Mizuho Asia Quarterly – 2024 Outlook

Economics & Strategy | Asia ex-Japan

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Asia Quarterly

— 2024: Acrophobia —

Fear of Heights: **Obsessing about a soft landing** in fact reveals the **fear of** *an uncontrolled descent* from uncomfortable, perhaps unfamiliar, **heights**. This involves perilously *high policy rates* entailing *elevated yield volatility amid* worryingly *heightened geo-political risks*. And despite easing, *inflation* is *inconveniently buoyant* while USD still has altitude (and attitude!).

"Higher for Longer": The most offending, stand-alone, cause of acrophobia is arguably from **post-Volcker record-high policy rates**. **US exceptionalism**, led by resilient jobs/consumption, ironically **aggravates downside risks** insofar that it bolsters confidence about "*higher for longer*". But this could easily be flipped to *the* "*higher you climb, harder you fall*" ***when, not if,*** **lagged and variable policy transmission comes home to roost**.

Heightened Geo-political Risks: "New normal" or not, **heightened geo-political risks** with *two on-going wars* with non-negligible risks of wider spill-over and *simmering US-China tensions* **aggravate economic/inflation risks** and **elevate uncertainty**. Limited visibility on global political/policy risks is exacerbated by a raft of elections; including the US Presidential elections.

Elevated Valuations: Arguably, **what renders the path ahead in 2024 even more precarious**, and **any recovery fragile**, is that **valuations are elevated,** *if not extremely rich*. **Global equities, led by Wall St are soaring** (Nasdaq setting records), while **exceptionally low risk premium** means *richly valued risk assets* continue to *jack-up latent balance sheet risks*. What that means is that the probability of adverse financial shocks is raised.

All said, **there should be *no comfort about a soft-landing***, *much less cavalier confidence about an unfettered upturn.* Deference to "economic **gravity**", and **attendant acrophobia** is warranted.

28th December 2023

Mizuho Bank, Ltd.

Asia & Oceania Treasury Department

Executive Summary

- **US: Goldilocks bets** on *soft-landing hopes* emboldened by US exceptionalism and *aggressive rate cut bets* inspired by emphatic dis-inflation **risk being wrong-footed**. Fact is, rate **cuts on dis-inflation will be measured**. Whereas **rate cuts** will be **proportional to recession risks**; as record post-Volcker come home to roost. **US election** *with Trump 2.0 risks* **adds to uncertainty**.

- **EZ:** More pronounced *external vulnerabilities*, more proximate *geo-political/conflict spill-over* render **EZ economic prospects far more dire**; **challenge ECB hawkish divergence** from the Fed. "*Competitive pivot*" and *attendant EUR stumbles* are as such par for the course.

- **Japan:** The **BoJ's** justifiably **more restrained on reducing policy accommodation** given doubts about durable demand-pull inflation and potentially adverse fiscal/economic impact. But even with just NIRP-to-ZIRP, *JPY is poised for sharp appreciation amid "Fed/global pivot"*.

- **China: Stimulus efforts** will **backstop** but ***not*** durably **boost**; much less *"lift all boats"* in Asia. Fact is, 2024 growth is likely to decelerate to ~4.5% as persistent geo-political headwinds conspire with conflicting socio-economic objectives hampering stimulus efficacy. *Chronic confidence deficit* and *adverse property-shadow banking-local government feedback loops* are key **bugbears**.

- **India:** Structural elements of *out-performance* and elections boost not absolved of cyclical headwinds and *interim constraints*. The **RBI tightening screws on** surging (unsecured) consumer credit, will temper growth; especially as "twin deficit"-hobbled rupee impedes rate cuts for now.

- **Indonesia:** While **elections** and **softer inflation** ought to **boost** consumption, *diminished commodity tailwinds, related C/A slippage* and BI cuts hobbled by *rupiah stability risks dampen*.

- **Korea**: **Semi-conductor turnaround**, contained inflation and some upside from higher shipping rates **set the stage for catch-up** and *KRW out-performance;* but contingent on getting past global hard-landing risks. Likewise, **Taiwan** is *poised to enjoy the chip sector rebound*, although subject to global demand and lingering geo-political risks post-election. **Vietnam** stands to **benefit** from **downstream external demand**. ***But*** not redeemed from **fiscal strains** and **property hangover**.

- **Singapore:** Finance-/lifestyle-/asset-led **service sector resilience** to bolster manufacturing recovery; with some resultant growth pick-up amid cooling inflation. *Nonetheless*, **probability of MAS (slope) easing increases** as *risks of global downturn*. In turn, relative *S$NEER moderation from extremely rich valuations* is par for the course; as *payback for record slope increments and front-loaded "step appreciation"*. **Malaysia's path to political compromise** spells *bumpiness for the MYR;* with **downside risks** initially **accentuated by Oil's sensitivities to "hard landing"** threats elsewhere. *Further out*, spill-over electronics boost sweetens the deal for *ringgit catch-up*.

- **Thailand** and **THB continue to enjoy tourism resumption**; specifically, *as tourism spend catches up* with arrivals as *Chinese tourists return*. What's more, *bottoming manufacturing*, *softer inflation* and *further fiscal boost* bode well too. But *on-off fiscal concerns keep volatility intact*. **Philippines** remains **a bit of a laggard** amid hobbled exports recovery. Moreover, "twin deficit" risks and sticky/volatile inflation cast a pall on PHP; intensifying policy dilemma.

- **Australia: China and global demand risks** continue to **feature**, *amplifying commodity impact* and *latent AUD volatility*. Yet, **stickier path down for inflation** merely **ups RBA tensions** *without AUD backstop*. Meanwhile, **abrupt consumer/job market weakness** are risks watched.

- **Asia/AXJ:** Lingering *CNH downside risks*, *live" global hard landing* threat and non-linear USD path from *"competitive pivot"* **compromise** the **ability of AXJ to exploit bearish USD bets** (premised on sharp rate cuts by the Fed). **AXJ traction to improve more durably only further out in 2024** as *manufacturing bottoms* led by semiconductors and *relatively softer real US rates*.

AT A GLANCE

Yearly Economic Forecasts

Country	2022			2023			2024			2025		
	GDP	CPI	C/A	GDP	CPI	C/A	GDP	CPI	C/A	GDP	CPI	C/A
United States	2.1	4.0	-3.8	2.6	4.1	-3.0	1.4	2.8	-2.8	1.7	2.3	-2.7
Japan	1.0	0.6	2.8	2.0	3.2	3.3	0.9	2.4	3.7	0.8	1.7	3.6
Eurozone	3.3	8.4	-0.7	0.6	5.4	1.2	0.9	2.8	1.4	1.6	2.1	1.6
ASIA (ex-Japan)	4.3	3.5	1.5	5.3	2.3	0.7	4.9	2.5	0.7	4.7	2.8	0.5
ASEAN-6	5.8	4.6	1.1	4.3	3.5	1.1	4.6	3.1	1.3	4.8	2.8	1.3
China	3.0	1.9	2.2	5.2	0.2	1.5	4.5	1.0	1.4	4.3	1.6	1.1
India	6.7	5.9	-2.0	7.2	6.2	-1.8	6.6	5.4	-1.8	5.8	5.4	-1.9
Korea	2.6	5.1	1.8	1.4	3.5	1.3	3.0	3.4	1.7	2.7	3.0	2.0
Singapore	3.6	6.1	19.3	1.0	4.7	16.6	2.3	3.3	17.0	2.3	3.3	16.8
Malaysia	8.7	3.4	3.1	4.0	2.5	2.3	4.5	2.7	2.7	4.5	2.4	2.9
Indonesia	5.3	4.2	1.0	5.1	3.7	-0.1	5.0	3.1	-0.6	5.1	3.0	-1.1
Thailand	2.6	6.1	-3.0	2.4	1.3	-0.2	3.6	2.1	1.9	3.8	1.6	2.6
Philippines	7.6	5.8	-4.5	5.6	6.0	-2.9	5.4	4.0	-2.4	6.0	3.1	-2.0
Vietnam	8.0	3.2	-0.3	4.8	3.3	0.2	5.3	3.5	0.7	5.4	3.6	0.8
Australia	3.7	6.6	1.1	2.0	5.6	0.6	1.7	3.3	-0.7	2.2	3.1	-0.8

Note: Asia (ex Japan) includes China, India, South Korea, Singapore, Hong Kong, Taiwan, Malaysia, Indonesia, Thailand, Philippines, Vietnam

The current account forecasts for G3 are from the IMF (October 2023 WEO edition)
GDP and CPI are annual change and C/A (Current Account) is stated as a % of GDP)

Quarterly Outlook – Growth and Consumer Inflation

Growth Forecasts

GDP Growth Forecasts (% YoY)

Country	2022		2023				2024				2025		2022	2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(FY22/23)	(FY23/24)	(FY24/25)	(FY25/26)
Australia	5.8	2.3	2.4	2.0	2.1	1.7	1.5	1.5	1.7	2.0	2.1	2.2	3.7	2.0	1.7	2.2
China	3.9	2.9	4.5	6.3	4.9	5.2	4.4	3.7	4.8	4.8	4.7	4.8	3.0	5.2	4.5	4.3
India	6.2	4.5	6.1	7.8	7.6	7.3	6.9	7.0	6.2	6.4	5.9	5.6	6.7 (7.2)	7.2 (7.4)	6.6 (6.4)	5.8 (5.7)
Indonesia	5.7	5.0	5.0	5.2	4.9	5.2	5.1	4.9	5.0	5.2	4.9	5.0	5.3	5.1	5.0	5.1
Malaysia	14.2	7.0	5.6	2.9	3.3	4.1	4.6	4.5	4.5	4.3	4.5	4.7	8.7	4.0	4.5	4.5
Philippines	7.7	7.1	6.4	4.3	5.9	5.7	5.3	5.6	5.3	5.2	5.4	6.2	7.6	5.6	5.2	6.0
Singapore	4.0	2.1	0.4	0.7	0.7	2.5	2.5	2.3	2.0	2.2	2.3	2.4	3.7	1.0	2.3	2.3
Korea	3.1	1.4	0.9	0.9	1.4	2.2	2.7	2.9	3.2	3.4	2.9	2.8	2.6	1.4	3.0	2.7
Taiwan	3.6	-0.4	-2.9	1.4	2.3	4.1	5.8	4.6	3.4	2.9	3.0	2.8	2.5	1.2	4.1	2.9
Thailand	4.6	1.4	2.7	1.8	1.5	3.5	2.4	3.4	4.0	4.5	4.0	3.6	2.6	2.4	3.6	3.8
Vietnam	14.4	5.9	3.3	4.1	5.3	6.5	5.6	5.5	5.0	5.1	5.2	5.5	8.0	4.8	5.3	5.4

Consumer Inflation forecasts

Inflation Forecast (%YoY)

Country	2022		2023				2024				2025		2022	2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(FY22/23)	(FY23/24)	(FY24/25)	(FY25/26)
Australia	7.3	7.8	7.0	6.0	5.4	4.5	3.6	3.3	3.1	3.2	3.1	3.0	6.6	5.6	3.3	3.1
China	2.7	1.8	1.3	0.1	-0.1	-0.4	0.2	0.5	0.9	2.4	2.5	1.9	2.0	0.2	1.0	1.6
India	7.0	6.1	6.2	4.6	6.4	5.3	4.7	5.5	3.9	6.0	6.3	6.0	6.7 (6.7)	5.6 (5.3)	5.0 (5.4)	5.8 (5.6)
Indonesia	5.2	5.6	5.2	4.0	2.9	2.8	3.0	3.3	3.2	2.9	3.0	3.1	4.2	3.7	3.1	3.0
Malaysia	4.5	3.9	3.6	2.8	2.0	1.8	2.2	2.3	3.0	3.1	2.9	2.8	3.4	2.5	2.7	2.4
Philippines	6.5	7.9	8.3	6.0	5.4	4.3	3.7	4.2	4.3	3.9	3.6	3.2	5.8	6.0	4.0	3.1
Singapore	7.3	6.6	6.1	5.1	4.1	3.5	3.1	3.5	3.2	3.5	3.1	2.9	6.1	4.7	3.3	3.3
Korea	5.9	5.2	4.7	3.2	3.1	3.1	3.4	3.6	3.3	3.0	3.1	2.8	5.1	3.5	3.4	3.0
Taiwan	2.9	2.6	2.6	2.0	2.5	2.9	2.8	2.7	2.5	2.3	2.0	1.9	3.0	2.5	2.6	2.0
Thailand	7.3	5.8	3.9	1.1	0.5	-0.4	1.8	2.3	2.4	2.0	1.7	1.6	6.1	1.3	2.1	1.6
Vietnam	3.3	4.4	4.2	2.4	2.9	3.5	3.7	3.6	3.4	3.3	3.8	3.6	3.2	3.3	3.5	3.6

Central Bank Policy Outlook

Central Bank Policy Outlook

Country	Central Bank	2022		2023				2024				2025	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
US	**Fed**	**3.00-3.25%**	**4.25-4.50%**	**4.75-5.00%**	**5.00-5.25%**	**5.25-5.50%**	**5.25-5.50%**	**5.00-5.25%**	**4.25-4.50%**	**3.50-3.75%**	**3.00-3.25%**	**3.00-3.25%**	**2.75-3.00%**
Australia	**RBA**	2.35%	3.10%	3.60%	4.10%	4.35%	4.35%	4.35%	4.00%	3.50%	3.00%	2.75%	2.75%
China	**PBoC**	3.65%	3.65%	3.65%	3.55%	3.45%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
India	**RBI**	5.90%	6.25%	6.50%	6.50%	6.50%	6.50%	6.25%	5.75%	5.50%	5.00%	5.00%	5.00%
Indonesia	**BI^**	4.25%	5.50%	5.75%	5.75%	5.75%	6.00%	6.00%	5.50%	5.25%	5.00%	5.00%	4.75%
Malaysia	**BNM**	2.50%	2.75%	2.75%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Philippines	**BSP**	4.25%	5.50%	6.25%	6.25%	6.25%	6.50%	6.50%	6.00%	5.50%	5.00%	4.75%	4.50%
Singapore	**MAS***	Off-Cycle Re-centring Higher to Prevailing S$NEER	Re-centring Higher to Prevailing S$NEER (S: 2.0%)	Status Quo		Status Quo		S: 2%	S: 2%	S: 1%	S: 0.5%	S: 0.5%	S: 1%
								M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold
								W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold
Korea	**BoK**	2.50%	3.25%	3.50%	3.50%	3.50%	3.50%	3.50%	3.25%	3.00%	2.75%	2.75%	2.75%
Taiwan	**CBC**	1.625%	1.750%	1.875%	1.875%	1.875%	1.875%	1.750%	1.500%	1.375%	1.375%	1.375%	1.375%
Thailand	**BoT**	1.00%	1.25%	1.75%	2.00%	2.50%	2.50%	2.50%	2.00%	1.50%	1.50%	1.50%	1.50%
Vietnam	**SBV**	5.00%	6.00%	5.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.00%	4.00%	4.00%

,* The MAS conducts monetary policy via FX. Specifically it adopts a trade-weighted SGD appreciation at "modest and gradual" (estimated to be 2% per annum) pace as default. Starting 2024, the MAS will conduct quaterly meetings (Jan, Apr, Jul, Oct) from bi-annual meetings.
S: Slope (expressed as per annum % appreciation), M: Mid-Point, W: Width of S$NEER
^ BI shifted to the 7 Day repurchase rate as the benchmark rate in August 2016. This by default constituted 125 bps reduction from the last policy rate

FX Outlook

FX Forecasts	As at 22 Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25	Jun 25
USD/JPY	142	135 - 146 (139)	132 - 141 (135)	132 - 140 (137)	130 - 138 (133)	130 - 137 (132)	129 - 137 (132)
EUR/USD	1.10	1.08 - 1.14 (1.12)	1.09 - 1.13 (1.10)	1.08 - 1.12 (1.08)	1.07 - 1.10 (1.07)	1.05 - 1.11 (1.07)	1.05 - 1.12 (1.08)
USD/CNY	7.14	7.04 - 7.46 (7.28)	7.17 - 7.57 (7.42)	6.87 - 7.50 (7.18)	6.83 - 7.34 (7.06)	6.76 - 7.13 (6.95)	6.73 - 7.13 (6.95)
USD/INR	83.2	81.4 - 85.8 (83.8)	82.2 - 86.2 (84.5)	79.2 - 86.4 (83.5)	78.2 - 84.7 (82.0)	78.0 - 83.6 (80.8)	77.2 - 82.3 (79.6)
USD/KRW	1302	1230 - 1360 (1305)	1220 - 1410 (1325)	1180 - 1350 (1280)	1160 - 1290 (1220)	1150 - 1300 (1200)	1130 - 1230 (1180)
USD/SGD	1.324	1.301 - 1.358 (1.338)	1.332 - 1.403 (1.380)	1.310 - 1.395 (1.353)	1.292 - 1.366 (1.328)	1.286 - 1.345 (1.322)	1.304 - 1.370 (1.330)
USD/TWD	31.2	30.4 - 32.5 (31.8)	31.2 - 33.8 (32.2)	29.6 - 32.5 (31.5)	29.1 - 31.6 (30.0)	28.6 - 30.7 (29.5)	28.5 - 30.6 (29.4)
USD/IDR	15483	15050 - 15680 (15400)	15080 - 16290 (15710)	15020 - 16160 (15520)	15010 - 15830 (15350)	15010 - 15810 (15200)	14710 - 15970 (15200)
USD/MYR	4.63	4.52 - 4.72 (4.62)	4.49 - 4.81 (4.73)	4.42 - 4.77 (4.68)	4.42 - 4.80 (4.61)	4.39 - 4.77 (4.58)	4.37 - 4.72 (4.58)
USD/PHP	55.4	53.7 - 56.4 (55.2)	54.6 - 57.4 (56.9)	53.5 - 57.6 (56.0)	52.6 - 56.9 (55.2)	52.7 - 56.9 (54.8)	52.2 - 56.9 (54.8)
USD/THB	34.6	34.0 - 36.5 (35.5)	35.0 - 37.6 (36.1)	33.8 - 36.6 (35.2)	33.3 - 36.0 (34.2)	33.1 - 35.4 (34.0)	32.9 - 35.2 (33.8)
USD/VND	24250	23600 - 24700 (24300)	24000 - 24800 (24500)	24000 - 24600 (24100)	23900 - 24400 (24000)	23700 - 24300 (23900)	23700 - 24300 (23900)
AUD/USD	0.680	0.627 - 0.706 (0.663)	0.609 - 0.673 (0.645)	0.632 - 0.708 (0.660)	0.643 - 0.698 (0.673)	0.638 - 0.719 (0.685)	0.665 - 0.725 (0.690)

Table of Contents

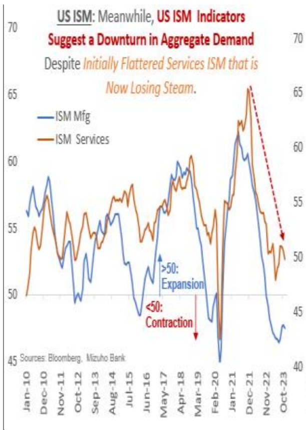
Global Overview: Accentuated, Not Assuaged, Risks

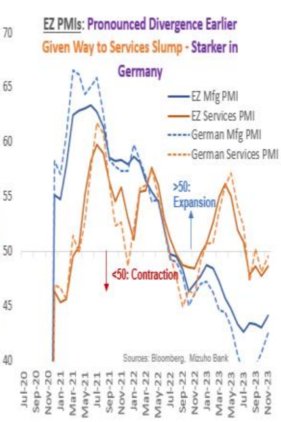
Growth: Global **recession risks are accentuated**, ***not assuaged***, by premature *"soft landing"* cheer. For one, because taking comfort in resilience to **double down on** *"higher for longer"* **global policy rates** amplifies recession risks. Even more so, with shocks from *geo-political tail risk*. In particular, **as resultant inflation threat from energy/food price shocks persist**, which *simultaneously dampen discretionary demand*, sharpen policy dilemma. In any case, the façade of **post-pandemic demand resilience may prove to be a fleeting mirage**; as **fading pent-up** demand amid tail-end goods-to-services migration **re-imposes binding constraints**. More so, **long and variable lags of policy tightening** accentuate risks of a sharper downturn in 2024. And to be sure, ***industrial relief*** from bottoming goods ***sector blunts, but does not obviate, lingering drag***.

