BNY MELLON

iFlow

MACRO MORNING BRIEFING

April 18, 2024

On APAC FX Volatility & China Q1 GDP

Renewed – even accelerated – depreciation pressure on APAC currencies had been led by South Korea's won and Indonesia's rupiah, each selling off more than 2% so far this month (through Wednesday). The broad weakening in currencies has not been exclusive to APAC, with other region's currencies and those in the G10 complex suffering likewise. This has been primarily driven by US dollar strength as a consequence of the market recalibrating expectations for lower US interest rates, which has prompted covering of short US dollar positions in turn. The latest iFlow data shows USD scored holdings narrowing from a quarterly average of -1.23 in Q4 2023 to less than -1.00 as of this month.

Other factors undermining emerging market assets, including APAC FX, and contributing to a worsening in risk-off sentiment has been concerns of a larger correction in equities after a stellar performance in Q1, rising WTI crude oil prices, and heightened geopolitical risks. More specific to APAC has been the People's Bank of China loosening yuan fixings to relieve some of the over-valuation pressure, ongoing depreciation of the yen, and complacent FX comments by some central banks in the region.

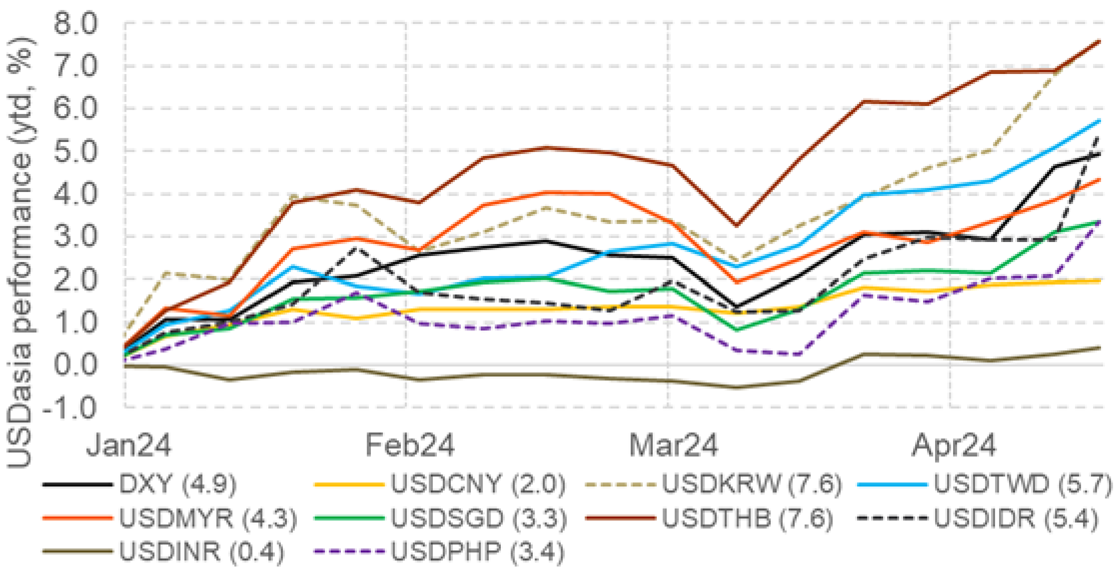
The Bank of Korea, for example, commented in its April policy meeting that “it is not the time to worry about economic crisis due to changes in the exchange rate” and “it can deal with herd behaviour in FX markets”. While these comments are valid, they nonetheless inevitably invited speculative flows against the currency: USDKRW rose swiftly to 1400 before drifting lower on subsequent verbal and smoothing activities. The Philippines' central bank (BSP) commented that “the magnitude of PHP adjustment is not large enough” and “it is not a case of weak PHP, but a case of strong USD”. That led to USDPHP rising above 57.00, a level BSP defended forcefully between August and October 2023.

We see APAC FX entering the early phases of technical trading market. A further rout in the

FX market may spill over to equities and weigh further on domestic currencies. However, sentiment has not yet become extreme, with volatility relatively contained and few RSI oversold alerts. There may be a consensus view that so-called smoothing operations and verbal intervention by authorities may save the day. Oftentimes, however, resorting to such intervention is viewed by markets as serving to confirm the direction of the trend.

Note that the finance ministers of South Korea and Japan and US Treasury in their first trilateral talks acknowledged "serious concerns" over the recent "sharp" depreciation of the South Korean won and Japanese yen in effort to stem growing financial market volatility.

