Weekly Macro Views (WMV)

Global Markets Research & Strategy

25th March 2024

Weekly Macro Update

Key Global Data for this week:

25th March	26th March	27th March	28th March	29th March
• **SG** CPI YoY • **US** New Home Sales • **TH** Customs Exports YoY • **MA** CPI YoY • **US** Dallas Fed Manf. Activity • **US** Chicago Fed Nat Activity Index	• **US** Conf. Board Consumer Confidence • **HK** Exports YoY • **SG** Industrial Production YoY • **US** Richmond Fed Manufact. Index	• **US** MBA Mortgage Applications • **PH** Money Supply M3 SRF • **CH** Industrial Profits YoY • **SK** Business Survey Manufacturing • **EC** Consumer Confidence	• **US** Initial Jobless Claims • **US** GDP Annualized • **UK** GDP • **US** U. of Mich. Sentiment • **AU** Retail Sales • **EC** M3 Money Supply	• **JN** Industrial Production • **JN** Jobless Rate • **JN** Tokyo CPI Ex-Fresh Food • **VN** CPI • **TH** BoP Current Account Balance

Summary of Macro Views:

Global	• **Global:** Fed Cuts on the Cards • **Global:** BoJ Exits NIRP, Removes YCC • **Global:** Japan Autos and Semis Lead February Trade Expansions • **Global:** UK Inflation Slowed in February; BoE Left Rates Steady • **Global:** A Mixed Bag for Euro Area PMIs
Asia	• **SG:** Look past the February rebound in Headline and Core CPI • **CN:** Better Growth Prospects but Property Remains Weak • **HK:** Labour Market Stayed Tight • **HK:** HKD Prime Rate Unchanged Following Fed’s Pause Decision

Asia	• **ID:** BI Maintaining Status Quo • **MY:** CPI Uptick
Asset Class	• **Crude Oil:** Prices May Trade Range • **FX & Rates:** Stronger RMB Fix Calm Sentiments

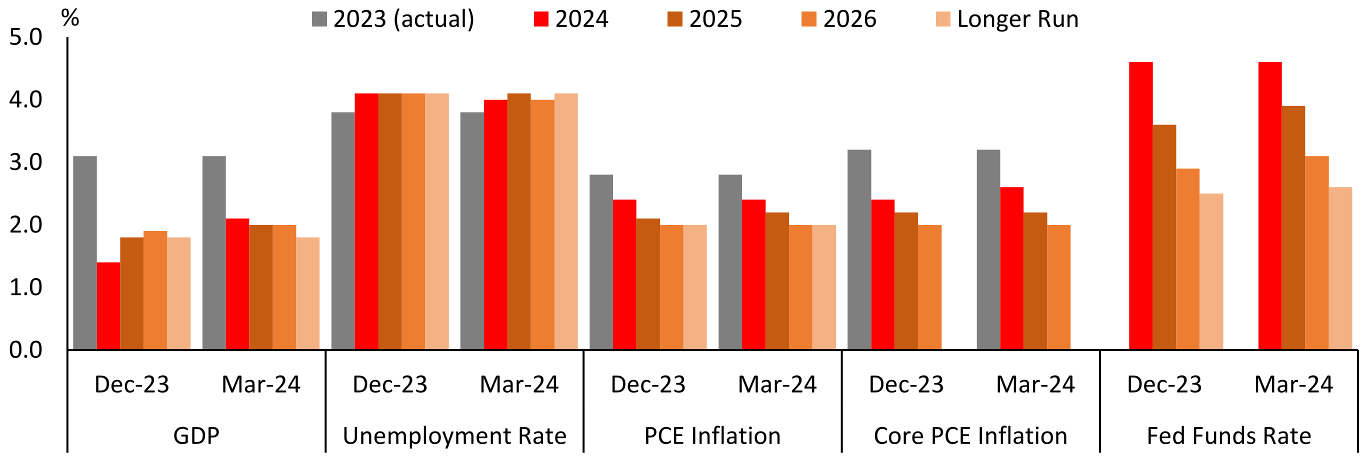
OCBC

Global: Fed Cuts on the Cards

- The US Federal Reserve held its policy rates steady at 5.25% - 5.50% in its March FOMC as expected. That said, the focus was on the latest Summary of Economic Projections (SEP) and Federal Reserve Chair Jerome Powell's press conference commentary. The SEP revealed an upgraded outlook for economic growth to 2.1% YoY this year, up from December's projection of 1.4%, before easing slightly to 2.0% in 2025. Meanwhile, core PCE inflation is expected to peak at 2.6% YoY this year, higher than the previous projection of 2.4% in December, before cooling to 2.2% in 2025. Fed's Powell expectations remains that inflation is to ease further and that his overall remarks did not contain any hawkish surprises.

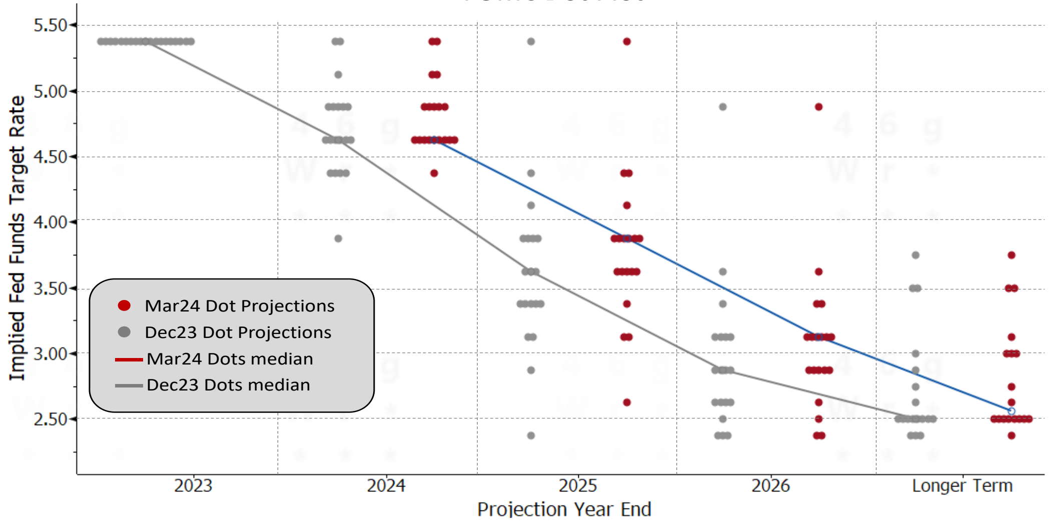
- The "dot-plot" indicated that three rate cuts are expected in 2024, with 17 officials predicting rate cuts this year and two officials seeing no cuts. Notably, the updated dot plot reflects one less rate cut for each year in 2025 and 2026, while the longer-run rate is marginally higher at 2.56% versus 2.50% prior.

