

01 October 2023

Global Outlook, Asia Perspective

Rising to the challenge

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Global Outlook – US economy



Global backdrop: From inflation concerns to growth concerns



BofA global economic forecast summary

	2020A	2021A	2022A	2023F	2024F	2025F
US						
GDP	-3.4	5.9	2.1	2.1	1.1	1.3
CPI	1.4	4.7	8.0	4.1	3.0	2.2
Policy rate (% eop)	0.13	0.13	4.38	5.63	4.88	3.88
Euro area						
GDP	-6.5	5.3	3.5	0.6	0.7	1.3
CPI	0.3	2.6	8.4	5.4	2.5	1.5
Policy rate (% eop)	-0.5	-0.5	2.00	4.00	3.25	2.25
China						
GDP	2.2	8.1	3.0	5.1	4.8	4.7
CPI	2.5	0.9	2.0	0.4	1.8	2.1
Policy rate (% eop)	4.35	3.80	3.65	3.40	3.40	
Japan						
GDP	-4.6	2.2	1.1	1.3	1.2	1.0
CPI	0.0	-0.2	2.5	3.1	2.7	1.6
Policy rate (%eop)	-0.1	-0.1	-0.1	-0.1	0.05	0.05

- **Inflation: easy start, tough finish**
 - Cooling goods, sticky services
- **Tail winds**
 - Excess saving
 - Pent-up labor demand
- **Head winds**
 - Passing the stress test
 - Banking stress
- **Central banks: High for longer**
 - Fed: Terminal 5.5-5.75%; no cuts till Jun 24
 - Most central banks dealing w/ above-target inflation; bar for cuts high

The US outlook: Key themes



- We now look for a **soft landing in the US economy**. Incoming data point to resilience
- The housing and manufacturing sectors are bottoming. The consumer has been resilient, aided by robust labor income gains and excess savings from fiscal stimulus. Fiscal policy is supporting business spending.
- We expect **the Fed to hike once more for a terminal rate of 5.5-5.75%. Cuts to start in June 2024 and proceed quarterly through end-2025.**
- The labor market is tight. But a recovery in labor supply and a drop in job openings have alleviated some pressure. Our forecast for the peak U-3 unemployment rate is 4.3% in 1Q 2025.
- **The US is past peak inflation.** Core goods are seeing disinflation but not deflation, suggesting that supply pressures persist. Demand-driven inflation in services is elevated and sticky. We expect headline and core PCE inflation to fall to 3.1% and 3.5% y/y by 4Q 2023.
- **Risks are skewed in the direction of a mild recession as opposed to “no landing” outcomes.**

BofA USEconomicOutlook: Forecast highlights

q/q % saar unless indicated	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
Real GDP	2.0	2.4	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	2.0	2.0
Final sales to domestic purchasers	4.2	2.3	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	1.5	1.5
Private consumption	4.2	1.6	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	2.0	2.0
Nonres investment	0.6	7.7	5.0	4.0	3.5	3.0	2.0	2.5	2.0	2.5	3.0	3.0
Residential investment	-4.0	-4.1	2.5	2.0	1.5	1.0	0.5	1.0	1.5	1.5	2.0	2.0
Unemployment rate (%)	3.5	3.5	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.3	4.3	4.2
PCE inflation (%yoy)	4.9	3.7	3.3	3.1	3.0	2.9	2.8	2.6	2.4	2.2	2.1	2.0
Core PCE inflation (%yoy)	4.6	4.4	3.9	3.5	3.1	2.8	2.9	2.8	2.6	2.5	2.3	2.2
Federal funds target	4.75-5.00	5.00-5.25	5.50-5.75	5.50-5.75	5.50-5.75	5.25-5.50	5.00-5.25	4.75-5.00	4.50-4.75	4.25-4.50	4.00-4.25	3.75-4.00



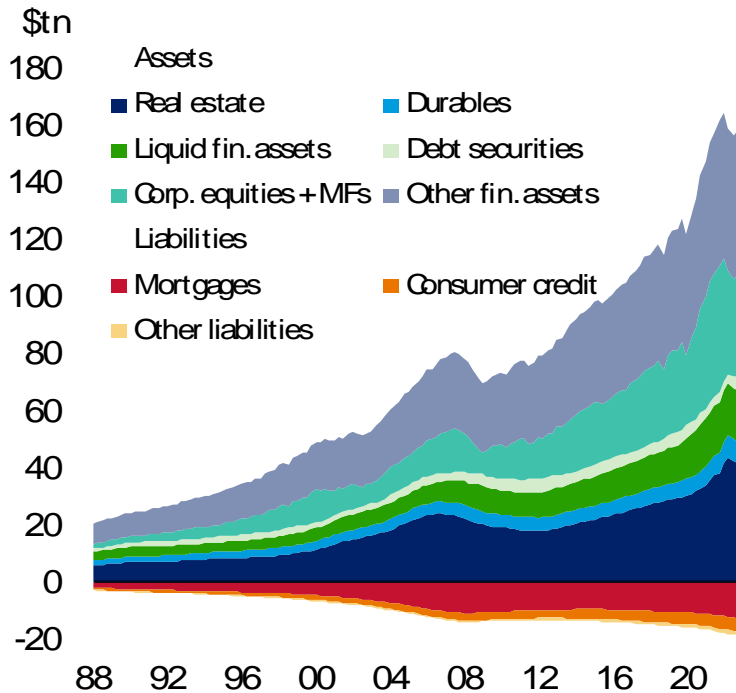
Major central banks: Yet to turn

Central bank	Current policy settings	2023 forecast	2024 forecast
Fed	Policy rate 5.00~5.25% Ended QE (from Mar '22) Began QT (from Jun '22)	5 hikes (total 125bp); Terminal rate: 5.5-5.75% End-23 policy rate: 5.5-5.75%	75bp of cuts (from June) Pause QT End-24 policy rate: 4.75-5%
ECB	Refi rate: 4.0% Depo rate: 3.5% Ended PEPP (from Mar '22) Ended APP (from Jul '22)	6 rate hikes (total 200 bp) Terminal R: 4.00% (depo rate)	75bp of cuts (from 2Q) End-24 policy rate: 3.25%
BoJ	Short rate target: -0.1% Long rate target (10yr yld): around zero% +/- 50bp "Flexible" purchases of ETFs/J-REITs	YCC adjustment (Jul) (Effective 10yr target ceiling raised to 1.0%)	Framework change (Jul) End NIRP End YCC Policy rate: 0-0.1%
BoE	Policy rate: 4.5% Ended re-investments on £875bn of Gilt holdings Began sales of corporate bond holdings Began Gilt sales (from Nov '22)	7 rate hikes (total 175 bp) Terminal R: 5.5%	no cut End-24 policy rate: 5.5%
RBA	Policy rate: 4.1% Ended QE (from Feb '22)	4 rate hikes (total 100 bp) Terminal R: 4.1%	25bp of cuts (from 4Q) End-24 policy rate: 3.85%
BoK	Policy rate: 3.5% Ended hike (from Feb'23) Open to rate hike of 25bp	On hold throughout the year-end Terminal R: 3.5%	100bp of cuts (from 1Q) End-24 policy rate: 2.5%

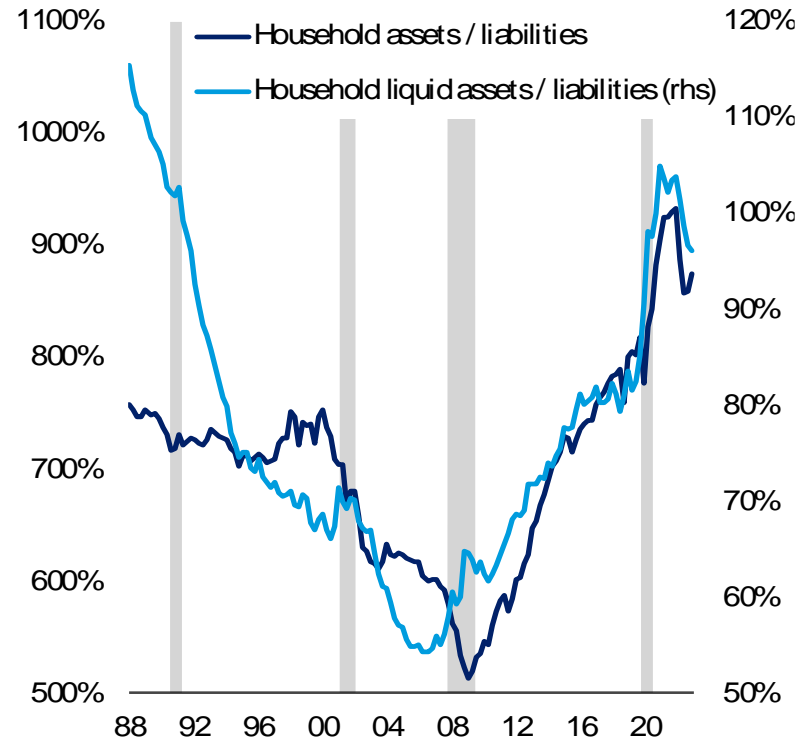


The US economy: Consumer balance sheet well positioned

There has been broad-based growth in HH assets since the start of the pandemic



Assets and liquid assets are elevated relative to liabilities



Source: BofA Global Research, Federal Reserve Board, Haver Analytics. Note: Starting from the flow of funds data on the assets and liabilities of households and nonprofit organizations, we make the following modifications. From the asset side, we omit real estate assets of nonprofits, equipment, intellectual property products, loans and trade receivables. On the liability side, we omit debt securities, commercial mortgages and trade payables. We define liquid assets as the sum of checkable deposits and currency, time and savings deposits and money market fund shares.

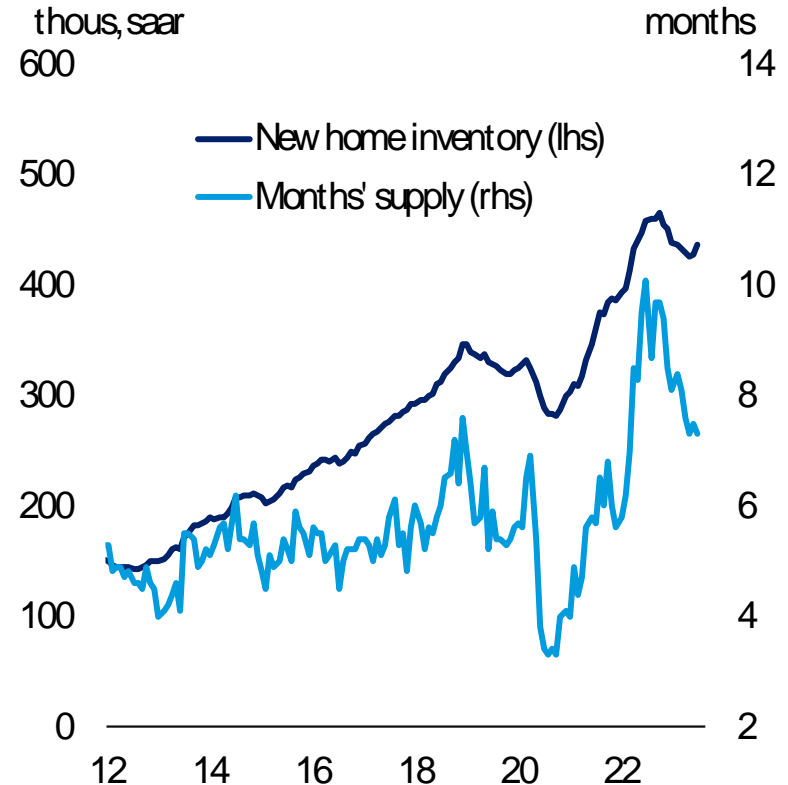


The US economy: The housing market is bottom-fishing

New home sales have recovered from the recent lows



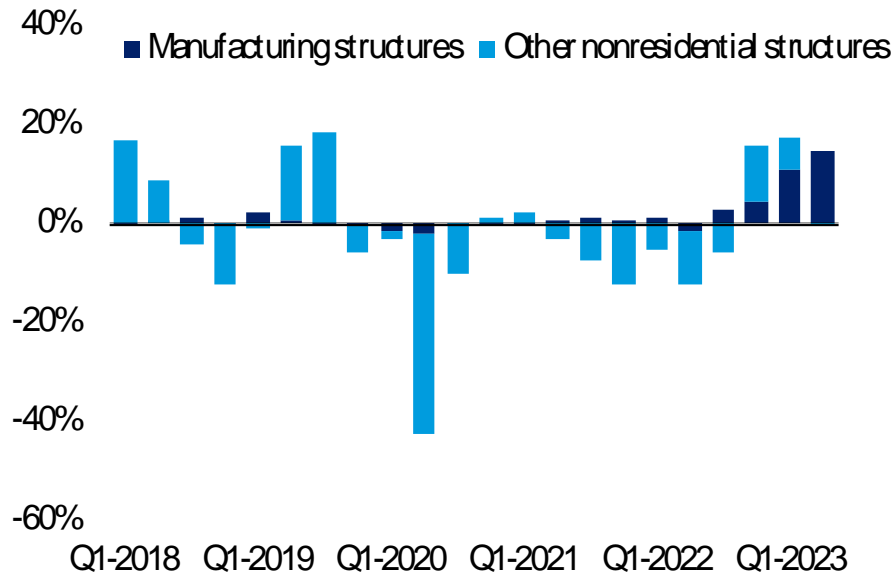
New home inventories have fallen as sales have picked up



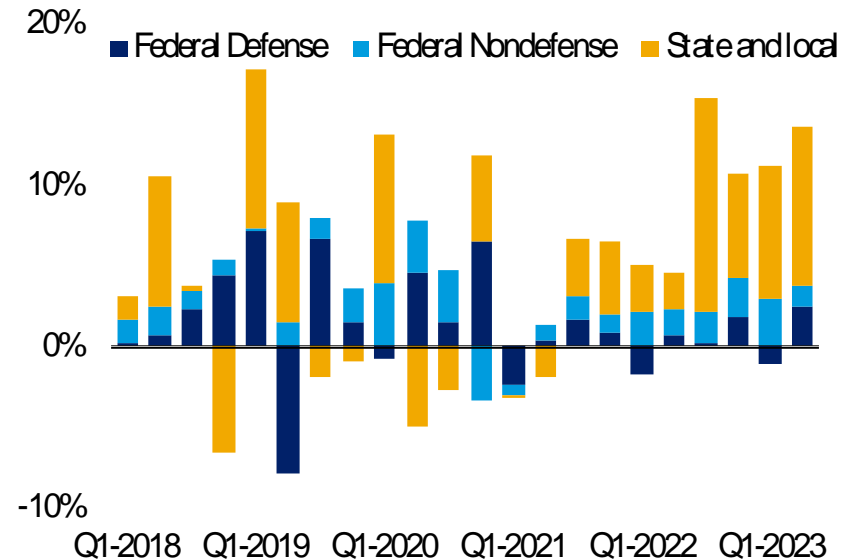


The US economy: Fiscal policy to boost investment

Investment in manufacturing has driven structures investment



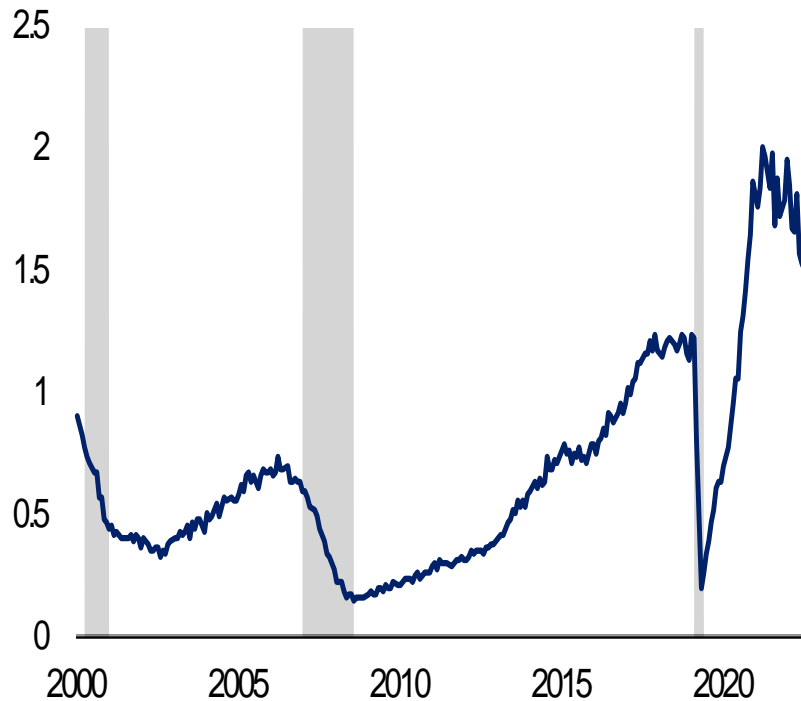
The infrastructure bill helps explain the surge in state and local government investment



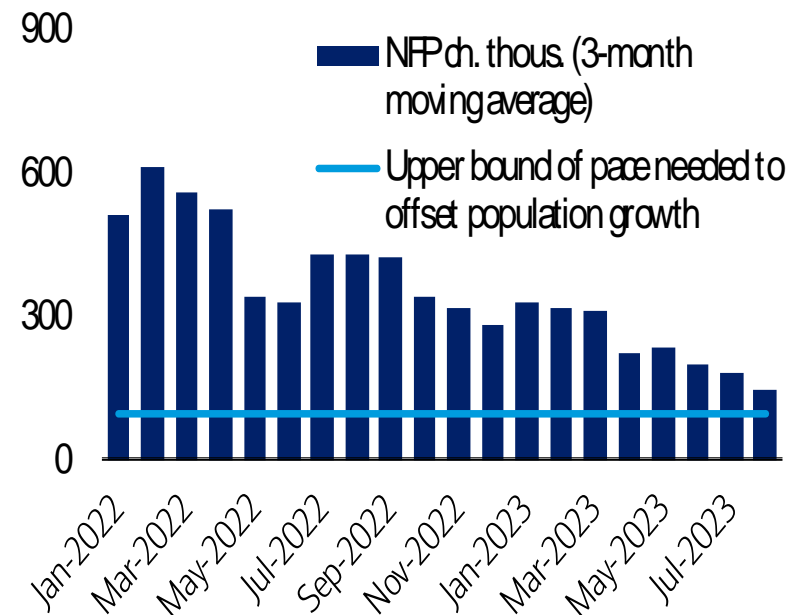


The US economy: A still tight labor market

Job vacancies to unemployed ratio:
remain far more jobs openings than unemployed



Nonfarm payrolls monthly growth:
Payroll growth still above the level needed to offset population growth

