BNY MELLON

iFlow

MACRO MORNING BRIEFING

January 18, 2024

China GDP Review; APAC Currency Watch

China's GDP growth in Q4 2023 slowed to 1.0% q/q from an upwardly revised 1.5% in Q3. Year-over-year growth reached 5.2% (2022: 3.0%) despite a slower-than-expected post-COVID bounce, weaker external demand, ongoing trade tensions and rising geopolitical risks. Domestic hindrances included weak consumer and business confidence and a sluggish real-estate sector in terms of property sales and developers' refinancing difficulties.

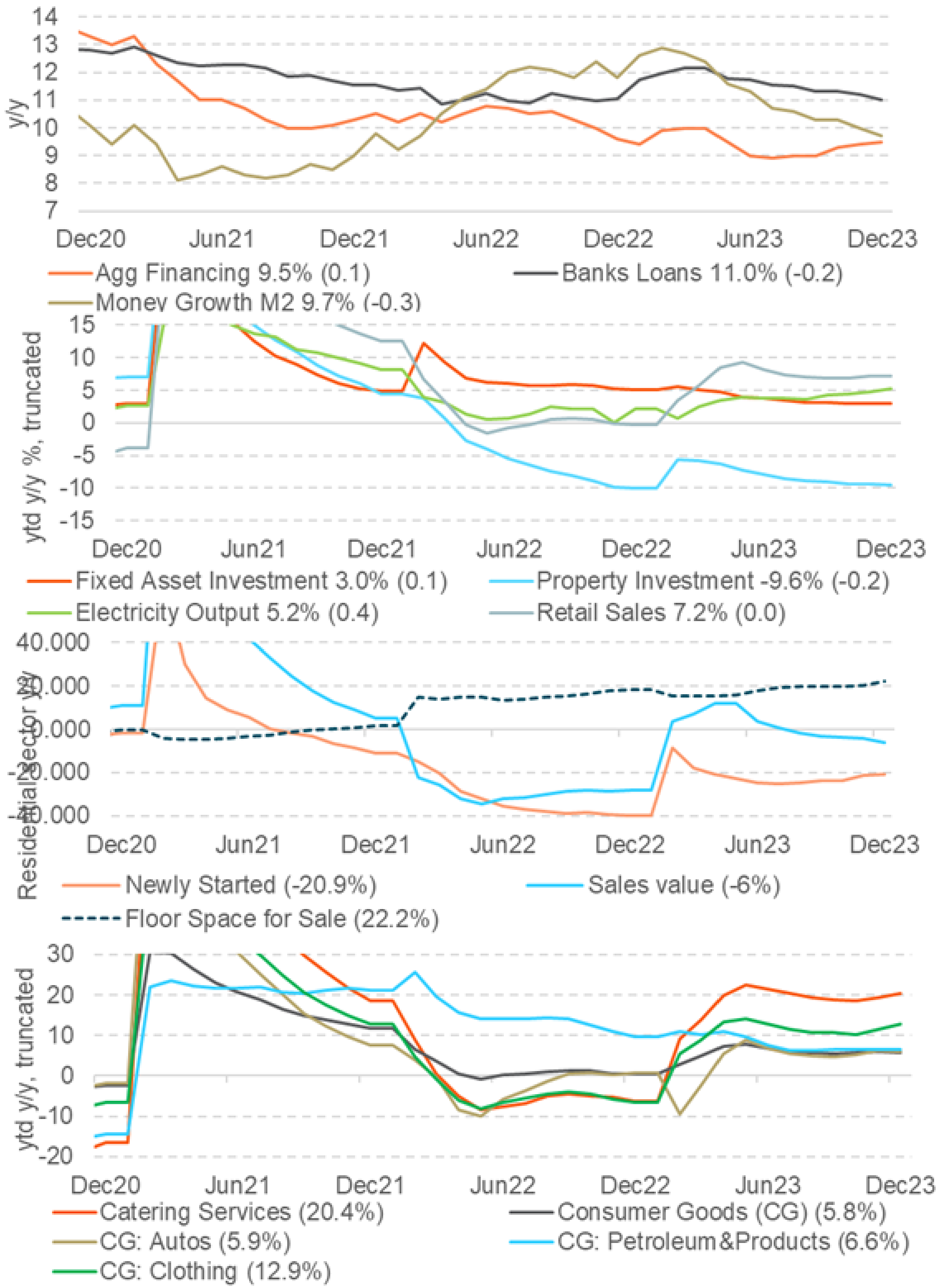
December data showed a still-uneven recovery. On the plus side was aggregate financing credit growth gaining momentum at 9.5% y/y, driven primarily by government and local government bond issuance (total CNY 9600bn year-to-date, 35% more than CNY 7130bn in 2022). However, loans by financial institutions eased to 11% on a combination of higher credit risks and slowing demand. Mortgage demand, using medium-to-long term households as proxy, remains low, averaging CNY 150bn in Q4 2023, flat vs. Q3.

