

iFlow

MORNING BRIEFING

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SENIOR MARKET STRATEGIST FOR APAC



November 24, 2023

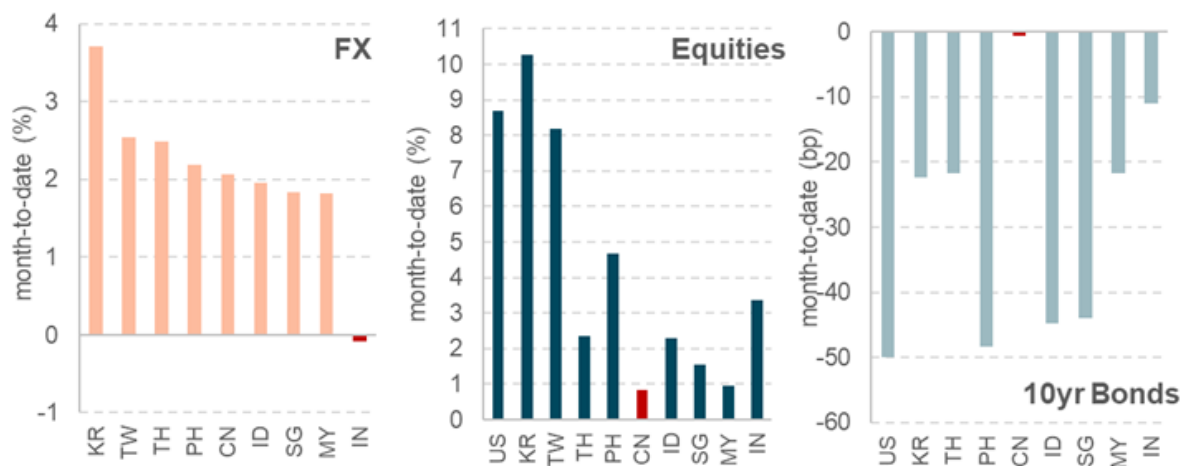
China Equities Lag As Yuan Rallies

Market sentiment and risk appetite have improved considerably in November thanks in large part to a fall in the US dollar amid a rethink of the Federal Reserve's monetary policy path. Contributors to that include the less-hawkish-than-expected FOMC statement at the start of the month and, at midmonth, softer-than-expected US October CPI (headline 3.2% y/y, core 4.0% y/y, super core 3.75% y/y). The minutes to the Oct. 31-Nov. 1 FOMC meeting released this week affirmed the dovish tilt, noting "...the Committee was in a position to proceed carefully...", although keeping policy "...restrictive for some time..." was also mentioned.

Several equity markets in Asia have benefited substantially from the changed environment. The MSCI Asia ex-Japan index, for example, is up around 7% month-to-date. The KOSPI and TWSE have done even better, posting 8-10% gains month-to-date. Foreign investors have poured the equivalent of over \$7bn into Taiwan equities so far this month, the most in a month since the \$7.24bn inflow in January 2023, bringing year-to-date net investment into positive territory. This could explain some of the 2%+ appreciation in TWD so far this month, as well. Foreign demand for Korea equities also revived, with nearly \$3bn worth of inflows, the most since May 2023. KRW has also appreciated 2%+ so far this month. Both TWD and KRW got additional support from recoveries in their respective exports.

While CNY has appreciated in line with other APAC currencies, sentiment towards and foreign interest in China stocks has remained lackluster. The Shanghai Composite has lagged well behind other regional indexes, gaining less than 1% month-to-date. India's Sensex, by contrast, gained over 3% while the rupee was little changed against the greenback. The Thai baht and Thai equities are each up over 2% month-to-date.