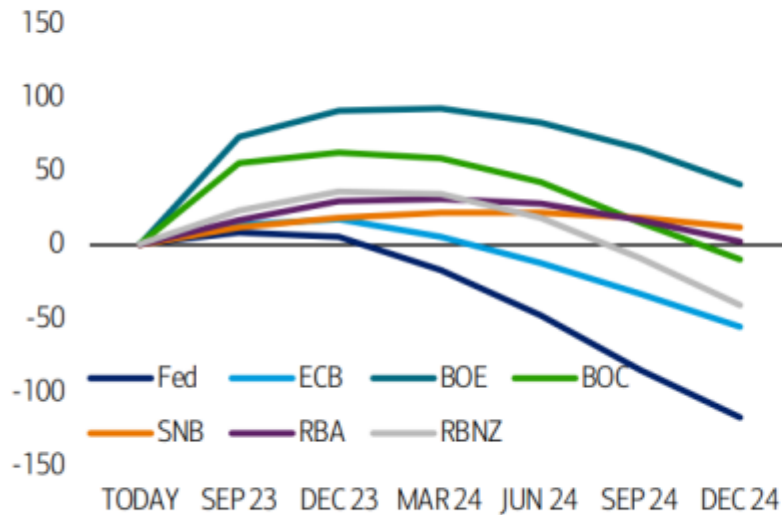


Focus shifts away from how many more rate hikes in 2023 to how many rate cuts in 2024



Exhibit 19: Front-end interest rate path for G10 central banks

Fed priced for faster/deeper cuts than G10 counterparts

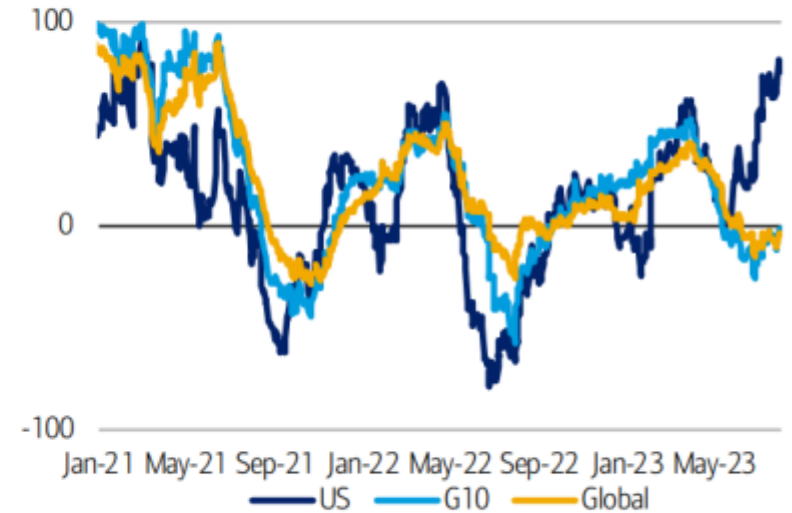


Source: Bloomberg; BofA Global Research

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Exhibit 20: Economic Surprises: US, G10, & Global

US data surprises trending higher, in contrast to global measures



Source: Bloomberg; BofA Global Research

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The USD powers ahead



USD technicals – buy the dip



- The 35th golden cross signal occurred on the DXY index on September 21 with a closing value of 105.38. DXY higher 20-80 trading days later 65-79% of the time.
- DXY bottom pattern still targets 108s. Overbought correction beginning. Buy the dip for another rip or two higher in 4Q23.

Chart 9: US dollar index (DXY) - Daily Chart

Price is breaking out to new YTD highs, golden cross on Sept 21 at 105.36 says higher USD in Q4, measured move and Fibonacci retracements say 107.18 / 108.97.



Table 1: Price trend after the 50d SMA crossed above the 200d SMA

When the 50d SMA crossed above the 200d SMA, in the past DXY was up 79% of the time 40 trading days later by 1.4% on average

Ticker: DXY	Start Year: 1967					# Signals: 34	# < 80 days: 1							
days after	5 days	10 days	15 days	20 days	25 days	30 days	35 days	40 days	45 days	50 days	60 days	70 days	80 days	
% Up Ratio	53%	59%	53%	65%	68%	65%	71%	79%	76%	76%	79%	68%	65%	
Up	18	20	18	22	23	22	24	27	26	26	27	23	22	
Down	16	14	16	12	11	12	10	7	8	8	7	11	12	
Average	0.17%	0.09%	0.36%	0.53%	0.90%	1.00%	1.20%	1.39%	1.38%	1.61%	1.16%	1.32%	1.43%	
Median	0.41%	0.16%	0.42%	0.43%	0.89%	1.19%	1.44%	1.37%	1.72%	1.58%	1.28%	1.70%	2.10%	
Min	-2.26%	-4.60%	-2.47%	-4.23%	-4.26%	-4.94%	-5.15%	-5.16%	-6.94%	-7.88%	-10.17%	-9.89%	-10.72%	
Max	2.56%	3.09%	6.21%	5.29%	7.77%	6.90%	7.32%	10.87%	8.26%	10.93%	8.52%	9.50%	10.35%	

Source: BofA Global Research, Bloomberg

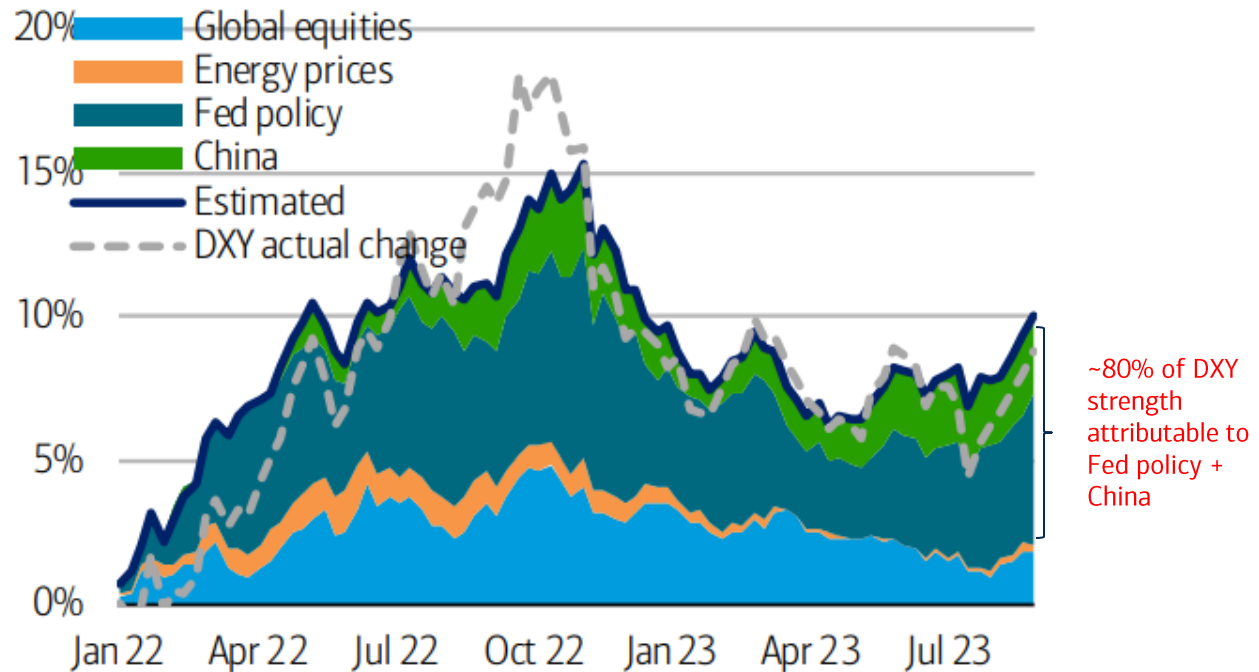
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US resilience + China disappointment – explain bulk of global market moves



DXY dollar index – actual vs. estimated move (& contributions) based on key drivers

2022-to-date: Fed policy + China explain ~80% of DXY appreciation since '22

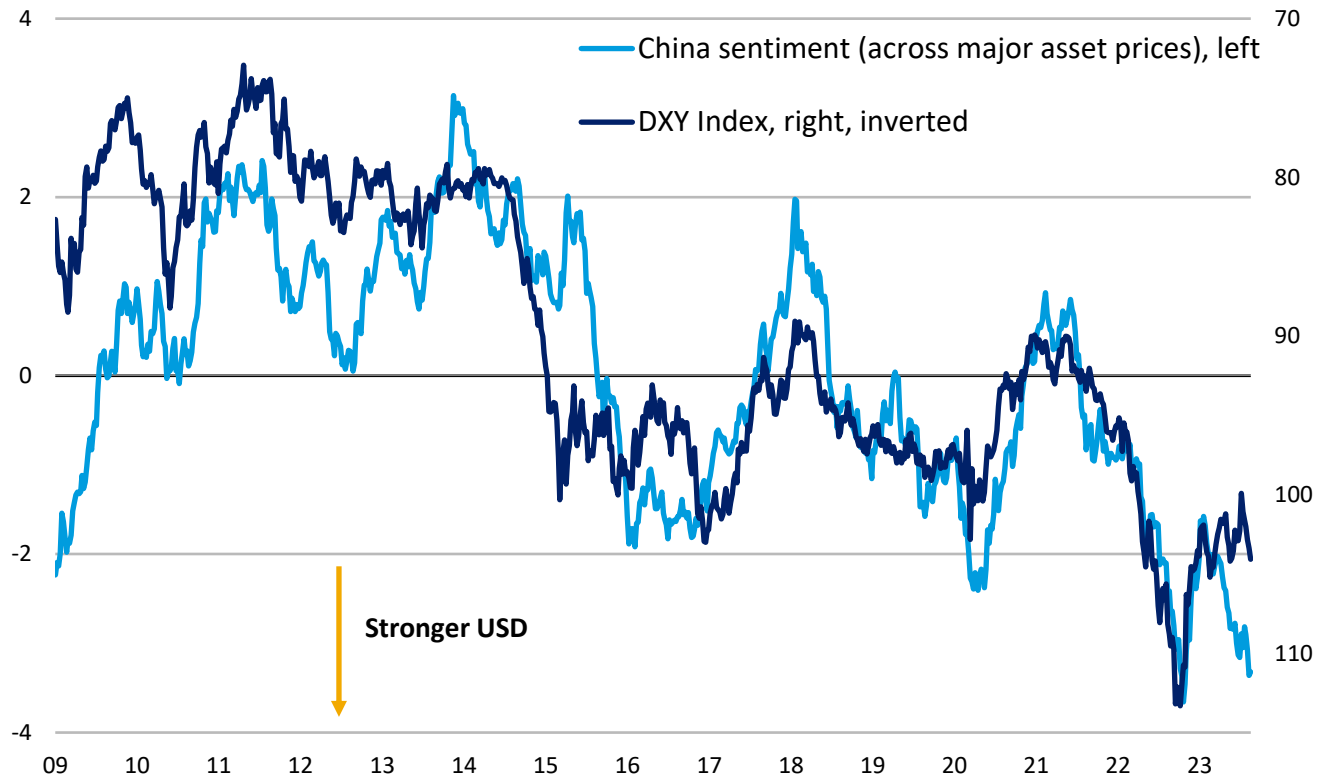


Source: BofA Global Research, Bloomberg, Note: China – reflation PCA, Fed policy – 2y rate differentials, Energy prices – BCOMEN Index, Global equities – MSCI World

China sentiment approaching 2022 lows – contrarian indicator or not?



Hard for US dollar to weaken without China sentiment improving



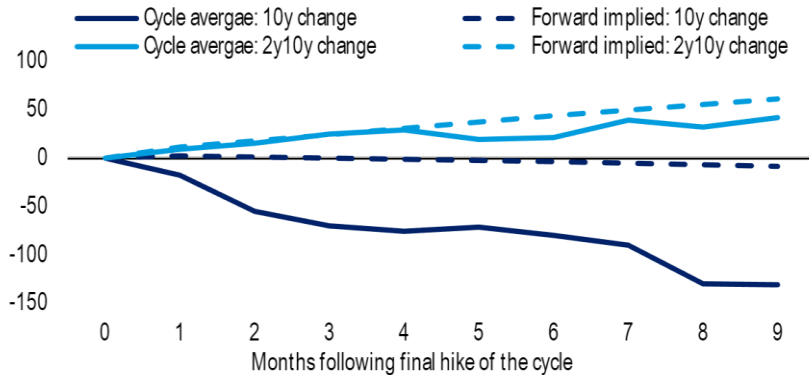
Source: BofA Global Research, Bloomberg, China sentiment = first PCA component across HSCEI, 10y CGB, CNY, iron ore, high yield credit

End of cycle rates trade – long duration clearer than steeper curve but...



Exhibit 1: Historical comparison of UST 10y and 2s10s curve following the final hike vs what forwards currently imply (BPS)

The market is currently pricing similar amount of steepening observed following the Fed's final hike, but not a consistent rally in 10y rate

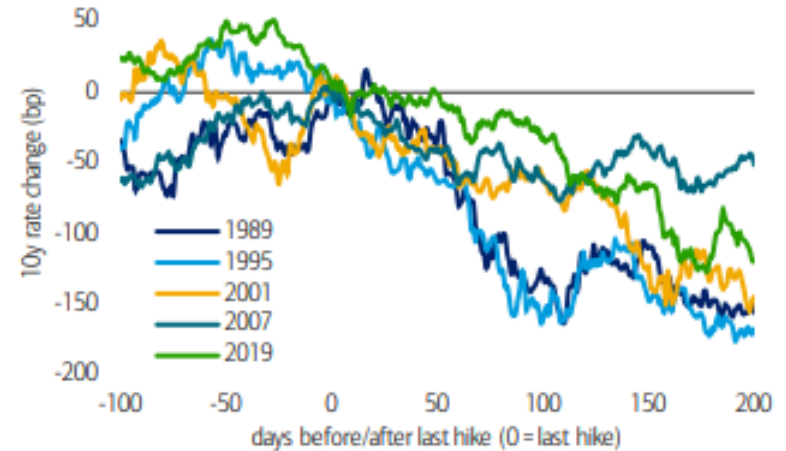


Source: BofA Global Research, Bloomberg. Note: solid lines reflect cumulative change in 2s10s curve and 10y rate observed on average over prior hiking cycles back to 84. Dashed lines assume market pricing of last hike in July is correct.

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Exhibit 5: 10y rates rallied after last hike in past 5 cycles since '89

Rate rally likely to follow last hike, which US Econ anticipates in March



Source: BofA Global Research, Bloomberg

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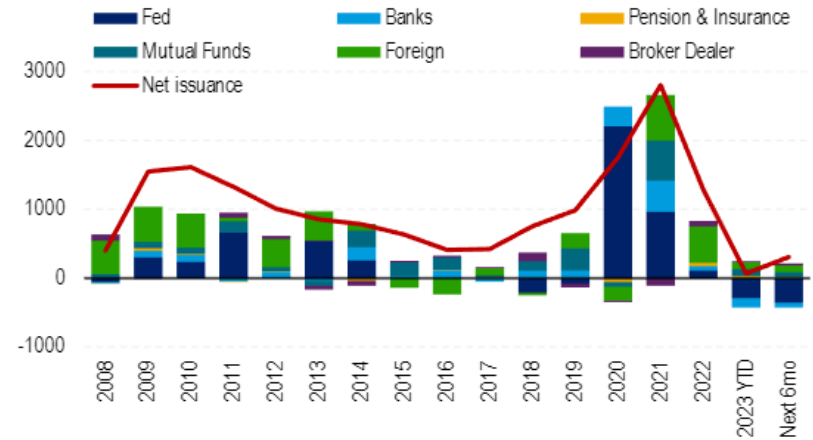
... who will buy the bonds in 2H '23



- Key UST demand groups:
 - Asset managers
 - Already long, need recession
 - Pension & insurance
 - Adding but in modest size
 - Foreigners
 - Unattractive FX hedge pickup
 - Banks
 - Focused on making loans
 - Reducing expensive funding

Exhibit 4: Large Treasury investor demand & coupon issuance (\$bn)

Expect demand from foreign investors, banks, mutual funds, and pensions to be more muted in 2H vs prior years

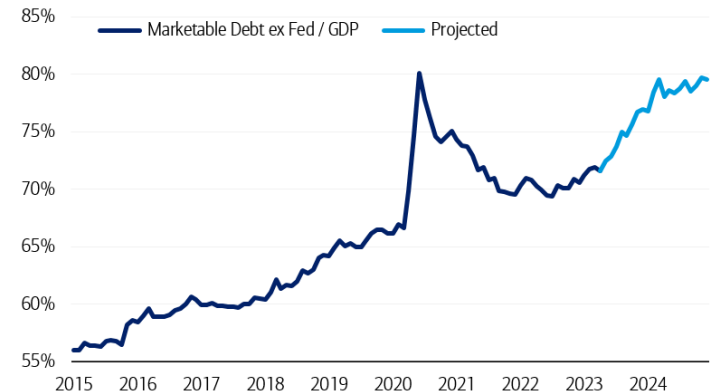


Source: BoFA Global Research, Federal Reserve. Note: only reflects real money categories from flow of funds that generally invest in Treasury coupon securities, excludes households. Last data point for 2023 is Q1 from Flow of Funds and other more timely data sources, next 6mo reflects rough estimate, Net issuance does not account for Fed QT as Fed impact on supply is reflected separately here

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Exhibit 1: Marketable Debt ex Fed to GDP ratio (%)

We project marketable debt ex Fed could grow to nearly 80% of GDP by year-end '24