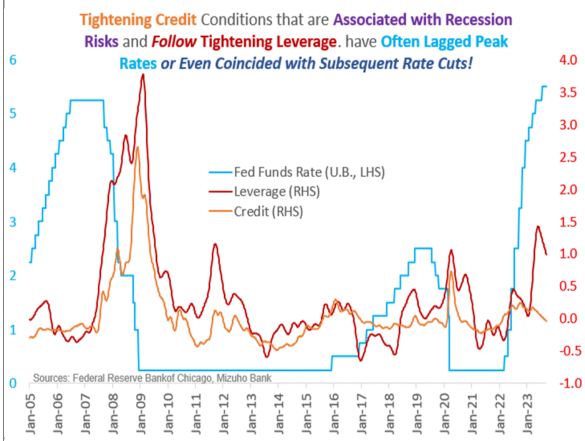
Risks: Cyclical downturn risks give way to tempered, but **profound, structural impediments**. First, **lagged credit constriction from post-Volcker record tightening** poses the **most daunting threat to any soft-landing**. Second, aggravated cost shocks and/or arrested activity from *conflict/geo-politics* or *inclement weather* accentuate drag. Also, *manufacturing-services de-coupling* post-pandemic may **mute** a **cyclical upturn in manufacturing** if pent-up services demand fizzles. Especially *as depleted savings/debt build-up belatedly slam into higher rates*. In any case, **structural growth erosion** *(albeit uneven)* from **fraught geo-politics/fragmented global supply-chains** *remains an overhang for unfettered global rebound*. Finally, **elections risks feature**, led by *prospects of Trump Presidency 2.0*.

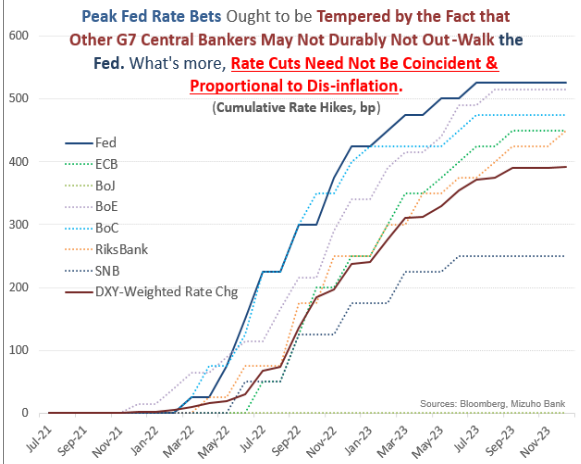
Policy: A **solid run of global dis-inflation**, flattered by a soft base and energy price pullback, **motivates emphatic "pivot" hopes**. ***But*** it is misguided to bank on unbridled rate cutting cycle *based on dis-inflation alone;* certainly not as rapid as 2022-23 hikes. Instead, ***absent a sharp downturn,*** **rate cuts** are **likely to be measured and gradual**. Not only *conditional on, and corresponding to, dis-inflation*, but also, **insuring against future inflation volatility**. This explains why the Fed's Dec 'Dot Plot' (flagging 75bp of cuts) and ECB guidance fall far short of far more aggressive market rate cut bets. That said, **unexpectedly sharp slowdown** *from lagged tightening* will **supplant dis-inflation based calibration with sharper cuts**. And this is ***a key risk that we assess***. In which case, it is *not congruent with "risk on" pivot rallies* that markets couple with bets on deeper cuts.

Asset Markets: **Soaring equities in 2023** more than offsetting 2022 wobble suggest that **peak rates and pivot hopes have trumped global policy tightening**. And with *exceptionally low risk premium,* a wide range of **risk assets are rich**; as is the *irony of record post-Volcker tightening being shrugged off.* Details though are where the devil and doubt reside. And the *widening disparity between banking and headline equity indices* suggest a **build-up, rather than a n absence, of risks**. Admittedly, *ample reserve liquidity could prolong the "warm glow"*. **But** the danger is that a **confluence of leverage and higher rates** may **unnerve assumptions of a soft-landing**. Especially if it collides with **"crowding out"** by **enlarged government borrowing**, the sudden squeeze could constrict liquidity/credit and drive risk premiums higher, **setting the stage for risk-re-pricing**.





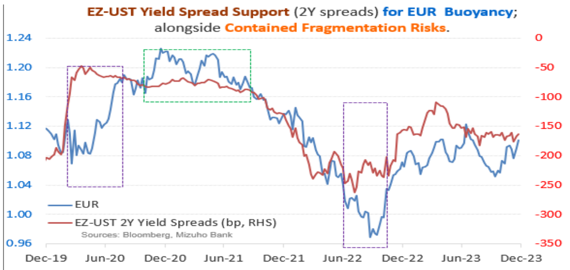


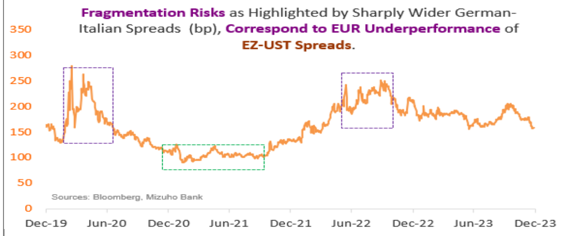


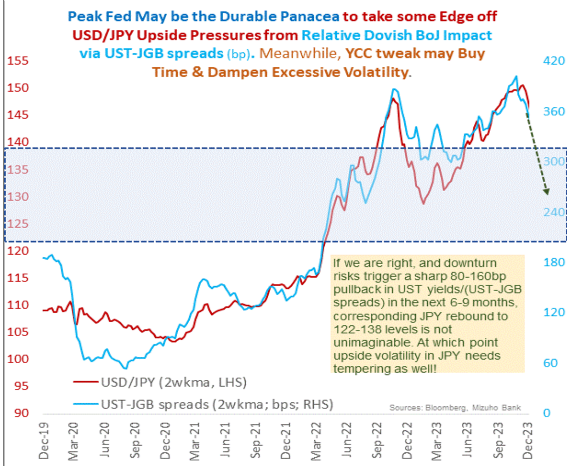
EUR/USD Outlook: **EUR faces turbulence** and *distinct downside risks;* **despite** received wisdom about **bearish "pivot USD"**. For one, more acute economic deterioration in EZ (vis-à-vis US) may force *abrupt policy inflection* by the ECB. This element of **"competitive pivot"**, more pronounced on global downturn, amplified via exports channels, may interrupt EUR pick-up (corresponding to USD sell-off); even **straight-out inflict EUR pain**. What's more, ***"fragmentation risks"*** may accompany more severe iterations of economic headwinds, which typically catalyze further EUR under-performance. Finally, **real rates spreads remain volatile** in terms of implied EUR impact. Point being, *EUR gains expected from "pivot" USD may be calibrated, if not challenged.*

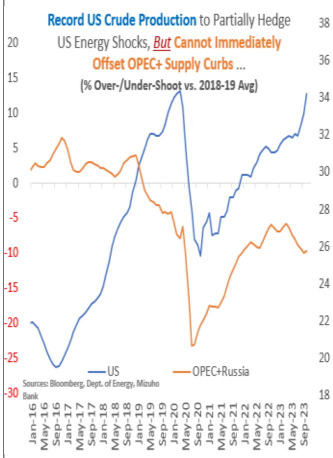
USD/JPY Outlook: In sharp contrast, ***the more emphatic "competitive pivot"*** is, the **more pronounced that JPY surge** is **likely to be**. Point being, it is **not merely** a case of a**mplified policy convergence** from all directions **that sharply reverses the massive JPY depreciation** (amid sustained global policy tightening). Instead, it also reflects ***"carry" squeeze magnified*** by the fact that JPY is the only funding currency. This dynamic in turn *asserting self-reinforcing JPY surge via Cross/JPY.* Consequently, the **BoJ** may find itself grappling with the ***exact opposite problem of excessive JPY strength*** into mid-/late-2024. Which is why the BoJ's considered and cautious approach to gradual policy tweaks is sensible. Meanwhile, JPY remains a "*BoJ problem with a Fed solution*".

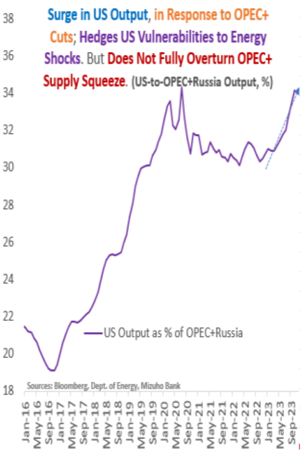
Oil (Brent): The road ahead suggests a **two-speed, bumpy path down for oil**. Down **as** *supply-demand imbalances ease despite lingering geo-political risks.* Bumpy because of opposing supply-demand forces. On the supply-side US-led non-OPEC ramp-up and OPEC compliance doubts may be offset by Saudi pushback. On demand, tensions between lagged downturn risks and travel resumption persist. Oil could be even twitchier with latent Gaza/Red Sea spill-over threat. Two-speed as initial, *more controlled descent on supply-dominated dynamics* may be *overtaken by sharper demand pullback.* Notably, **risk of adverse demand shocks** (60% odds), rather than a soft-landing. Consequently, this may entail a more emphatic correction heading towards mid-2024'; before gradual recovery in to late-2024.









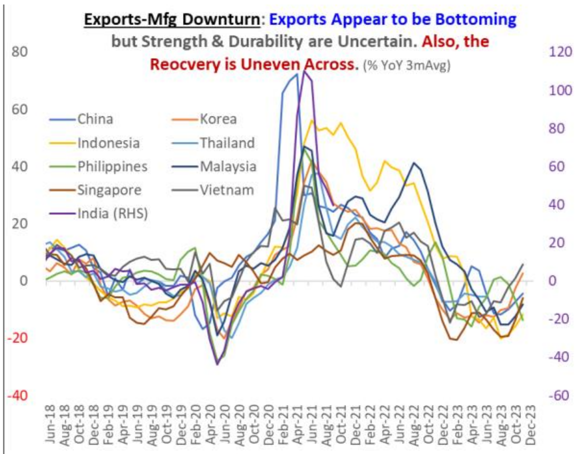


	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Fed Rate^ (%)	5.25-5.50	5.25-5.50	5.00-5.25	4.25-4.50	3.50-3.25	3.00-3.25	3.00-3.25
ECB Rate^ (%)	4.50	4.50	4.50	4.00	2.75	2.50	2.50
BoJ Rate (%)	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.00
EUR/USD*	1.06	1.10	1.12	1.10	1.08	1.07	1.07
	1.05-1.12	1.05 - 1.10	1.08 - 1.14	1.09 - 1.13	1.07 - 1.10	1.05 - 1.11	1.05 - 1.12
USD/JPY*	149.4	131.8	139	135	137	133	132
	138-150	141-152	135 - 146	132-141	132 - 140	130- 138	130-137
Brent Crude (US$/bbl)	95.3	79.4	76.5	68.0	62.8	65.5	68.8
	74.9-96.7	73.3-93.0	69.5-88.5	52.5-78.8	50.5-72.0	52.0-73.5	54.5-80.0

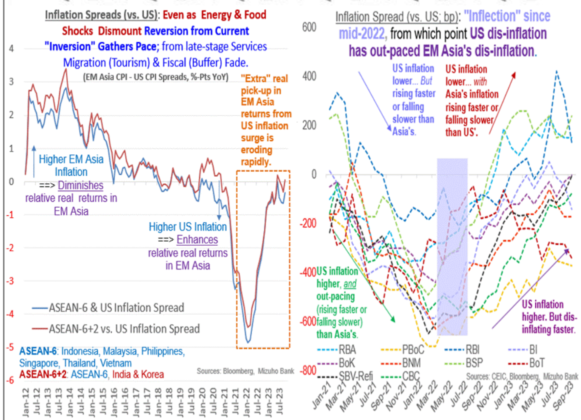
Note: Values in black are historical whereas those in blue represent forecasts.
* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.
^ Fed rates refer to the Fed Funds Target rate; ECB rates refer to the Deposit facility rate

Asia Outlook: Tail-Winds & Risks?

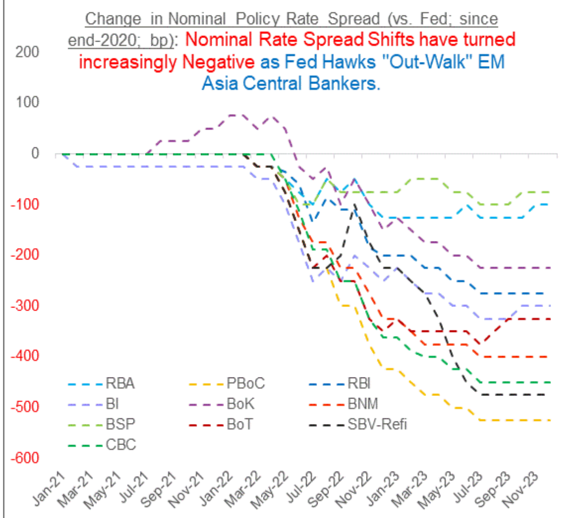
Output: An **odd mix of head- and tail-winds** coupled with **fading base effect boost from** means that **Asia's growth rate is likely to settle, if not soften** somewhat. Admittedly, *after a prolonged downturn,* bottoming manufacturing, led by semi-conductor upturn, has the classic ingredients for a leg-up in EM Asia. More so, as the *lagged normalization in Chinese travel points to follow-through catch-up in tourism spend* from global travel resumption. **But these** in-coming **tail-winds are not absolved of lingering tail-risks**. For one, *demand dent* or worse, *recession hit*, from lagged global policy tightening. Especially given *compressed margins* from prolonged cost shocks. Moreover, *higher debt, USD* and *China-related risks accentuate financial fragilities.*



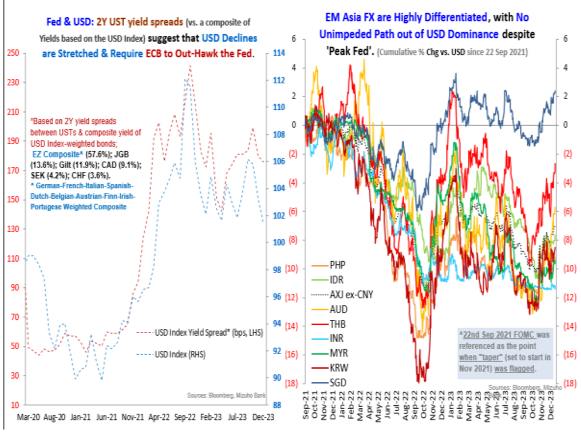
Inflation: A **mixed bag of inflation** will likely play out, with *high/volatile inflation in the Philippines*, while *easing inflation* provides ***little relief*** *for Vietnam, India, Singapore* or *Australia, as* price pressures remain *too elevated and/or volatile.* Admittedly, inflation may be contained elsewhere, led by Korea, and Thailand. *But* **global freight and resource disruption risks** alongside **security-driven stock-piling** suggest that ***underlying inflation*** may ***not only be cyclically buoyed, but structurally higher*** too. What's more, **varying degree of fiscal offset** that subdues headline inflation, in some cases, **understate lingering latent inflation risks**. Finally on-going two-way risks in currencies also means that **imported inflation risks are not dead and buried**.



Policy: Hence, **despite obvious progress on dis-inflation**, in most cases inflation being well off peaks, the ground is **not** sweet **enough for AeJ* central banks to unequivocally relinquish tightening bias**; although **mostly positioned comfortably at a hawkish pause**. What's more, **wider fiscal deficits** in countries such as Philippines, India, increasingly Indonesia, *require monetary policy to be relatively tighter;* suggesting diminished sensitivity of policy (rates) to dis-inflation. Crucially, **with** the **Fed pushing back on rate cut bets** brought forward, AeJ central banks are **acutely sensitive to destabilizing macro/currency provocations set off by premature easing**. In particular, *not jumping the gun on the Fed* easing is *necessary insurance for of BSP, BI, and perhaps the RBI;* given **distinct INR, PHP and IDR relative under-performance**. In any case, *Fed cues are awaited.*



FX: **Assumptions of sustained USD drop on Fed pivot bets risk being wrong-footed**. For one, given ***"competitive pivot"*** (vs. ECB, BoE etc.), USD slippage may be interrupted, liable for sharp reversals in H1. Meanwhile, attendant JPY strength from "competitive pivot" merely *mitigates, but does not overturn, AXJ slippage*. What's more, as **higher real US rates** amid rapidly eroding real rate (spread) advantage in EM Asia. Notably, these *vulnerabilities are accentuated for twin deficit currencies* (e.g. INR PHP, IDR). Finally, **persistent CNH pressures**, spells *spill-over pressure on AXJ^ for most of H1;* potentially exacerbated on a global downturn. **Further out in 2024** though as Fed rate cuts entrenches and global manufacturing bottoms, **AXJ may durably regain traction**.



*AeJ: Asia ex-Japan | ^AXJ: Asia ex-Japan FX.

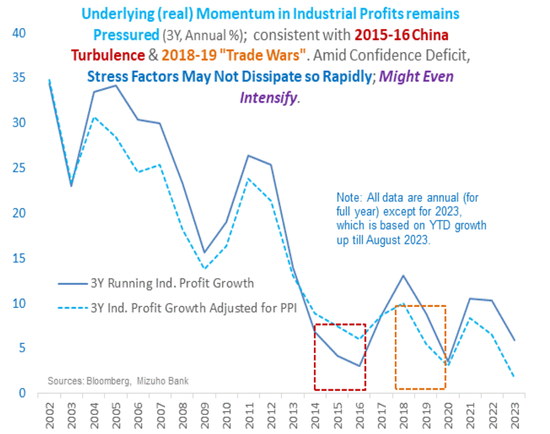
China: Temporary Lift, Not Durable Liberation

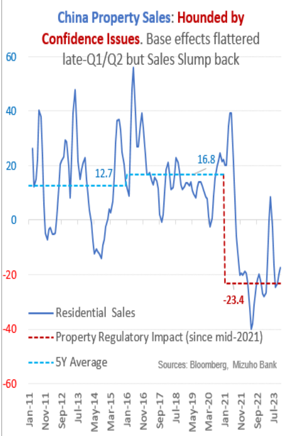
Growth: A low base coupled with drip-feed stimulus may ***temporarily lift*** China's growth above 5% for 2023, but ***not durably liberate*** **from binding structural constraints** (economic, demographic, geo-political and socio-political) set to drag GDP down closer to 4% in coming years. Admittedly, **global manufacturing** finding a **bottom** will **lift industry** (from a low base). But the ***binding confidence deficit manifesting as deflationary forces*** threaten to drag via services and investment regardless; leading to risks of bouts of stuttering activity. Problem is, the **confidence deficit will at best be assuaged**, **not absolved**, as policy stimulus falls short. Moreover, elevated leverage, global rates and persistent geo-political headwinds impede a resounding recovery. All said, ***durable liberation from structural impediments*** eludes.

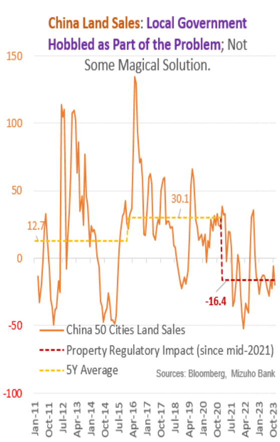
Industry: Admittedly, ***cyclical global manufacturing pick-up will provide critical industrial lift****;* given *China remains deeply integrated in,* and a *critical part of, global supply chains.* But a **shallow lift in industry** from a low base is **a cyclical silver lining**, *not silver bullet for much deeper structural restraints*. Especially as mounting **geopolitical hurdles** not only *impede output* critically *erode profits* due to by higher "security costs". This is exacerbated by **external demand dented** by *lagged credit tightening* and *dulling post-pandemic demand*. Crucially, China is **not durably liberated from diminished confidence** amid, higher credit intensity, financial stability concerns and a deep winter in the property sector. All of which conspire to hobble industrial "resonance"; thereby limiting growth multipliers.