On the investment side, investment in fixed assets posted 3.0% ytd y/y growth, of which investment into infrastructure grew at a faster pace, 5.9%, though both were slower than in 2022 (5.1% and 9.4%, respectively). Property sector investment is the biggest drag, -9.6% on the year. Industrial production fared better at 4.6% ytd y/y (2022: 3.6%), supported largely by fast-paced expansion in new energy vehicles and power generation, 30.3% ytd y/y and 28.5%, respectively. In the service sectors, retail sales ex-autos slowed to 7.9% y/y in December but gained substantially on the year, 7.3% ytd y/y against -0.2% ytd y/y in 2022.

We will be paying extra attention to real-estate sector, which we see as the swing factor in investor sentiment. Average new home prices across 70 cities posted a 0.45% m/m decline, with tier-3 cities faring worse, -0.71% m/m. More significant is the -0.1% y/y drop in house prices in tier-1 cities in December 2023, the first negative growth since June 2015. Overall real-estate inventory growth continues to rise, at 22.2% y/y, a pace not seen since April 2015. Newly started floor space for residential building came in at -20.9% ytd y/y.

An uneven growth recovery, indeed. However, anticipated support from fiscal policy and regulatory streamlining should in our view ensure stable growth in the coming months..

Exhibit #1: China Growth Recovery Uneven



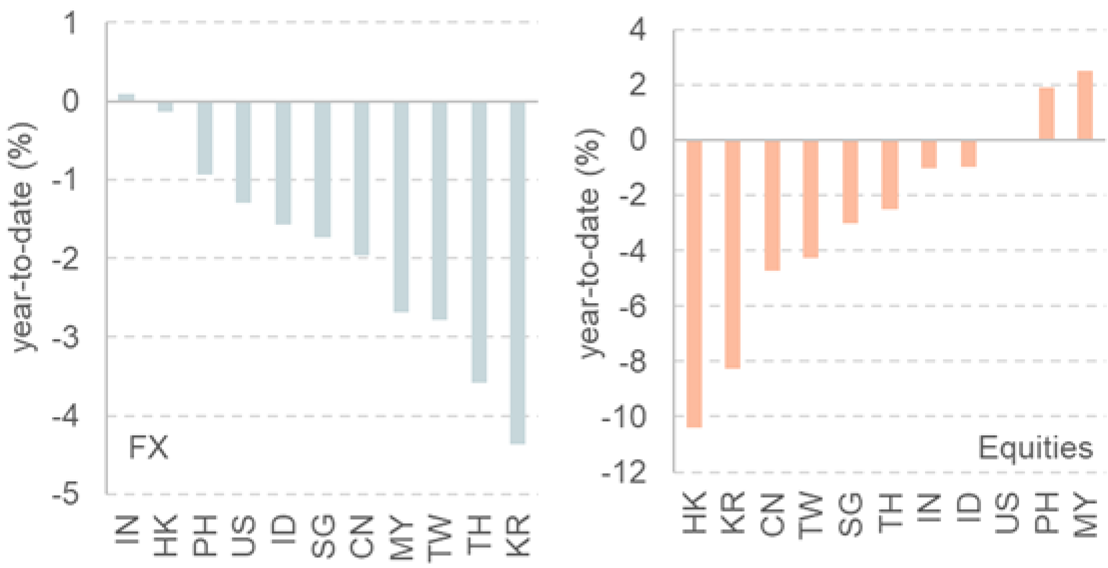
Source: BNY Mellon Markets, Bloomberg L.P.