Source: BoFA Global Research, Bloomberg, FRBNY, CBO

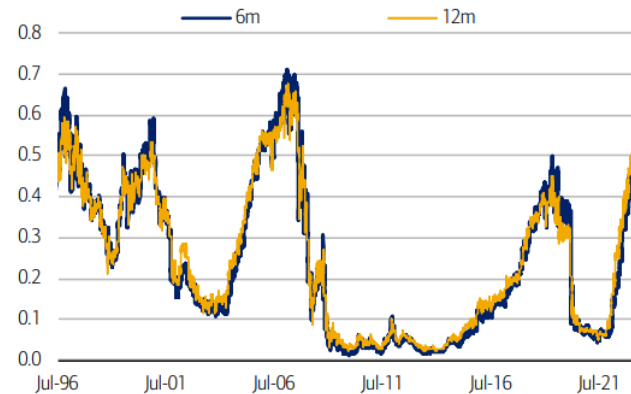
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Japan: NIRP matters far more for Yen than YCC



Exhibit 4: USD/JPY vol-adjusted carry (carry/vol ratio*)

USD/JPY carry new highs after BoJ's Jul MPM



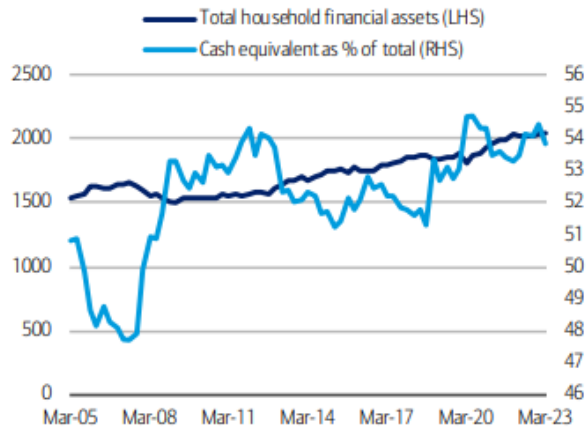
Source: BofA Global Research, Bloomberg

*6m = annualized 6m carry / 6m implied vol; 12m = 12m carry / 1yr implied vol

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Exhibit 1: Japan's households' gross financial assets (¥tn) and cash %

Japanese households hold over ¥2000tn in financials assets 54% of which stays in cash equivalents

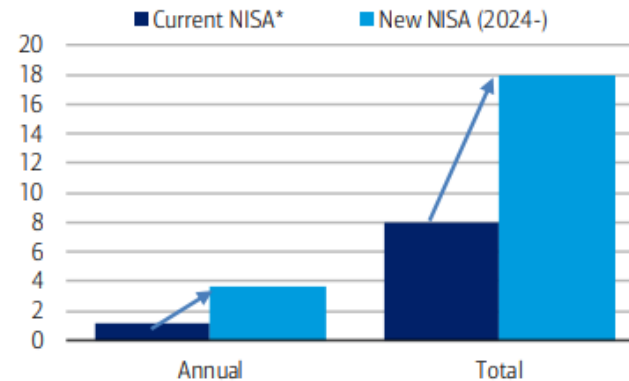


Source: BofA Global Research, Haver

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Exhibit 2: Max investable amount in current and new NISA accounts (¥mn) per year and total

Annual bracket would rise to ¥3.6mn (¥2.4 regular + ¥1.2 DCA) from current ¥1.2mn regular or ¥0.4mn DCA and maximum balance to ¥18mn (¥12mn regular + ¥6mn DCA) from current ¥6mn regular or ¥8mn DCA



Source: BofA Global Research

DCA: Dollar-Cost-Averaging (Tsumitate in Japanese)

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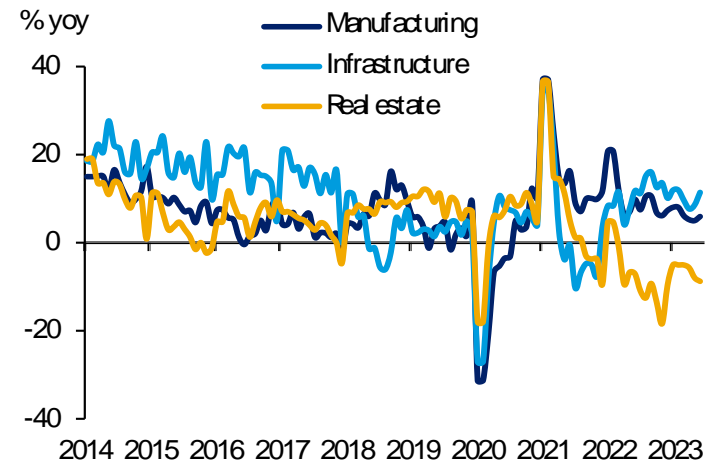
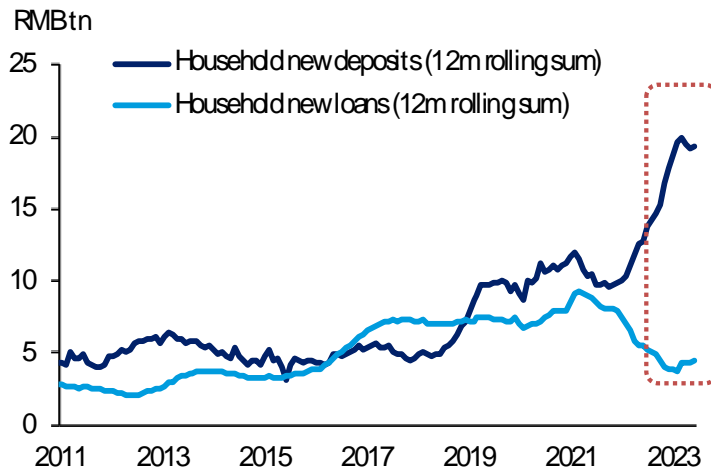
Global Outlook – China economy





China economy: now is not the time to lose hope

- We see 2023/24 GDP to grow at 5.1%/4.8 yoy, and now is not the time to lose hope despite the headwinds
- Chinese households are still accumulating savings, rather than spending, amid uncertainties in job security and lower income expectations. Private sectors also have low risk appetite and therefore have held back their capex plans, despite low funding costs, quoting concerns about soft domestic & external demand, as well as policy uncertainty.
- The good news is the policies are in the **“response mode”**, where the latest actions including MLF/LPR cuts, stamp tax cuts, national and Tier-1 cities mortgage policy relaxations, outstanding mortgage rate cuts etc.,
- Monetary policy: we expect potential RRR cut in the near term, and a step-up in structural monetary easing targeting property market
- Fiscal policy: front-loading of LGSB issuance, as well as utilizing quotas for LGFV refinancing bond issuance are likely. Any forms of new central government debt issuance are also likely, to help with the local govt debt issues.
- Property sector easing is still the key to watch in the near term, esp. for the sales trend in key cities and the potential fiscal supports on the urban village refurbishment plans



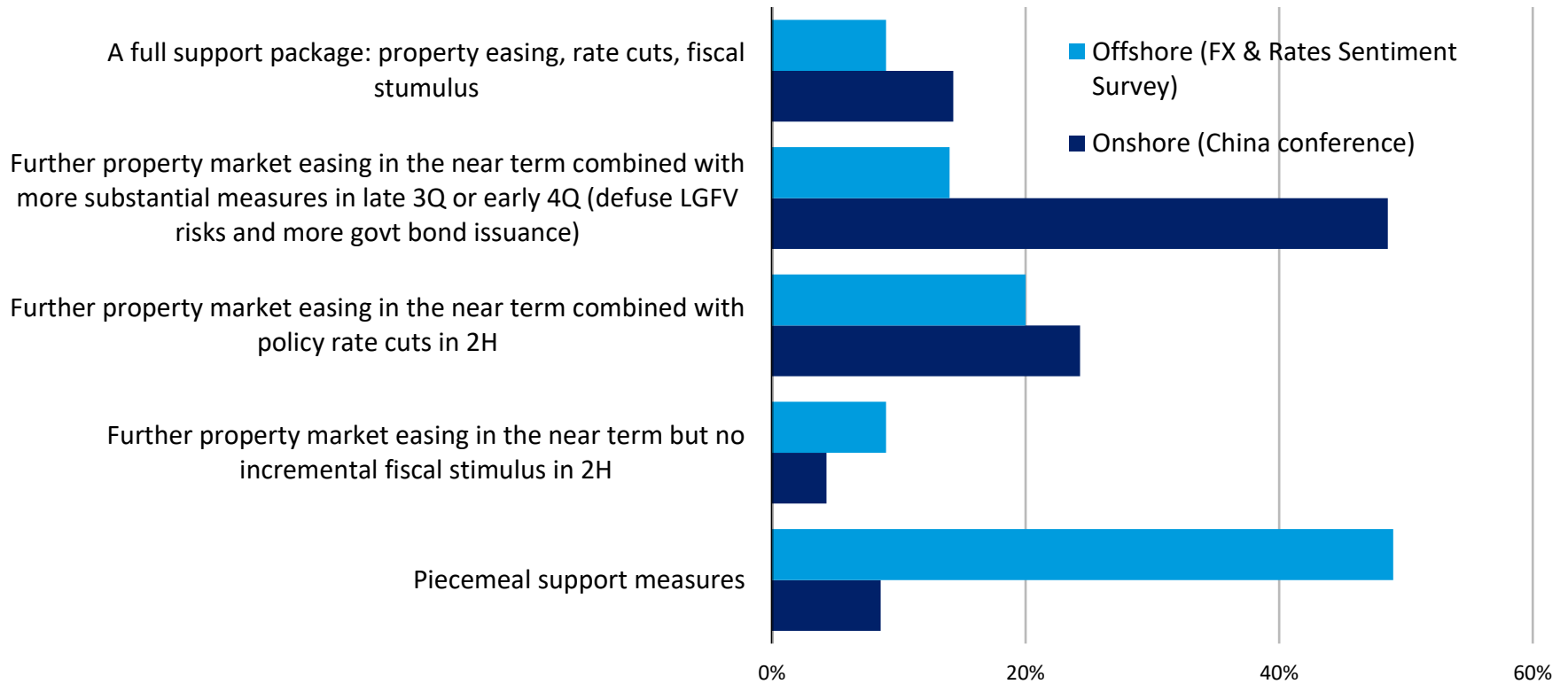


Expect China's GDP to grow at 5.1% and 4.8% in 2023/24

Summary of key macro data and forecasts

		2019	2020	2021	2022	2023F	2024F	2025F
GDP by expenditure								
Real GDP Growth	%yoy	6.0	2.2	8.4	3.0	5.1	4.8	4.7
Final Consumption Expenditure	%yoy	6.3	-0.3	9.0	1.8	6.8	5.0	4.8
Gross Capital Formation	%yoy	3.9	4.2	3.9	3.5	4.8	5.0	4.9
<i>Contribution to GDP Growth</i>								
Net Exports	pp	0.7	0.6	1.9	0.5	-0.2	0.0	0.0
Major activity indicators								
Industrial Production	%yoy	5.7	2.8	9.6	3.6	4.3	4.8	4.3
Fixed Asset Investment	%yoy	5.4	2.9	4.9	5.1	5.2	5.9	5.0
Retail Sales	%yoy	8.0	-3.9	12.5	-0.2	8.0	7.0	7.2
Exports of Goods	%yoy	0.5	3.6	29.6	7.0	-3.6	4.1	5.5
Imports of Goods	%yoy	-2.7	-0.6	30.0	1.1	-4.1	5.0	5.1
Trade Balance	US\$ bn	421	524	670	857	839	850	909
Current Account	%GDP	0.7	1.7	2.0	2.2	1.6	1.3	1.2
Key price and policy indicators								
CPI	%yoy	2.9	2.5	0.9	2.0	0.4	1.8	2.1
PPI	%yoy	-0.3	-1.8	8.1	4.2	-2.8	0.8	1.5
1y Loan Prime Rate	% year-end	4.15	3.85	3.80	3.65	3.40	3.40	3.40
USD/CNY	year-end	6.96	6.53	6.36	6.90	7.20	6.70	6.30

China stimulus expectations: offshore vs. onshore



USD/CNH outlook – forecasting 7.40, then much depends upon policy response (both China and the US)



Wide variety of tools used to control CNY weakness:

- Window guidance
- Macro prudential measures
- Cash flow management
- Stronger-than-expected daily fixings
- FX intervention
- Tighter CNH funding

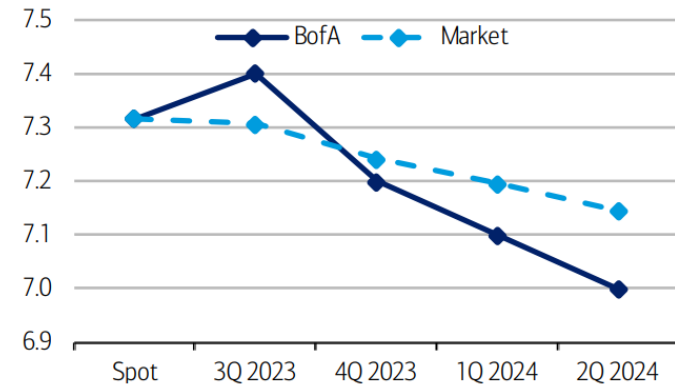
But at the cost of:

- High real interest rates
- Trade weighted CNY appreciation

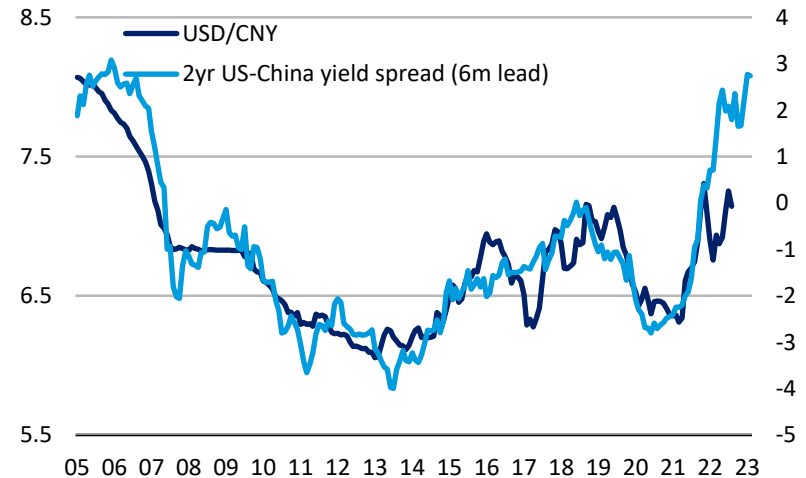
Ultimately, credible fiscal policy response needed for a trough in CNY.

Exhibit 3: USD/CNY forecasts

Our forecast path is below the forwards from 4Q23



Source: BofA Global Research, Bloomberg

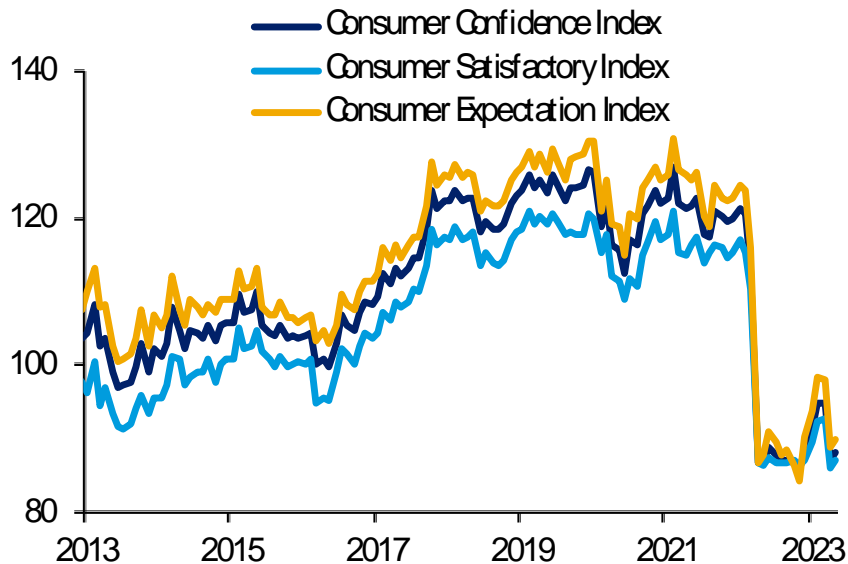


Source: BofA Global Research, Bloomberg

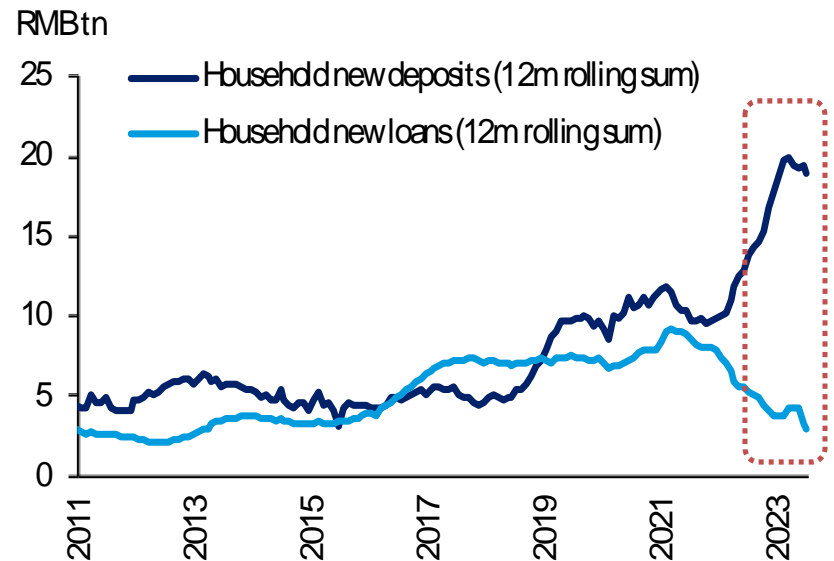


Growth momentum eased after the initial rebound in 1Q23 (1): Consumption weakened amid low confidence and high savings