APAC Risk-On Driven By Softer USD

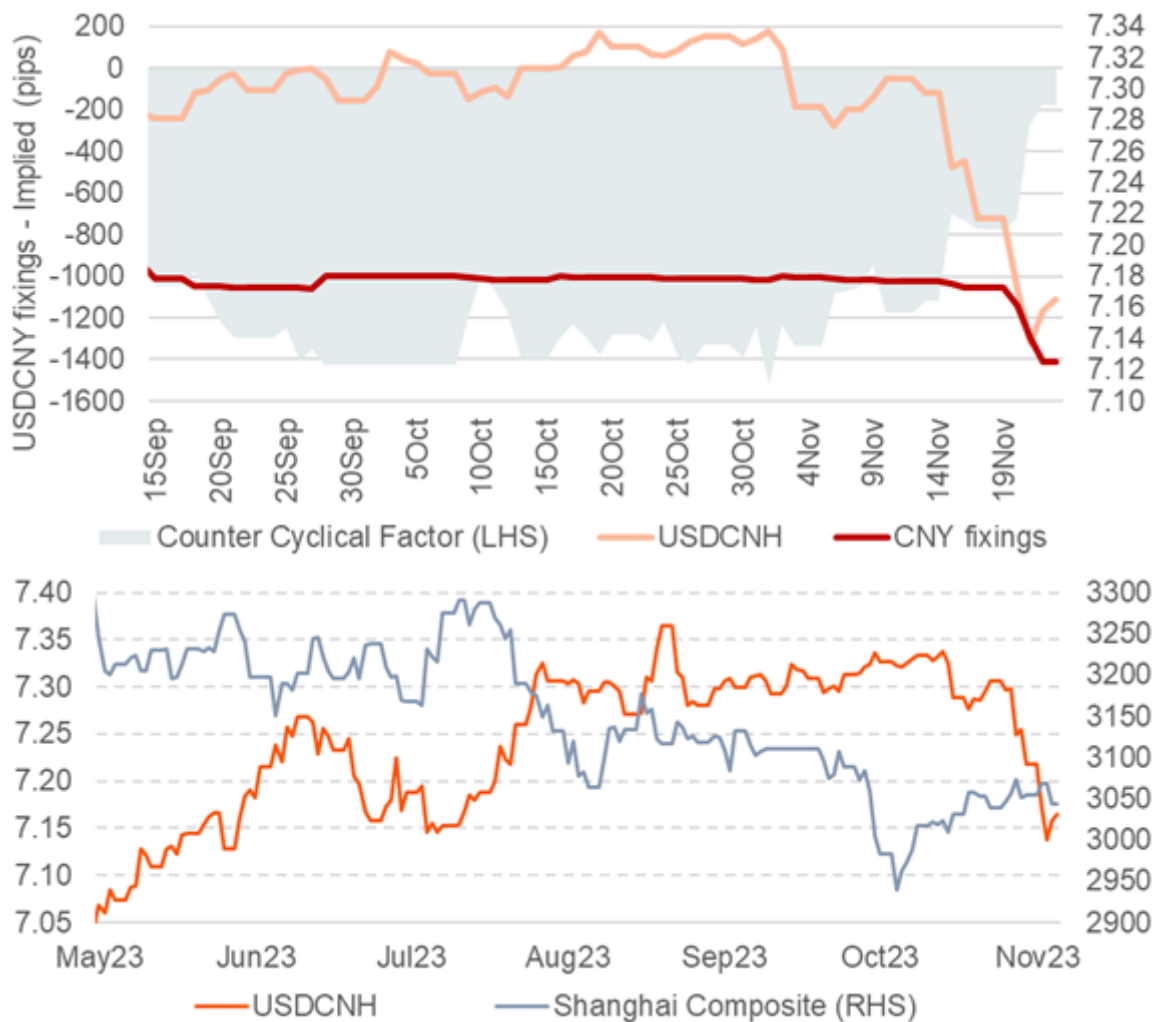


Source: BNY Mellon Markets, Bloomberg L.P.