FOMC's Summary of Economic Projections Comparison: Mar-24 vs Dec-23



Note: 2023 are actuals. Values shown for 2024, 2025, 2026, and Longer Run are median projections. Source: The Fed, OCBC.

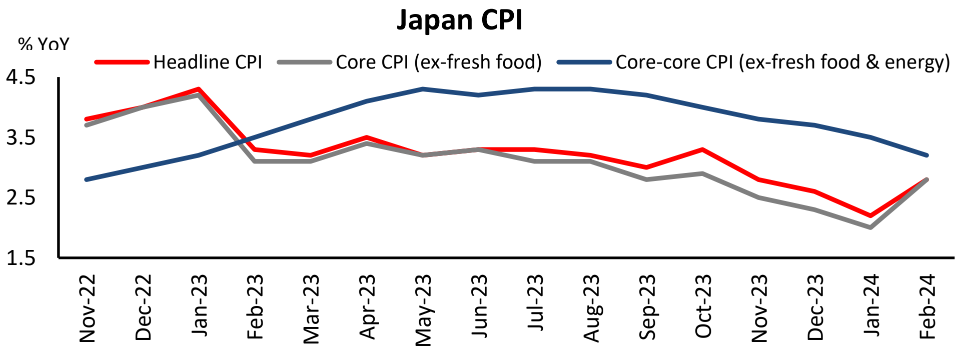
FOMC Dot Plot



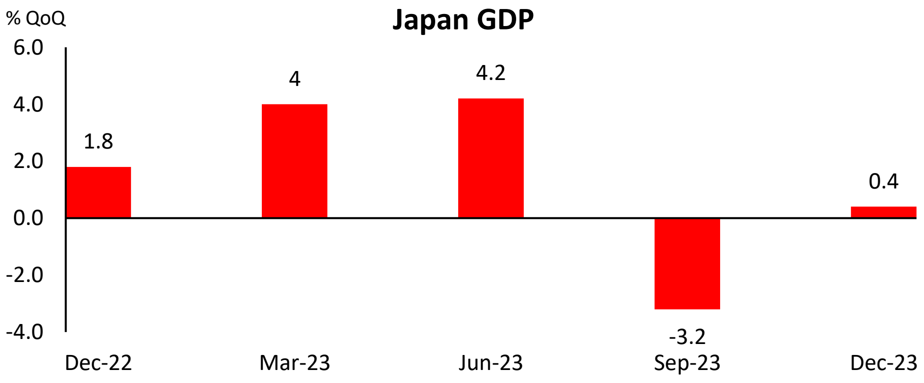
Source: The Federal Reserve, Bloomberg, OCBC.

Global: BoJ Exits NIRP, Removes YCC

- The Bank of Japan (BoJ) decided to exit its Negative Interest Rate Policy (NIRP) and remove its Yield Curve Controls (YCC) by a 7-2 vote on 19 March. It judged that "it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner toward the end of the projection period". YCC and NIRP to date "have fulfilled their roles". Given the market has been gearing up to today's decision, and the BoJ said it anticipates "accommodative financial conditions will be maintained for the time being".
- While the BoJ outcome is in line with our base-case, the 7-2 vote is arguably on the hawkish side. And although the BoJ said it would continue with JGB purchases, now that even the soft cap on yield is removed, the tolerance level of the BoJ is likely higher.
- Macro-side, challenges remain on the domestic front, with the economy narrowly missing a recession by printing a tepid 0.4% QoQ increase in 4Q23 from -3.2% in 3Q and household spending logged the biggest drop in 35 months in January, falling -6.3% YoY and was down for the 11th straight month. Moreover, while the wage hikes for Rengo union workers (accounting for ~17% of the workforce was solid), it remains to be seen whether SMEs (accounting for 99% of all Japanese enterprises) can cope with such hikes and pass on labour costs to consumers. Markets will continue to monitor how wage hikes make its way through the economy and assess whether the BoJ's 2% inflation target will be sustained.



Source: Bloomberg, Statistics Bureau of Japan.

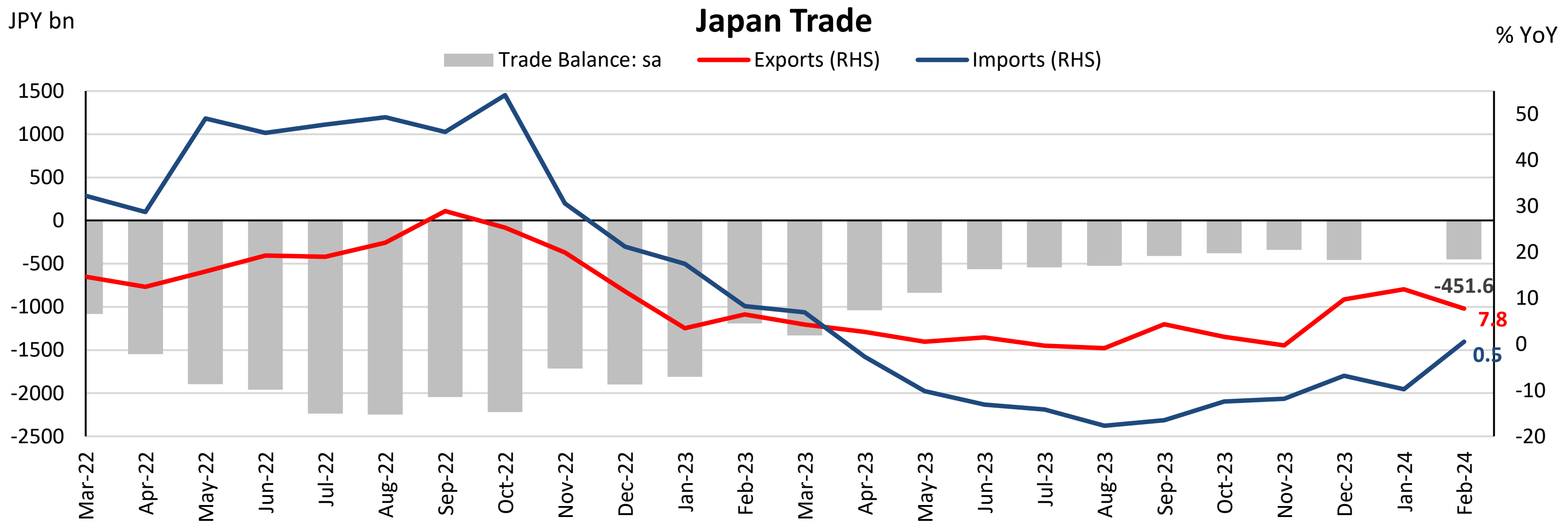


Source: Bloomberg, Statistics Bureau of Japan.

Source: Bloomberg, Statistics Bureau of Japan, OCBC.