Consumer confidence dipped again after a short-lived rebound



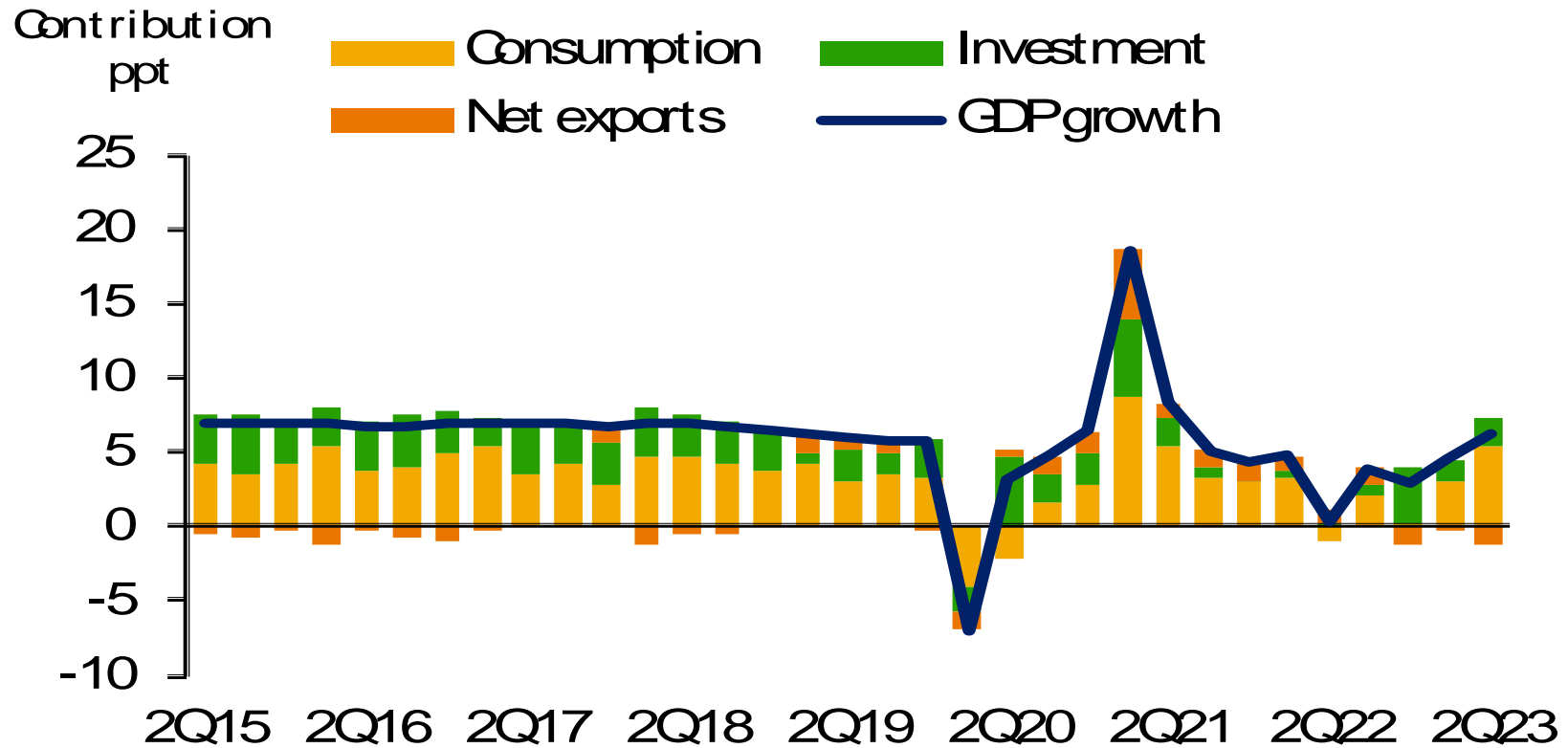
Households continued to save more rather than investing or consuming





Growth momentum eased after the initial rebound in 1Q23 (2): Investment decelerated on property investment slowdown

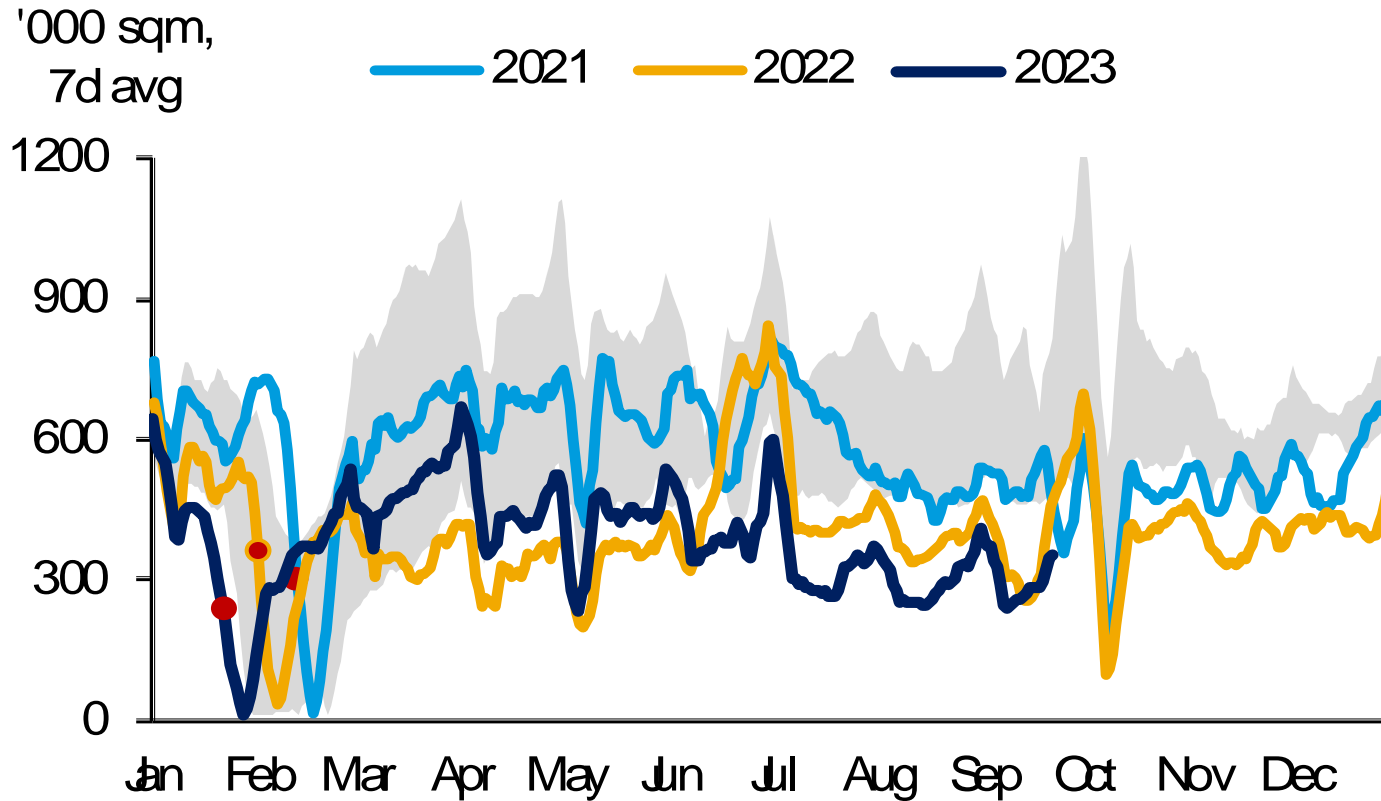
Investment contributed less to the 1H23 rebound





Property market recovery disrupted: Sales dropped in April-Aug

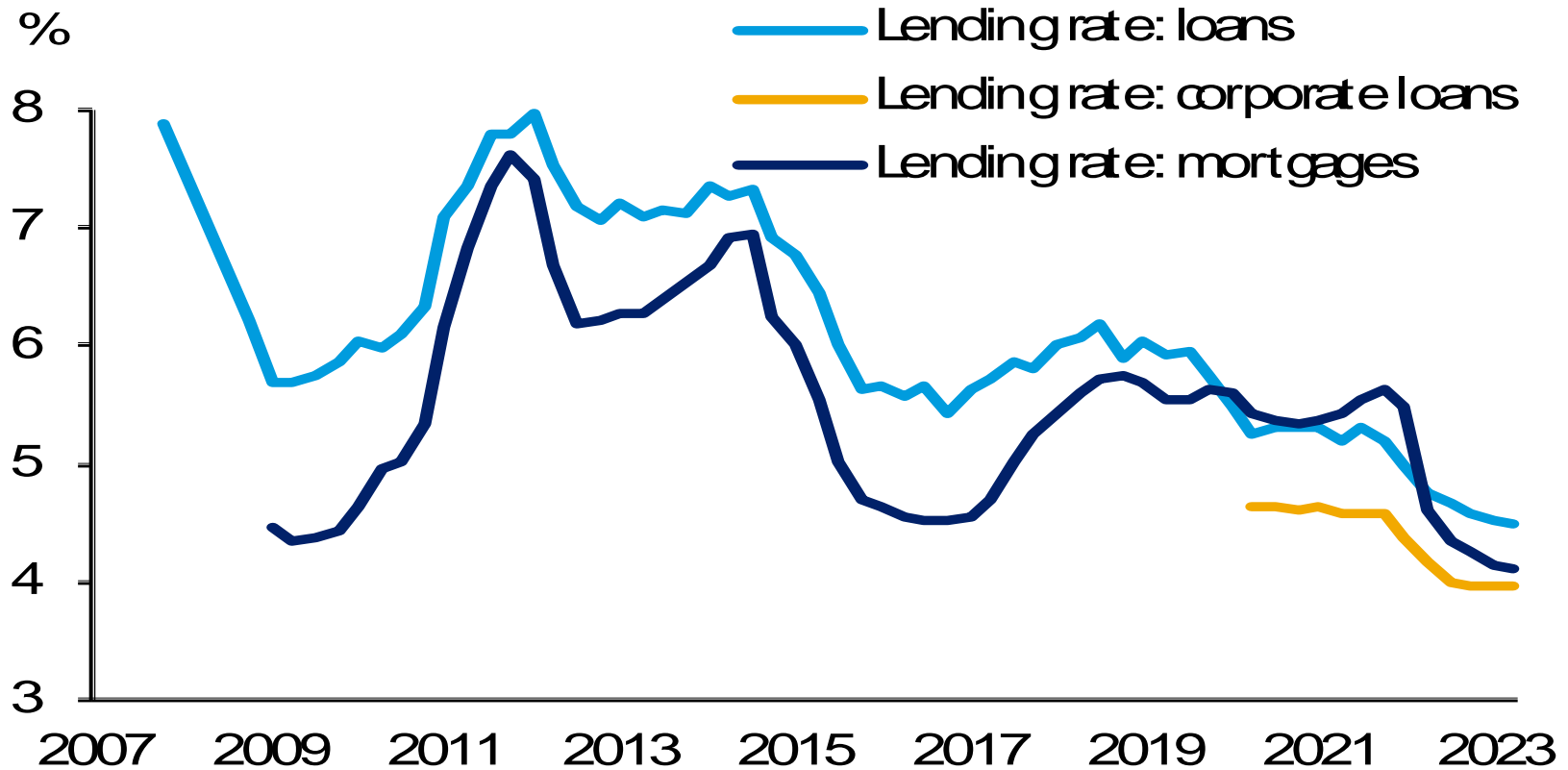
Sales in 30 major cities were notably weak until recently





More policy support is warranted : Lending rates declined to historical low levels, followed by policy rate cuts

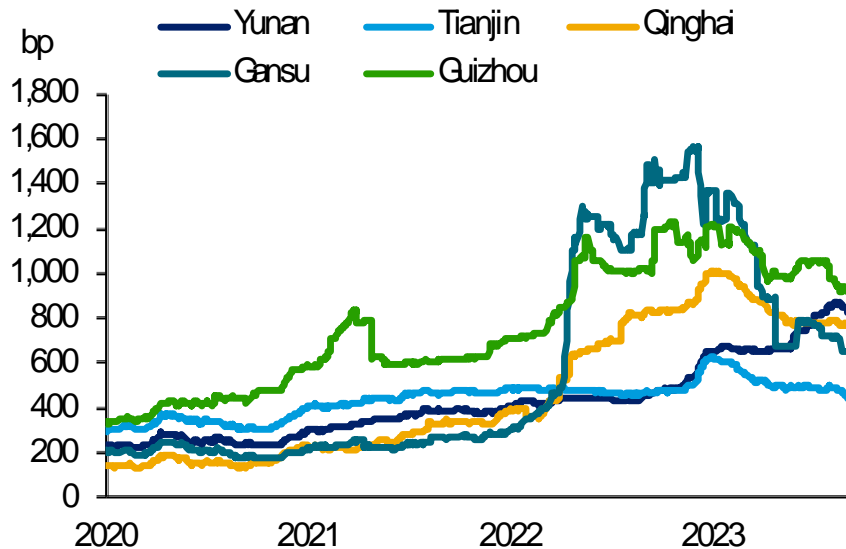
Lending rates of corporate loans dropped to record low



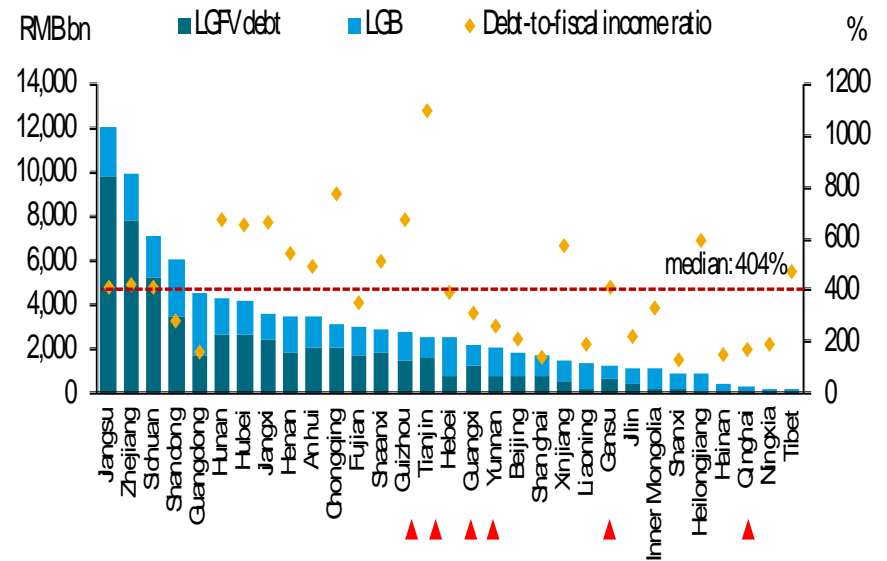


More policy support is warranted: Defusing LGFV debt is key to contain recession risks

LGFVs of some provinces saw widened credit spread since 2Q22



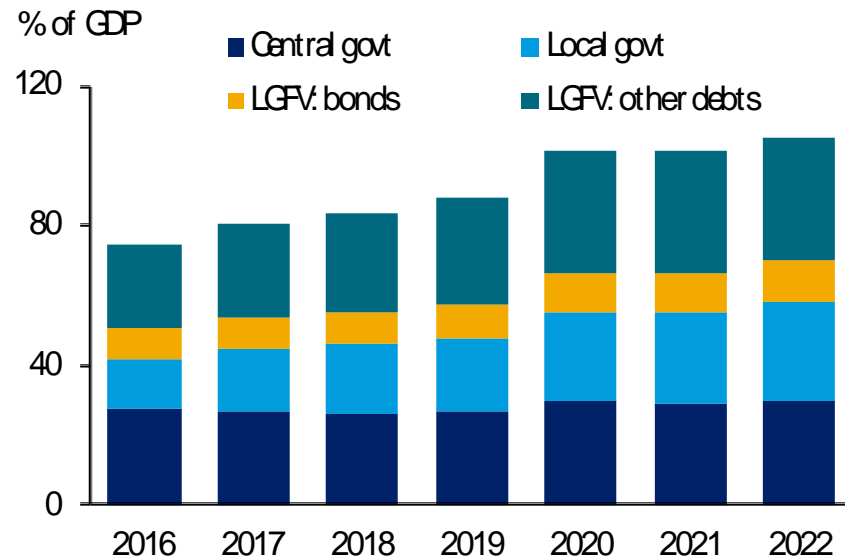
Among those debt-ridden provinces, Tianjin, Guizhou and Gansu have high debt-to-fiscal income ratio



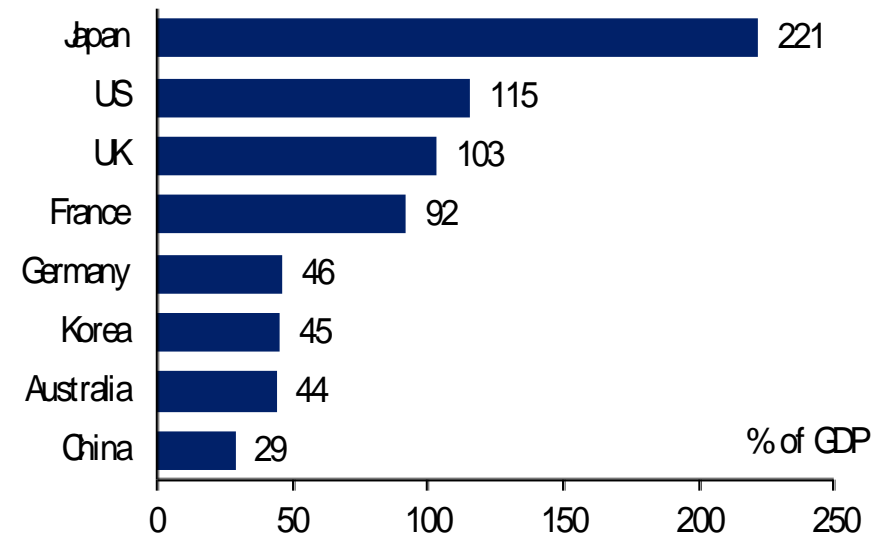


More policy support is warranted: Central govt balance sheet still has more room to lever up

Local govt related debts built up over the past years



Leverage ratio of central govt still low among peers



Long-term potential growth: Our three scenarios



	GDP growth, %	Contribution to GDP growth, ppt			
		TFP	Capital stock	Raw labor	Human capital
1981-1990	9.3	1.0	4.4	1.6	2.4
1991-2000	10.5	3.9	4.5	0.8	1.2
2001-2010	10.6	3.9	5.0	0.6	1.1
2011-2019	7.3	2.5	4.2	-0.1	0.8
2020-2022	4.5	1.2	2.9	-0.2	0.8
2023-2025F	5.0	2.2	2.7	-0.5	0.7
2026-2030F	4.5	1.7	2.2	0.0	0.6
2031-2035F	3.5	1.1	1.8	-0.1	0.6

<2> Bull case: upside possible from reform dividend

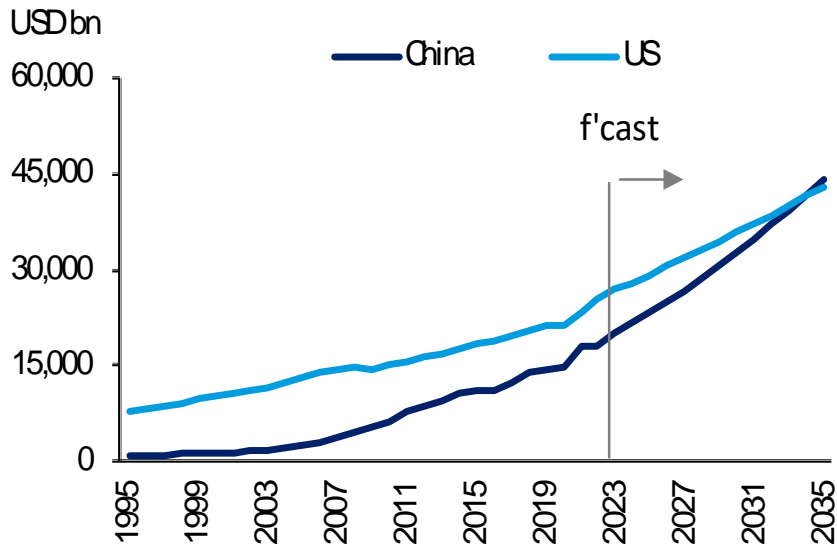
<3> Bear case: stalled reforms without major fallout in global environment

	GDP growth, %			TFP growth, ppt		
	Bull case	Base case	Bear case	Bull case	Base case	Bear case
2023-2025F	5.5	5.0	4.0	2.5	2.2	1.5
2026-2030F	5.0	4.5	3.6	2.0	1.7	1.2
2031-2035F	4.5	3.5	2.8	1.6	1.1	0.8

Long-term potential growth (2): What will China look like in 2035?