An interesting implication of the softer US dollar for China assets is not the outright rally of the onshore (CNY) or offshore (CNH) yuan spot rate, but instead the evolution of USDCNY fixings and the normalization of the counter-cyclical factor (CCF). The PBoC used weakening in the USD to reduce the CCF last week, with USDCNY fixings going from over 1000 pips below implied levels to around 800 pips below. The reduction picked up pace, to less than 200 pips, as USDCNY spot traded through (below) 7.17 for the first time since mid-September. Normalization of the CCF is an important reset for PBoC, in the sense that higher USDCNY fixings from here will not immediately be interpreted as a depreciation signal, while stronger CNY fixings can be justified by the softer USD. USDCNY is no longer threatening to breach the weaker side of its daily 2% band relative to USDCNY fixings. Indeed, USDCNY spot traded near flat relative to fixings before widening out to 0.5% over.

Is this the beginning of a CNY appreciation trend? Is it comparable to the move this time last year when CNY rallied strongly on the back of relaxation of COVID restrictions and, subsequently, the announcement of the reopening? Is CNY strength supported by the series of stimulus and other supportive measures and therefore a potential bottoming-out of the economic downturn? We are cautiously optimistic but not fully convinced considering the subdued performance of China's equity market. We do, however, view the latest real estate stabilisation strategies as a game changer. The various pledges, ranging from banks to meet all reasonable funding needs from property firms, as well as talk of CNY 1000bn in supplementary lending, plus the latest Bloomberg report that Chinese regulators are drafting a list of 50 developers eligible for funding, are positive. All this should serve as a warning not to be overly bearish on the sector, in our view.

Normalisation Of Counter-Cyclical Factor



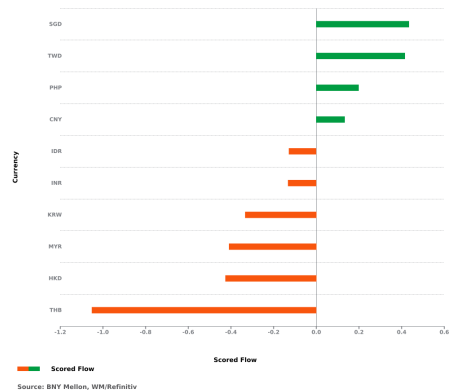
Source: BNY Mellon Markets, Bloomberg L.P.

iFlow shows mixed flows in APAC currencies over the past week. THB stands out with an outflow of -1.05 weekly average scored, the largest within iFlow. Outflows from INR continued for a fourth week and from MYR for a sixth week. HKD, IDR and KRW suffered outflows, too. On the inflow side of the ledger were CNY, PHP, SGD and TWD. The TWD weekly inflow was the first after eight consecutive weeks of outflows. The CNY inflow (0.13 weekly average scored flow) followed an outflow the prior week.

APAC equity and bond flows were mixed as well. China equities had marginal net inflows (0.05 weekly scored flows) after four weeks of accelerated and aggressive selling. Whether this signals a potential turnaround of sentiment, or is a one-off, bears watching. Philippine bonds suffered the most outflows, at -0.85 weekly average scored flows, while Thai government bonds had the most demand, at 0.55 weekly average scored flows. The Indonesia bond sell streak reached 12 weeks. Malaysia government bonds posted their first weekly average inflows after 17 weeks of outflows.

Reversal Of Flows Into TWD And China Equities

FX Scored Flow



FX

SURCLASS
FORWARD + SWAP

Scored Flow

INVESTOR BASE
ALL

DATE TAG
TOTAL

10

CURRENCIES

Weekly

DATE RANGE:
11.15.2023 — 11.21.2023

FX & EQ Scored Flow



Scored Flow

INVESTOR BASE
ALL

DATE TAG
TOTAL

FX

SURCLASS
FORWARD + SWAP

Averaged Weekly

TWD

Scored Flow

INVESTOR BASE
ALL

DATE TAG
TOTAL

EQ

SURCLASS
FORWARD + SWAP

Averaged Weekly

China

DATE RANGE:
06.07.2023 — 11.21.2023

Source: BNY Mellon Markets, Bloomberg L.P.

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



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