Global: Japan Autos and Semis Lead February Trade Expansions

- February exports saw a greater-than-expected increase, posting 7.8% YoY against consensus 5.1% and slowing from 11.9% in January (attributed to Lunar New Year distortions). Solid growth in outbound shipments were driven by sales of transport equipment which grew 20.1% YoY. Machinery exports expanded 3.7% YoY led by semiconductor machinery at 6.9% YoY, while electrical machinery shipments increased 7.7% YoY driven by semiconductors at 6.4% YoY.
- By region, exports to the US and Europe expanded 18.4% YoY and 14.5% YoY respectively, also driven by demand for Japanese autos. Exports to China saw a marginal 2.5% YoY rise.
- Imports grew 0.5% YoY to reverse its -9.8% drop in January, matching consensus, bringing the overall seasonally adjusted trade balance to -JPY451.6bn, above consensus expectations of -JPY840.1bn.

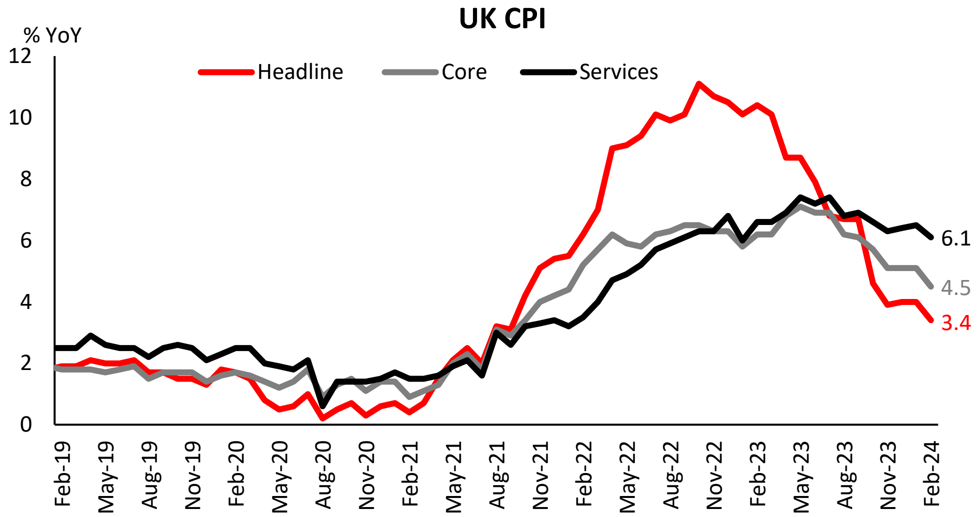


Source: Bloomberg, Statistics Bureau of Japan.

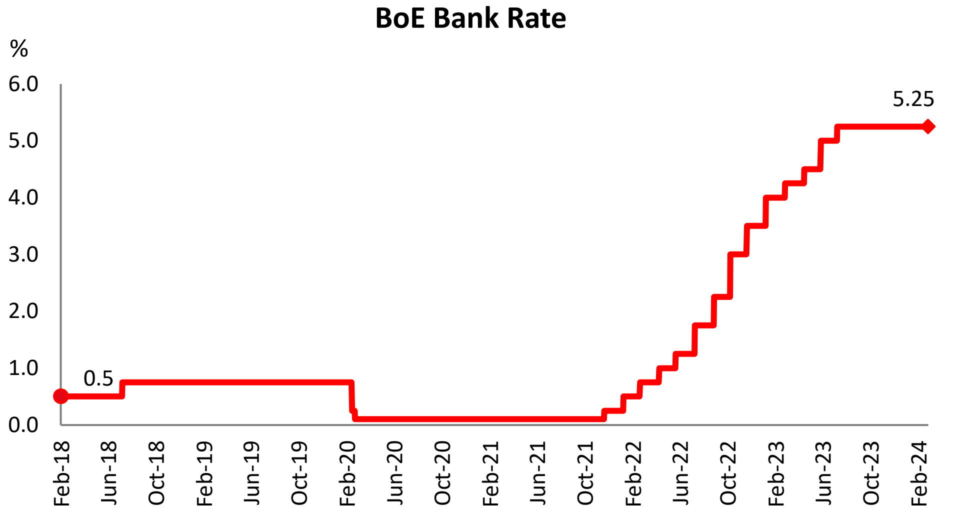
Source: Bloomberg, Statistics Bureau of Japan, OCBC.

Global: UK Inflation Slowed in February; BoE Left Rates Steady

- The CPI print in February cooled sharply to 3.4% YoY (0.6% MoM) from 4.0% YoY (-0.6% MoM) in January, slightly below consensus and BoE expectations of 3.5% YoY (0.7% MoM). The core measure, which excludes energy, food, alcohol and tobacco fell in line with consensus to 4.5% YoY from 5.1% YoY while services inflation fell to 6.1% YoY from 6.5% YoY prior, in-line with BoE projections. Overall, February's figures were an encouraging sign that inflation is moving towards the BoE's 2% target with it showing the slowest increase since 2021.
- The BoE left its policy rate unchanged at 5.25% on 21 March, with the vote count showing that that no member in the MPC supported a rate increase for the first time since Sep 2021. While Governor Bailey said that there are "further encouraging signs that inflation is coming down," he maintained that the BoE is not "yet at the point where we can cut interest rates" and did not endorse any precise timing on cuts. We continue to monitor the trajectory of services inflation and still look for a potential cut sometime in 3Q24.



Source: Bloomberg, Office of National Statistics.



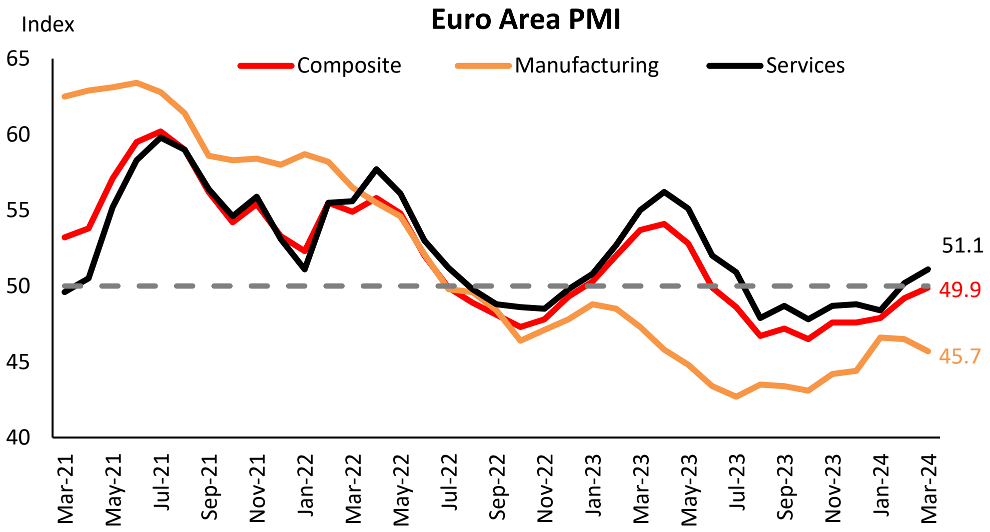
Source: Bloomberg, Bank of England.