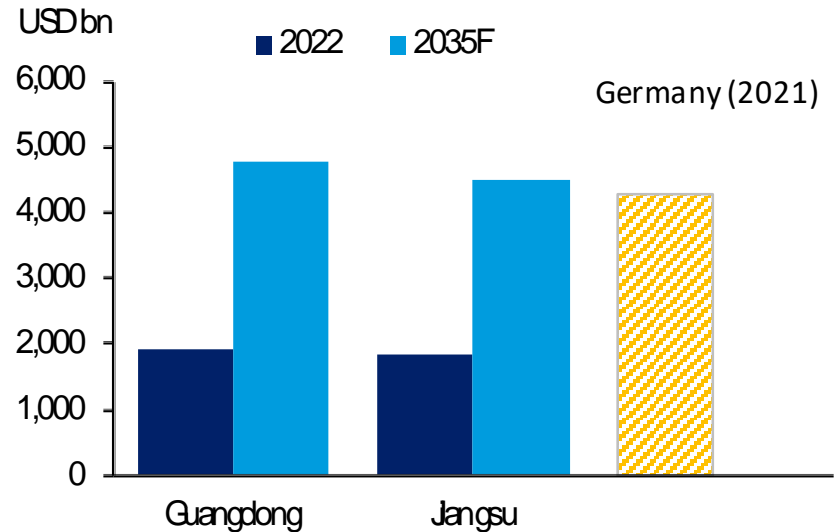


Our baseline scenario implies China could overtake the US to become the world's largest economy by 2035...



Note: Source: BofA Global Research estimates, CEIC

... Guangdong and Jiangsu could grow to a size larger than Germany's economy today



Global Outlook – Geopolitics

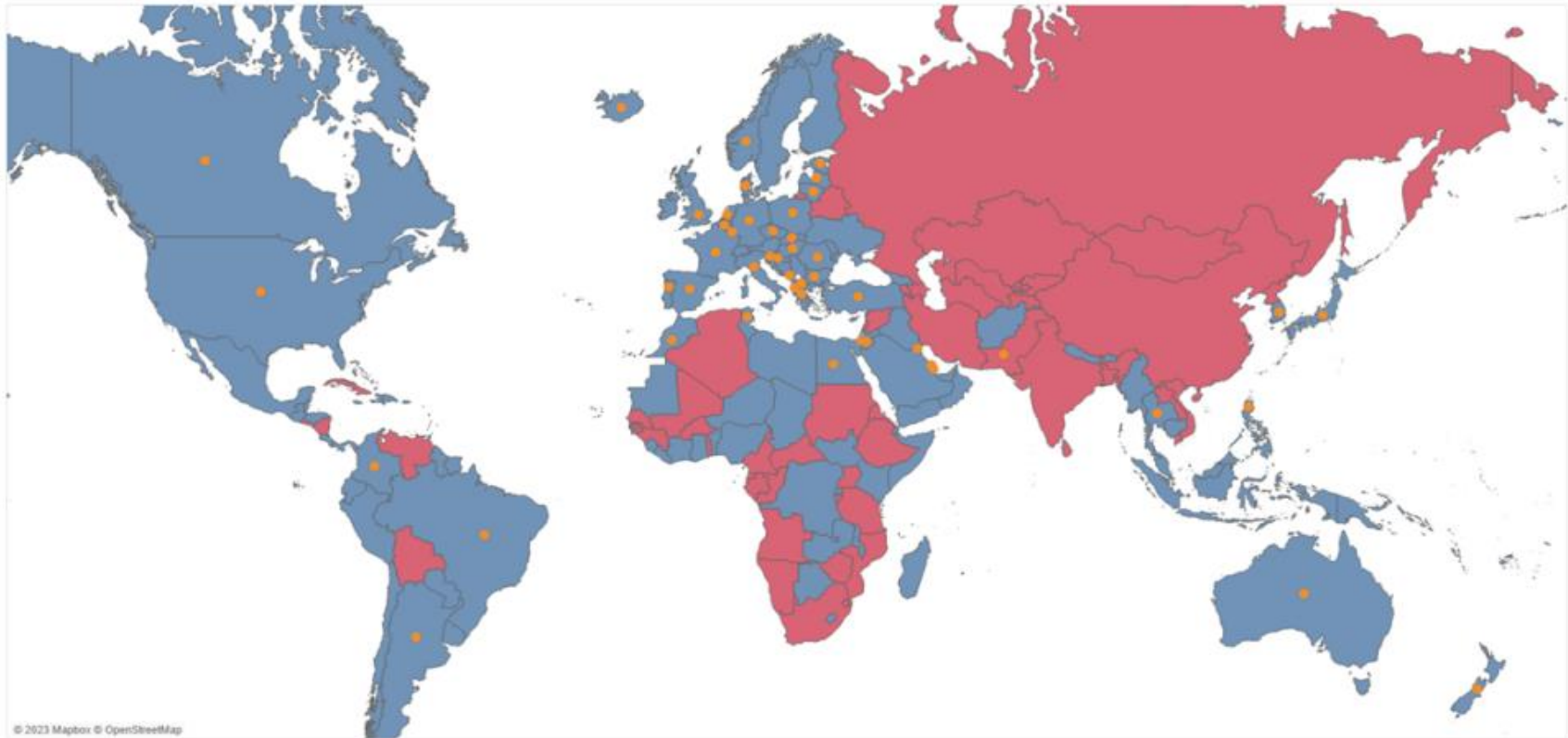


A multipolar world faces difficult choices



Exhibit 1: UN General Assembly voting on Ukraine

All developed economies voted in favor but many EMs clearly face difficult choices



© 2023 Mapbox © OpenStreetMap

■ NATO + MNNA

■ Yes

■ Abstained/ Absent/ No

Vote

Source: orange dots mark NATO and "major non-NATO allies". Source: United Nations Digital Library, BofA Global Research

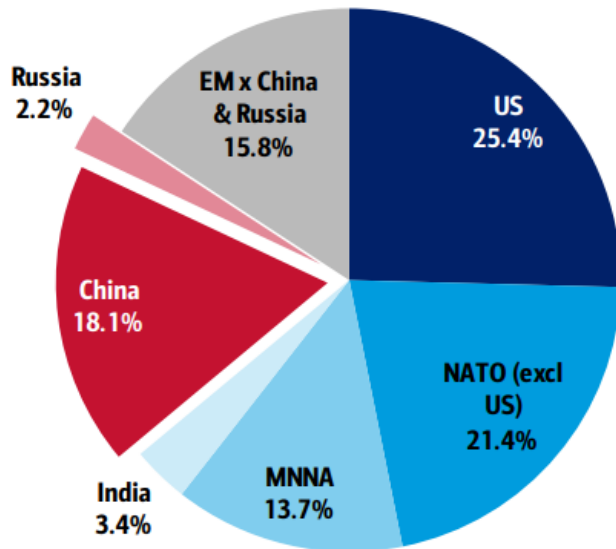
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The balance of nominal GDP still favors West for now



Exhibit 6: GDP shares nominal USD, 2022

"West" still accounts for c.60% of world's nominal GDP...

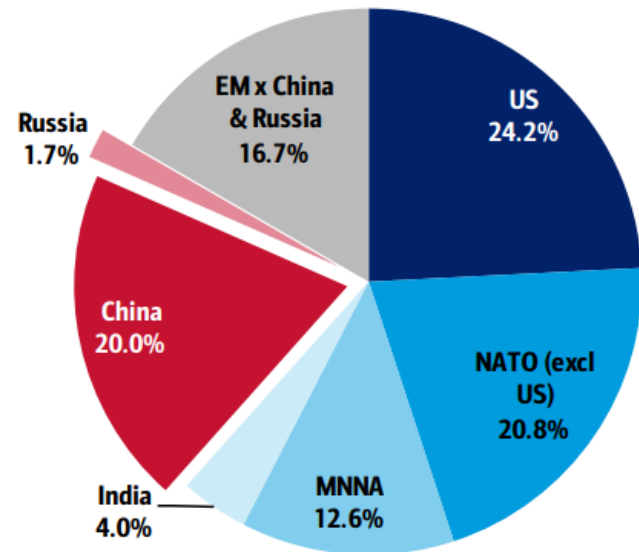


Source: IMF, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 7: GDP shares nominal USD, 2027

...which is unlikely to change much over the next 5 years



Source: IMF, BofA Global Research

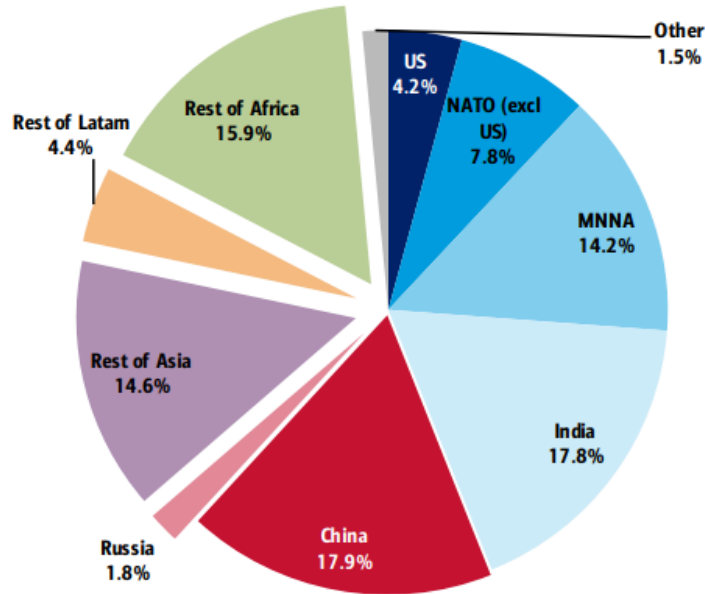
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Demographics size and growth shifts to Africa



Exhibit 8: Population shares, 2022

"West" accounts for almost half of the world population today...

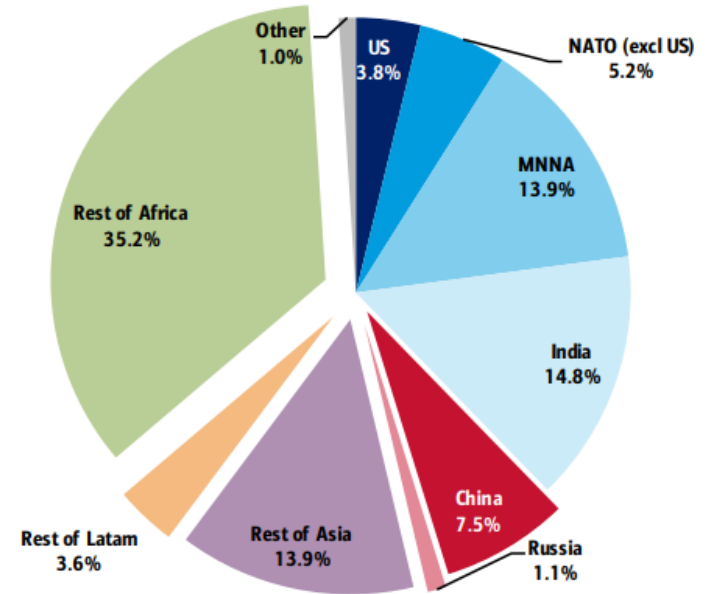


Source: UN, BofA Global Research

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Exhibit 9: Population shares, 2099

...which will decline a lot by end of the century, but China/Russia even more



Source: UN, BofA Global Research

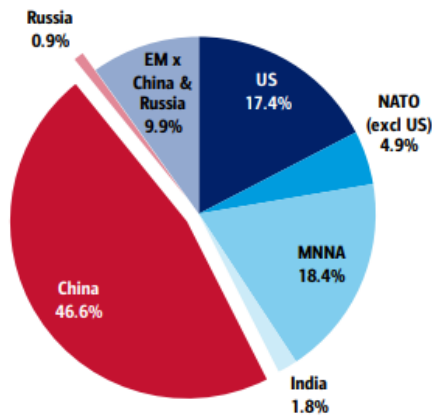
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Measuring power in tech, soft and hard terms



Exhibit 10: Total patent applications, 2021

China dominates the world in patent applications

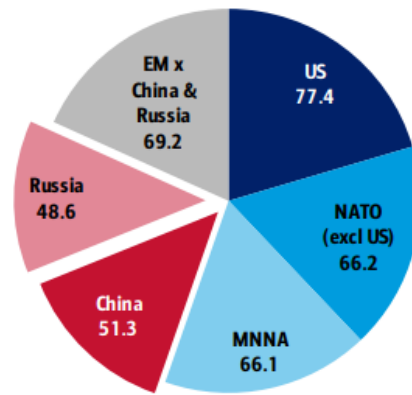


Source: WIPO, BofA Global Research

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Exhibit 11: Soft Power 30 Score, 2019

"West" dominates world soft power scores

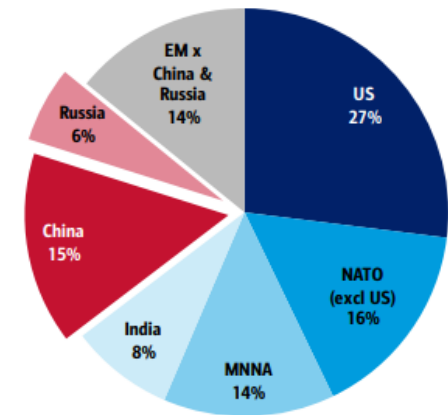


Source: Soft Power 30, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 12: Military spending (PPP int\$bn '21)

"West" accounts for 2/3 of military expenditure



Source: World Bank, BofA Global Research

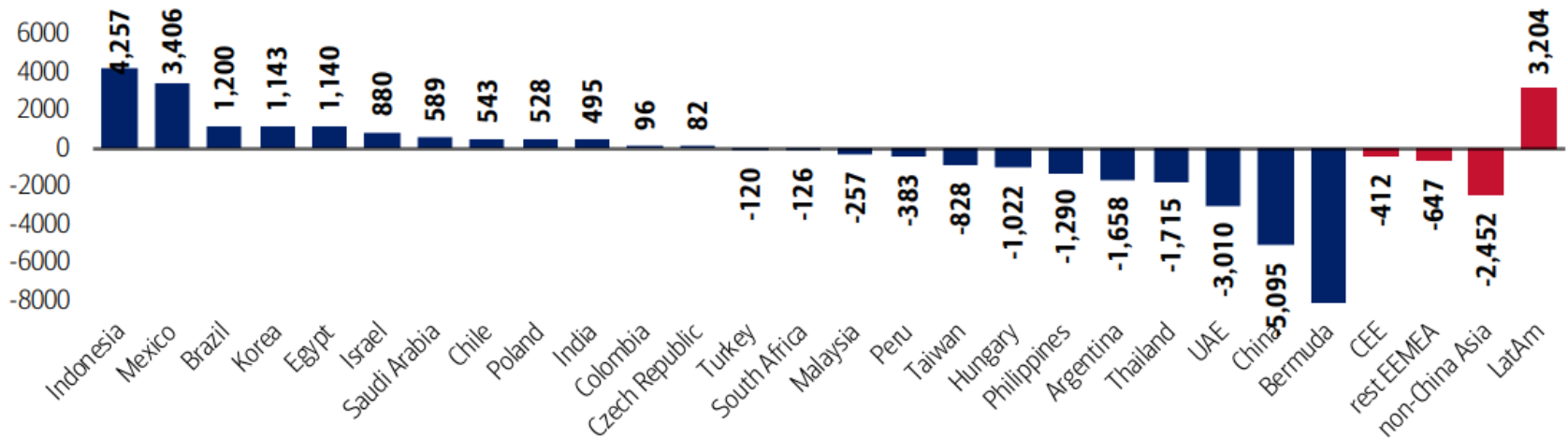
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FDI inflows into Asia look superficially weak



Exhibit 26: FDI outflows from USA, 2017-2021, \$ change (in millions)

Since the election of President Trump in 2016, US investment has clearly shifted out of China into ASEAN and LatAm



Note: 2021 vs 2017 change in USDmn. Includes reinvestment of retained profits in FDI. Source: Haver, BofA Global Research