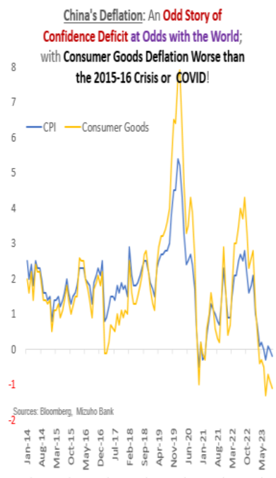
Growth dynamics: What's most worrying is that **policy desire to boost growth** is **fraught with inherent conflicts**, **binding constraints** and **opposing objectives**. As a result of which, *confidence*, *policy efficacy* and realizable growth potential are compromised. The single biggest **conflict** lies between desire for political "control" and need for private sector "confidence". **"Common Prosperity" overreach** underpins tech sector wobbles, housing crisis and shaky shadow banking; resulting in adverse impact on jobs, local governments and banking. Moreover, **liquidity life-lines buy time but not confidence**; as self-sustaining "organic" cash-flows elude. The niggling *question of who underwrites risks of financing backstops* given the **constraint of excessive leverage**, and **attendant financial stability risks**. Upshot: *Stimulus efforts muted; running into structural impediments*

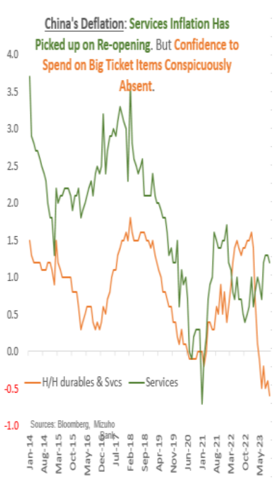
Inflation: **Consumer deflation**, *starkly at odds with sticky, relatively elevated, global inflation,* **reflects China's chronic confidence deficit *inflicting structural demand headwinds*.** And transitory pork-led food deflation merely highlights more *enduring dis-inflationary forces under the hood.* Notably, the **overriding narrative of shaken consumer confidence** – from jobs deterioration (*elevated youth unemployment*), and *negative wealth effects from* the *property* market crash – **stifles "second-round", demand-pull dynamics**. Moreover, insofar that chronic confidence deficit **deters producer price hikes**, resulting in *suppressed profits with attendant drag on growth dynamics that in turn feeds back to dent confidence,* **deflation-type outcomes may be entrenched.**



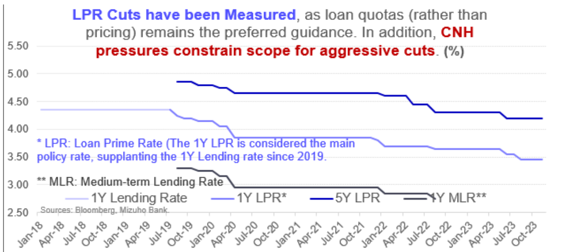


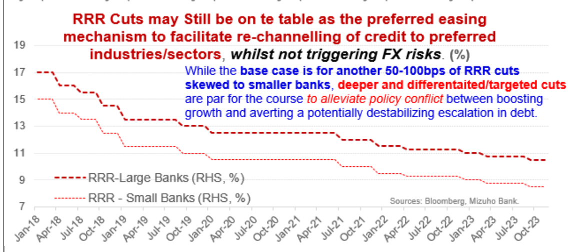




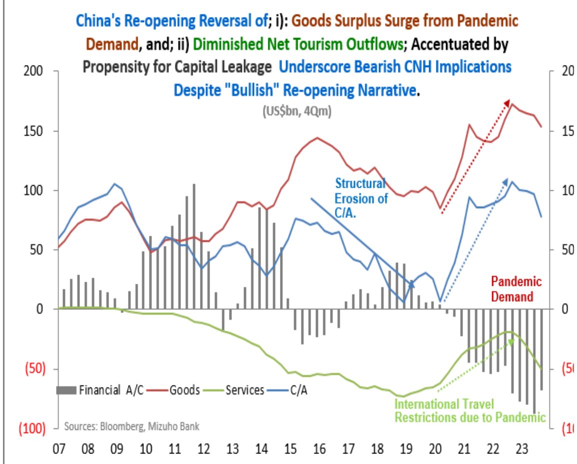


Policy: But **despite scope to ease implied by** entrenched demand-pull **inflation undershoot**, the **PBoC is unlikely to pull all stops**. Quite to the contrary, ***despite deflation, Beijing has flagged greater restraint with monetary stimulus***; *downgrading monetary policy stance from "forceful" to "prudent"*. On balance, a *measured 20-30bp of policy rate cuts and 50bp of RRR may be on the table*. But little more given competing policy objectives. Specifically, **stemming capital outflows** and ***arresting attendant CNY pressures*** is the **most consequential challenge**. In other words, **pursuit of CNY stability** is the **defining, competing policy objective**. Instead, **fiscal policy** is now **the "forceful"** tool of choice to backstop, if not boost, the economy. *0.8-1.0%-pt widening in fiscal deficit*, funded by central government-backed bonds is *arguably warranted*.

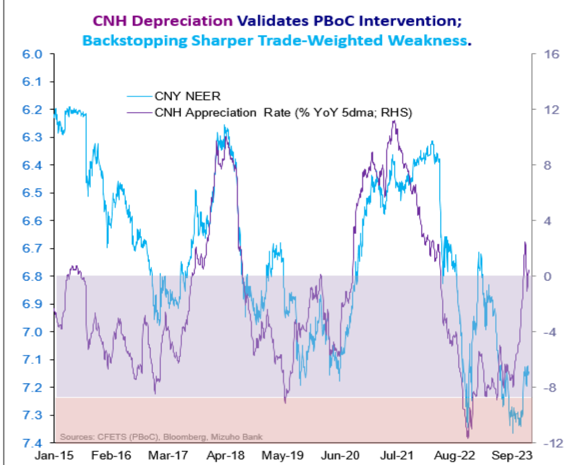




External Position: Our long-held (since late-2022) view of **"re-opening"** corresponding to a **weaker Current Account** (C/A) has been *validated in 2023*, and is expected **to endure into 2024**. For one, further *"normalization" of outbound tourism* (as passport renewals catch-up, flight/tour capacities are restored) is set to widen services deficit further, dragging the C/A surplus. What's more, the **Goods surplus**, dampened earlier by the post-pandemic goods-to-services shift, **may remain pressured by geo-political premium**; entailing both *high import cost shocks from global conflict* and *higher security premium* to circumvent sanction from US-China conflict. Finally, **capital outflows *amid policy uncertainty*** suggests an external position that is not just exceptionally, but **structurally, weaker**; and this may persist for a while yet.



FX: As a consequence of this ***undermined external position***, **CNY is structurally compromised** as well. In which case, *reversion (to a stronger) CNH cannot be simply presumed* as the default. Instead, the a**bility to staunch capital outflows will be a critical factor** in determining CNY backstop near-term; at least while two-way USD volatility persists. Whereas, as a softer USD trend entrenches (likely later in 2024), we can expect CNY to gains (vs. USD); although it may continue to be low-beta, under-performing other AXJ. Meanwhile, inflation differentials in theory ought to support CNH while hard-to-time geo-political risks through US elections may be the swing factors to keep in mind; bracing for volatility.



	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	4.9	5.2	4.4	3.7	4.8	4.8	4.7
CPI (% y/y)	-0.1	-0.4	0.2	0.5	0.9	2.4	2.5
Policy Rate (%)	3.45	3.35	3.35	3.35	3.35	3.35	3.35
USD/CNY*	7.30	7.15	7.28	7.42	7.18	7.06	6.95
	7.14-7.36	7.11-7.32	7.04- 7.46	7.17-7.57	6.87-7.50	6.83-7.34	6.76- 7.13

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

Box 1: China Woes: Liquidity Trap

Liquidity Trap Frustrating Pump-priming

China may be facing its **most challenging version of a liquidity trap yet**. Especially **as it tries**, with considerably greater difficulty, **to pump-prime its way out of adverse balance sheet and cash-flow shocks**; much of which was self-inflicted from brutal property sector crackdowns earlier.

The danger is, that **pump-priming efforts may be frustrated** by *binding confidence deficit impediments,* and not merely "zero-bound" limitations, that result in a "liquidity trap".

Pooling, Not Flowing

By definition, "liquidity trap" results from **monetary stimulus that "pools" but fails to flow**; with consequently impeded growth multipliers (from restrained credit creation) denying a self-sustaining recovery.

This underscores our **misgivings about the efficacy of selective pump-priming** comprising recent (albeit measured) rate cuts and liquidity infusion. Which merely constitutes *signalling response, not necessarily adequate resolution.*

Adverse Stock-Flow Feedback Loop

Especially **in the context of adverse balance sheet (stock) and cash-flow (flow) shocks** that *elevate uncertainty* and *hobble confidence;* inevitably accentuating the tyranny of a "liquidity trap" that impedes policy stimulus. The **threat of adverse feedback loops is reflected in the dire state of**;

i) *Country Garden,* one of China's largest private sector developer formerly touted to be a "survivor in the private sector property developer purge, *teetering on the brink of defaults* juxtaposed against;
ii) *Zhongrong,* one of China's top ten shadow banks, *missing payments on wealth management products* (WMP) related to trust loans made out to the property sector on account of short-term liquidity crunch.

Contagion Risks

To be sure, this is not undue fuss about specific firm defaults, but **justifiable concern about potential for a financial contagion**. Point being, **Country Garden and Zhongrong are neither one-off nor unrelated occurrences**. To the contrary, they are *inextricably linked via credit and cash-flow channels;* replete with **adverse feedback loops**. In particular, **between balance sheet/cash-flow shocks set off by property sector** travails, **the WMP industry**, (with more than 10% exposure to developer loans) and **households.**

Cross Defaults

What's more, **inter-dependence**, and **inextricable economic/financial linkages, run much deeper and wider**; across the property, construction, wider ancillary goods/services, shadow-banking, banking and household sectors. Inevitably, this **accentuates vulnerabilities to cross-defaults** from any shock – be it to cash-flows and/or the balance sheet – and regardless of its point of origin.

Accentuated by Solvency Crisis

Crucially, the **amplification of contagion risks** *that follows accentuated vulnerabilities to cross defaults* **is exacerbated by on-going solvency crisis in the property sector**. As a result of which, the ability of policy pump-priming aimed at arresting the liquidity crunch may be inadvertently impaired. Put differently, **merely flushing liquidity** (direct supply infusion or via price/rate cuts) **may not be effective in resolving a solvency crisis already underway**; unlike a "before-the-fact" liquidity life-lines meant to prevent a cash crunch from turning into a solvency crisis.

Simply put, **liquidity provisions** (effectively financing cash-flows) for beleaguered, highly indebted and bleeding property developers **cannot overcome chronic shortfall in net revenue** (operating cash- flows). *Nor can liquidity relief for downstream* (be it shadow banks or LGFVs*) *property-induced stress.*

More Pernicious "Liquidity Trap"

The upshot is that **China's current iteration of "liquidity trap" appears more pernicious** than the garden variety. For it is **not merely the inability to stoke demand-side recovery**, but more worryingly, the ***possible failure to ensure financial and macro stability***; which is a **pre-condition to avoid worse-case recession scenarios**.

Non-Interchangeability

All said, the PBoC's **liquidity response** to spots of distress (e.g. in trust companies/shadow banks and anywhere else) **risks falling woefully short**. Why?

In a word, **non-interchangeability**; as it applies to liquidity and revenues as well as confidence and credit. Trying to substitute one for the other doesn't always work. Not as quickly or painlessly anyway.

Solvency Distinction

Contrary to misconceptions of fungibility of money, **bank liquidity** (financing cash-flows) **is not interchangeable with net revenues** ("operating cash-flows") **required to remain solvent**. And insofar that *liquidity infusion cannot surmount a solvency crisis,* a "**liquidity trap" of sorts will frustrate**.

Confidence Horse, Credit Cart?

Especially **when credit provision cannot make good confidence deficit**. The two are not substitutable, and **one doesn't guarantee the other**; despite the correlation between the two.

In particular, in the current climate, it is misguided to think credit is the horse driving the confidence cart. Instead, confidence is likely (the horse) to be the pre-requisite for invoking a productive credit cycle.

Higher Bars

And so, with such a high risk associated with "liquidity trap", **the bar is dauntingly high** for Beijing; **to** not just lift the economy out of a rut; but as a minimum **ensure that an inadvertent financial crisis is averted**. **Given sharper trade-offs involving of capital outflow, macro- and CNH stability risks** from monetary stimulus, a **much higher fiscal cost might have to be incurred**.

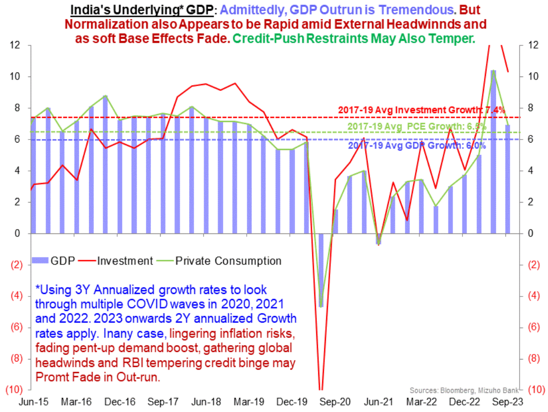
India: Outrun Fade

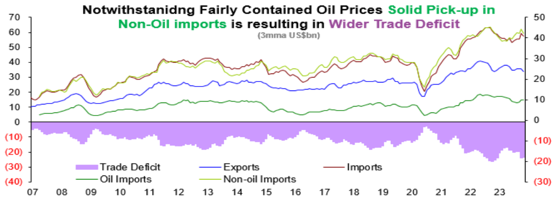
Growth: With stellar sub-8% growth momentum (Q2-Q3), India is **undeniably Asia's bright spot**. ***But*** this is **subject to caveats**. The first being, it is ***not immune to global headwinds***, which measures may be mounting. Second, the so-called alpha (excess growth) boost is **partly due to the low-hanging fruits of leverage**, may begin to fade as the RBI clamps down on what has been a rather worrying surge in (unsecured) consumer credit. Simply put, there are **aspects of domestic growth out-run literally "borrowed" from the future**, and *external headwinds temporarily defied.* Neither is durable. All said, it is only reasonable for growth **out-run to fade**; with a *moderation (not crash) to ~6.0-6.5% by H2 2024.*

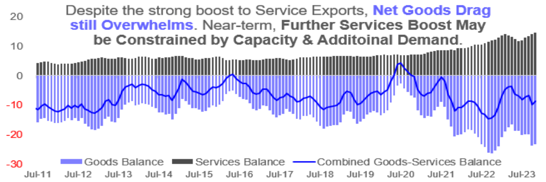
Industry: Two big bets for boosting growth potential are; i) *manufacturing catch-up*, and; ii) *service exports enhancement*. And with stars aligning on demographics, geo-politics ("China +1") and policy, optimism about "India's decade(s)" is not unfounded. **But it may be premature**. Mainly as **structural potential does not absolve India of the cyclical headwinds/constraints**. For one, despite the exports boost, non-oil imports surging means that *net exports drag* remains. In turn *limiting industrial value-add* for now. What's more, with *services exports already boosted* substantially, further gains may be tempered for the time being.

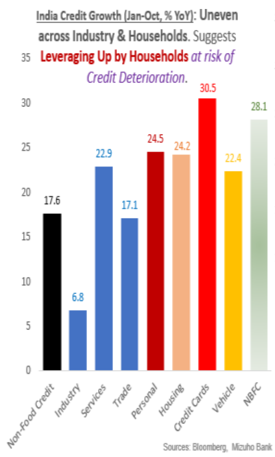
Growth dynamics: To be sure, **India's relative growth out-performance isn't disputed**. *But* it is **arguably overrated**. For one, the **domestic buffer is unlikely to hold up should the global economy swoon** from lagged global policy tightening. *Crucially*, **stellar consumption** *masks* underlying fragilities. First, *K-shaped* consumption *fracture* (inflation hitting lower-income households most). This is *concealed in aggregated consumption*. Second, and more worryingly, *stellar* middle-income *consumption* **driven by unsustainably rapid debt uptake** is **on borrowed time**; especially with increased RBI scrutiny set to check credit excesses. In addition, the inherent ***financial stability risks*** come ***at the cost of future growth as well***.

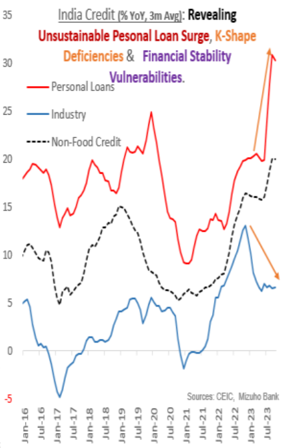
Inflation: While **inflation appears set to moderate into mid-2024**, this is ***contingent*** on sustained energy dis-inflation and food prices staying calm. Neither is guaranteed; and both even harder to sustain. In fact, the historical tendency is for food/energy inflation to revert higher. So the bigger picture for 2024 may be consistent with **some degree of stickiness keeping inflation biased to the upper half** of the RBI's 4+/-2%; with *distinct risks of inflation continuing to probe over the RBI's 6%* ceiling despite spots of pullback below 4%. In short, ***inflation is likely to be volatile, with a tendency to snap back higher***. This is a **problematic combination** that could **hamper** the RBI's **desire**, and market expectations of the RBI, **to ease policy in tandem with dis-inflation**.

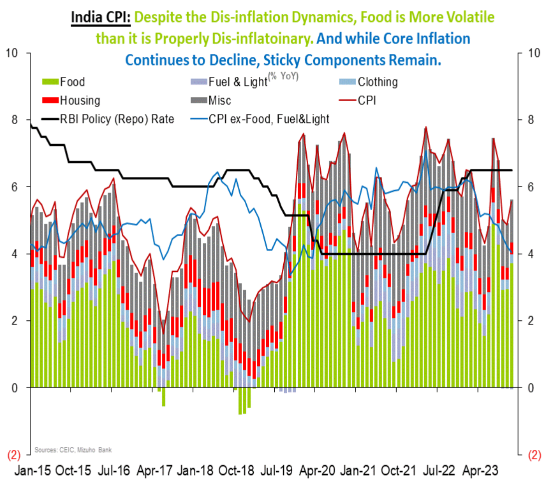




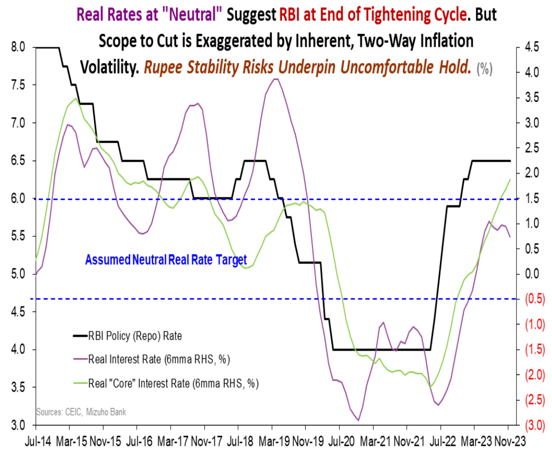






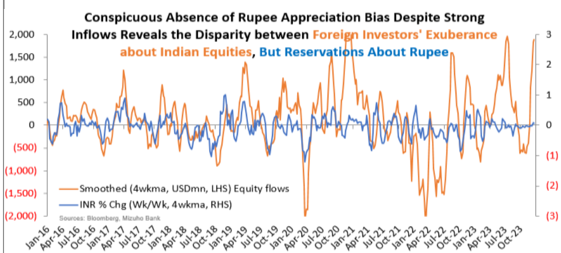


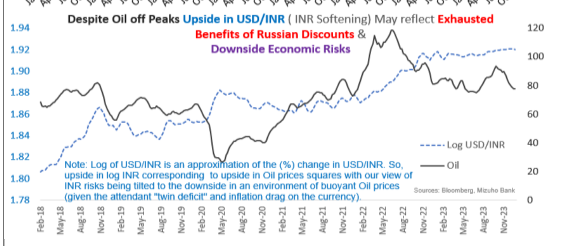
Policy: Accordingly, while inflation has decelerated significantly, the **RBI has struck a very cautious tone**, *warning against premature easing*. This partly reflects **latent volatility embedded within inflation dynamics**; which *necessitates that the RBI does not abandon current restriction too quickly*. Especially as real policy rates have only been restored to "neutral" and not outright restrictive levels on a sustained basis. Instead, looking through interim **inflation undulations**, which will **almost certainly overstat**e the **pace and durability of dis-inflation**. Crucially, the **RBI is also acutely aware of potential rupee depreciation risks** from premature easing. So, ra***te cuts are likely to lag the Fed in timing and depth***; so as *to mitigate inadvertent and potentially destabilizing rupee volatility*.