OCBC

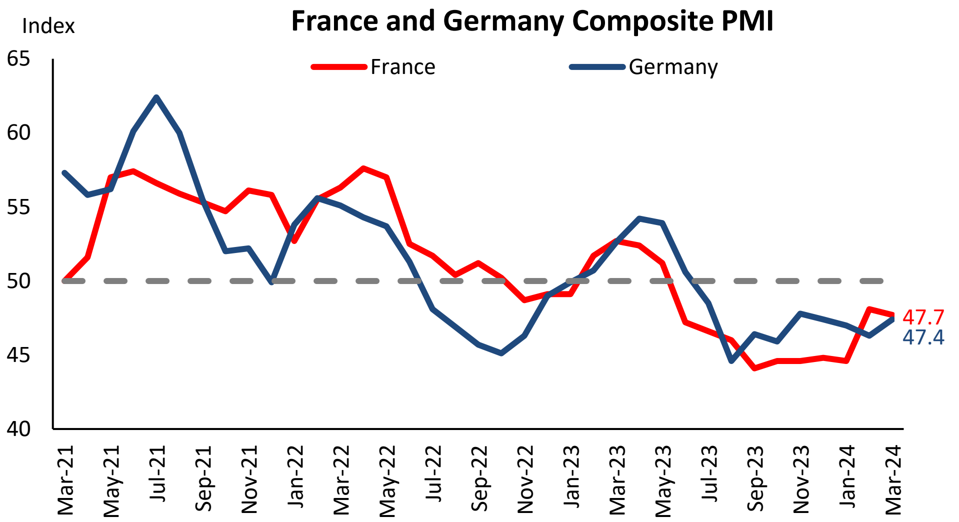
Source: Bloomberg, ONS, BoE, OCBC.

Global: A Mixed Bag for Euro Area PMIs

- Some recovery momentum observed in Euro Area flash PMIs for March, with composite PMI remaining in contractionary territory but improving to 49.9 from 49.2 prior and services staying in expansion at 51.1 from 50.2. Both measures came in better-than-expected, with consensus anticipating 49.7 and 50.1 respectively. Manufacturing, however, continued to contract at 45.7, worsening from 46.5 prior and lower than consensus expectations of 47.0.
- Breakdown for national economies was mixed with the composite reading for Germany rising to 47.4 from 46.3 prior, but falling for France to 47.7 from 48.1 prior.
- S&P Global's press release indicated that "selling price inflation moderated in March, cooling for the first time in five months", indicating that disinflation and subdued growth remains the main theme for the Euro Area in 1Q-2Q. We continue to expect the ECB to begin its easing cycle in June.



Source: Bloomberg, S&P Global.



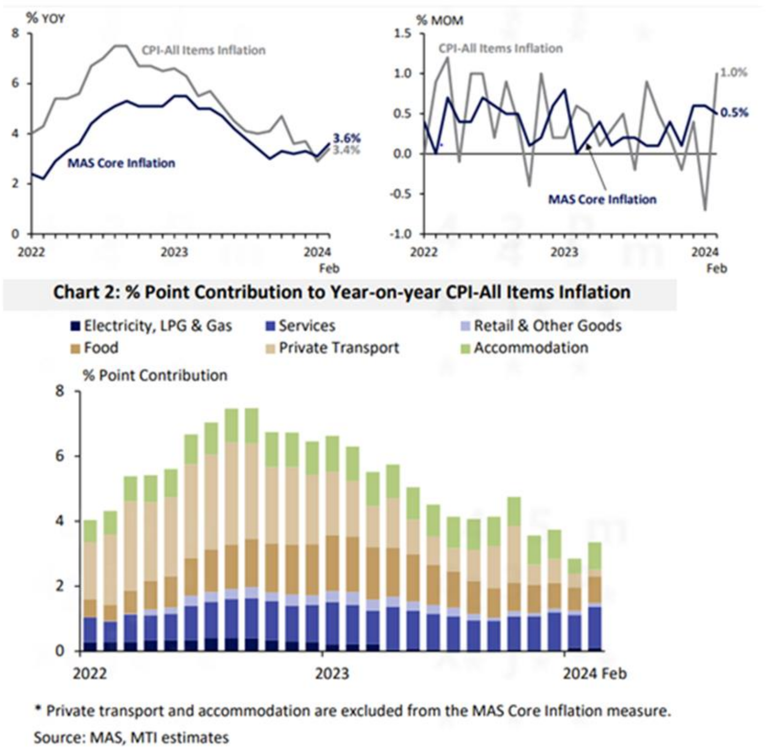
Source: Bloomberg, S&P Global.

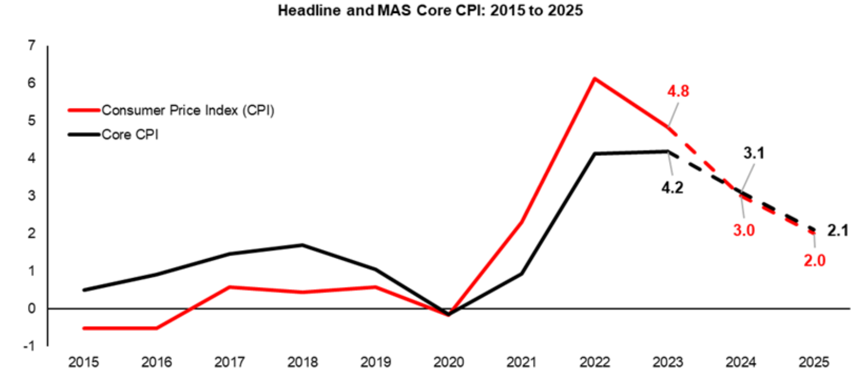
OCBC

Source: Bloomberg, S&P Global, OCBC.

Singapore: Look past the February rebound in Headline and Core CPI

- Headline inflation reaccelerated from 2.9% YoY (-0.7% MoM nsa) to 3.4% YoY (1.0% MoM nsa), attributable to higher accommodation (mainly due to the additional earlier S&CC rebates which were not disbursed in February, which also affected housing maintenance and repair costs) and core CPI.
- This is in line with our forecast of 3.4% YoY (1.1% MoM nsa) but a tad higher than the Bloomberg consensus forecast of 3.2% YoY. Notably, the key segments contributing to the February uptick were recreation & culture (5.5% YoY), healthcare (4.6%), housing & utilities (3.9%), food (3.8%), education (3.4%), miscellaneous goods & services (2.6%). One silver lining was the lower COE premiums which helped to rein in private road transport costs.
- The inflation outlook trajectory remains a tad bumpy in the near-term, but largely intact to ease over the medium term. MAS-MTI noted that while crude oil prices have risen, most food commodities and intermediate and final manufactured goods prices have continued to decline. In addition, services associated with overseas leisure travel is tipped to moderate as supply ramps up, and the gradually appreciating S$ should continue to temper imported inflation in the quarters ahead.
- With Budget 2024, S&CC rebates will also apply for April, July and October. Moreover, the housing supply is also being ramped up, so accommodation inflation, especially for rental, should also continue to ease. We lower our 2024 full-year headline inflation forecast to 3.0% YoY but keep our core inflation forecast at 3.1%.