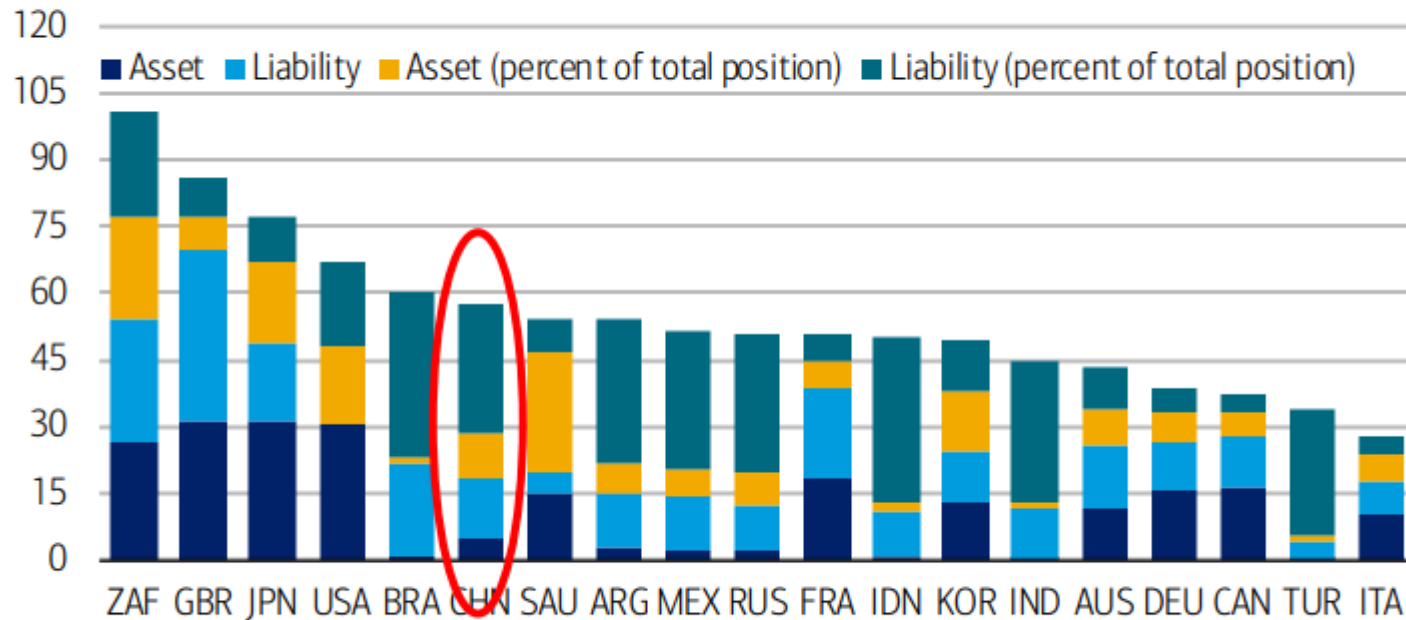
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Financing and geopolitical alignment may become problematic



Exhibit 34: Gross Exposures to Fragmentation, Assets and Liabilities as of 2021

Percent of GDP, unless noted otherwise



Source: BofA Global Research, IMF World Economic Outlook

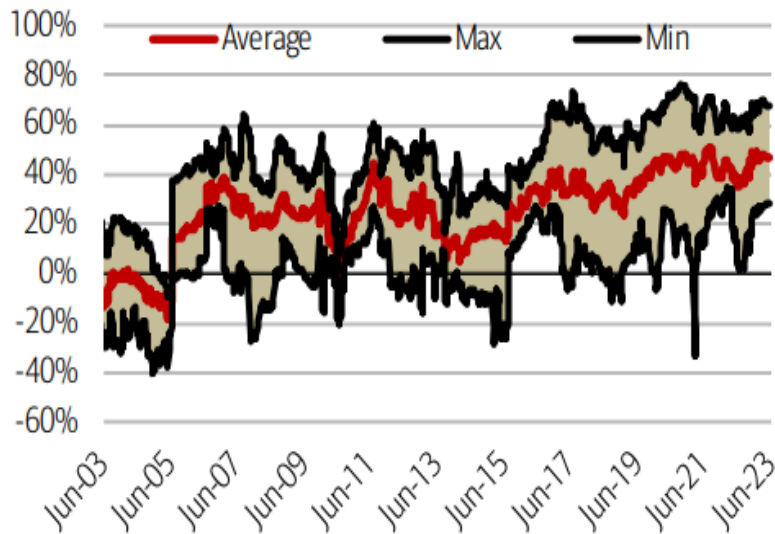
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The currency and correlation of China's economic influence



Exhibit 37: 52-week rolling correlations of CNY:Asia FX

Some CNY:Asia FX correlations are rising above 60%

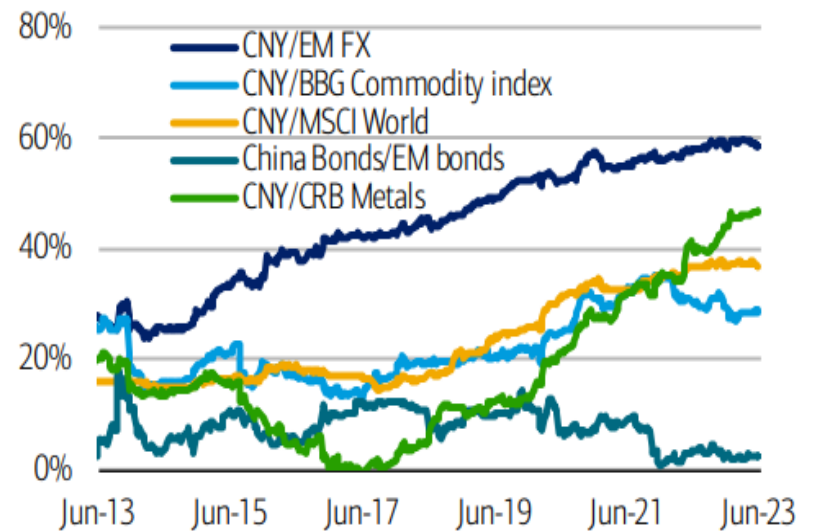


Source: BofA Global Research, Bloomberg, note data uses weekly returns

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Exhibit 38: CNY correlations against asset classes

FX and commodities point to mercantilist CNY internationalization



Source: BofA Global Research, Bloomberg, MSCI, BofA ICE, CRB

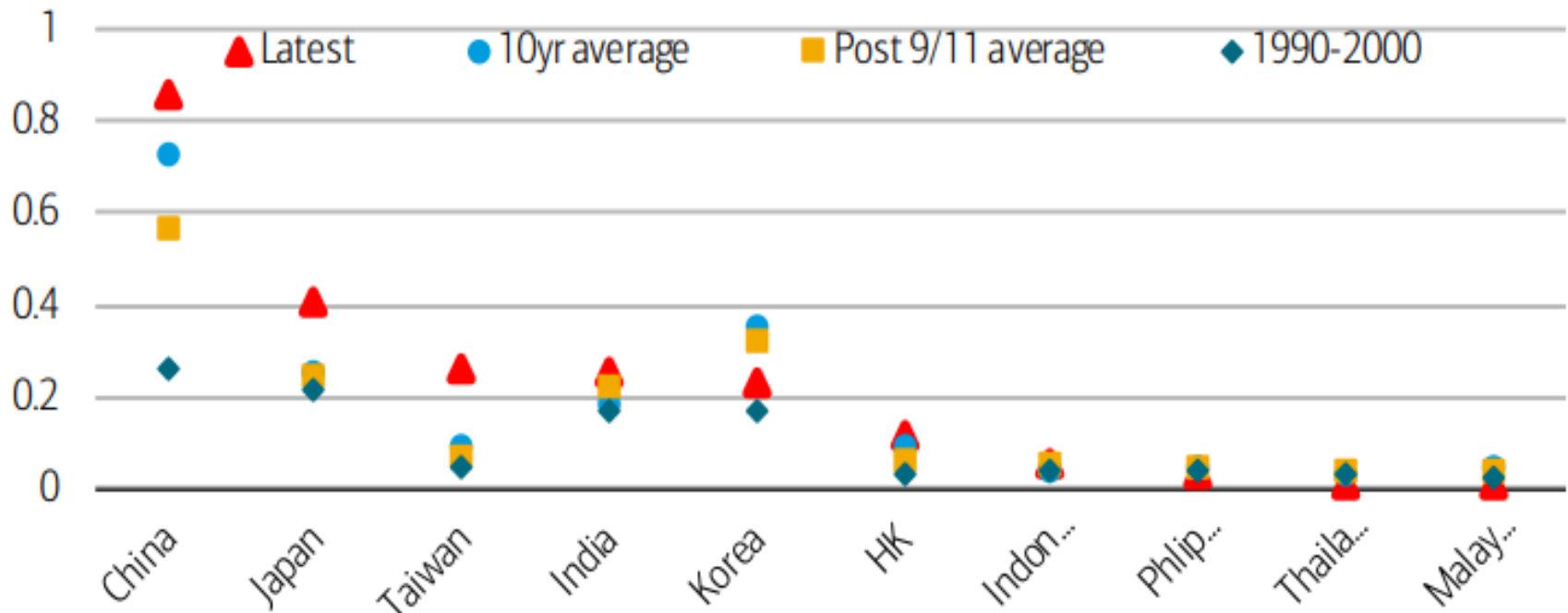
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At first glance, geopolitical risk is a NE Asia issue, not ASEAN



Exhibit 48: Global Political Risk indices' monthly share of all newspaper articles coverage

Reflects automated text-search results of the electronic archives of three U.S. newspapers



Source: Data downloaded from <https://www.matteoiacoviello.com/gpr.htm> on July 1, 2023

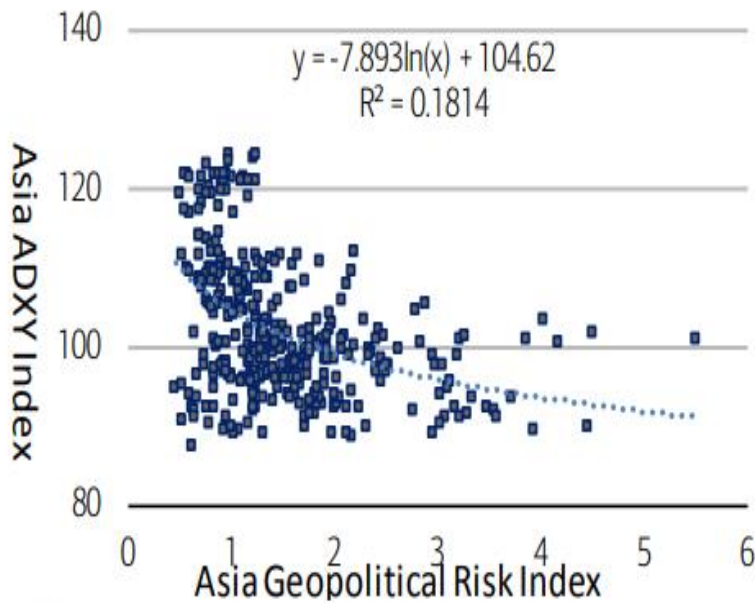
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...However, geopolitical spillovers suggest impact ASEAN more



Exhibit 51: Asia ADXY FX index and Asia Geopolitical risk

Nonlinear tail geopolitical risks are very hard to capture in Asia FX



Source: BofA Global Research, Bloomberg

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Exhibit 52: Global geo-political risk vs. Asia risk and Asia FX correlation

China is a global, not a local risk

	Global Risk	Asia Risk
ADXY	32%	44%
CNY	17%	4%
HKD	24%	48%
INR	12%	45%
IDR	11%	46%
JPY	35%	39%
MYR	30%	58%
PHP	38%	50%
KRW	11%	26%
TWD	6%	-18%
THB	36%	7%
SGD	26%	5%

Source: BofA Global Research, Bloomberg

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ASEAN – Indonesia leading the way



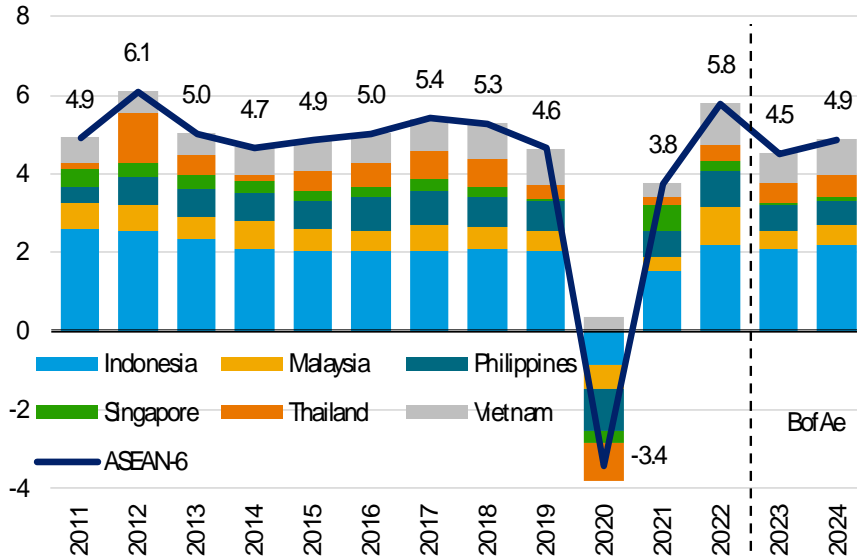
ASEAN: Growth weak, but not collapsing; Worst is behind for inflation, but watch for upside risks



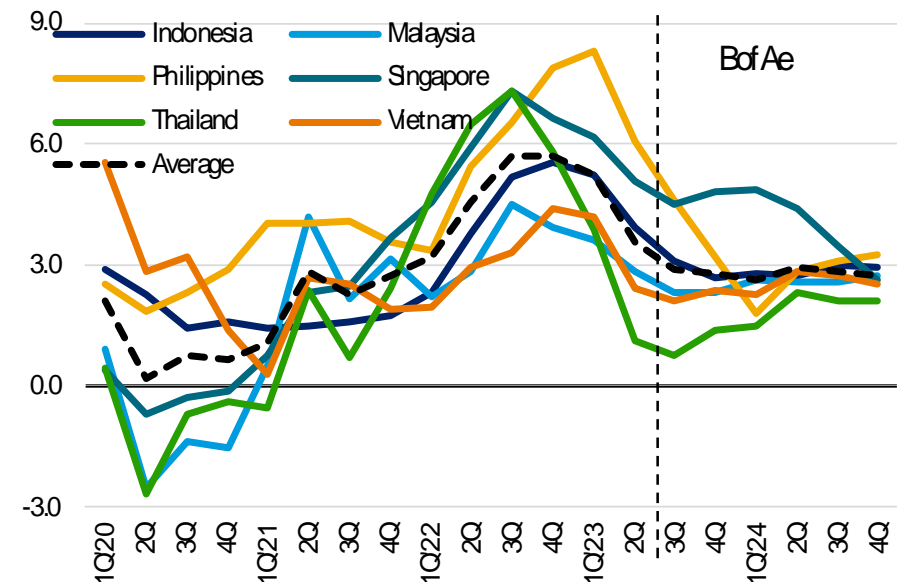
Macro forecasts for ASEAN

	GDP growth (% yoy)			CPI inflation (% yoy)			Policy rate (end of period)			Fiscal deficit (% of GDP)			Current Account (% of GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
Indonesia	5.0	5.3	5.4	3.7	2.9	3.0	5.75	4.75	4.00	-1.8	-2.6	-2.4	0.2	-0.7	-1.0
Malaysia	4.3	4.4	4.5	3.0	2.8	2.5	3.00	3.00	3.00	-5.0	-4.5	-4.0	1.9	1.9	2.0
Philippines	5.5	5.0	5.5	5.6	2.8	3.3	6.50	5.25	4.50	-6.1	-5.3	-4.8	-3.4	-3.5	-3.6
Singapore	1.0	2.1	2.3	5.0	3.4	2.0	-	-	-	-0.1	0.0	0.5	16.3	16.7	17.0
Thailand	3.3	3.6	2.9	1.8	1.9	1.4	2.25	2.00	2.00	-3.7	-3.6	-3.5	0.3	2.8	4.3
Vietnam	5.4	6.5	6.5	3.2	2.9	3.0	5.00	4.00	4.00	-4.4	-4.0	-3.5	0.7	2.1	2.5

ASEAN GDP growth contribution (% yoy & %-pt)



ASEAN headline inflation (% yoy)

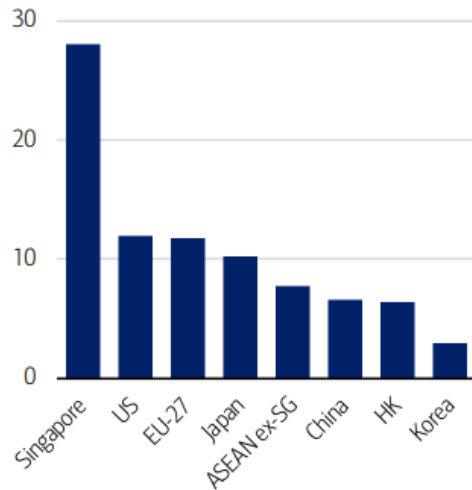


Indonesia's dynamic FDI landscape



Exhibit 45: FDI stock by source (% of total)

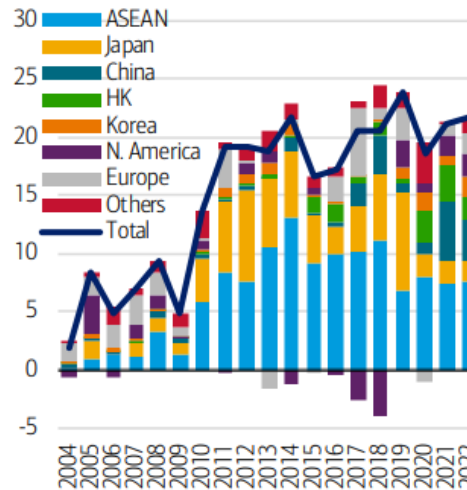
US & its allies have a dominant share of FDI stock in Indonesia



Source: BofA Global Research estimates, ASEAN Secretariat
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Exhibit 46: FDI flows by source (\$bn)

