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MACRO MORNING BRIEFING

June 6, 2024

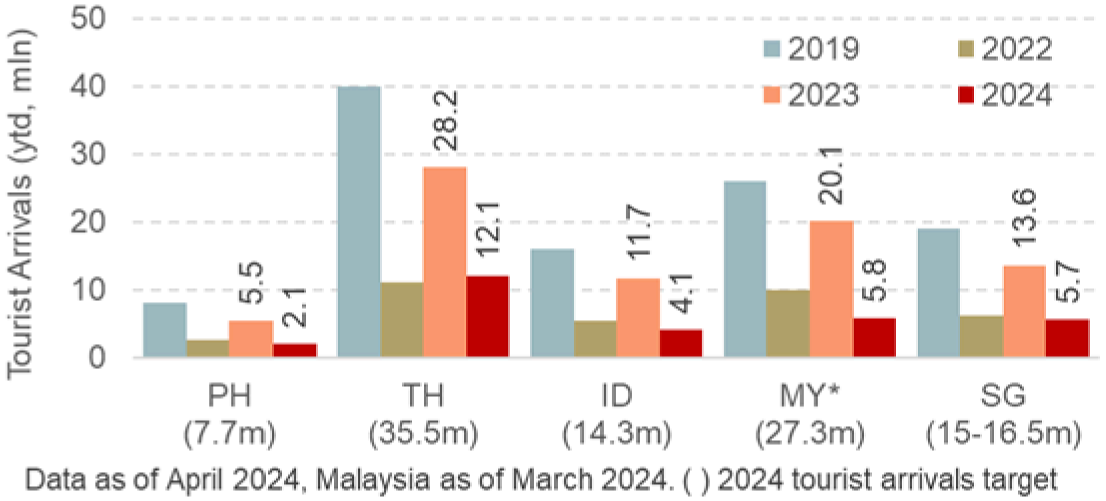
APAC (ex-China) Recovery Takes Shape

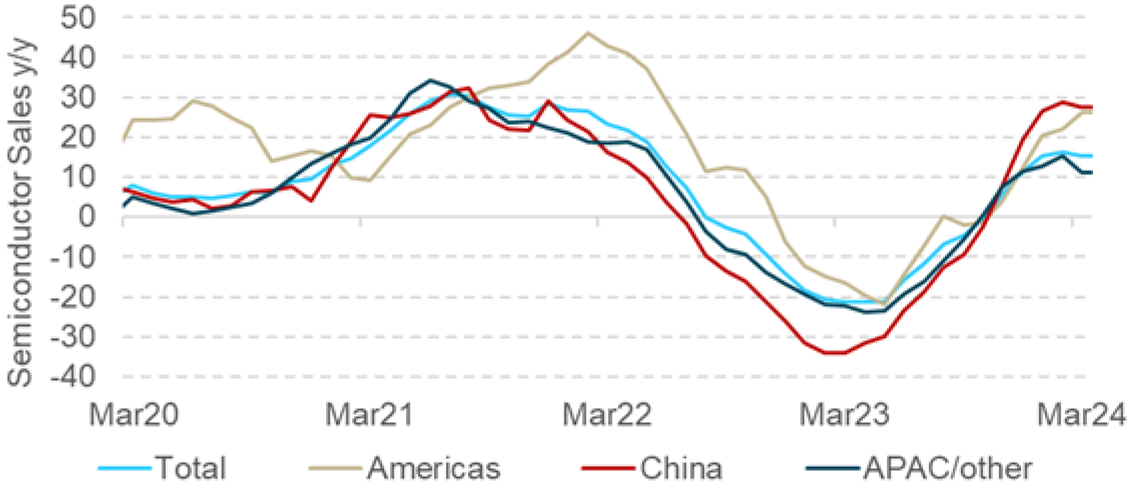
The latest (May) Purchasing Managers' Indexes for Asia-Pacific economies' manufacturing sector offer an encouraging outlook, despite faltering economic momentum in China. All PMIs for the region ex-China are in the expansion zone (>50), led by India's at 57.5. South Korea's surged 2.2 points to 51.6, exiting from two months of contraction. Singapore's bounced to 50.6 after a fractional pullback in April. Thailand's is back in expansion, at 50.3, after nine months in contraction. Malaysia's exceed 50 for the first time since August 2022.

Resilience of those PMIs support our positive macro view for improving ASEAN sentiment, with an additional boost from a recovery in the tourism industry in Thailand, Indonesia, Malaysia, and Philippines. We also see optimism around the semiconductor market driving the recoveries in South Korea and Taiwan. The ASEAN PMI survey noted quicker expansions in both output and incoming new orders. A stronger uptick in purchasing activity also led to greater accumulation of pre-production inventories. As for Taiwan and South Korea, PMI details show a noticeable pickup in new factory orders, with boosts from both domestic and international markets. A broad observation in the May PMI survey is accelerated input-cost inflation stemming from higher commodity prices.