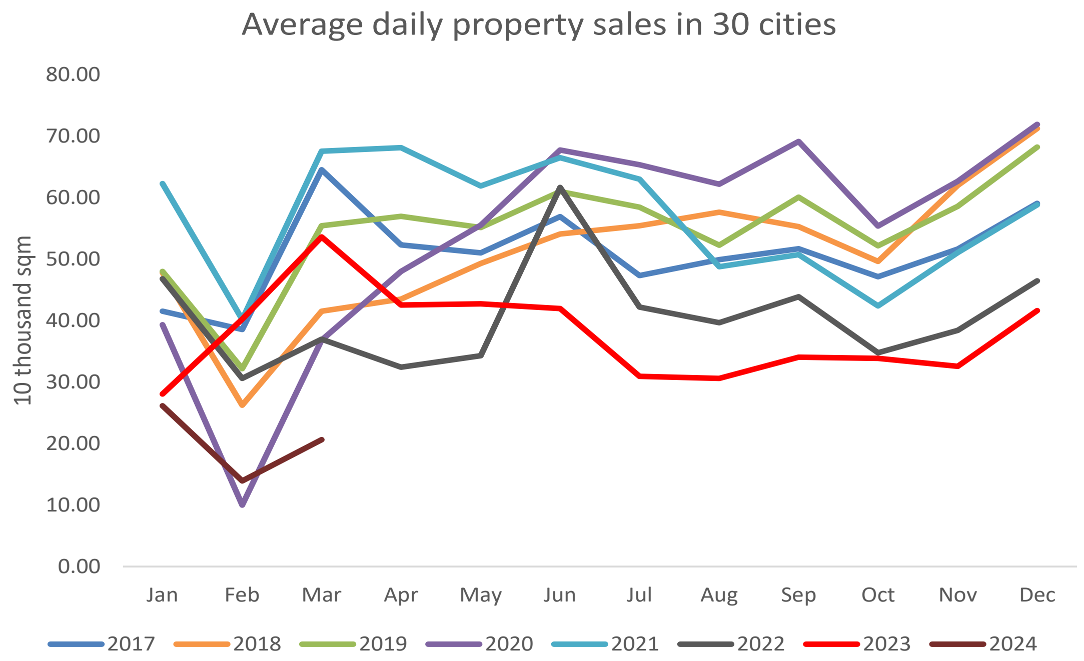
Note: Dotted lines indicate OCBC estimates.
Source: MAS, Singstat, CEIC, OCBC

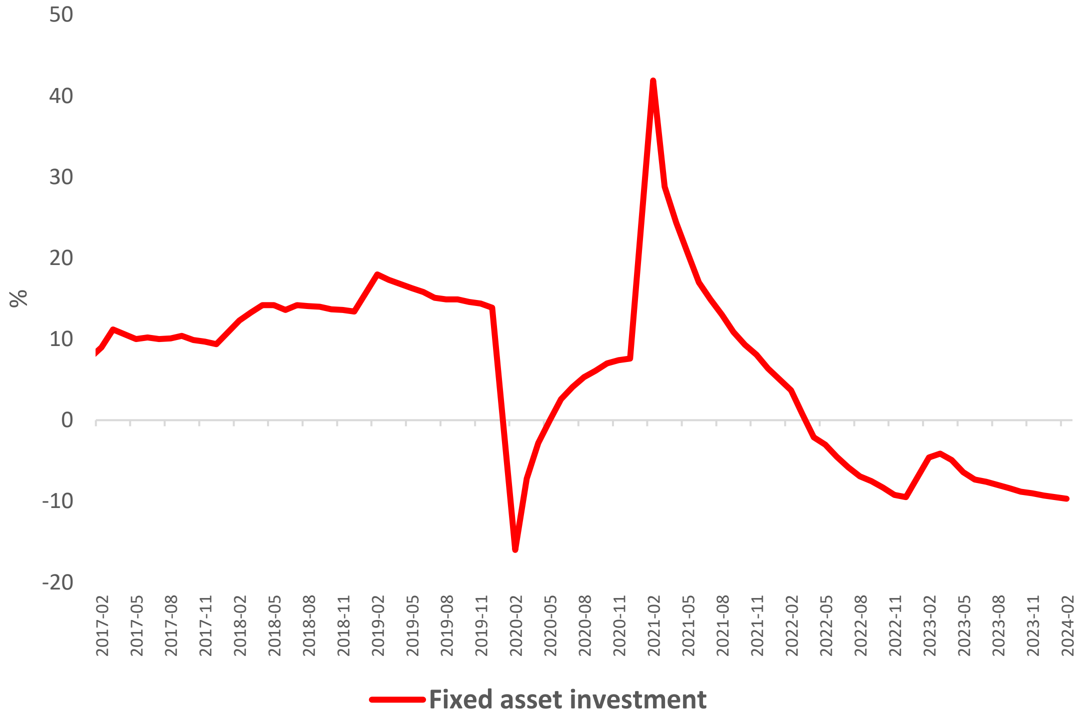
OCBC

Source: MAS, Singstat, CEIC OCBC.

China: Better Growth Prospects but Property Remains Weak

- China's economic data in the first two months supported a more upbeat tone.
- However, property transaction volumes remained low in the first quarter despite more easing measures in tier-1 cities. In addition, property investment fell further by 9% in the first two months of 2024.
- Possible solutions to property market? 1) State acquisition of unsold inventory from the developer? 2) Developers to recycle the capital via the IPOs of the REITS.