External Position: Especially given that Current Account dynamics are consistent with a widening deficit. Even as oil prices soften, which typically provide reprieve from wider C/A deficit, it is at levels historically consistent with a deficit. What's more, high import costs and potential headwinds to further exports (including services) pick-up suggest that near-term Current Account slippage remains a concern. Crucially, *despite the apparent backstop in the C/A* (deterioration staunched), the overall **external position** (BOP) **appears especially vulnerable**; as it turns *negative once "light-footed" net portfolio flows are backed out*. And typically, these episodes of ex-portfolio BOP flip into negative territory, reflecting a more precarious state of external finances, have more often than not been **associated with rupee weakness**.

FX: And the context of ***accentuated external position vulnerabilities***, with welcome but ***unconvincing pullback in inflation*** **highlight rupee woes**. What's telling is that the *FX reserves build-up has fizzled* despite continued portfolio inflows. This reveals a **double whammy** of **weakening** in wider **external hard currency flows** and some **drawdown of FX reserves** put towards defending the rupee. The risk is that rapid fluctuations in real spreads, insofar that it casts doubt, may not immediate confer rupee support from softer inflation in coming months. Yet higher inflation could hurt asymmetrically. Any sharp decline in oil, insofar that it is from global demand fears, may not lend much rupee support. As such downside rupee risks dominate for now before scope for traction further out in 2024.





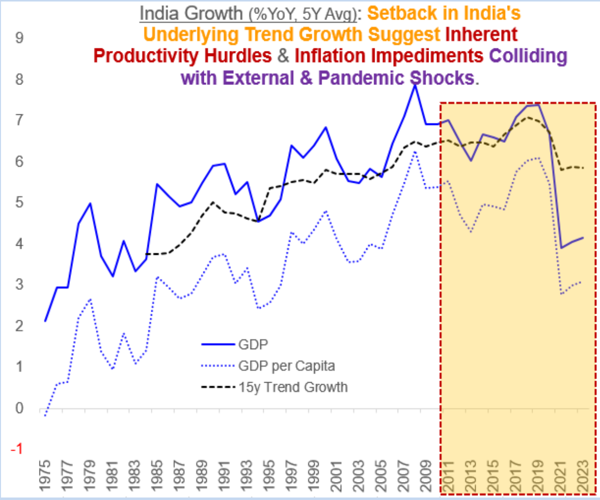
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	**7.6**	7.3	6.9	7.0	6.2	6.4	5.9
CPI (% y/y)	**6.4**	5.3	4.7	5.5	3.9	6.0	6.3
Policy Rate (%)	**6.50**	**6.50**	6.25	5.75	5.50	5.00	5.00
USD/INR*	**83.0**	83.2	83.8	84.5	83.5	82.0	80.8
	81.8-83.2	83.0-83.4	81.4-85.8	82.2-86.2	79.2-86.4	78.2-84.7	78.0-83.6

Note: Values in black are historical whereas those in blue represent forecasts.

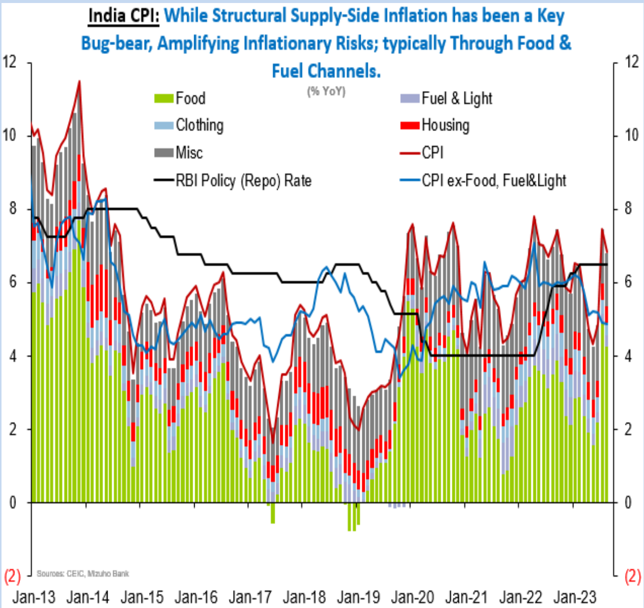
* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

Box 2: India: Conditionality & Caution

Optimism about "*India's decade(s)*" is **not merely hype**. A fortuitous combination of *demographics, geo-politics, industrial gains* augmented by *policy* boost mean India is **poised for higher growth** 5-15 years out. Growth potential of 7-8% with **attainable growth rates averaging 6.0-7.5%** (5-7%) **through 2030** is not an outlandish projection.

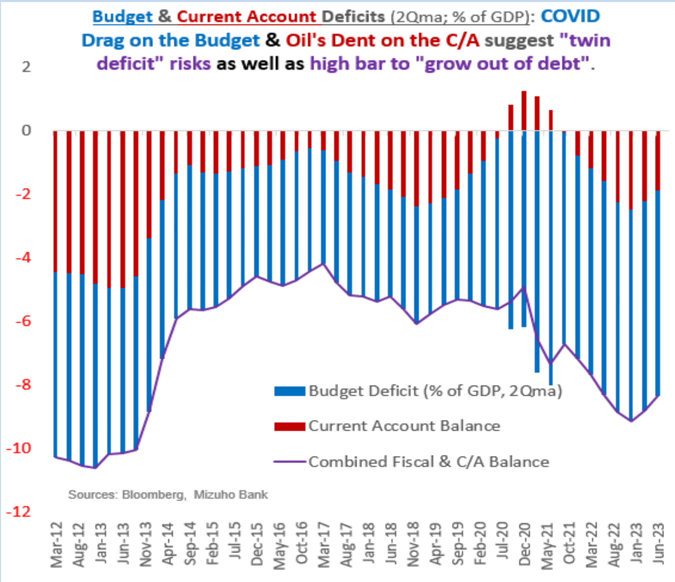


But over-confidence is a pitfall to avoid; as attaining **growth potential** requires *committed policy*, and *coordinated private-public* investment *efforts, initiatives and incentives.* Meanwhile, sufficient caution in negotiating is necessitated; as *scope for* **structural buoyancy neither overrides cyclical headwinds nor negates entrenched challenges**.



Notably, a confluence of **sticky inflation** amid **oil**'s geo-political premium amid elevated global/US rates impose **intervening growth impediments**; as *cost shocks, high rates* and *rupee pressures* **compromise domestic demand offset *to mounting global headwinds***. Beyond riding out cyclical setbacks, *inroads to move up the manufacturing value-chain*, alongside *establishing up- and downstream eco-system,* are required to **exploit industrial synergies** and **lift productivity**.

Furthermore, leveraging on industrial **capacity expansion** to boost logistics/farm productivity are pre-conditions to **structurally alleviate inherent supply-side inflation**ary pressures. And that is critical for India to *transition from 5.5-6.0%,* where CPI has averaged last decade, *to 2-4% inflation* regime; consistent and hence, competitive, with elsewhere in EM Asia. Apart from taming inflation, which circles back to boost returns, **productivity-enhancing capacity expansion** lends **critical advantage to reining in**, if not reverse out, India's **chronic Current Account deficit**.



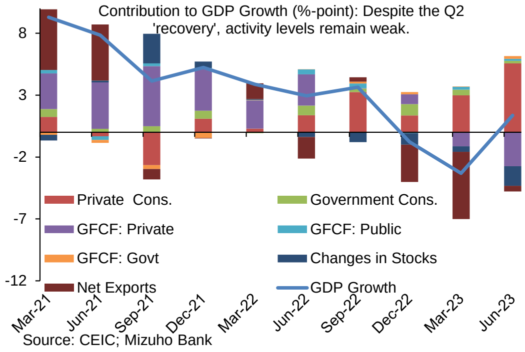
What's more, the resultant virtuous cycle and feedback **could also diminish India's fiscal deficit**; mitigating underlying "crowding out" risks that have grown along with public debt. The upshot is that the **potential for an alluring upgrade to** India's **growth potential is undeniable** in the coming decade(s); *but* is *contingent on* timely and judicious execution of **symbiotic industrial, infrastructure, education, fiscal, and monetary policies**.

Political stability is an **unspoken pre-condition** for realizing the full potential of "India's decade"; given that the requisite horizon for policy continuity far surpasses the typical political cycle. But for all the attainable potential, it is **critical to differentiate** the *ability to overtake China's growth* (rate) *from unrealistic bluster about supplanting China's global economic position.* The stark disparities, with **India's economy being less than a fifth the size of China's**, instinctively suggest that this is misguided. And simple arithmetic dictates that *even if China were to stagnate*, India would have to sustain growth at a 14-15% (10%) to surpass China's economy by 2035 (2050). Even **more so** from a **manufacturing** sector standpoint given China's disproportionately larger manufacturing eco-system. Nonetheless, the *silver lining* is that **conditions are ripe for significant** (and long) *overdue* **catch-up in growth and productivity**; led by policy pivot in the industrial sector.

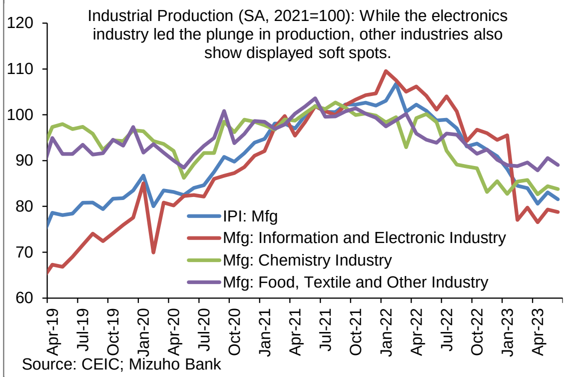
But even with geo-political tailwinds from the "China plus one" initiatives accentuating India's attractiveness, there should be no complacency about addressing gaps in human capital investment shortfall; alongside infrastructure ramp-up and key policy de-regulation (land, labour, etc.)

Taiwan: Chipped Growth and Recovery

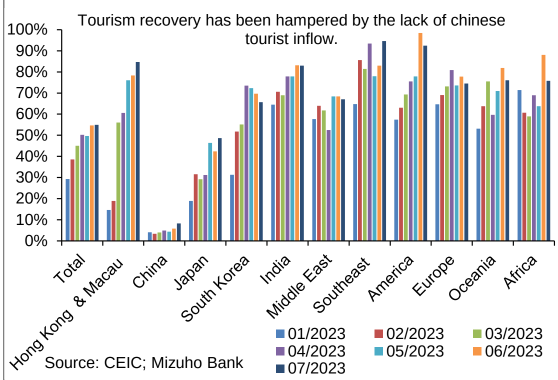
Growth: GDP growth in 2023 will be dismal as we expect it to slow towards the 1.2% mark. Upfront, the **semi-conductor down cycle had already chipped away** at growth, with an emphatic contraction of 2.9% YoY in Q1. To be clear, Q2's 1.4% YoY print is **a rebound which tells of an incomplete recovery** as external demand remains weak and lower than end-2022 levels. Looking ahead, their substantial **inventory accumulation** which spanned a recent **record** high of *seven consecutive quarters implies that there will be room for substantial drawdown* in Q1 2024. This will restrain the pace of a projected mild export demand recovery in early 2024.



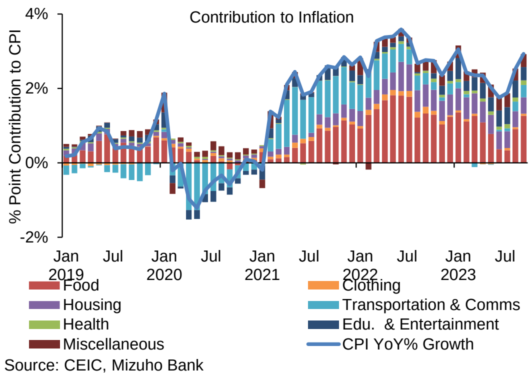
Industry: Given that the **fall in industrial production** was rather *broad based and from lofty pandemic demand levels*, it will be a **stretch to expect stellar growth resumption**. Reasonably, we expect production levels to somewhat stabilise given that they have reverted to pre-pandemic levels. While Artificial Intelligence (AI) has generated persistent buzz around the **corporate demand for cutting edge chips**, the actual revenues gains are likely modest due to offset from subdued consumer electronics demand. As such, capital expenditures remain cautious. Meanwhile, investments in early 2024 may be restrained as Chinese pressures via probes on Taiwan corporates is also unlikely to relent.



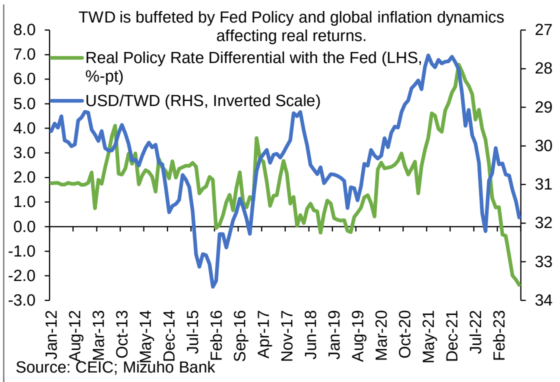
Growth dynamics: Looking ahead, on top of steady investments to cement leadership in the semiconductor sector, on-going tourism recovery as well as an upturn in the semiconductor cycle will support growth into 2024. While **tourism** may not be a significant driver in the economy, the *significant room left for recovery is still an important consideration for growth dynamics*. That said, the late August move by the authorities to relax restrictions on Chinese tourists and business travelers is unlikely to be effective given the **lack of reciprocity from China which is unlikely to happen before 2024 Presidential Elections in Taiwan.**



Inflation: Like many regional peers, headline inflation experienced a resurgence on higher food prices. Worryingly, this was accompanied by **a rise in producer prices as well as import prices** which indicates the *need for stronger cost passthrough to end consumer prices*. Furthermore, the resilient labour market will likely allow further cost pressures to be passed on. While energy and food cost will continue to feature in early 2024, **a 4% minimum wage hike and 4% wage increase for public sector workers in 2024** which alleviates cost of living pressures will also underpin price pressures for the first half of 2024.

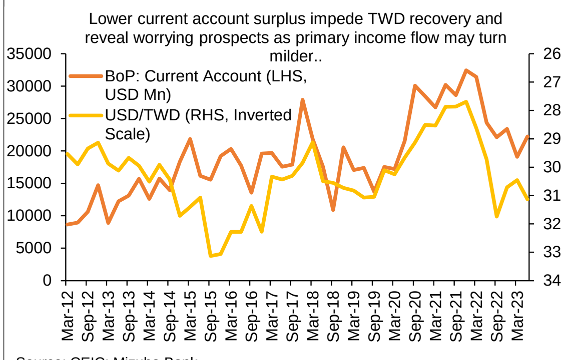


Policy: The sight of an electronics exports bottoming may have given initial hopes for TWD stability which had to give way as real rate differentials widened in recent months. Nonetheless, the **negative output gap** *will restrain the CBC from further hikes*, barring sharp persistent uplifts to core inflation. Into mid-2024, should an expected **modest pick-up in the semi-conductor play out alongside dis-inflation**, the CBC is likely to opt for **calibrated easing**.



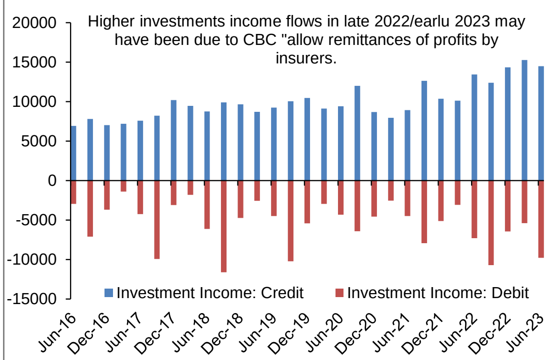
Source: CEIC; Mizuho Bank

External Position: On top of export woes, we expect a further **narrowing of current account surplus on imported energy needs**. Specifically, **imported oil and gas expenditures which stood at 1.6% of GDP looks set to balloon to more than 2% of GDP.** What's more, the primary income flows which rose in Q4 2022 and H1 2023 may have in part been due to the CBC "allowing" the insurers to remit incomes. **Falling foreign corporate profits may mellow the strength of inflows ahead**.



Source: CEIC; Mizuho Bank

FX: TWD recovery will be impeded and volatility accentuated by the **lacklustre economic recovery in China** and r**ising risk from worsening relations with China** amid **looming 2024 Presidential elections**. While political tensions may be high, **positive spillovers** on both growth and TWD from *China's fiscal stimulus push* should not be underestimated should it *coincide with a wider electronics upturn*.



Source: CEIC; Mizuho Bank

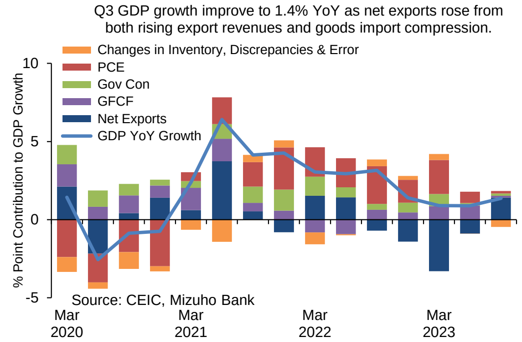
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	2.3	4.1	5.8	4.6	3.4	2.9	3.0
CPI (% y/y)	2.5	2.9	2.8	2.7	2.5	2.3	2.0
Policy Rate (%)	1.875	1.875	1.750	1.500	1.375	1.375	1.375
USD/TWD*	32.2	31.2	31.8	32.2	31.5	30.0	29.5
	30.8-32.3	30.8-32.9	30.4-32.5	31.2-33.8	29.6-32.5	29.1-31.6	28.6-30.7

Note: Values in black are historical whereas those in blue represent forecasts.

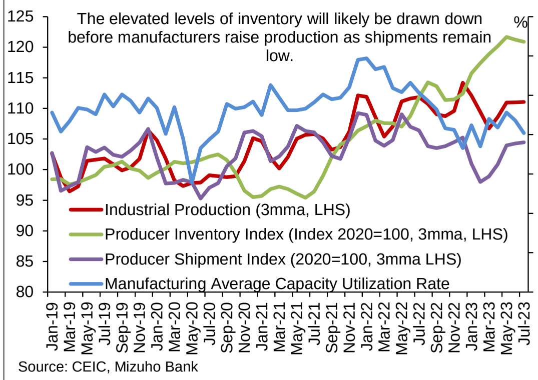
* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

South Korea: Dark Before Dawn

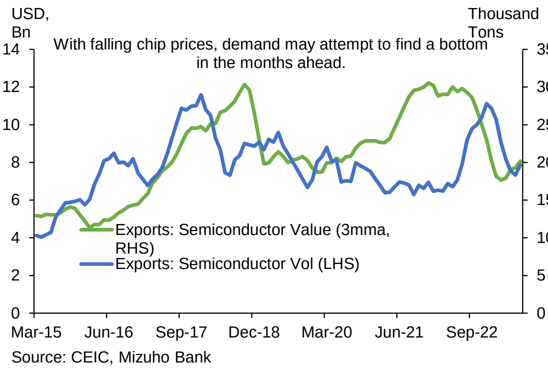
Growth: Coming off real GDP growth of 2.6% in 2022, **growth in 2023 is now expected to slow further to 1.4%.** Given the dire start of 0.9% YoY growth in H1 2023 which was dragged by **manufacturing headwinds**, a *quick turnaround looks to be a pipe dream*. The manufacturing sector **will most likely attempt to assess the levels to which** inventory should drawdown first before cautiously raising output towards end-2023/early-2024. Even so, a **turnaround in semiconductor sector may not come with the same vigour** in previous cycles **given structural US-China tensions which** alters supply chains and dull demand prospects.



