pandemic) was $27bn.

Indonesia tourist arrivals in 2023 recovered strongly, to 11.7mn compared with 5.5mn in 2022. Tourist arrivals to Malaysia last year reached 16mn through September, at that point already exceeding the 10mn arrivals in full-year 2022. Even more encouraging to us is the significant surge of tourist expenditures, which amounted to MYR 49bn during the first three quarters of 2023, compared with MYR 16.4bn in 2022.

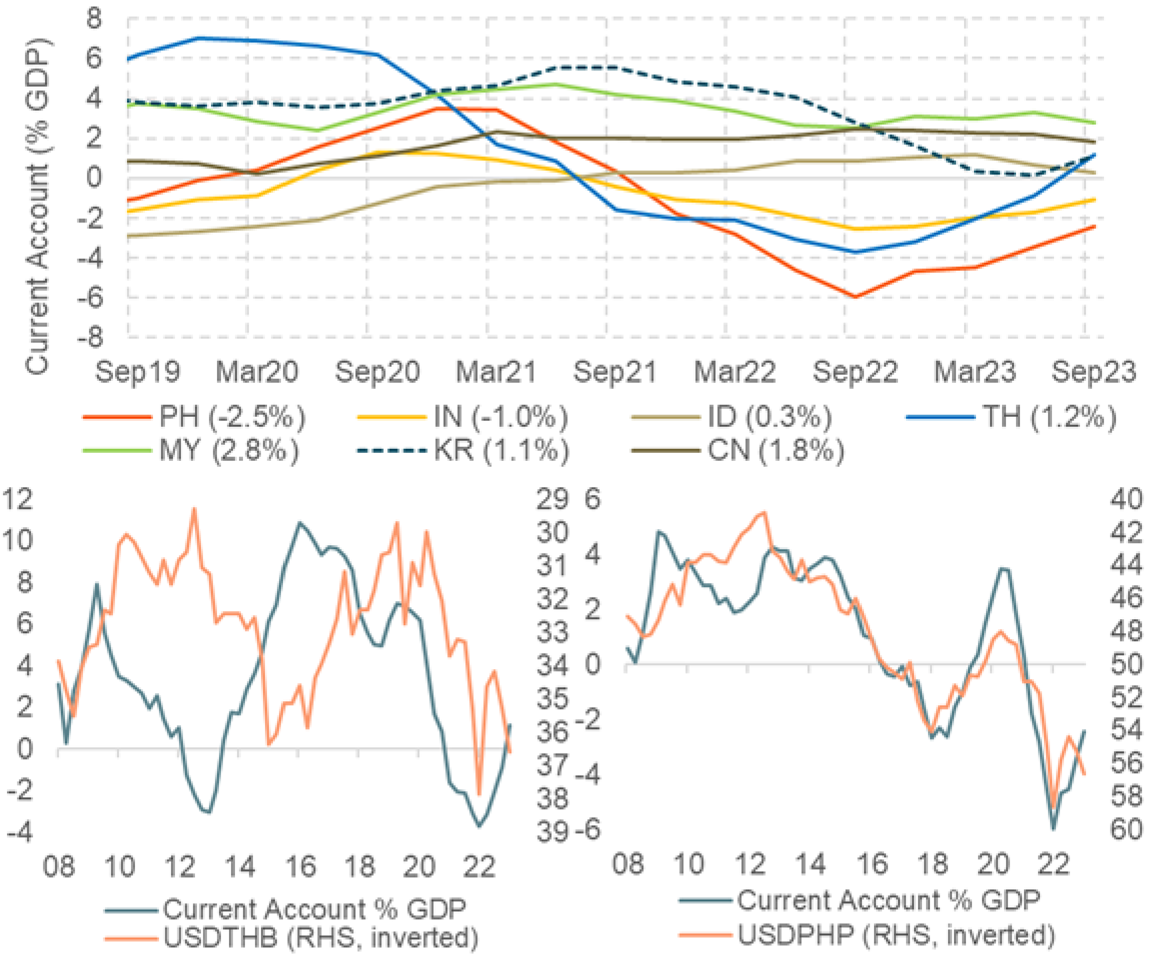
Exhibit #1: Tourism Recovery Gaining Momentum



Source: BNY Mellon Markets, Bloomberg L.P. * Malaysia 2023 data is as of September 23

The recovery in tourism is expected to pick up further this year. Among ASEAN economies, Thailand and the Philippines, where the tourism industry contributed to over 20% of GDP in pre-pandemic years, seem likely to benefit the most. Tourism revenue, along with realization of potential foreign investor flows, would be positive for current accounts, a development that usually indicates further gains in respective currencies. Note the trends in exhibit #2 below.

Exhibit #2: Improving Current Accounts Positive For Currencies



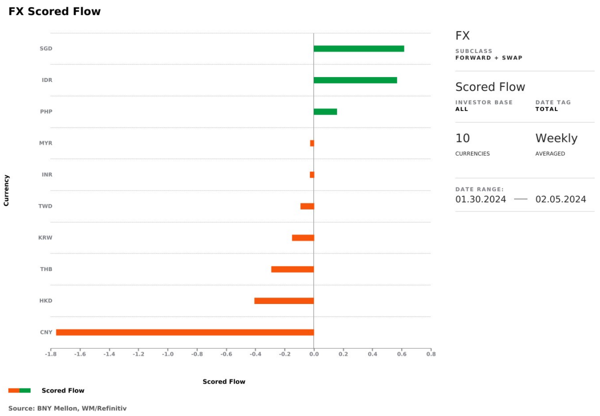
Source: BNY Mellon Markets, Bloomberg L.P.

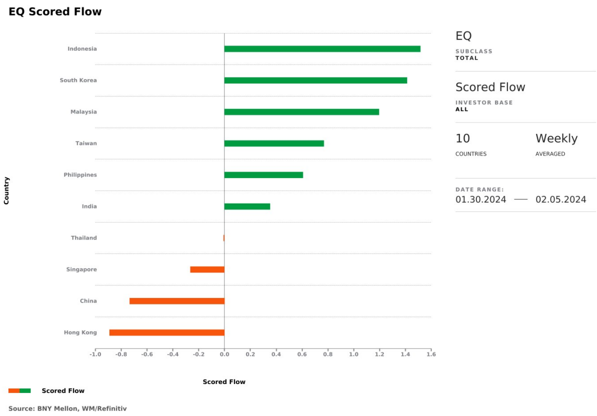
APAC FX flows picked up substantially over the past week after a subdued January. The routs in China and Hong Kong equities, a strong US dollar and higher Treasury yields likely explain aggressive outflows from CNY and HKD: weekly average scored flows of -1.69 and -2.58, respectively, the two largest outflows in iFlow. SGD and IDR had the most inflows.

There was notable shift in terms of scored holdings, a measure of investor positioning, and profitability. INR and PHP are both overheld and profitable, whereas TWD is the only APAC currency underheld and unprofitable. IDR and SGD remain the most overheld in the region but have turned to sporting losses. Among the underhelds, THB is the most profitable, at 0.9%, followed by MYR at 0.8% and KRW at 0.7%.

APAC equity flows were mixed. China posted weekly average scored flows of -0.8. By contrast, South Korea, Taiwan and Indonesia equities had good demand. Among government/sovereign bonds, China's were sold the most and Indonesia's were bought.

Exhibit #3: Selling Pressure On China, Hong Kong FX & Equities





Source: BNY Mellon Markets, Bloomberg L.P.

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