Exhibit #1: Renewed APAC FX Depreciation Pressure



Source: BNY Mellon Markets, Bloomberg L.P.

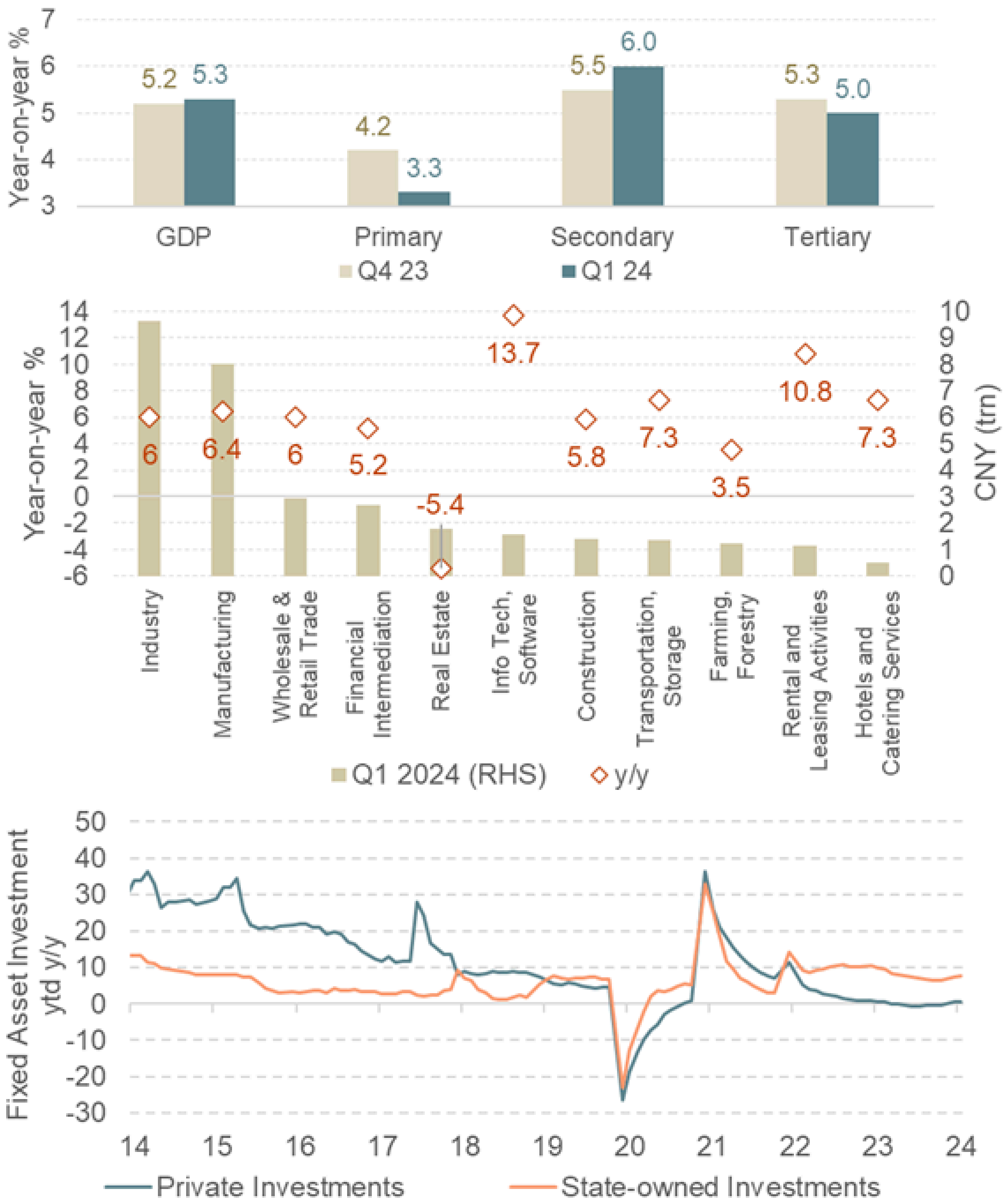
While sentiment might be deteriorating amid heightened market volatility, regional fundamentals have been relatively encouraging. China's economy grew at a faster-than-expected 5.3% y/y pace in Q1, improving on the 5.2% y/y expansion in Q4 2023. On a quarterly basis, China's growth picked up from 1.4% in Q4 2023 to 1.6% in Q1 2024.