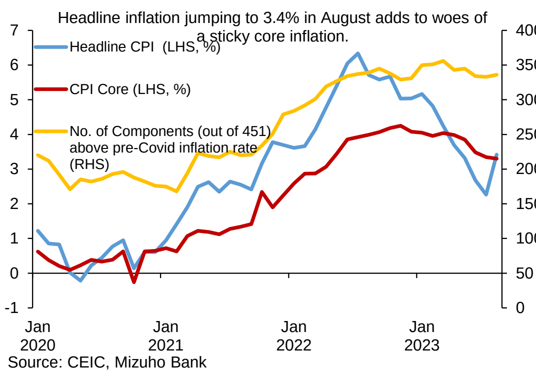
Industry: The **accumulation of inventories** in July, after June's drawdown **as shipments of manufactured goods fell,** underscores the **bumpy and delayed recovery prospect**. While Artificial Intelligence has substantial demand potential, the AI boost has an **uneven boost to the industrial base**, appearing to benefit certain chip sub-segments, with *limited spillovers to end-consumer electronics*. Nonetheless, **facilities investment is envisaged to continue growing, albeit moderately, in Q4 2024 and H1 2024,** as companies strive to mitigate external vulnerabilities alongside the government initiatives of tax breaks and infrastructure support to establish and/or solidify their comparative advantage in the chips, displays and batteries industries.



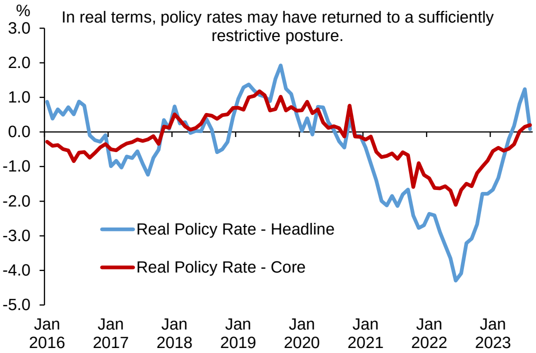
Growth dynamics: Considering the substantial decline in export demand, meaningfully lower chip prices and reduced supply, we opine that **growth has likely bottomed in H1 2023**. While initial FX market reform announcements are welcomed, realization of gains depend on implementation progress as **MSCI kept Korea on the emerging market status in their latest June review.** We expect **economic activity gains to ramp up in mid-2024** as extension of trading hours and liberalization to allow foreign institutions' participation for onshore FX trading necessitate greater investment spending and employment.



Inflation: The **inflation trajectory ahead looks uncomfortably bumpy** as well. In addition to surging food inflation, washed out base effects for transportation amid soaring global crude prices which necessitated further tax cut extensions could imply that **further headline dis-inflation is harder to come by. Underlying inflation also remains supported by tight labour markets**, but wage growth pressures could ease in the quarters ahead if the conclusion of a 2.5% increase in minimum wage negotiation, which is much smaller than the 5% growth in 2023 and 2022, is anything to go by.

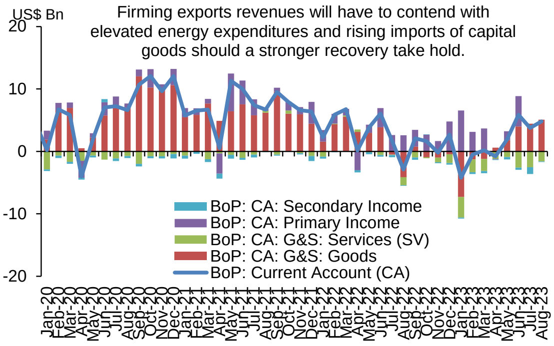


Policy: In real terms, **policy rates have reached a sufficiently restrictive level** *given the weak growth*. That said, the BoK will be expected to continue to **keep their optionality for another 25bps hike and hawkish communication** given that **inflation risks are skewed to the upside**. Nonetheless, **our base case is for a hold till at least Q1 2024** given the current external demand headwinds and worries around the adverse feedback loop between domestic project finance debt vulnerabilities and non-bank financial institutions following July's rescue of a credit union amid climbing defaults and deposit outflows. Thereafter, **dis-inflation in mid-2024 may allow calibration of their restrictive stance**. Meanwhile, fiscal policy consolidation implies a smaller growth impulse in 2024.



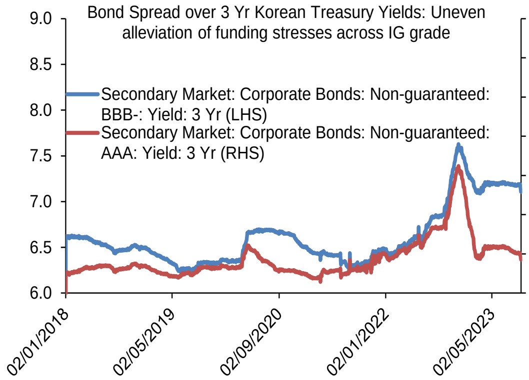
Source: CEIC, Mizuho Bank

External Position: The current account surplus in recent months has been driven by a combination of higher good exports revenue and lower goods imports expenditure. Meanwhile, services remained in deficit as freight revenues was lacklustre and travel imports rose. Looking ahead, energy import cost is likely to pose a drag and offset improvement in goods exports. Pragmatism surrounding US sanctions on China's chip sector may incite marginal demand for Korean chips. If a firmer electronics recovery take hold, a surge in capital imports is also likely to follow. All in, we expect the **frequency of current account surpluses to outweigh deficit outturns in the months ahead**.



Source: CEIC, Mizuho Bank

FX: The **double whammy** of ***widening real rate differential*** and ***near term semiconductor export weakness*** imply a **laboured recovery for the KRW**. Admittedly, foreign inflows into bonds have remained steady this year. That said, equities saw outflows in August. Furthermore, **risk premiums appear to have risen** amid the funding stresses and corporate default risks may exacerbate KRW woes. At the margin, early 2024 may see bouts of stronger KRW demand **on semiconductor turnaround and anticipation of FX market reforms** which will see longer trading hours and opening up of onshore interbank FX market to foreign FIs. Nonetheless, with greater liberation, heightened volatility is par for the course especially amid elevated global policy uncertainty.



Source: CEIC; Mizuho Bank

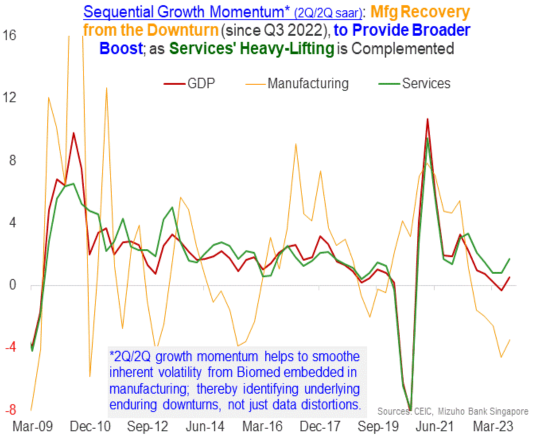
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	**1.4**	2.2	2.7	2.9	3.2	3.4	2.9
CPI (% y/y)	**3.1**	3.1	3.4	3.6	3.3	3.0	3.1
Policy Rate (%)	**3.50**	**3.50**	3.50	3.25	3.00	2.75	2.75
USD/KRW*	**1349**	1300	1305	1325	1280	1220	1200
	1260-1350	1230-1365	1230-1360	1220-1410	1180-1350	1160-1290	1150-1300

Note: Values in black are historical whereas those in blue represent forecasts.

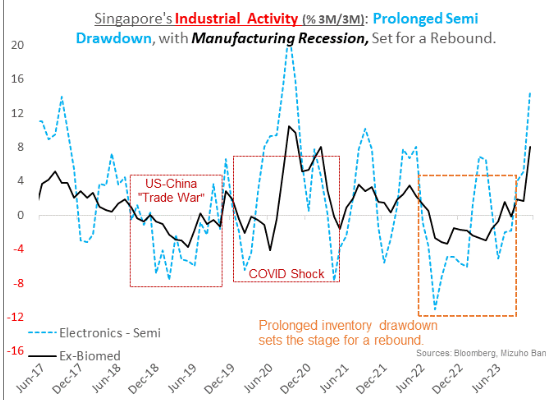
* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

Singapore: Unbound, Not Unbridled

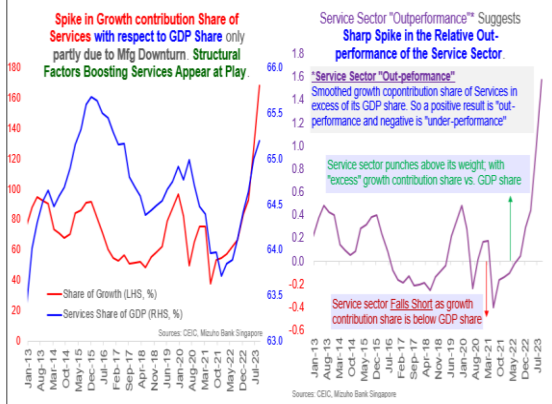
Growth: The **manufacturing turnaround**, *led by chips and electronics rebound,* **means growth is now unbound from imposing external headwinds** that had earlier submerged the *goods sector in a prolonged recession*. But that should ***not*** be confused for **unbridled** *momentum unleashed for 2024;* not even with broadened growth drivers as industrial recovery meets a still robust services. For one, *non-negligible risks of aggregate global demand dampened* (as global rate hikes) subduing exports recovery. What's more, *exceptional service sector boost is set to be tempered* as the pent-up tourism snap-back and wealth office profusion stabilize. More so as property sector exuberance is also reined in. This should bump up 2024 growth to just shy of 2.5% (from 1.0-1.5% in 2023).



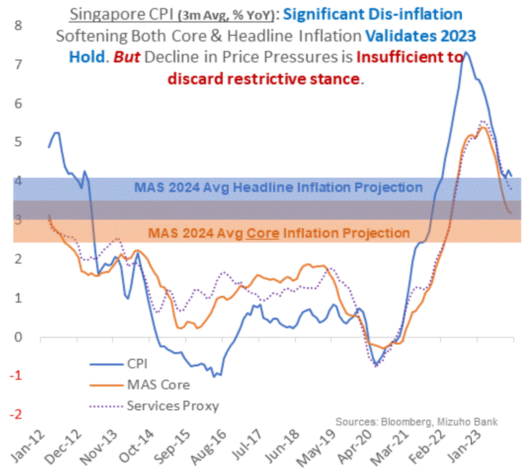
Industry: The **silver-lining** is that after a prolonged manufacturing slump, reflecting the headwinds in exports, a **distinct recovery is beginning to take shape** in the manufacturing sector. And insofar that the *extended slump in chips, coincided with the global goods-to-services re-balancing* post-pandemic, during which time inventories were being drawn down, there could be **greater alignment of revived chips demand and wider manufacturing**. But the recovery is *from a very soft base*, and remains *susceptible to being hampered*, if not hijacked, by the lagged effects of elevated global rates denting aggregate demand. And so, **industrial recovery** may be a **tentative and bumpy** path.



Growth dynamics: While the macro dynamic is one of manufacturing catch-up with services, thereby broadening the recovery, the service **sector remains in the driver's seat** for now. And to be sure, this is **not merely due to the "catch-up" momentum in post-pandemic services**. Rather, and crucially, there is a legitimate case of ***structural boost to services***. Most obviously, the *financial eco-system* **has grown in depth and breadth**; with financial technology and a proliferation of the wealth-asset management space. This has been accompanied by *wider services spill-over and attendant hospitality, entertainment and logistics resonance* with regional reach. This suggest services multiplier unbound; yet not unbridled.



Inflation: Inflation has **eased substantially, but not sufficiently** (just yet). With *pipeline GST increase* into 2024 (up 1%-pt to 9%) and *lingering aspects of services inflation* – amid robust revival of in-bound travel and the related wider hospitality eco-system – there may be **some bumpiness in the projected path of dis-inflation**. To be sure, we expect that inflation will cool to ~3.5%) as global dis-inflationary forces play out further into 2024. And encouragingly, **evidence of subsiding wage pressures** also **square with diminished risks of wage-price spirals**. Hence *concerns of untethered inflation expectations will be assuaged*. Nonetheless, with inflation still elevated above the comfort zone, and layered price dynamics amid a tight labour market, it is premature to conclude that risks have been put to bed; so the MAS will not relent just yet.



Policy: *After the exceptional run of policy tightening* from late-2021 through 2022, the **prolonged policy hold in 2023 is no surprise**. In fact, it is ***not quite a "pause"*** (much less a pivot) given *incremental tightening baked into the slope* and, *massive tightening front-loaded in unprecedented series of "step appreciation"*. With inflation headed lower steadily (albeit gradually), and more emphatically so, ex-GST hike, the **bar is much higher for the MAS to tighten further**. Especially with the MAS alluding to "*upside and downside risks to inflation*" amid "*significant uncertainty*" to the recovery. In fact, **policy bias may quickly pivot to easing by mid-2024 on a sharper global downturn**. In which case, a **slope reduction will be the first port of call** *to balance the risks*.

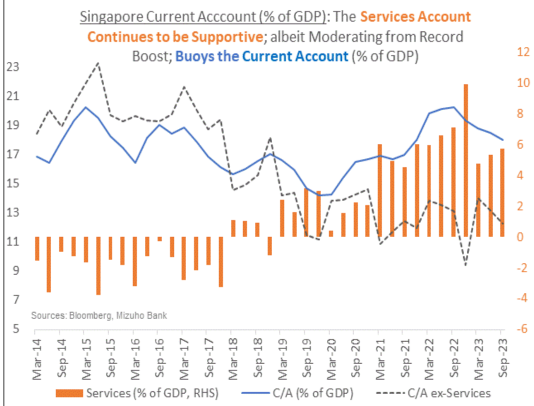
External: The **services balance**, which flipped to be a boost rather than a drag for the Current Account since 2019, remains a **robust boost** for the external account. This has *bolstered SGD out-performance* over and above monetary policy fillip*;* with the fillip more pronounced manner since 2021 (coinciding with the pandemic years). Arguably, this is *not pandemic or cyclical blip*, but rather **a larger structural shift**; in which pandemic dynamics factor, not necessarily feature. Synergies between a more vibrant hospitality eco-system and accelerated progression to a global wealth hub (with profusion of family offices) structurally **underpins the C/A and SGD**. ***But does not override binding S$NEER policy constraints***.

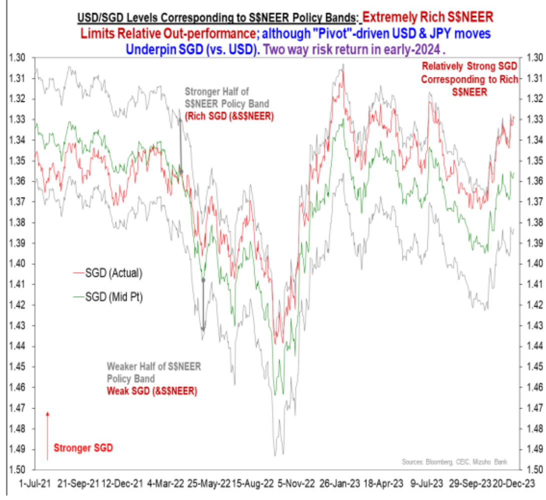
FX: SGD is **not set** for **unmitigated under-performance, *but calibrated payback****;* given exceptional *out-performance earlier conspiring with ultra-rich S$NEER* ***without the benefit further policy tightening***. Fact is, with S$NEER nudging up against the policy ceiling, *scope for sustained SGD out-performance is greatly diminished*. So **even with sustained USD decline** amid pivot bets, **SGD may gain against USD**, but **mildly under-perform vs. higher beta currencies** given MAS policy dampens. Moreover, *current S$NEER slope appreciation is only consistent with 4bp/week of upside*. And **an S$NEER excessively rich may drown out slope-driven gains**; with, **SGD likely to be middling**. In fact, CNH propensity to under-perform may drag SGD via hefty trade weights. And while JPY appreciation from "competitive pivot" may partially offset, it will **not** instigate **unbridled bulls**.

MAS Moves & Inflation Outlook

	Policy Action		Inflation Forecast (2022)		
	Slope	Mid-point	Headline	Core	
Oct '21	Raise "slightly" (from 0% to ~0.5% p.a.*)	No change (at April 2020 levels**)	1.5-2.5%	1.0-2.0%	2022
Jan '22	Raise "slightly" (to ~1.25% p.a.)	No change (at April 2020 levels**)	2.5%-3.5%	2.0-3.0%	
Apr '22	Raise "slightly" (to ~2.0% p.a.)	Re-centre higher to prevailing (Apr '22) levels	4.5-5.5%	2.5-3.5%	
Jul '22	No change	Re-centre higher to prevailing (Jul '22) levels	5.0-6.0%	3.0-4.0%	
Oct '22	No change	Re-centre higher to prevailing (Apr '22) levels	4.5-5.5%	2.5-3.5%	2023
Apr '23	No change	No change (at October 2022 levels)	4.5-5.5%	2.5-3.5%	
Oct '23	No change	No change (at October 2022 levels)	3.0-4.0%	2.5-3.5%	2024

* p.a. refers to per annum appreciation bias
** After the mid-point re-centring lower and slope flattening (to 0% in response to COVID)
Off-cycle Policy Moves
Sources: MAS, Mizuho Bank





	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	0.7	2.5	2.5	2.3	2.0	2.2	2.3
CPI (% y/y)	4.1	3.5	3.1	3.5	3.2	3.5	3.1
FX Policy	S: 2%	S: 2%	S: 2%	S:1%	S: 0.5%	S: 0.5%	S: 1%
	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold	M: Hold
	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold	W: Hold
USD/SGD*	1.366	1.323	1.338	1.380	1.353	1.328	1.322
	1.321-1.373	1.322-1.373	1.301-1.358	1.310-1.395	1.292-1.366	1.286-1.345	1.304-1.370

S: Slope (expressed as per annum % appreciation), M: Mid-Point, W: Width of S$NEER.
Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

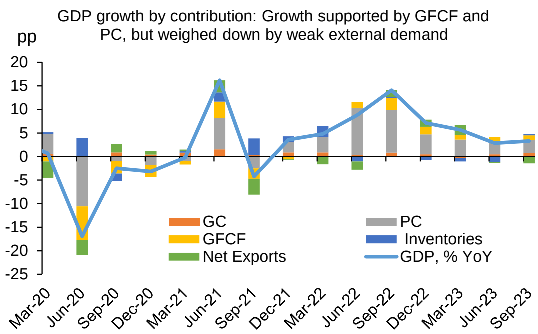
Malaysia: Holding Out

Growth: While **domestic consumption should remain the key driver of growth in coming quarters**, the contribution to growth should taper down as *signs of increasingly stretched consumers are starting to appear*. Apart from consumer sentiment edging down, spending on discretionary items has been trending lower (while spending on necessities increased). Meanwhile, **gross fixed capital formation growth should remain supportive** on continued infrastructure spending by the government and as the New Industrial Master Plan 2030 attract investments on key manufacturing sectors. All in, we expect 2023 GDP growth to slow to 4.0% from 8.7% in 2022, which lies at the lower bound of BNM's forecast range of 4-5%. Growth in 2024 is expected to pick up on a more meaningful Chinese recovery in 2H'24, and electronics cycle gather steam.

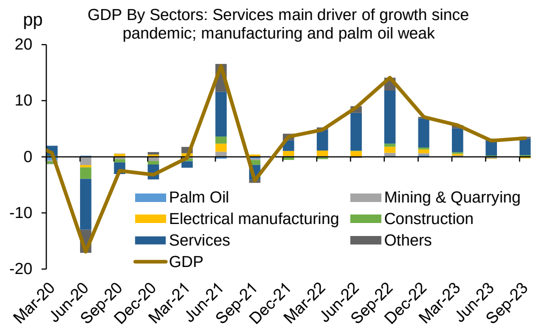
Industry: Services growth should continue as there remains scope for further tourism recovery. Tourist arrivals in Jan-Sep are only 71.9% of 2019 levels for the same period, with higher-spending Chinese tourists lagging. **Construction growth would remain stable too** as progress of large infrastructure projects continue. However, **a more meaningful broadbased recovery to manufacturing could take time**. While overall manufacturing IP grew 0.9% YoY in Oct'23 (Sep: 0.4%), Electrical & Electronics IP languished, registering a -3.9% YoY fall in Oct'23, a deterioration from -2.0% YoY in Sep'23.