We believe there is plenty of upside room in tech-related momentum. The World Semiconductor Trade Statistics (WSTS) organization revised higher its 2024 forecast for global semiconductor sales growth to 16% y/y ($611bn) from 13.1% y/y ($588bn) in November. The bulk of the growth in dollar terms is expected to come from Asia-Pacific, $340bn (+17.5% y/y), followed by Americas, $168bn (+25.1%). The global semiconductor sector is projected to maintain double-digit growth into 2025, at 12.5% y/y ($687bn).

Exhibit #1: APAC Supported By Tourism & Tech-related Recovery





Source: BNY Mellon Markets, Bloomberg L.P. Semiconductor Industry Association

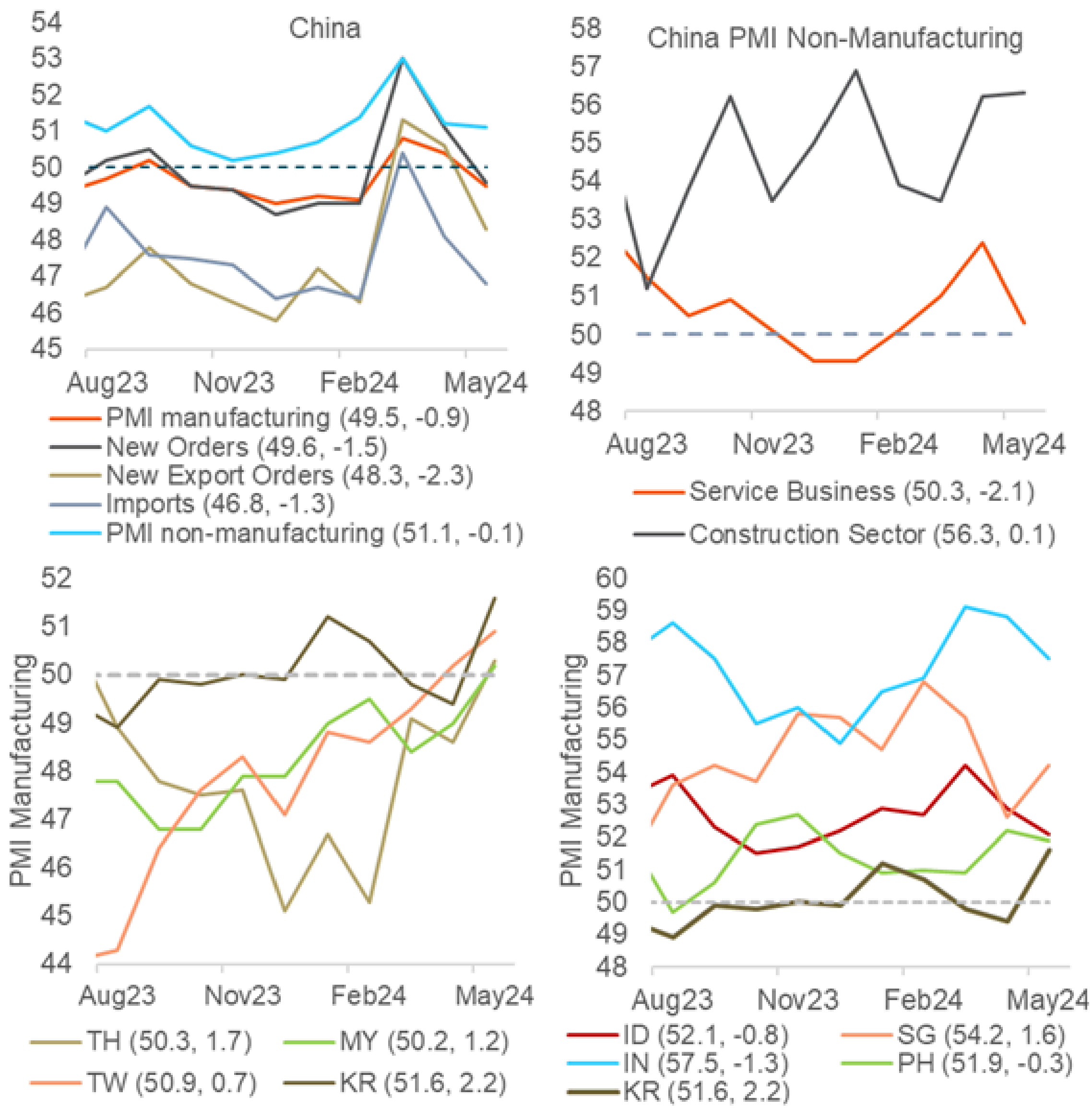
The rosy recovery sentiment was not shared in China, however. China's official PMI unexpectedly fell into the contraction zone, to 49.5, after only two months of expansion, a shorter duration compared with the brief three-month expansion in Q1 2023 on the COVID reopening. The three key subcomponents we track closely all fell and signaled contraction: New Orders -1.5 to 49.6, New Export Orders -2.3 to 48.3, and Imports -1.3 to 46.8. Weakening sentiment could be a consequence of heighted trade tensions with the US and EU, as well as weak April macro data, which showed slowing in credit growth and fixed-asset investment, along with ongoing drag in the property sector.