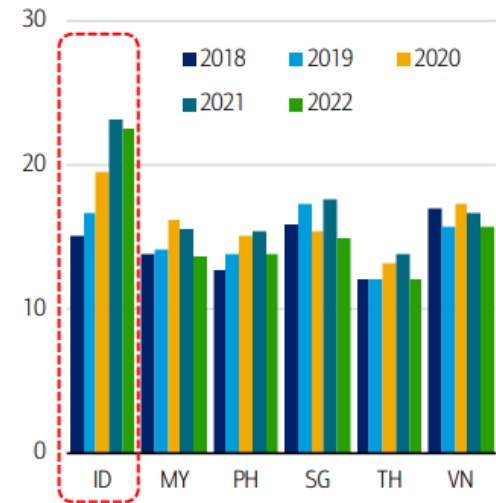
FDI flows from China has become more important in recent years



Source: BofA Global Research estimates, CEIC, Haver
BofA GLOBAL RESEARCH

Exhibit 47: Exports to China (% of total)

Indonesia's share of exports to China has risen sharply and is now the highest within ASEAN

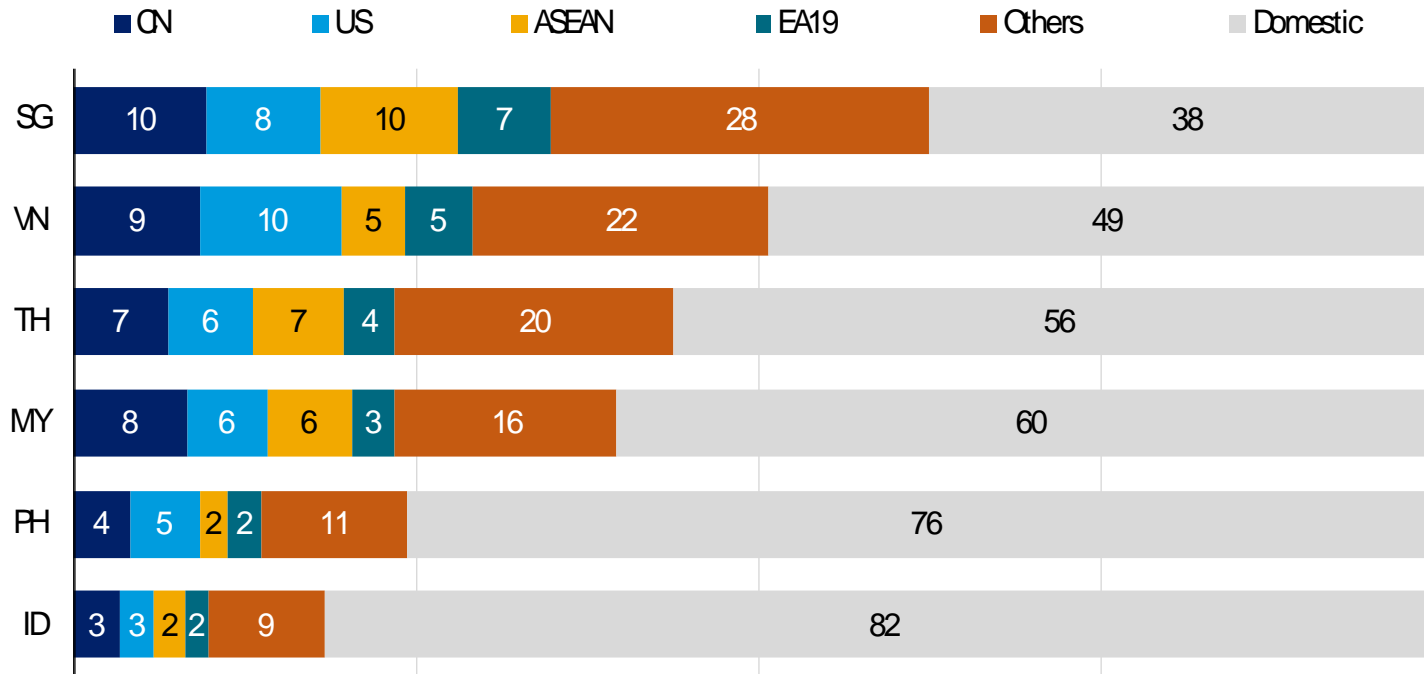


Source: BofA Global Research estimates, CEIC, Haver
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Exposure to external final demand highest in SG/VN & lowest in ID/PH



Sources of final demand (% of value added, 2018)

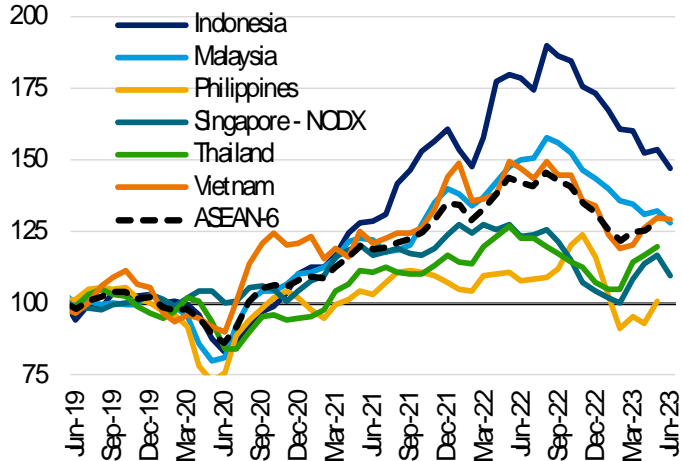


Higher exposure to external final demand

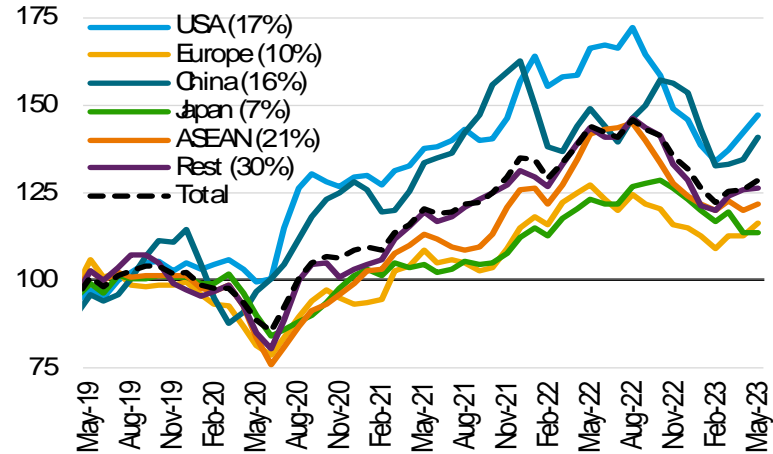
Exports sector weak, but showing signs of stabilization



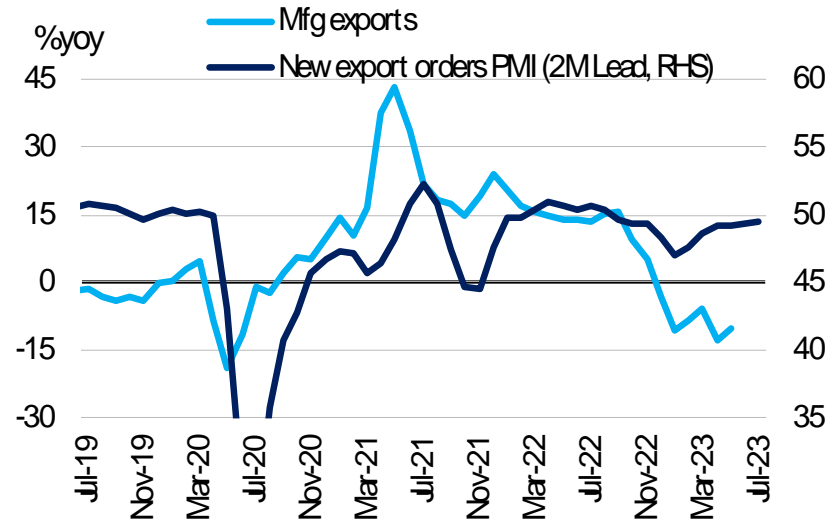
ASEAN exports (2019=100, 3MMA)



ASEAN exports by destination (2019=100, 3MMA)



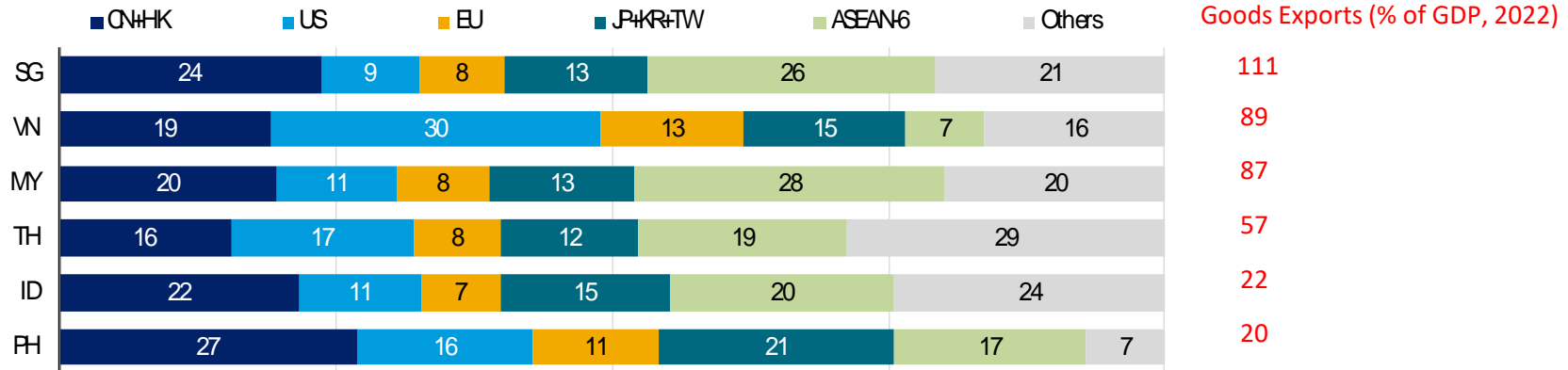
ASEAN manufacturing exports vs. new exports order PMI (2MMA)



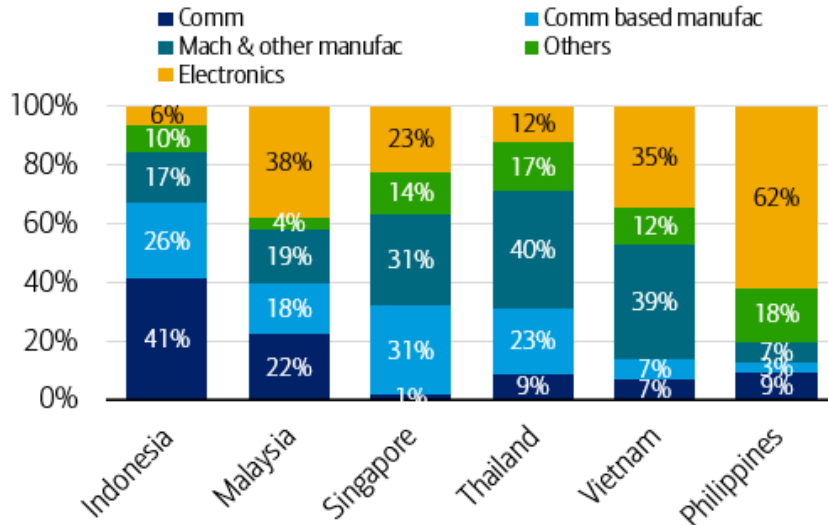
Firmer exports/mfg recovery hinges on China and semis



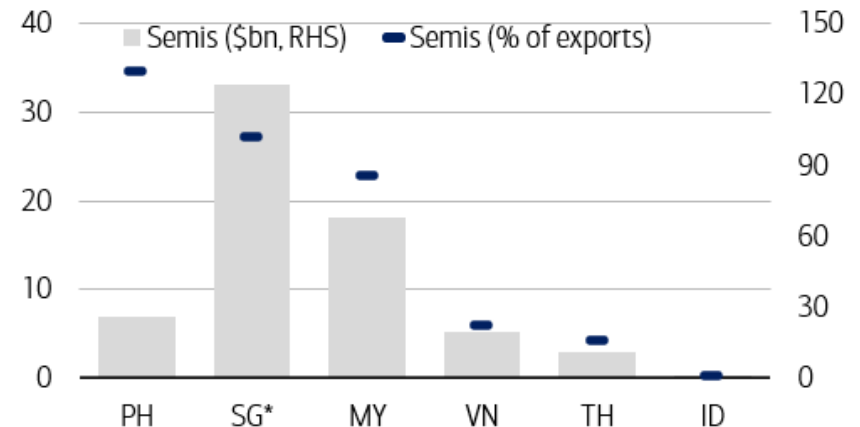
ASEAN goods exports, by destination (% of total, 2022)



Share of exports, by product categories (% of total)



Semiconductors (export value and share of total exports)

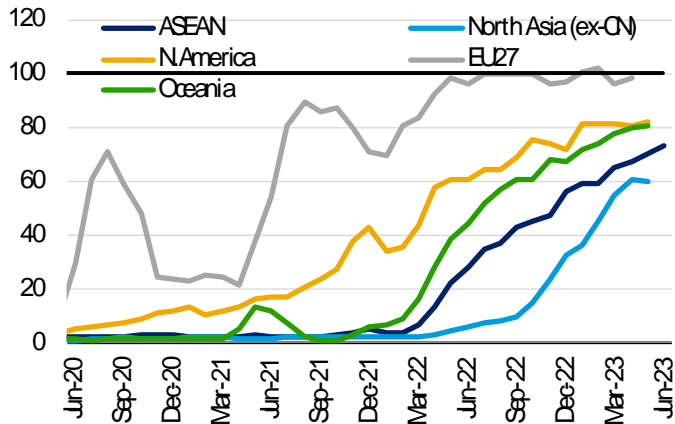


Note: (1) We refer to HS Codes 8541 and 8542, and (2) *For SG, re-exports accounted for 84% of total exports in 2021

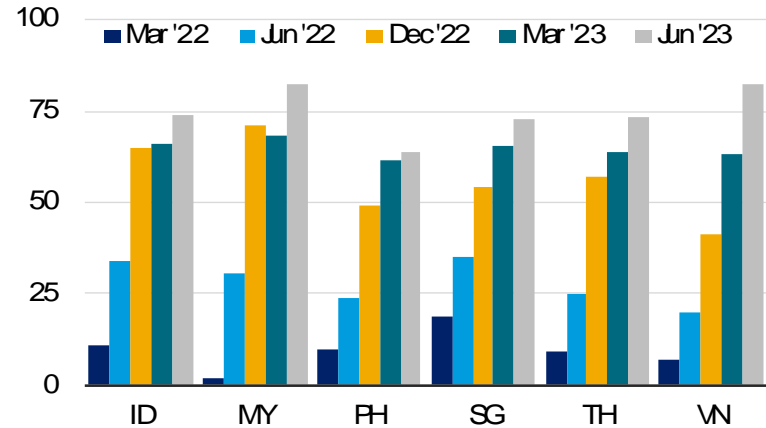
Tourism a bright spot; Recovery 3/4 of pre-COVID levels



Arrivals into various regions (% of pre-COVID volume)

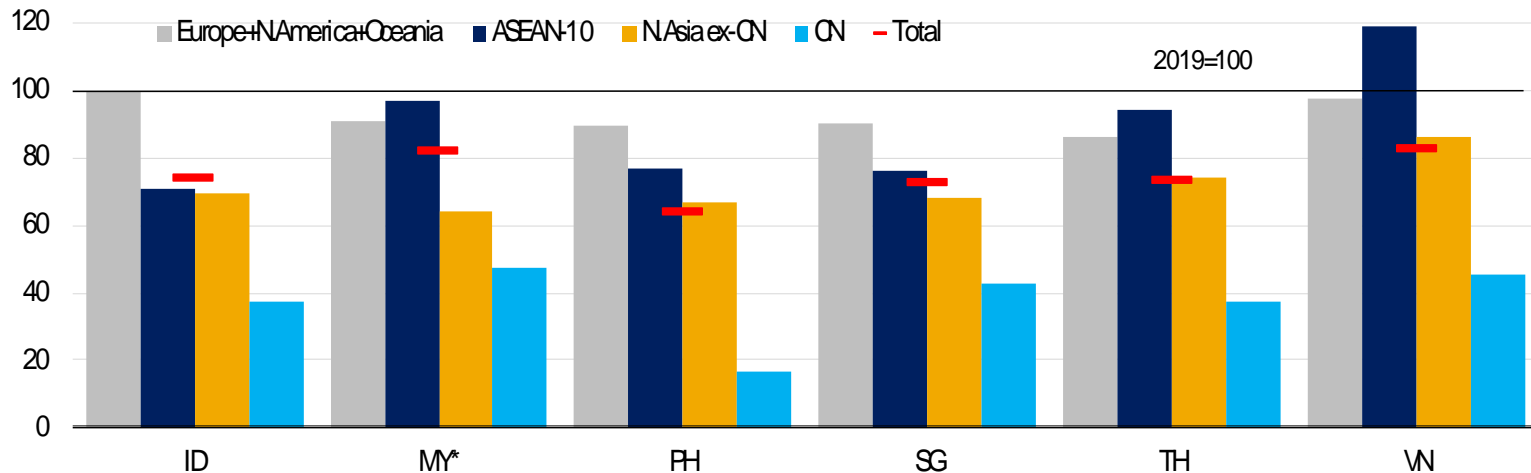


Arrivals into ASEAN (% of pre-COVID volume)



Note: Latest data for MY as of May '23

Sources of tourist arrivals (latest data, % of pre-COVID volume)