Growth dynamics: Fiscal deficit is on track to meet the 5.0% target (as of Sep'23, revenue was 77.9% of '23 projected revenue, while expenditure plus development stood at 71.5% of '23 projections). While the **government's goal of fiscal consolidation** in the coming years **looks promising** with the announcement of tax reforms (i.e. introduction of capital gains tax), these are *premised on the eventual rollout of (targeted) subsidy rationalization programmes, which could come at the expense of political capital*. Meanwhile, a sustained recovery in electronics exports would be the bellwether of economic growth for the country.

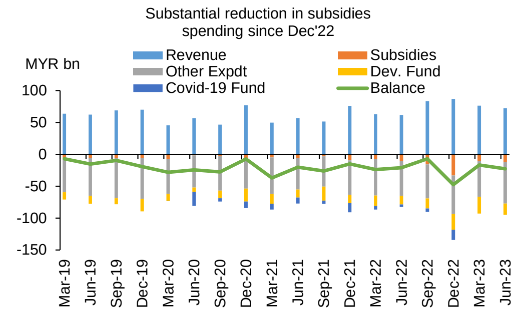
Inflation: Dis-inflation may be overstated in the headline while underlying price pressures be somewhat masked by heavy fiscal subsidies, which is set to be reduced in 2024. Furthermore, while inflation has moderated (1.5% YoY in Nov), core inflation (2.0% YoY) remains elevated, at odds with historical trends of a softer core (than headline). It is in this context that *pipeline subsidy rationalization* and *Progressive Wage policies* (set to be implemented in Q3'24) may **pose an intervening risk to achieving price stability in the near-term**; especially as higher food prices in the region conspire with an under-performing MYR. **Resurgent and sticky inflation would therefore be the key risk to be managed**.



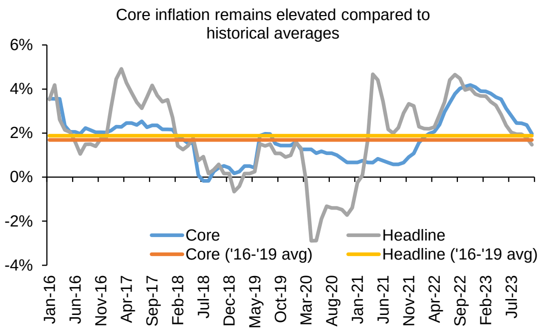
Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

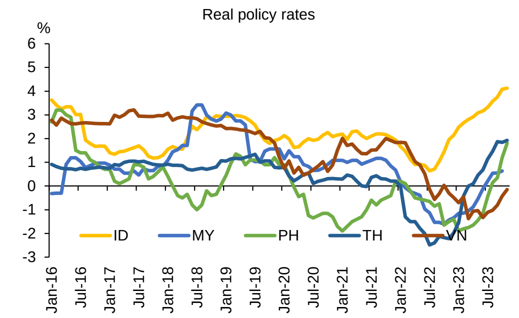


Source: CEIC; Mizuho bank



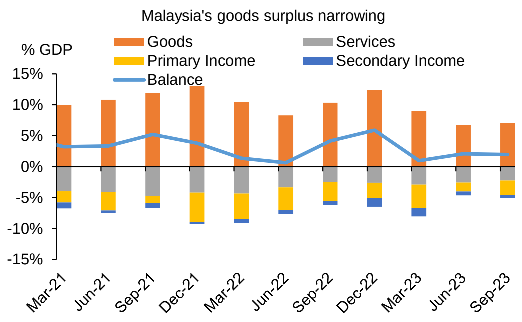
Source: CEIC; Mizuho Bank

Policy: **Real policy rate in Malaysia has turned positive**, accentuated by a surprise hike in May year. This helps to *backstop impending inflation risks* (e.g. El Nino-induced supply shocks, subsidy rationalization). **Relative shortfall in hikes compared to US/regional peers** could see BNM bucking the trend and *abstain from following the Fed with rate cuts*, especially if the electronics cycle pick up and ongoing infrastructure/development projects alleviate external headwinds. Afterall, BMM's OPR at 3%, is around the 2010-2019 average, and has been characterised by BNM as "supportive of the economy". All said, BNM's reputation as a "steady pair of hands" complemented by relatively lower inflation (elsewhere), could lend to policy credibility further out.



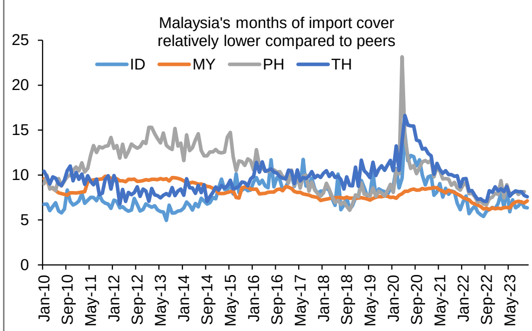
Source: CEIC; Mizuho Bank

External Position: The current account surplus narrowed slightly from 2.1% of GDP in Q2'23 to 2.0% of GDP in Q3'23, as services deficit narrowed on **continued recovery in inbound tourism**. For 2023, we forecast current account surplus to narrow to 2.0% of GDP from 3.1% in 2022. Our forecast is premised on a **moderate pick up in external demand for manufactured goods** and **improved tourism flow in the year-end holiday season**. For 2024, we expect a more material improvement to the goods balance in 2H'24 when the electronics cycle pick up. We expect El Nino to be a slight positive to Malaysia's goods balance as price effects outweighs volume reduction on poor harvests.



Source: CEIC; Mizuho Bank

FX: **MYR could continue to underperform** regional peers in the near-term *until a more broad based pickup to the manufacturing sector, and improved sentiments on (and within) the Chinese economy*. What's more, real rate differentials against the US are also at all-time lows. And this tends to correspond with depreciation pressures for the MYR. Finally, lingering questions on the fiscal front, alongside weakened imports cover (of FX reserves), while not an imminent threat, could hold back some of the catch-up potential as well. Nonetheless, if fiscal consolidation starts to emerge, and follow-through recovery in global semiconductors boost exports, further catch-up could be expected into H2 2024.



Source: CEIC; Mizuho Bank

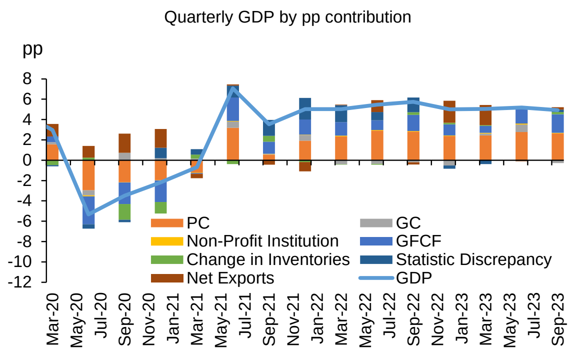
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	**3.3**	4.1	4.6	4.5	4.5	4.3	4.5
CPI (% y/y)	**2.0**	1.8	2.2	2.3	3.0	3.1	2.9
Policy Rate (%)	**3.00**	**3.00**	3.00	3.00	3.00	3.00	3.00
USD/MYR*	**4.70**	4.62	4.65	4.73	4.68	4.61	4.58
	4.51-4.71	4.62-4.79	4.59-4.85	4.49-4.89	4.42-4.77	4.42-4.80	4.39-4.77

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

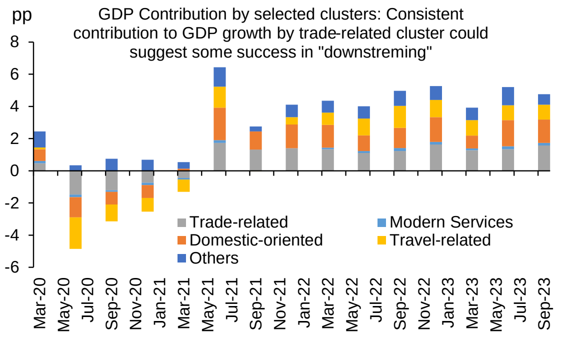
Indonesia: Balancing Act

Growth: Indonesia's GDP grew by 4.9% YoY in Q3'23, a moderation downwards from the 5.2% seen in Q2'23. The expansion was driven by private consumption (+5.1%; Q2: 5.2%) and gross factor capital formation (+5.8%; Q2: 4.6%). Meanwhile, external demand remained soft, with goods exports contracting by 6.9% (Q2: -5.6%). Looking ahead, **private consumption is expected to remain supported into Q4'23 and Q1'24 heading into Feb'24 elections**. 2023 GDP growth is expected to come in at 5.1% YoY from 5.3% in 2022, underpinned by **continued growth in the industrials sector**.



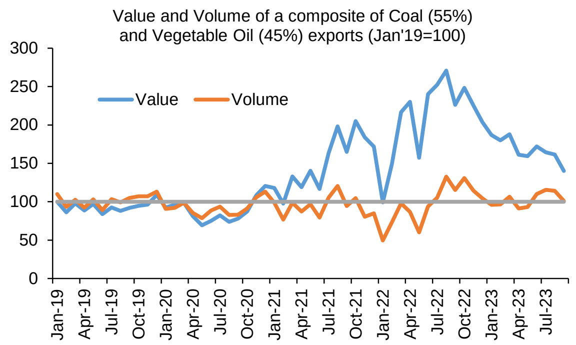
Source: CEIC; Mizuho Bank

Industry: From a production perspective, growth was led by the manufacturing sector, which expanded by 5.2%; Q2: 4.9%). Interestingly, the **trade-related cluster which comprises mining and manufacturing had a relatively consistent pp contribution to growth in the past few quarters**. Taken together with meaningful pp contribution by GFCF, this could suggest *some success in the government's "downstreaming" goal*. Nonetheless, **investments** into mining and manufacturing sectors could **grow at a slower pace in Q4'23/Q1'24 before picking up post-elections** when firms get more *clarity on policy continuity*.



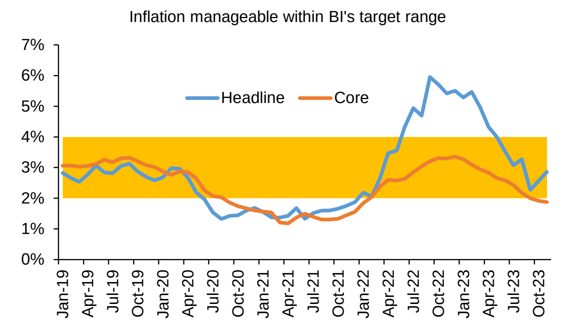
Source: CEIC, Mizuho Bank

Growth dynamics: We are sanguine on coal and palm oil prices as i) coal prices are still almost double 2019 average levels, while ii) palm oil prices are still elevated (>40%) although El Nino could provide some price support. However, real growth should however be less impacted as the **fall in export values in recent months were predominantly driven by price effects, while volume remained relatively stable**. Meanwhile, investment flows into 2024 would likely pickup post-elections when there is greater clarity of policy continuity and direction.



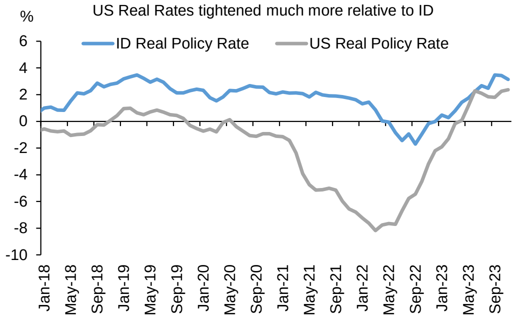
Source: CEIC; Mizuho Bank

Inflation: We expect inflation to remain manageable in Indonesia and average at 3.7% for 2023. Inflation has fallen back within BI's 2023 2-4% inflation target, although at 2.9% in Nov, still remain higher than the midpoint of 2024/2025 1.5-3.5% target range. Food had been the main driver behind the dis-inflation, as well as inflation uptick in Nov. **Upside risks lurk on a resurgent inflation**, especially in 1H'24 (and extending to Q3) *on El Nino-induced price increases*. Already, rice planting has been affected by lower rainfalls and reports of Indonesia procuring 2m tonnes of rice from Thailand are telltale signs of at concerns on the adequacy of the staple supply, if not (worse) a reflection of the ground reality.



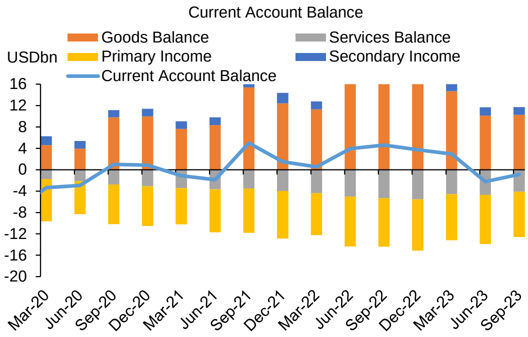
Source: CEIC; Mizuho Bank

Policy: BI's surprise 25bps hike in September, amid a weak external sector, moderating inflation and even a declaration on the end of the rate hike cycle, speaks volumes about **rupiah stability concerns**. Nonetheless, with the recent moderation in USD strength on Fed pivot bets, the case for another hike is now much weaker. Fact is, *increasingly precarious (albeit supported) growth makes strengthens the case for a cut*. Yet the recent *nascent rupiah traction guards against premature easing*. Our base case is for BI to remain on hold in Dec for the last meeting of the year. **In 2024, BI would also avoid front-running the Fed in cutting rates**.



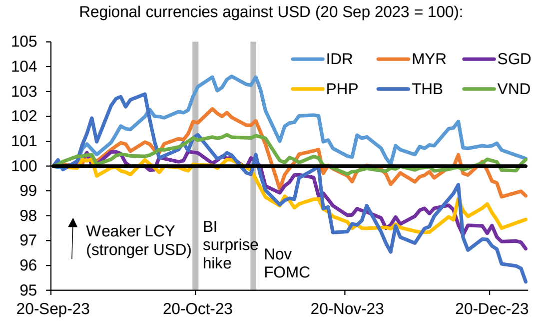
Source: CEIC; Mizuho Bank

External Position: Current account surplus flipped into deficit since Q2'23, dragged down a smaller goods surplus. In addition, a slight narrowing of primary income deficit in Q3'23 appears to take some support from recent regulation for exporters to repatriate part of their FCY earnings. We **expect current account deficit to come in at a slight deficit (-0.1% of GDP) in 2023** which could **widen into 2024 on a weakening goods balance** as *coal prices moderates further*, representing a fading tailwind for the rupiah. Meanwhile, **palm oil exports are unlikely to outperform** even as price effects of poor harvests (on El Nino) should outweigh volume effects.



Source: CEIC; Mizuho Bank

FX: While the IDR has recovered ground since Fed pivot bets increased, the rupiah remains weaker against the USD while other regional currencies have broadly strengthened against the greenback. Looking ahead, bets of **earlier Fed rate cuts would continue lending IDR an appreciating bias**, but **commodity price headwinds and worsening economic headwinds will weigh on the IDR**. In addition to extended bouts of rupiah pressure on US data hinting at a resilient economy, we see a potential for **increased two-way volatility should the election season be prolonged** (i.e. extended round 2 elections, tight winning margins and candidates' refusal to concede).



Source: Bloomberg; Mizuho Bank

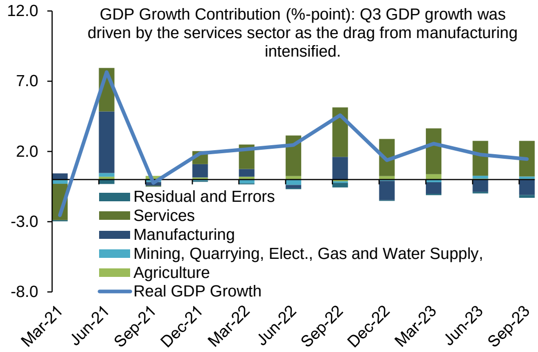
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	4.9	5.2	5.1	4.9	5.0	5.2	4.9
CPI (% y/y)	2.9	2.8	3.0	3.3	3.2	2.9	3.0
Policy Rate (%)	5.75	6.00	6.00	5.50	5.25	5.00	5.00
USD/IDR*	15455	15390	15400	15710	15520	15350	15200
	14958-15520	15380-15940	15050-15680	15080-16290	15020-16160	15010-15830	15010-15810

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

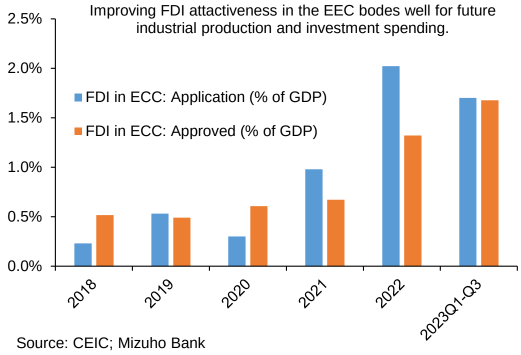
Thailand: Reality Check

Growth: Given the dismal growth of less than 2% in the first 3 quarters of 2023, **growth projections have been downgraded to 2.4%** which is lower than the 2.6% GDP growth in 2022. The stark reality is that **despite tourism recovery, the drag from global manufacturing headwinds still stings.** Recognizing the need to **shift towards more in demand manufacturing**, the government had embarked on efforts to **promote EV production** by providing subsidies for battery production, tax exemptions for charging stations alongside subsidies for EV imports under the condition of fulfilling ratios of **domestic production** by automakers.



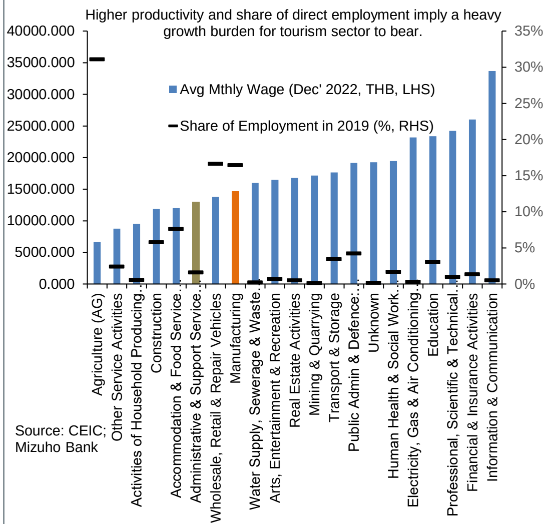
Source: CEIC; Mizuho Bank

Industry: These *efforts to encourage investments may be bearing fruit*, with various automobile companies committing to build new production facilities in the Eastern Economic Corridor (EEC). **Value of approved FDI for the EEC, at 1.3% of GDP in 2022, was an improvement from a year ago;** and H2 2023 FDI approval is already on track to exceed it. FDI may continue amid continued efforts (e.g. skilled worker visas, corporate tax incentives). That said, the impact of the new government's initiatives to **raise minimum wages will be closely watched as wage costs may dent the on-going recovery in 2024.**



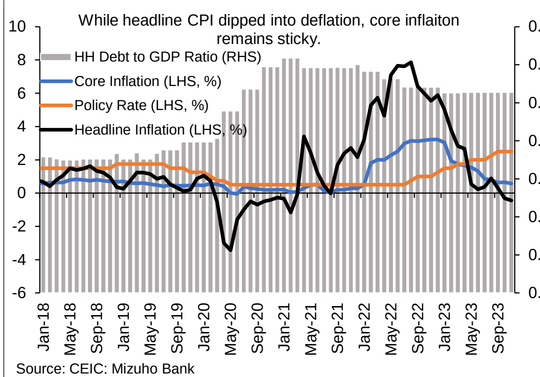
Source: CEIC; Mizuho Bank

Growth dynamics: The clash of manufacturing headwinds with tourism recovery implies an uneven recovery trajectory. While further room for tourism sector's recovery remains, **value-add per worker (as proxied by wages) in the direct tourist facing industries is substantially lower** that of the manufacturing sectors. What's more, the **outsized share of direct employment** by the manufacturing sector imply that **external trade headwinds on growth is unlikely to be fully offset by the tourism sector's recovery**. Domestically, the **government's digital wallet plans (conceivably beginning in Q2'24) could potentially boost consumption up by around 4-4.5% points of GDP.** This effects of this fiscal impulse is likely to show up only in 2H'24 GDP numbers, and we expect **2024 GDP growth to improve to 3.6%** after accounting for import leakage. Be that as it may, the *need for fiscal re-allocation and higher borrowing raises public debt worries* as fiscal consolidation takes a backseat.