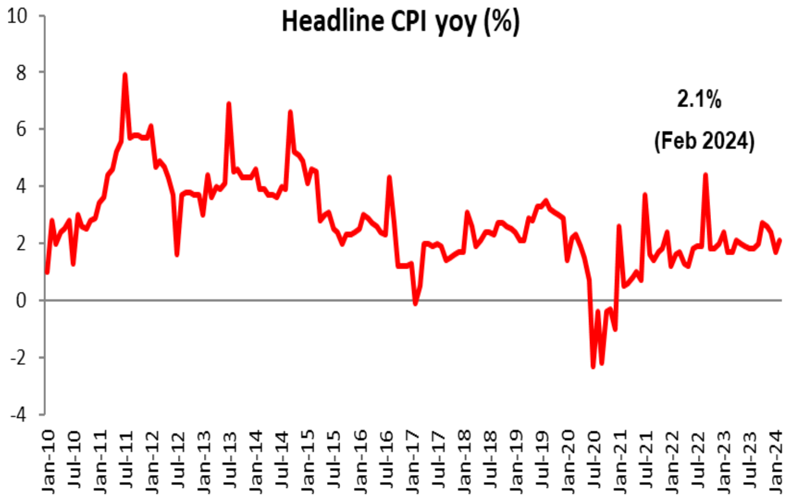


Source: Wind, CEIC, OCBC

HK: Labour Market Stayed tight

Labour participation rate at record low

- Hong Kong’s job market remained tight, with both the seasonally adjusted unemployment rate and underemployment rate unchanged, at 2.9% and 1.0% respectively in Dec 2023 - Feb 2024. Despite the talent admission and labour importation schemes, Hong Kong’s total labour force continued to contract. Meanwhile, the labour participation rate refreshed record low at 57%. Total labour force decreased to 3,797k in Dec 2023 - Feb 2024, down by 2.7k comparing to Nov 2023 - Jan 2024.
- Breaking down by industry, unemployment rates in import/export trade and wholesale sector (3.1%) and financing, insurance, real estate, professional and business service sector (2.5%) saw a slight uptick.
- Separately, Hong Kong's inflation picked up to 2.1% in February, largely due to the Lunar New Year effect. Prices of miscellaneous services (+3.6% YoY) and food (+2.2% YoY) grow by an accelerate pace during the month, while that of clothing and footwear (1.3% YoY) slowed notably. On the other hand, housing inflation reached the highest level since 2022, at 3.0% YoY.

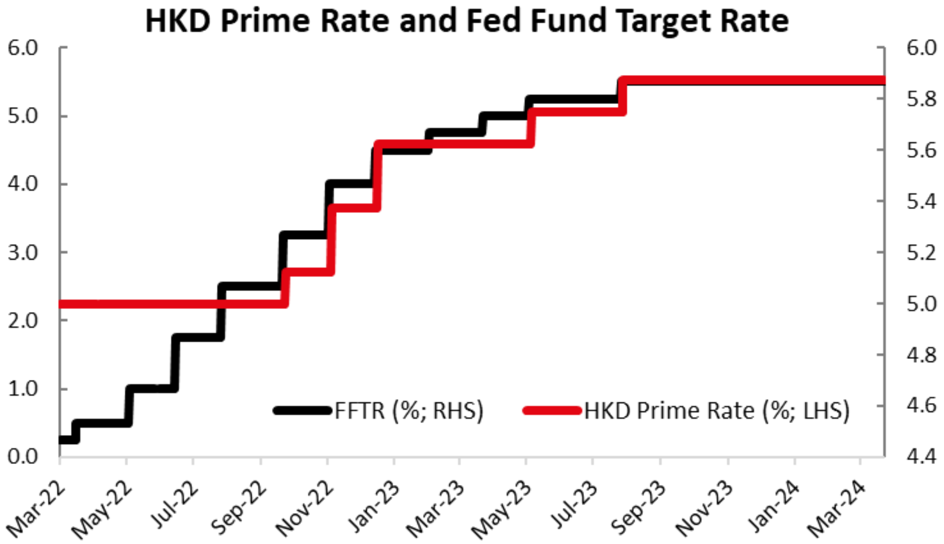


Source: HK Census and Statistics Department, OCBC

HK: HKD Prime Rate Unchanged Following Fed's Pause Decision

See room for 50bps cut in HKD prime rate this year

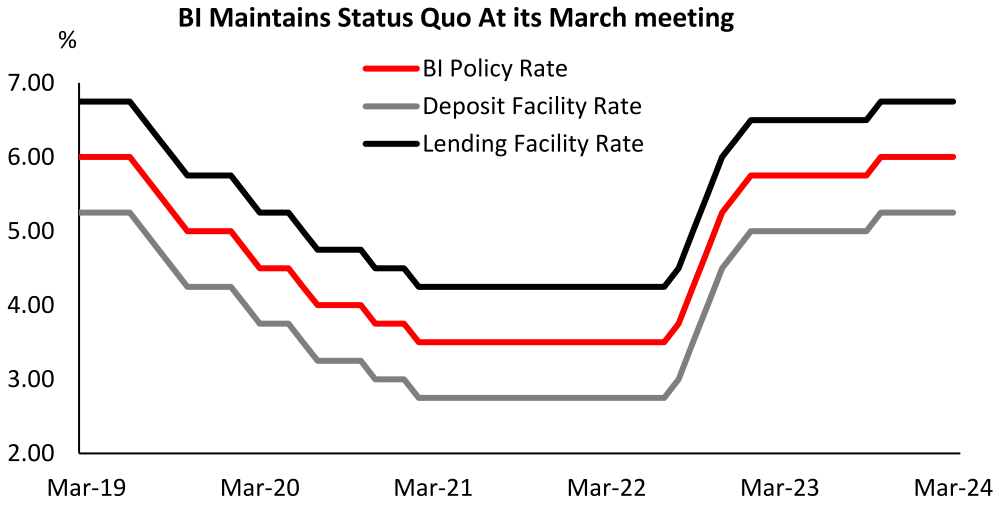
- As Fed stayed put, major banks in Hong Kong also announced to keep their HKD prime and deposit rates unchanged.
- The local banks are likely to be in a wait-and-see mode before any Fed rate cuts materialised. As and when Fed kickstarted its easing cycle, HKD rates should follow the downtrend of USD rates, though likely at a sticky and lagged manner. We continue to see 50bps cut in HKD prime rate this year, with the first cut likely in June, following the footstep of Fed.
- In the near term, we expect HKD liquidity to turn mildly tighter as some return of confidence and flows may coincide with quarter-end. Southbound Stock Connect flows amounted to RMB109.79bn month-to-date (as of 22 March), comparing to the average of RMB51.5bn for a full month over the past five months. At the same time, there were tentative signs of stabilization in Hong Kong's housing market after the removal of cooling measures, which may drive up HKD loan demand in the months ahead.



Source: Bloomberg, OCBC

Indonesia: BI Maintaining Status Quo

- Bank Indonesia left its policy rate unchanged at 6.00%, in line with expectations. BI made no changes to its assessments on growth, inflation and external balances. Specifically, BI noted that it is confident that the recent volatility in inflation is temporary, and that inflation will remain within its 1.5% - 3.5% target range.
- We expect GDP growth to slow this year to 4.8% YoY versus 5.0% in 2023 on the back of fading commodity tailwinds, some normalisation in household consumption following the election-related boost and a wait-and-see approach on investment spending. This, we believe, will validate BI's bias to support growth and ease monetary policy settings. Our expectation remains for a cumulative 125bp in rate cuts from BI, starting in late 2Q24, mirroring our house view on the timeline of the US Federal rate cuts.