Secondary industry was the main contributor to growth, at 6.0% vs. 5.0% in the previous quarter, reflecting the strength in manufacturing and investment. However, growth in primary and tertiary (services) industries both eased, to 3.3% y/y and 5.0% y/y from 4.2% and 5.3%, respectively. By industry, information technology and software posted the fastest growth, at 13.7%, followed by rental and leasing activities at 10.8% y/y, transportation and storage at 7.3% y/y, and manufacturing at 6.4% y/y. Real estate growth remains sluggish: it posted the fourth consecutive negative quarterly growth since Q2 2023, coming in at -5.4% y/y in Q1.

Other notable highlights were rising growth in fixed-asset (excluding rural households) investment at 4.5% ytd y/y, industrial production at a strong 6.1% ytd (2023: 4.6%), with hightech manufacturing increasing by 7.5% ytd y/y (Q4 23: 4.9% ytd y/y). Property investment posted the biggest drag, at -9.5% ytd y/y, and is likely to be in a corrective phase in coming months. Retail sales grew 4.7% ytd y/y, slower than 5.8% y/y in Q1 2023. Total imports and exports of goods rebounded from a negative growth rate of -4.3% y/y in Q1 2023 but remain low in absolute terms of 1.5% ytd y/y in USD terms.

We remain optimistic for a growth recovery in China despite the uneven profile in Q1. We are watching for rebound in confidence, especially in the private sector. As shown below (bottom panel), private sector investment has stalled since 2023. At a meagre 0.5% ytd y/y, it's far behind the public sector of state-owned investment, which grew 7.8% ytd y/y.

Exhibit #2: China Q1 2024 Growth Profile

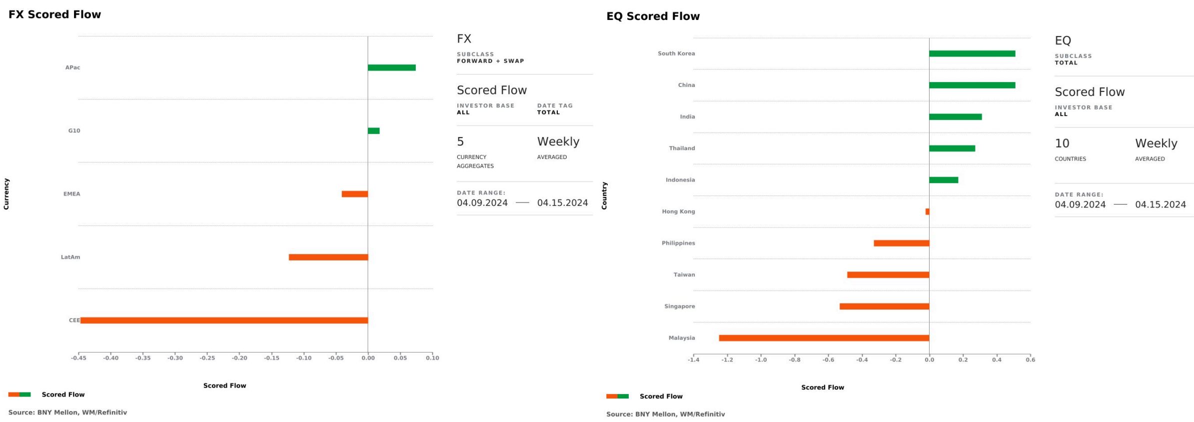


Source: BNY Mellon Markets, Bloomberg L.P.

iFlow shows inflows into APAC FX over the past week, in contrast to broad outflows from other emerging market regions. This is encouraging despite the further depreciation of regional currencies on the back of US dollar strength and further weakness in the yen. Within APAC FX, the Thai baht and Taiwan dollar posted the most inflows, while the Singapore dollar, Hong Kong dollar and Chinese yuan were all sold. THB inflows are encouraging after a long period of outflows. At weekly average scored flows of 0.57, this was the strongest weekly inflows into THB since October 2023. This could be an initial sign of short covering with THB the most underheld currency among those we cover in iFlow.

Among APAC assets, South Korea equities enjoyed more buying. Sentiment towards China equities improved for the first time in four weeks: weekly average scored flows of +0.51 was the most since June 2023. APAC bond flows were lopsidedly skewed to selling; likewise, EMEA and LatAm sovereign flows. G10 sovereign bonds, by contrast, had broad demand. iFlow shows persistent demand for US Treasuries since the beginning of the year.

Exhibit #3: Resilient APAC FX Demand & Korea Equity Inflows



Source: BNY Mellon Markets, Bloomberg L.P.

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

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