Volatility in APAC equities and currencies since the beginning of the year has been extreme. For example, the Hang Seng is the worst-performing equity index in the region, -10% through Jan. 17. The Hang Seng Technology sector is down 16% year-to-date against only marginal selloffs in the Nasdaq and Philadelphia Semiconductor Index (SOX). The Shanghai Composite is -5% on the year amid heightened outflows. Northbound stock connect posted CNY 25bn of net selling, a sharp contrast to roughly CNY 100bn of inflows over the same period in 2022. Korea's equity index (KOSPI) is down 8.3% year-to-date, its worst start since the 1980s. Weakness there appears appears responsible for the sharp 4% depreciation in the won, with USDKRW reaching 1344 and taking out key technical resistance levels.

APAC central banks are sure to be on alert given the accelerated depreciation in regional currencies of late. After all, further volatility could imperil FX stability. What's more, weaker currencies could also pose upside risks to inflation. We thus see a rising probability of central banks stepping up countermeasures, e.g., so-called smoothing operations.

We believe the violent reversal of asset prices since the beginning of the year could in part owe to how market positioning was skewed coming into 2024, e.g., towards a weaker US dollar, lower US Treasury yields and bullish emerging market and APAC assets. In the absence of deterioration in APAC macro fundamentals, however, we view recent price action as excessive and unsustainable. We caution against extrapolating the negative trend.

Exhibit #2: Aggressive Selloff Of APAC Assets

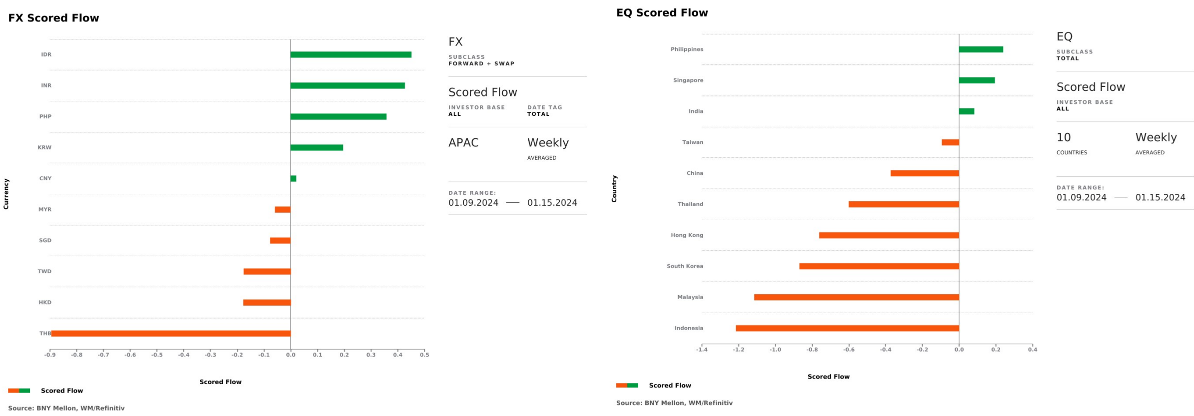


Source: BNY Mellon Markets, Bloomberg L.P. Data as of 17Jan2024

Globally, iFlow shows good demand for CEE FX and outflows from LatAm FX. Both of those aggregates are overheld. APAC FX, by contrast, is the most underheld. Notable among APAC FX flows over the past week were THB outflows, weekly average scored flows -0.89, and IDR posting the most inflows. Flows otherwise were muted. The THB outflows dropped positioning further into underheld territory – THB now most underheld in iFlow.

Despite the poor risk sentiment, we have not seen net capital outflows from APAC yet, with equity selling compensated for by ongoing demand for fixed income. Demand for sovereign bonds has been most apparent in China – seven straight weeks of buying. We're monitoring Indonesia sovereign outflows closely: a reversal of the inflow trend or a one-off adjustment?

Exhibit #3: APAC Equity Selling Gains Momentum



Source: BNY Mellon Markets, Bloomberg L.P.

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

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