Source: Bank Indonesia, CEIC, OCBC

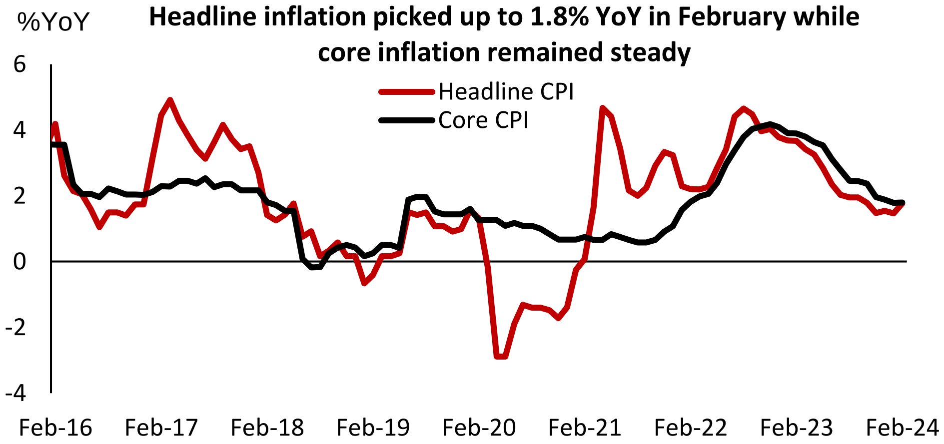
Source: Bank Indonesia, CEIC, OCBC.

Malaysia: CPI Uptick

- February's headline CPI rose to 1.8% YoY, beating market consensus and January's print of 1.5%. Meanwhile, core inflation remained steady at 1.8% YoY.

- February's uptick was led by housing, water, electricity, gas, and other fuels, which rose to 2.7% YoY from 2.0% in January, followed by recreation, sports, and culture (1.6% from 0.8%) and transportation (1.2% from 0.7%). Specifically, the higher utilities inflation primarily reflects the implementation of the adjustment in water tariffs for domestic users in Peninsular Malaysia and Labuan starting on February 1st. This more than offset the easing in other key components: food and beverages (1.9% YoY in February from 2.0% in January), restaurants and accommodation services (2.9% from 3.2%), health (2.2% from 2.4%), and education (1.5% from 1.7%).

- Looking ahead, the inflation outlook continues to hinge on the timeline and mechanism of fuel subsidy rationalization in the country. To that end, we maintain our forecast for 2024 headline inflation at 2.5%, implying some pickup in price pressures in the coming months.



Source: CEIC; OCBC Bank

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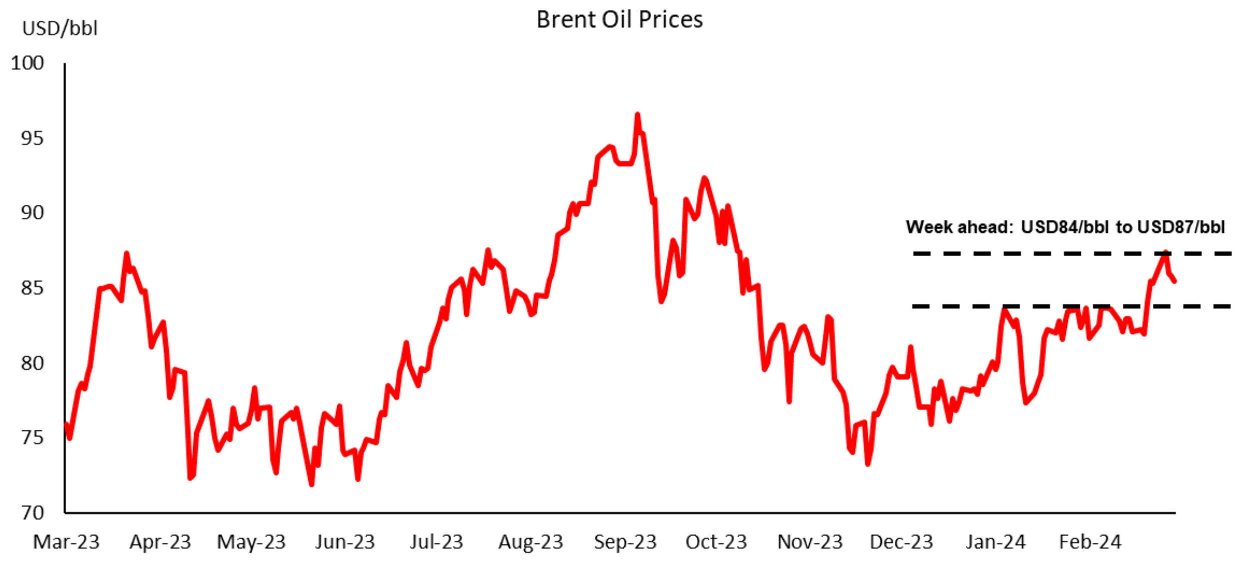
Source: DOSM, CEIC, OCBC.

Commodities

Crude Oil: Prices May Trade Range

- Crude oil benchmark futures closed mixed for the week ending March 22nd: WTI declined by 0.5% to USD80.6/bbl, while Brent rose marginally higher by 0.1% to USD85.4/bbl.
- Last week, both crude oil benchmark futures reached multi-month highs on March 19th before paring gains due to a stronger DXY profile, Gaza ceasefire talks, and technical factors. However, we expect prices to remain supported driven by tighter oil market and heightened geopolitical risks. Indeed, the oil market started the week firm following an escalation in conflicts in the Middle East and Europe.
- For the week ahead, we expect Brent oil prices to trade within a range of USD84-87/bbl. US data, such as the February PCE core deflator, could generate some intra-day volatility, but sentiment in the oil market will likely remain broadly identical to last week.



Source: Bloomberg, OCBC

Source: Bloomberg, Reuters, OCBC

FX & Rates

FX: Stronger RMB Fix Calm Sentiments

- **DXY:** Focus for FX markets was on RMB fix following the weaker than expected fix last Fri, that triggered a round of AXJ FX weakness into NY close. At this point, USD still present a relative yield advantage and Fed has communicated that they are in no hurry to cut rates. This would probably change only when US data starts to show more signs of softening, and this puts focus on core PCE this Fri.
- **EURUSD:** EUR fell. The recent round of ECB speaks have been dovish with a number of officials somewhat voicing support for an earlier easing, given the retreat in Euro-area inflation. Even the usually hawkish Bundesbank Governor admitted that the probability of a first cut before the summer break in August is increasing though he did add that rates cuts would not be automatic once they begin.
- **USDSGD:** Re-acceleration in SG CPI reflected the effects of Lunar New Year and was well within guidance of policymakers that core CPI is expected to rise in current quarter. This should dampen market chatters that a potential MAS easing is round the corner. S$NEER strength is likely to persist in the interim and likely only fade at some point later this year when core inflation in Singapore start to ease more materially. We expect MAS to maintain policy status quo at the upcoming MPC meeting in Apr. S$NEER is still expected fluctuate in the range of +1.5% to +1.9% above our-model implied mid.
- **USDCHF:** Last week, SNB became the first DM central bank to cut rates. The move was motivated by disinflation trend which was well underway in Switzerland. Headline and core CPI are at 1.2%, 1.1%, respectively after hitting a peak in Feb last year and well under the 2% conditional inflation target ceiling. This was consistent with our view that SNB could face a policy regime shift as inflation is falling, growth is slowing in Switzerland and domestic companies are feeling the pain. The benefits of holding a strong FX policy to curb imported inflation has diminished and there is room for SNB's tight policy to ease. Markets are now pricing in more than 85% chance of another cut at its next MPC in Jun. This probability could potentially rise further if we do see further downticks in Swiss inflation print below 1%. Next data release on 4 Apr. We retain our bullish view on USDCHF and still like the pair to trade higher.