Have we seen the peak of the current 'recovery' cycle? We don’t think so but acknowledge the uneven and fragile nature of the recovery so far. We are encouraged by the elevated level of the Caixin China PMIs: manufacturing at 51.7 and services at 54.0. We note that the Caixin PMI survey has a small sample size of around 650 private and state-owned manufacturers, compared with 3200 companies in 31 key manufacturing sectors with greater representation of larger companies and state-owned enterprises in the official PMI.

We remain confident for a China recovery into the second half of this year. The market expectation for 2024 China growth has been revised higher, from 4.6% in April to 4.9% this month. We think the aggressive stimulus packages, including measures targeting the real estate sector in particular, the consumer goods trade-in plan, and CNY 1trn special government bond issuance aimed at supporting targeted investment projects, are likely to contribute positively to the growth recovery and stabilize domestic sentiment. There have already been some initial positive signs in homebuyer sentiment, with demand in Shanghai and Shenzhen following the property relaxation measures. We will continue to monitor closely developments in the housing sector, which is arguably at the root of the recovery of sentiment and stabilisation of any related financial risks.

There is plenty to look forward to – we expect more easing measures. Next on the domestic calendar is the Lujiazui Forum in Shanghai June 19-20, then the Chinese Communist Party's central committee meeting, third plenum, in July (focus: deepening reforms).

Exhibit #2: APAC PMIs In Expansion, Except For China

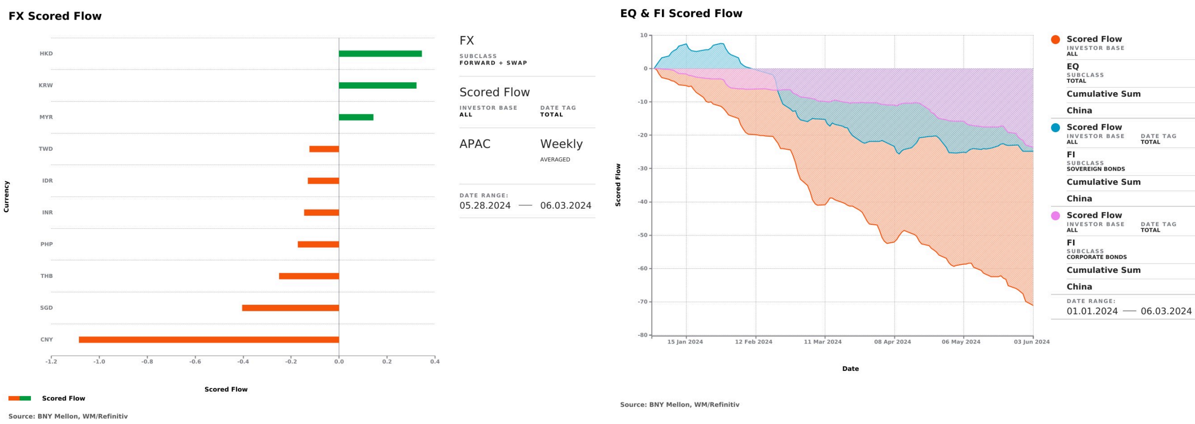


Source: BNY Mellon Markets, Bloomberg L.P.

iFlow data for the past week shows APAC FX flows still biased to outflows and demand for USD and EUR. APAC currency flows were dominated by accelerated CNY outflows: -1.08 weekly average scored (to June 3) was the most since mid-February. Flows in the rest were mixed: demand for HKD, KRW and MYR, selling otherwise. A noteworthy observation is the sharp widening of scored holdings, with MYR and PHP falling deeper into underheld. TWD and MYR are both underheld and unprofitable. IDR is overheld and unprofitable.

In terms of asset flows, investor focus was on China and Hong Kong: selling in equities and sovereign and corporate bonds. Indeed, on a weekly scored flows basis, China equities have posted only two weeks of net buying since the beginning of the year. The current seven-week selling streak is matched in China corporate bond flows. China sovereign bonds met renewed selling interest after three weeks of light buying. At the other end of the spectrum, Indonesia equities and fixed income were both in demand.

Exhibit #3: China FX, Equity, Fixed Income Outflows Continue



Source: BNY Mellon Markets, Bloomberg L.P.

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

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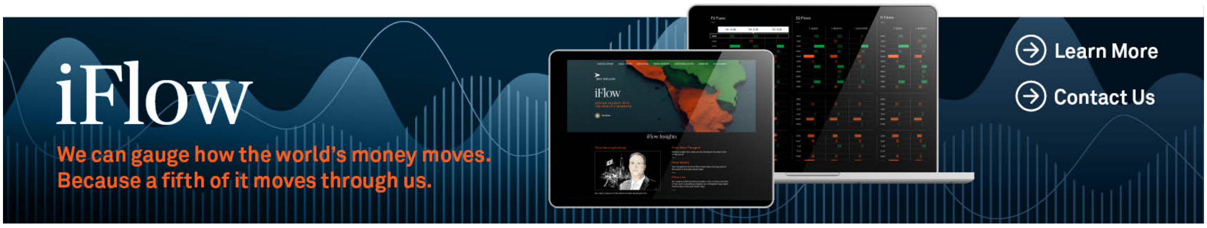

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