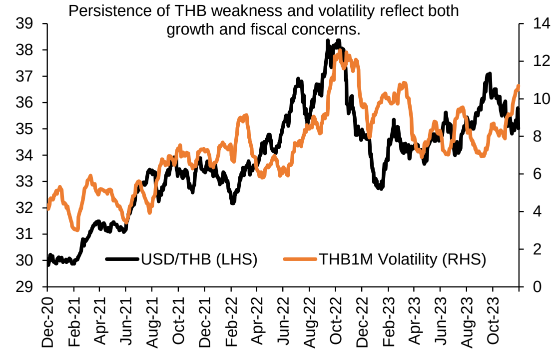
Source: CEIC; Mizuho Bank

Inflation: Aside from budget concerns, **an unprecedented fiscal transfer within a narrow spending period of 6 months** will underpin **price pressures and may lead to a resurgence of inflation. The statistical reality though is that** given government's willingness to use the state oil fund **to cap LPG and diesel prices** as well as to **cut electricity tariffs** imply that **headline inflation will stay within the BoT's 1-3% range** in 2024. As such, core inflation may be more reflective of the impact of the consumption boost from the fiscal transfer in 2024 and may be elevated closer to 2% in the second half of 2024.



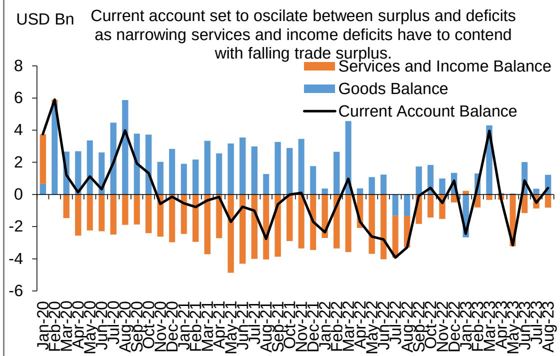
Source: CEIC: Mizuho Bank

Policy: Consequently, while the cost of living measures avails policy space for the BoT to keep rates on hold for the rest of 2023, **deeper fiscal deficits** and a still **budding recovery** for the **current account** pose worries for the THB. While THB volatility has declined post-formation of the new government, **THB depreciation pressures** has notched up, which **may begin to trigger worries of imported inflation**. Nonetheless, **BoT had signaled that** *policy rate* (at 2.50%) **was** *at neutral levels*, and **given** *debt servicing worries*, **a further rate hike remains a high bar.** While the public debt ceiling is not in immediate danger of being breeched, **shortfalls in revenue collections could easily send debt levels higher** with expenditures estimates likely to be firmer and even skew to the upside. Furthermore, the **new medium term fiscal consolidation path begins from a deeper deficit**.



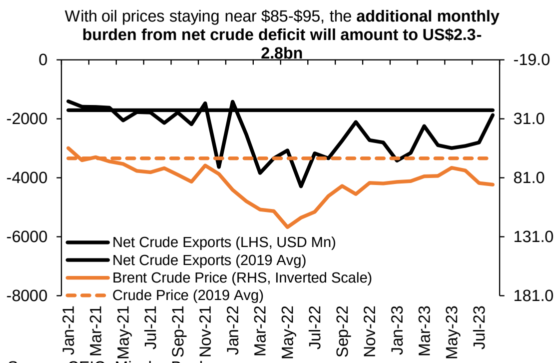
Source: Bloomberg, Mizuho Bank

External Position: Structurally, **services balances** are in a much better position and is projected **to continue posting small surpluses ahead**. While the **government's efforts to streamline administrative procedures (visa requirements) could still fall short of seeing a full recovery of tourism, at least in arrival numbers** given the weak Chinese economy, *higher per capita spending by Chinese tourists could imply an underestimation of the recovery (in terms of tourism revenues)*. Meanwhile, **plans to spur consumption** through the digital wallet from early 2024 could see a **burgeoning import bill**.



Source: CEIC; Mizuho Bank

FX: Structurally, while **THB will enjoy tourism tailwinds**, its relative advantage to regional peers have been *dampened by the rather new fiscal and economic policy direction* of this new administration. It will take **time for the government to gain the confidence** of investors, who await more specific policy details. We have **modestly lifted** our projections of the USD/THB to account for these developments. Meanwhile, **cyclical headwinds** of energy prices and lower goods demand also imply that the *THB's recovery will be one of fits and starts*.



Source: CEIC; Mizuho Bank

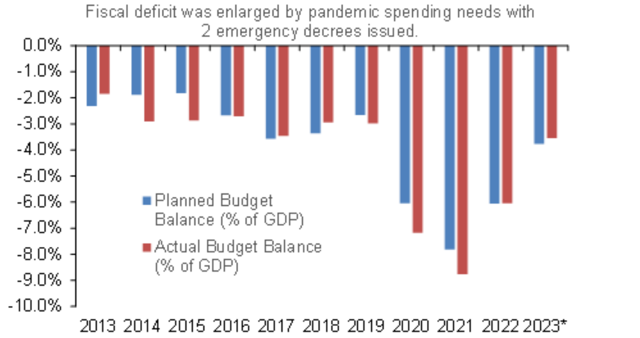
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	1.5	3.5	2.4	3.4	4.0	4.5	4.0
CPI (% y/y)	0.5	-0.4	1.8	2.3	2.4	2.0	1.7
Policy Rate (%)	2.50	2.50	2.50	2.00	1.50	1.50	1.50
USD/THB*	36.4	34.9	35.5	36.1	35.2	34.2	34.0
	34.0-36.8	34.5-37.2	34.0-36.5	35.0-37.6	33.8-36.6	33.1-35.4	32.9-35.2

Note: Values in black are historical whereas those in blue represent forecasts.

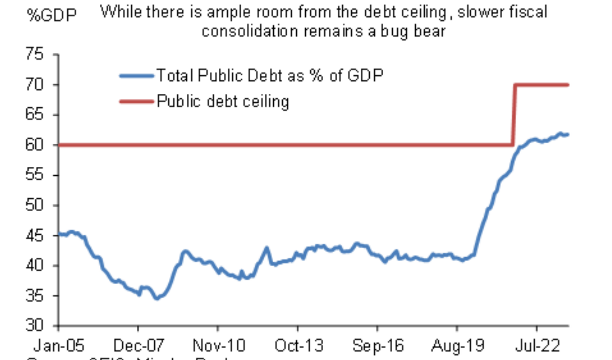
* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

Box 3: Thailand: Fiscal Setback

Pandemic Enlarged Fiscal Deficits



Source: CEIC; Mizuho Bank
* Actual 2023 Fiscal Deficit is up till July 2023.

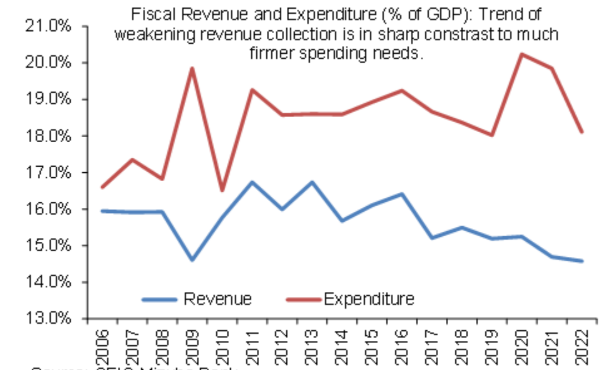


Source: CEIC; Mizuho Bank

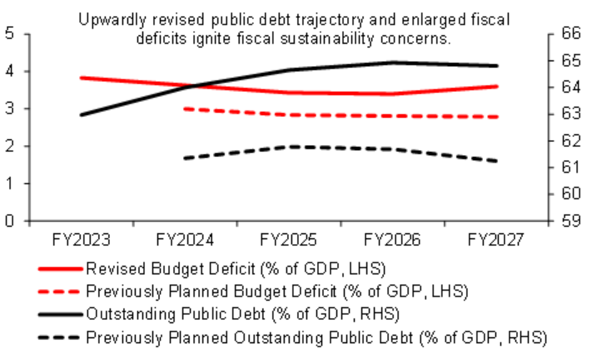
The Covid-19 pandemic had necessitated enlarged fiscal spending in Thailand, not unlike many countries in the region. Including 2 Emergency Decrees worth a combined 1.5 trillion baht, actualised fiscal deficit reached depths of nearly 9% of GDP in 2021. The government had raised the debt ceiling in 2021 to 70% to accommodate the higher borrowing needs for essential pandemic spending.

Post Pandemic Fiscal Uncertainties

In 2023, **public debt ratios continued to climb and reached 61.8% of GDP in August.** While the **debt ceiling is not under immediate threat**, the slew of measures announced by Thailand's new government headed by PM Srettha which has been implemented or are in the pipeline have been ironically **visible in the headlines but are unfortunately shrouded in uncertainty on the underlying fiscal reallocations.**



Source: CEIC Mizuho Bank

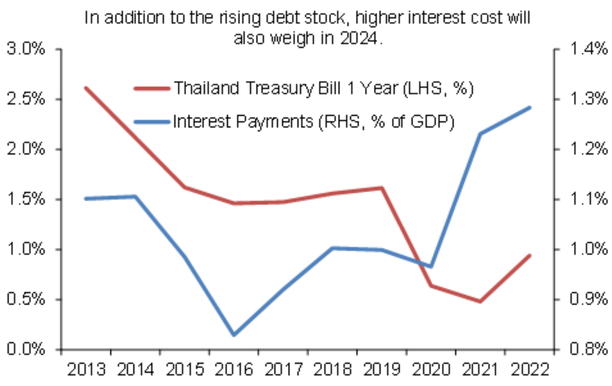


Source: CEIC; Mizuho Bank

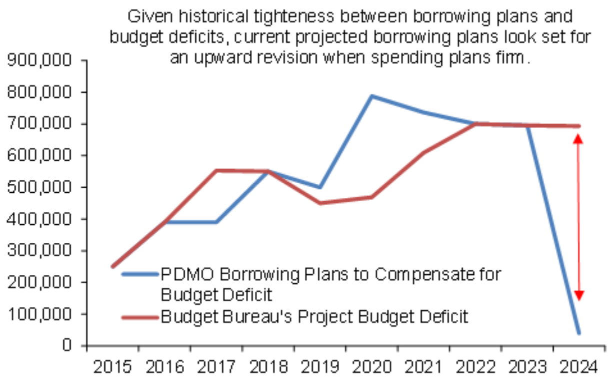
Historically, **revenue collections ability (in term of % of GDP) appear to be trending lower** while expenditures needs have been much firmer. **Looking ahead**, the new government's revised medium term fiscal framework have put fiscal consolidation on a slower pace. Previously, fiscal deficits were planned at below 3% of GDP which contrast with the current average of 3.5% of GDP over 2024-27. Consequently, **public debt ratios are set to reach almost 65% of GDP which is significantly higher than the previously projected path which stayed below 62% of GDP**.

In the near term, while the new Thai Cabinet had approved 194.4bn THB of new borrowing on 26 September under their latest **public debt management plan for FY2024**, underlying details imply that an **upward revision of borrowing needs is on the cards** when the fiscal spending details are firmed. Specifically, **it appears that the borrowing plan by the PDMO has yet to fully take into account the planned budget deficit** as the 40bn THB borrowing to compensate for deficit is a long way from planned deficit of 693bn THB. Traditionally, borrowing plans and budget deficits have been in close alignment.

As such, **it is foreseeable** that the current 194.4bn borrowing which has 104bn THB accounted for by spending on **existing** projects, will **need to rise by another 650bn THB to account for the budget deficit.**



Source: CEIC; Mizuho Bank



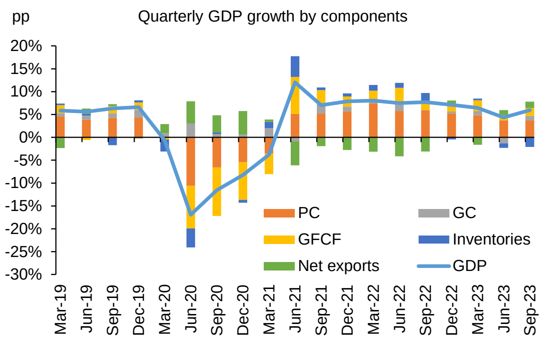
Source: CEIC; Mizuho Bank

What's more, with the unprecedented digital wallet spending plan due to launch in Q1 2024 which is estimated to take up 3.2% of GDP, the **ability to keep to the estimated budget deficit may also be in doubt** especially if one takes into account the **need to subsidise rail operators, electricity operators, suspend debt for farmers and collect less revenue due to cuts in excise tax on diesel.**

Amid a higher for longer rates environment, the implication is that the **significantly higher amount of government borrowing via debt issuances will require higher yields** to attract demand especially as rate differential vis-à-vis the US widens. The **ensuing higher interest servicing** will weigh on fiscal consolidation needs as well. The contrast with regional peers such as Malaysia and Indonesia who have embarked on efforts such as subsidy rationalisation is a stark one. Signs of fiscal position worsening may put Thailand's credit ratings at risk and exacerbate a vicious feedback loop.

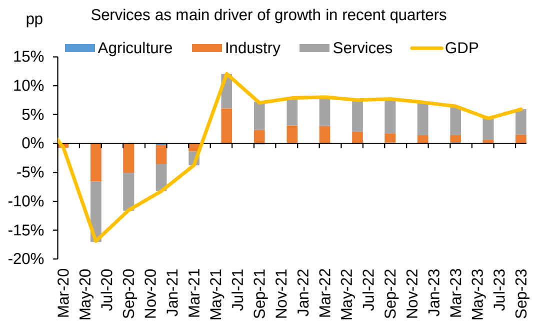
Philippines: Sticky Price Dilemma

Growth: GDP expanded 5.9% YoY in Q3'23, an acceleration from 4.3% seen in Q2'23. While growth will continue to be supported by **household spending**, an already low unemployment rate, stable remittances growth, monetary policy transmission would imply **less room for outperformance**. Domestic consumption had been growing at a slower pace since peaking at 10.0% YoY in Q1,22 amid intense cost pressures and a high interest rates environment. We forecast 2023 GDP growth to come in at 5.6% YoY, shy of the government's 6-7% growth target. Meanwhile, global recessions risks in 2H'24 could dampen external demand and pull overall 2024 growth down.



Source: CEIC; Mizuho Bank

Industry: Services (>60% of GDP) **should continue to remain the key driver of growth.** Wholesale and retail trade have been contributing around ~1pp each quarter to GDP growth since Q2'21, as household spending continues, but **outperformance unlikely.** Meanwhile, **industrials** (~30% of GDP) **should remain supported** as **government committed to maintain annual spending on infrastructure at around 5-6% of GDP from 2023 to 2028** under the Build Better More Programme. Still-weak manufacturing growth risks a protracted tepid external demand on global recession risks in 2H'24 while agriculture output (0.9%; Q2: 0.2%) could face further headwinds heading into El Nino in Q4'23/1H'24.



Source: CEIC; Mizuho Bank

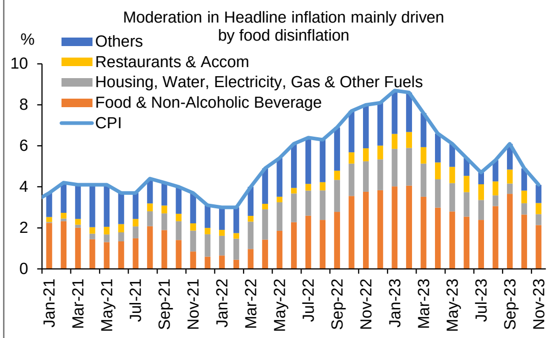
Growth dynamics: The fiscal deficit of -6.2% for 2023 should be attainable looking at current spending trajectory. Expenditures on subsidies appear to be well-managed, with Jan-Oct'23 subsidies 9.8% lower compared to the same period last year, and account for 2.8% of 2023 total projected expenditures (2022 actual: 3.1%). However, **Philippines path to fiscal consolidation** (steady reduction to reach 3% deficit by 2028) **is considerably slower relative to peers** and **latent risks of resurgent inflation of El Nino-induced supply shocks risks the reinstatement of subsidies**.

Historical budgets and Announced Budget Plans

	'16-'19 avg	2022	2023E	2024E
ID	-2.3%	-2.4%	-2.3%	-2.3%
MY	-3.3%	-5.6%	-5.0%	-4.3%
PH	-2.7%	-7.3%	-6.1%	-5.1%
TH	-3.1%	-3.5%	-3.8%	-3.6%

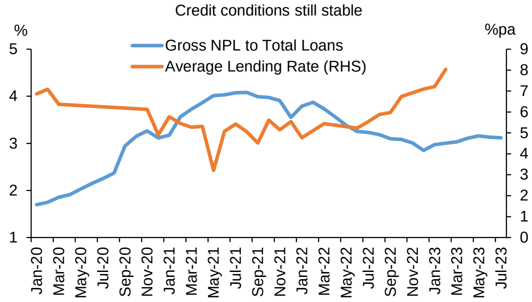
Source: CEIC; National Authorities; Mizuho Bank

Inflation: Inflation appears to be particular sticky in Philippines. While headline inflation has (finally) moderated to 4.1% YoY in Nov, after being stubbornly stuck above 6% for a year since Jun'22, it is perhaps *too early to say that the dis-inflation process would continue*. Food accounts for 34.8% of CPI and the Philippines is a **net importer of food** (at an average of –1.8% of GDP for 2017-2019), raising risks of **resurgent risks remain** on **El Nino-induced supply shocks** in 1H'24, in addition to **second-round effects persist post-increases in wages and transportation fares**.



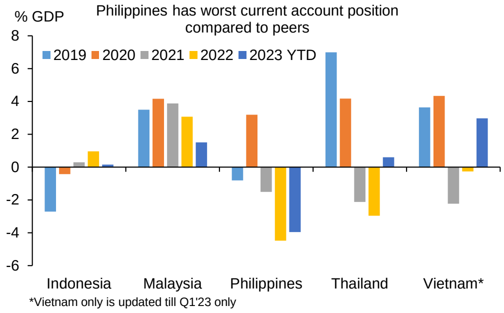
Source: CEIC; Mizuho Bank

Policy: A surge in food and oil prices in Oct saw the BSP hike policy rates by 25bps to 6.50%, in an off-cycle move 3 weeks ahead of its Nov scheduled meeting. Even as inflation has moderated sharply downwards in recent months, **continued news reports of increasingly expensive key food produce** (e.g. potatoes and eggs) **risks de-anchoring inflation expectations**, and the latent risk of El Nino induced supply shocks lurks in the background. **Another hike remains a (albeit lower) possibility although not our base case with no evidence of fresh spikes in prices and lower oil prices**. Any rate cuts in 2024 would likely be smaller in quantum and delayed (relative to the Fed) on resurgent inflation risks.



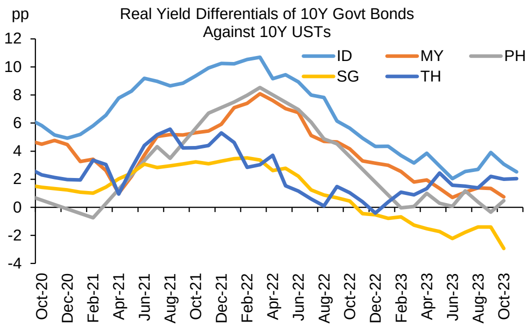
Source: CEIC: Mizuho Bank

External Position: We maintain our forecast for current account deficit to come in at 3.6% of GDP in 2023 (the widest regionally and compared to its own history) from 4.5% in 2022. The **narrowing of the current account deficit would be mainly driven by a smaller goods deficit (on import compression) and stronger service balance, which are partially offset by a smaller income flows**. While a turn in the electronics cycle could help support goods exports, the recovery is at best nascent at present and any material uptick (if any) would likely come only in 2024. Meanwhile, upside risks to a wider goods deficit in view of El Nino in 2024 could see a slower move towards historical averages.