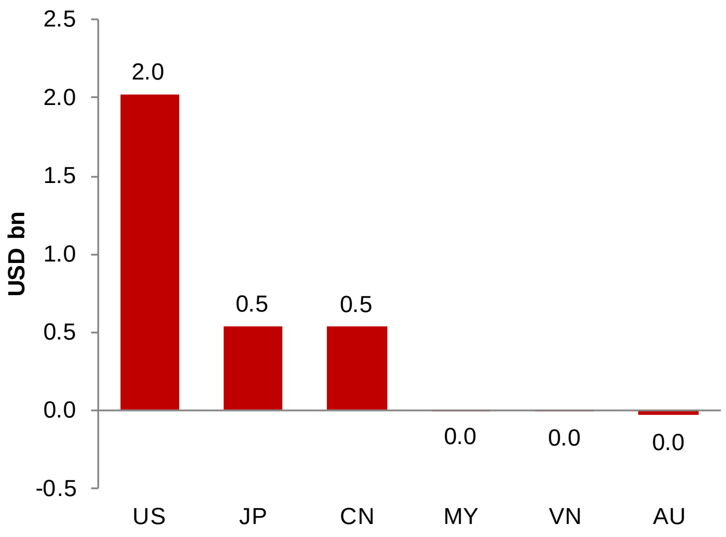
Sources: OCBC.

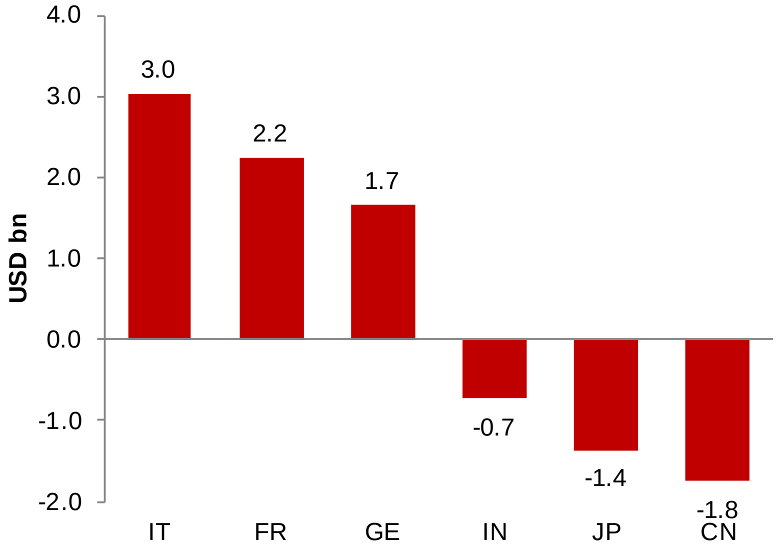
Asset Flows

Global Equity & Bond Flows

- Global equity markets saw net outflows of $21.3bn, a decrease from the inflows of $55.7bn last week.
- Global bond markets reported net inflows of $5.4bn, a decrease from last week's inflows of $7.7bn.

Equity top gainers & losers	Bonds top gainers & losers

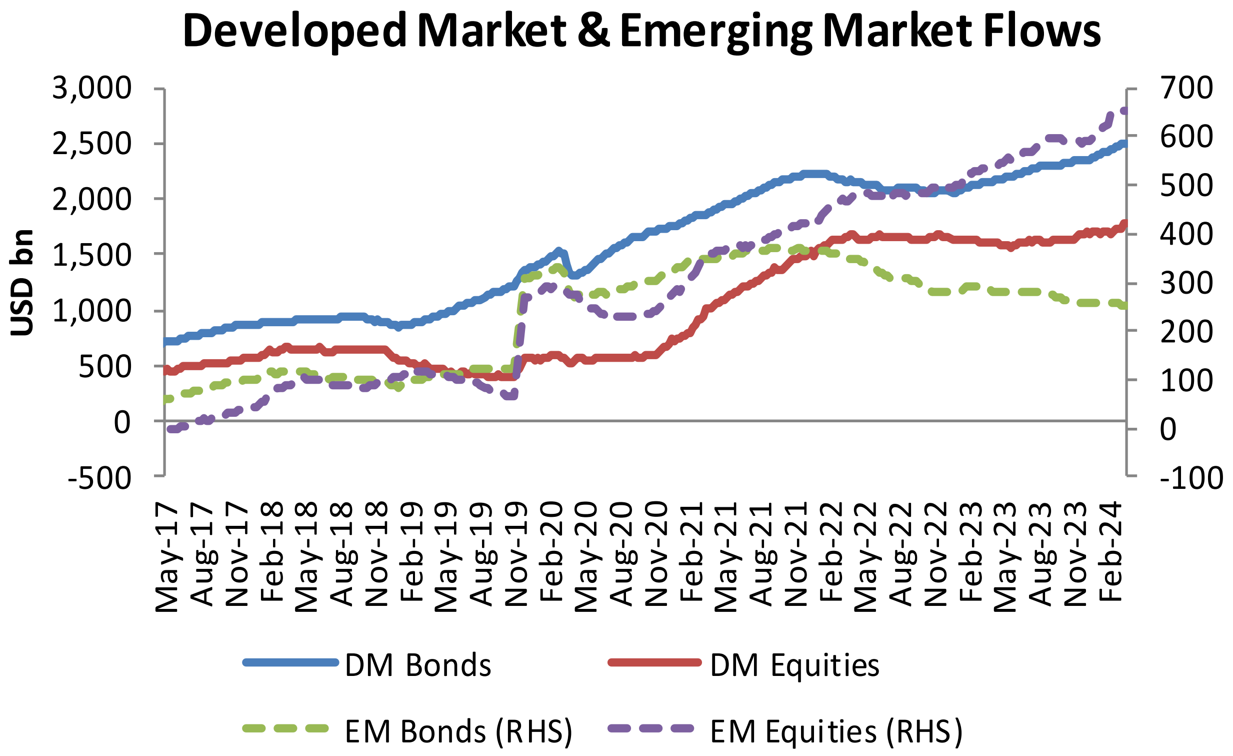




Source: OCBC, EPFR

DM & EM Flows

- Developed Market Equities ($20.7bn) and Emerging Market Equities ($548.58mn) saw outflows.
- Developed Market Bond ($5.4bn) saw inflows while Emerging Market Bond ($566.52mn) saw outflows.



Source: OCBC, EPFR

Thank you

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