Source: CEIC; Mizuho Bank

FX: Risks to the PHP remain skewed to the downside. Risks of **resurgent inflation on El Nino-induced supply shocks could see the reinstatement of subsidies**, imposing a further fiscal drag. **Higher import values** could also **offset some of the recovery in the electronics cycle**, resulting in the **persistence of the 'twin-deficit' problem** which will weigh on the PHP. With markets piling in on Fed pivot bets, the PHP should broadly strengthen in the near term, but latent risks lurk on sticky inflation in the US leading to the dialing back of Fed rate cut expectations. That real yield differentials near teetering near zero against the 10Y USTs also provide little support.



Source: CEIC; Mizuho Bank

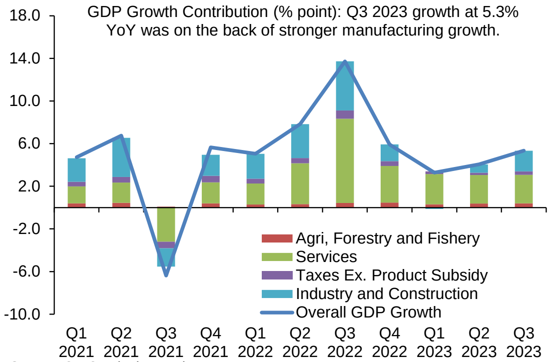
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	5.9	5.7	5.3	5.6	5.3	5.2	5.4
CPI (% y/y)	5.4	4.3	3.7	4.2	4.3	3.9	3.6
Policy Rate (%)	6.25	6.50	6.50	6.00	5.50	5.00	4.75
USD/PHP*	56.6	55.2	55.2	56.9	56.0	55.2	54.8
	54.3-57.0	55.0-56.9	53.7-56.4	54.6-57.4	53.5-57.6	52.6-56.9	52.7-56.9

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

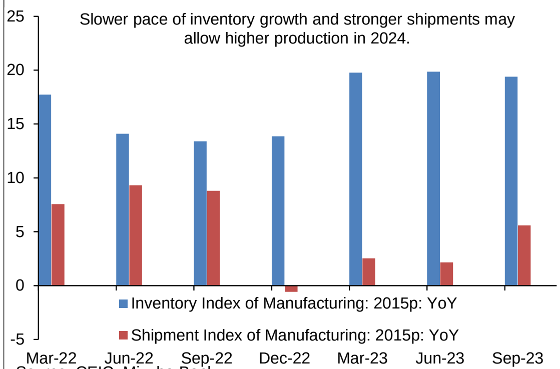
Vietnam: Risky Recovery

Growth: Our **growth projection for 2023 at 4.8%,** which takes into account Q3 GDP growth at 5.3% YoY**, falls** far **below** the National Assembly's official **target** of 6.5%, underscoring our view of the **external and domestic difficulties** faced by the economy. Revealingly, Communist Party Chief Nguyen Phu Trong in Oct forecasted growth to come in about over 5% for 2023. There are **some signs of relief** though, as the services sector had a decent showing in Q3 amid continued broad based support — **financial, banking and insurance activities continued expanding despite subdued credit growt**h. A 5.6% YoY growth in the manufacturing sector for Q3 is also an encouragement for industrial recovery.



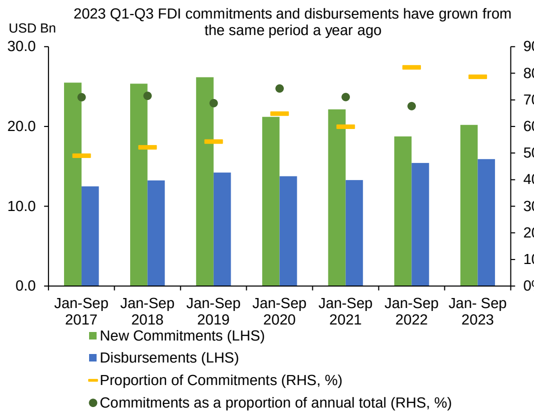
Source: CEIC: Mizuho Bank

Industry: Within the manufacturing sector, continued sequential **expansion** of **production** in recent months **across key industries** such as **apparel and footwear as well as computer, electronic and optical products bode well**. Strong growth of shipments also indicates a firmer external demand into Q4. That said, *elevated inventory growth will pose a drag on the pace of recovery*. In early 2024, we expect the electronics sector to experience a lift from consumer handset launches. Nonetheless, fat tail risks in 2024 in production stem from a **sharp fallout from electricity shortages should dry weather issues flare up**.



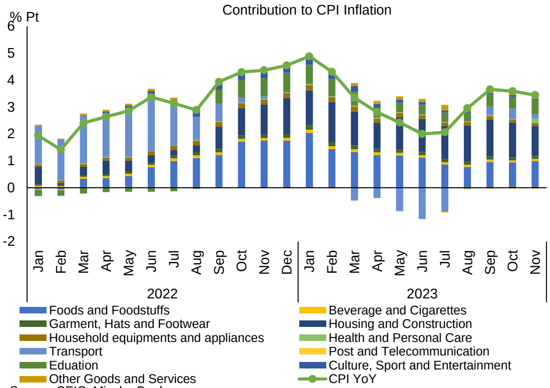
Source: CEIC; Mizuho Bank

Growth dynamics: Despite the weak external demand, **FDI commitments and disbursement in 2023 thus far have exceeded** that in 2022. As a result of supply chain diversification efforts, it appears that the **nature of commitments tends to be firmer** as a higher proportion has been actualized relative to pre-pandemic trends. The **manufacturing sector also continues to attract the bulk of the FDI inflows in 2023** despite the sharp plunge in output. While FDI is critical, it is paramount for public investments in terms of infrastructure to keep up. Stable electricity supply amid El Nino woes will be essential to prevent industrial stoppages and maintain FDI attractiveness. All in, we expect 2024 growth to post between 5-5.5%.



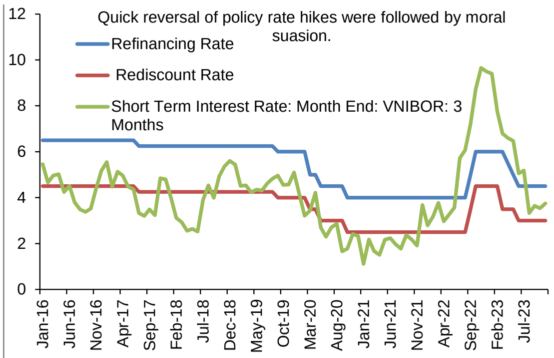
Source: CEIC; Mizuho Bank

Inflation: While **headline inflation declined into Q4, broad based price increases on a MoM basis remain concerning especially amid elevated food prices.** In particular, **spillovers of higher rice prices to other staple substitutes such as noodles** look worrying. Looking ahead, headline inflation is likely to continue hovering around the SBV's 3.5-4% as food inflation meets El-Nino risks. With the approved extension of the 2%-point VAT cut, the **threat** of **a resurgence in headline inflation will be delayed till mid-2024. Fortuitously for the SBV, core inflation stood at a much more palatable 3.1%** in November.



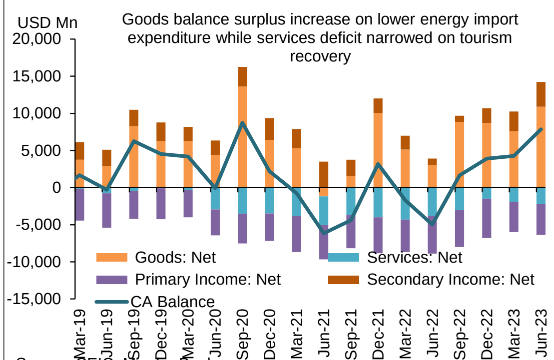
Source: CEIC, Mizuho Bank

Policy: **150bps of rate cuts over H1 2023** to *both the refinancing rate and the rediscount rate* reflect both **short term and longer term liquidity stresses**. Notably, the **monetary easing is targeted beyond the property sector** as *falling external demand deprive manufacturing industries of cashflow*. The need for **moral suasion and explicit orders from the SBV to commercial banks to assist borrowers by reducing interest rates on both existing and new loans** is telling of the magnitude of stresses. Nonetheless, **room for further easing has been diminished by revealed VND weakness** as low reserves cover imply **limited direct intervention abilities**. Surging NPLs also **pose financial stability risks and may even result in a growth drag into 2024**.



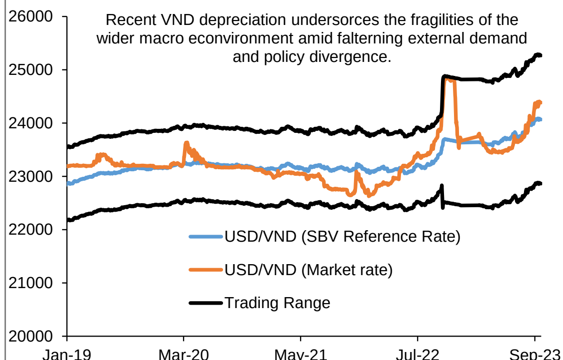
Source: CEIC; Mizuho Bank

External Position: The current account's return to a strong surplus in H1 2023 on the back of tourism recovery will face a **reality check from higher oil prices and rising freight costs** (proxied by the **Baltic Dry Index**). Looking ahead, we remain cautiously optimistic that a **partial return** of higher spending **Chinese tourist** alongside firming (but arguably not accelerating) exports demand would assist to lean against these headwinds. On balance, the current account surplus is likely to narrow in 2024. **FDI inflows is expected to remain robust** and bolster financial account.



Source: CEIC; Mizuho Bank

FX: Despite a modest pace of accumulation in 2023 on the back of FDI inflows and current account surpluses, the US$89.2bn worth of FX reserves (as of end-June 2023) is still 18.7% below the record high in January 2022. Inevitably, constraints from low FX reserves cover has been exposed via the relatively stable VND's **sharp and sudden depreciation in Q4 2022 and late Q3/early Q4 this year**. Given the twin risks from a hawkish Fed and global recession risks, bouts of sharp VND volatility will persist in 2024. Amid an anticipated VND recovery, the SBV is likely to capitalize on **episodes of weaker USD** to accumulate FX reserves and in turn **VND appreciation may look relatively restrained** compared to regional peers. On the other hand, *depreciation episodes will be sharp and volatile*.



Source: Bloomberg; Mizuho Bank

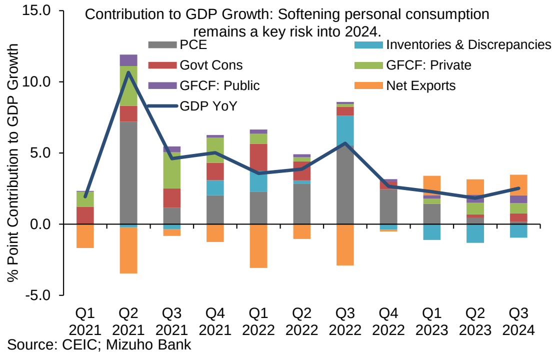
	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	5.3	6.5	5.6	5.5	5.0	5.1	5.2
CPI (% y/y)	2.9	3.5	3.7	3.6	3.4	3.3	3.8
Policy Rate (%)	4.50	4.50	4.50	4.50	4.50	4.00	4.00
USD/VND*	24305	24300	24300	24500	24100	24000	23900
	23641-24400	24100-24600	23600-24700	24000-24800	24000-24600	23900-24400	23700-24300

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

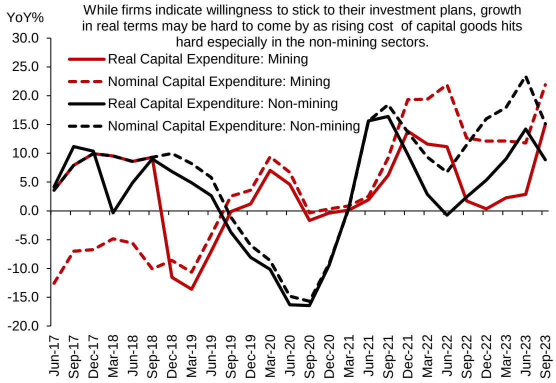
Australia: Drags

Growth: Despite a rather resilient H1 growth of 2.4%, 2023 real GDP growth is projected at 2.0% as support from private consumption weakens and net exports demand level off going forward. Households have **drawn down on savings** with savings-income ratio falling to **below pre-pandemic levels and is at the lowest level since June 2008.** This underscores **the erosion of purchasing power from inflation and rising mortgage debt hitting disposable incomes.** These pressures will extend into 2024 and keep growth below trend at 1.7% **especially as external demand from China remains tepid.**



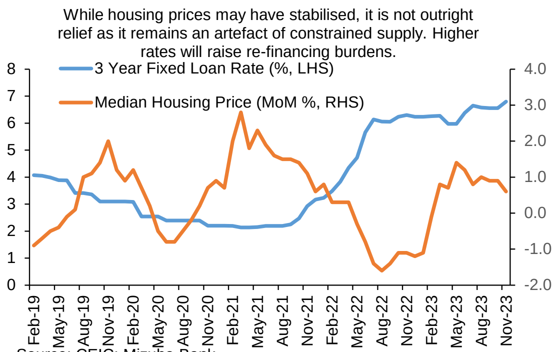
Source: CEIC; Mizuho Bank

Industry: Higher prices have not only hit households. **Capital expenditures look to have been dented across both mining and non-mining industries. That said, a recovery in iron ore prices since Q3 may have translated into improved mining investments. Meanwhile non-mining investment growth may have peaked in Q2**. Thus far, **much of the non-mining investments stemmed from services related industries** such as utilities, transport, postal and warehousing, food and accommodation services. While the recovery in tourism sector has emboldened investment spending including big ticket items such as aircrafts, **substantial import leakage** from such investments *imply subdued multipliers into the growth trajectory*.



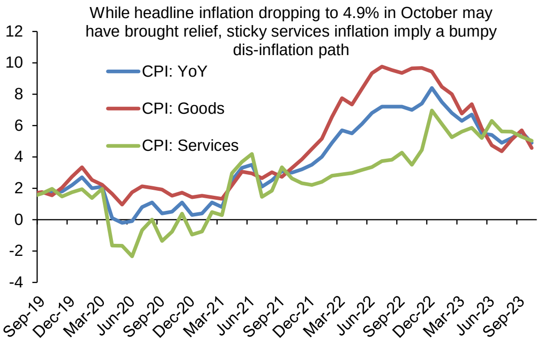
Source: CEIC; Mizuho Bank

Growth dynamics: Stronger population growth and constrained housing supply has stemmed the decline in housing prices. Despite avoiding an outright "crash", the supply shortage driven price increase is no comfort given the adverse spillovers to rental prices. Furthermore, it is expected that **more fixed rate borrowers who enjoyed low rates during the pandemic will be rolling over their loans later this year and early next year**. As such, households are set to be stretched further. Nonetheless, **higher incomes from a resilient labour market provide buffers** to *prevent sharp spikes in delinquencies*.



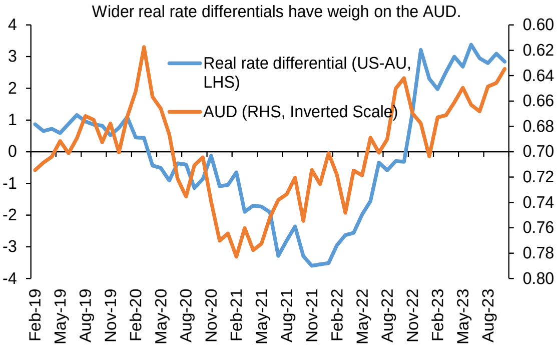
Source: CEIC; Mizuho Bank

Inflation: Structurally low vacancy rates will underpin the **continued rise in rental prices but the** *high base will inevitably contribute to dis-inflation***.** While the pace of **tourism recovery** has slowed, the stronger inflows will still **support** inflation of **accommodation costs, travel and food services. Therefore, services inflation is set to remain sticky amid robust employment and wages**. What's more, high fuel prices which offset cheaper fruits and vegetables led to an uncomfortable bump up in headline inflation. The dis-inflation path back towards the 3% mark will be a bumpy one.



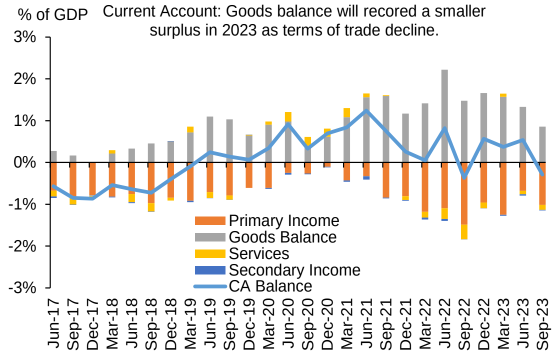
Source: CEIC; Mizuho Bank

Policy: Amid this bumpy dis-inflation path, **monetary policy has entered a calibration phase** which necessitates a meeting by meeting assessment. A rise in unemployment rate to 3.9% in November despite strong employment gains arose due to higher participation rates which may hint at more stretched households that are forced to join the labour force. Furthermore, a decline of headline inflation to 4.9% in October support our **base case for the RBA to hold in early 2024**. While the RBA may display *cautious optimism surrounding China's growth*, it remains the fact that **China's below trend prospects will spillover and constrain Australia's growth**. In turn, this may translate into calibrated easing when services inflation softens in mid-2024.



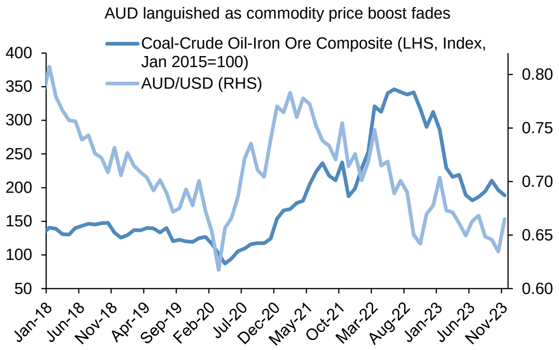
Source: CEIC, Mizuho Bank

External Position: Relative to 2022, 2023's current account position is projected at a smaller 0.5-1.5% of GDP. Subdued global growth points to lower commodity prices alongside softer demand in 2024 putting the current account estimate in the range of 0-1% of GDP. While **thawing of China-Australia relations** has led to a **partial** resumption of various imports ranging from coal, copper and barley, the **impact and timeline for resolution** of issues imply a **partial and phased normalization**, rather than an immediate windfall. While return of international travel brings back inflows of students and tourists to boost activity, **services balance would likely remain in deficit,** as it had been pre-pandemic.



Source: CEIC; Mizuho

FX: Considering the weaker terms of trade, AUD recovery path will be a laboured one in the near term amid the softer USD trends. **Given the skew toward natural resources exports and reliance on services and domestic consumption in its economy,** **the absence of an equivalent semiconductor-like upturn in key sectors in 2024 may become apparent relative to Asian peers**. That said, potential bouts of upside may arise considering the **potential for a confluence of improved trade** from *normalizing economic relations with China* and *trade agreement with India*.



Source: CEIC, Mizuho Bank

	Q3 2023	Q4 2023	Q1 2023	Q2 2023	Q3 2024	Q4 2024	Q1 2025
GDP (% y/y)	**2.1**	1.7	1.5	1.5	1.7	2.0	2.1
CPI (% y/y)	**5.4**	4.5	3.6	3.3	3.1	3.2	3.1
Policy Rate (%)	**4.35**	**4.35**	4.35	4.00	3.50	3.00	2.75
AUD/USD*	**0.643**	0.672	0.663	0.645	0.660	0.673	0.685
	0.633-0.689	0.630-0.685	0.627-0.706	0.609-0.673	0.632-0.708	0.643-0.698	0638-0.719

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q3-Q4 2023 ranges are from Bloomberg and only indicative.

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