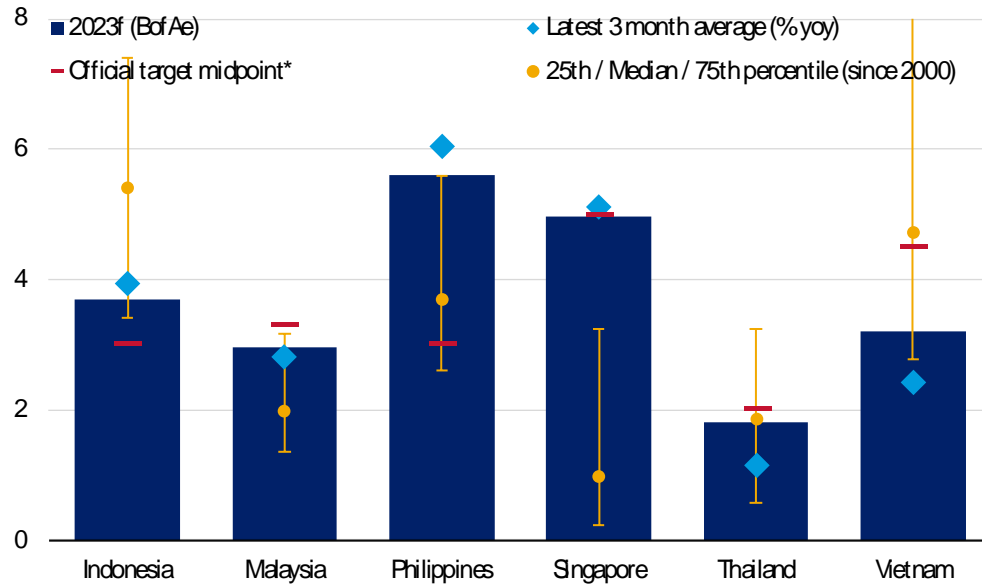


Note: For MY – (a) we exclude arrivals from Brunei and Singapore, and (b) data for China includes Macao and HK

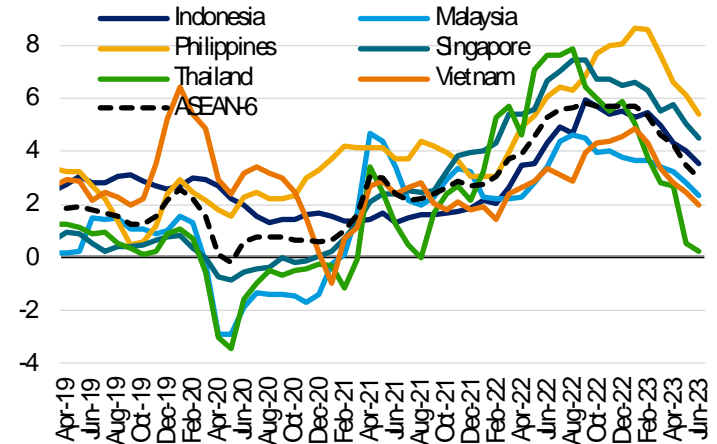
ASEAN: Inflation to ease, but still high historically



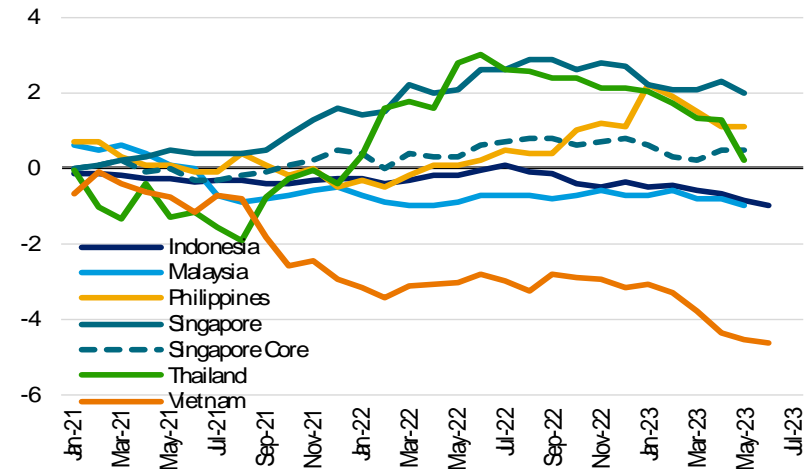
Inflation forecasts, target mid-points & historical distribution



Headline inflation (%yoy)



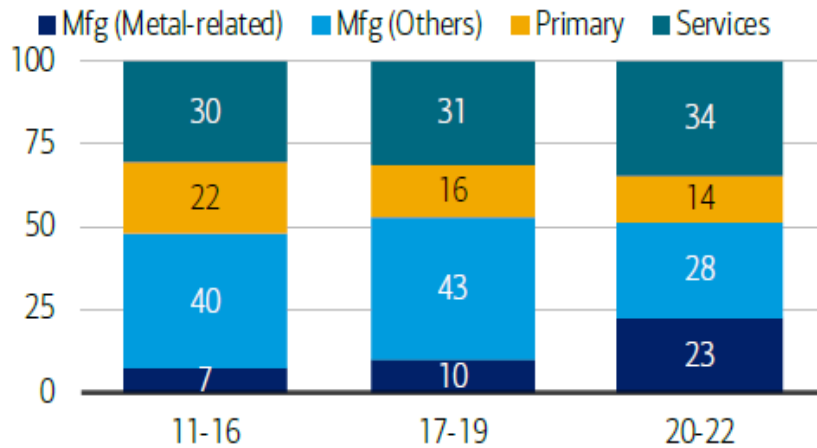
Cumulative inflation surprises since Jan 2021 (ppt)



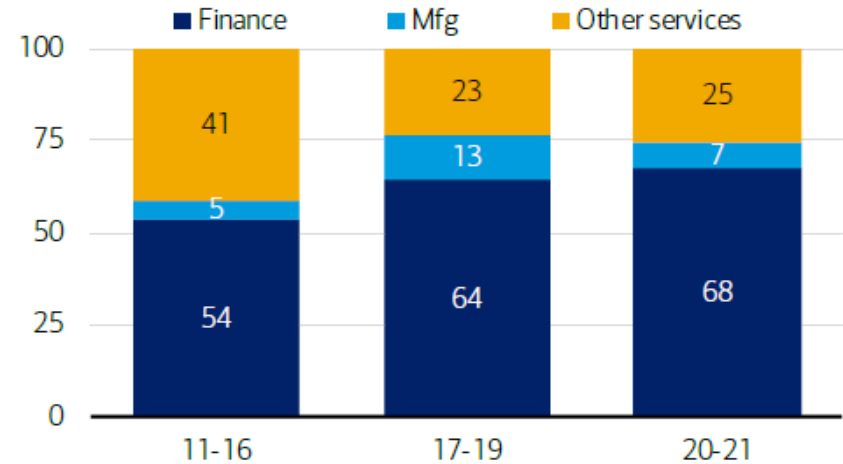
ASEAN FDI : Diversified drivers across countries



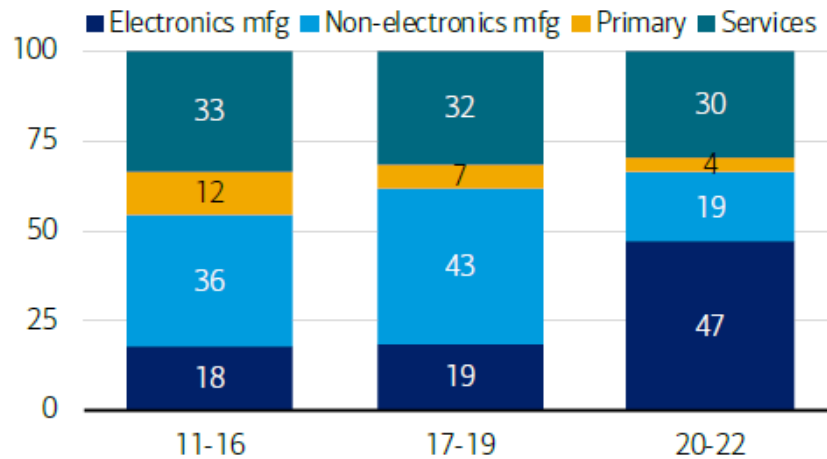
Indonesia: Commodity down-streaming



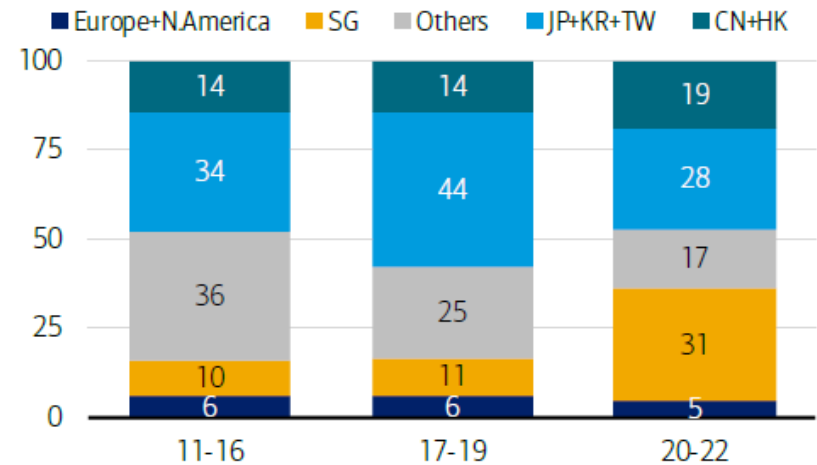
Singapore: Both manufacturing & services



Malaysia: Electronics remains key



Vietnam: Major winner from supply chain shifts

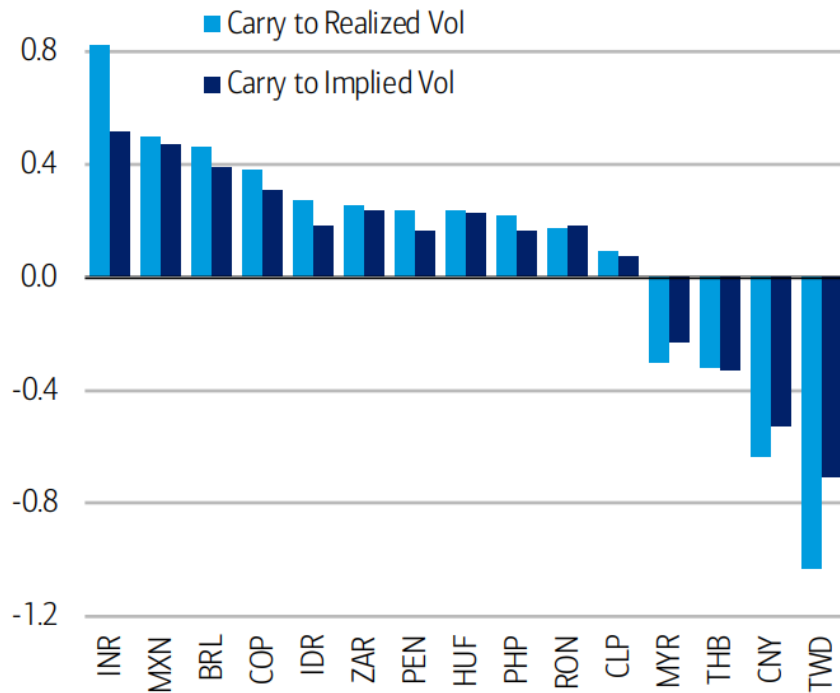


IDR carry eroded, but real yields are high relative to fiscal risk



Exhibit 1: Most asia currencies offer low or negative carry

Yield pick-up on 2y bonds over US vs FX 3m realized and implied volatility

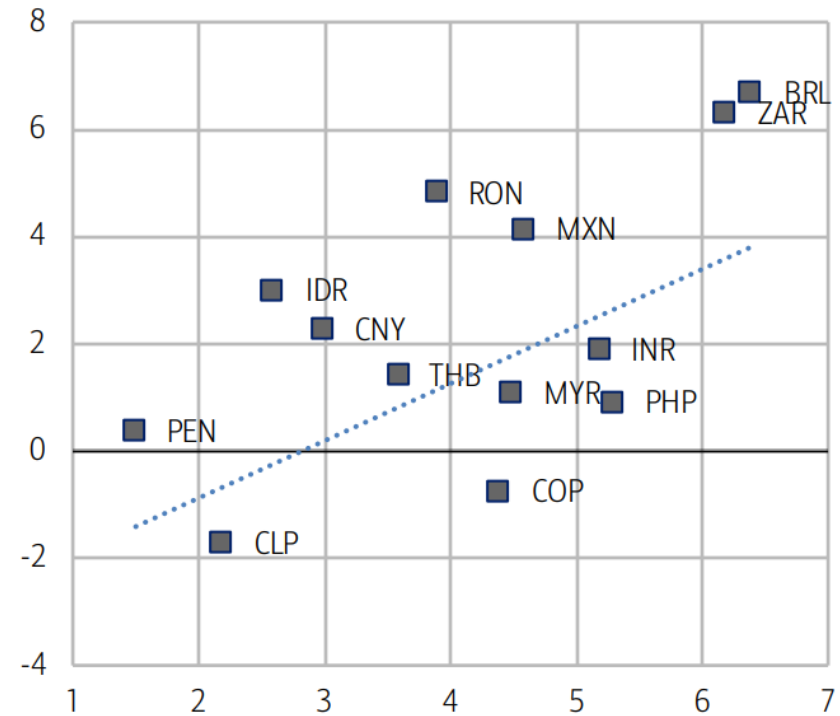


Source: BofA Global Research, Bloomberg

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Exhibit 2: Indonesia stands out within Asia on real yields buffer

Real 10y yields vs 2023e CPI (%), y-axis). Fiscal deficit (% GDP, x-axis)



Source: BofA Global Research, Bloomberg

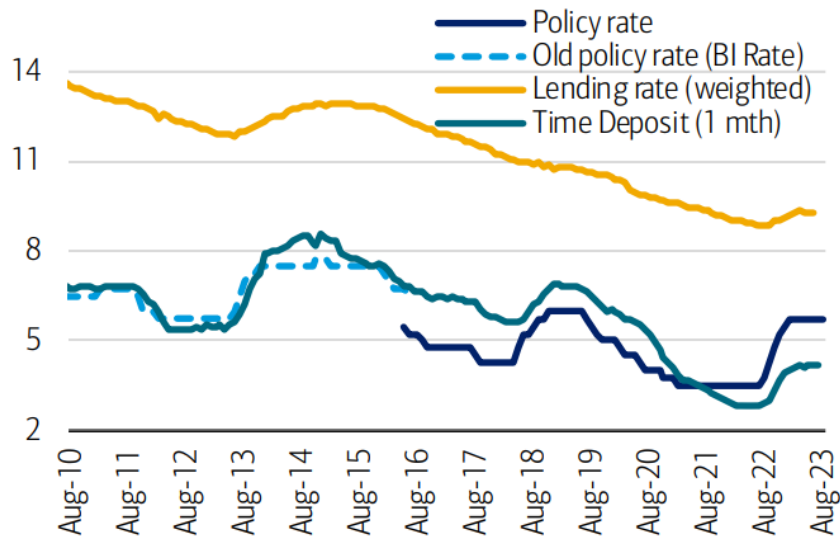
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Nominal rates look low, but in real terms are high

Exhibit 1: Policy rate vs. lending and deposit rates (%)

Domestic rates have been relatively stable in recent months

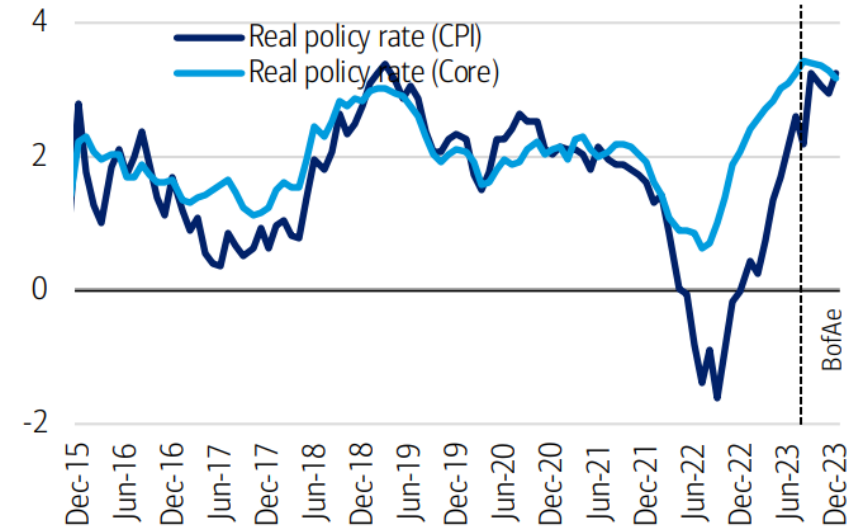


Source: BofA Global Research estimates, CEIC, Haver

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Exhibit 2: Real policy rate (%)

Real policy rate (CPI-based) will rise as inflation eases & BI holds steady



Source: BofA Global Research estimates, Haver

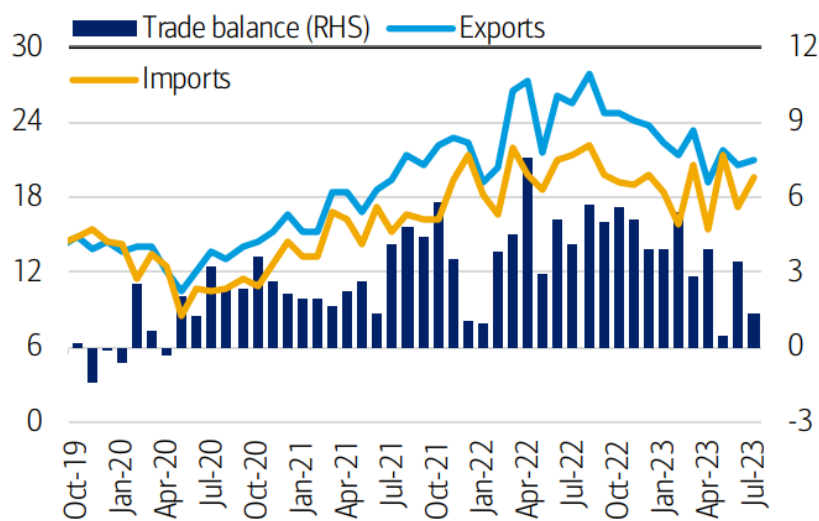
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Trade surplus is losing momentum as our FX reserves



Exhibit 3: Trade balance, exports & imports (\$ bn)

Trade surplus narrowed into Jul, likely to lead to larger C/A deficit in 3Q

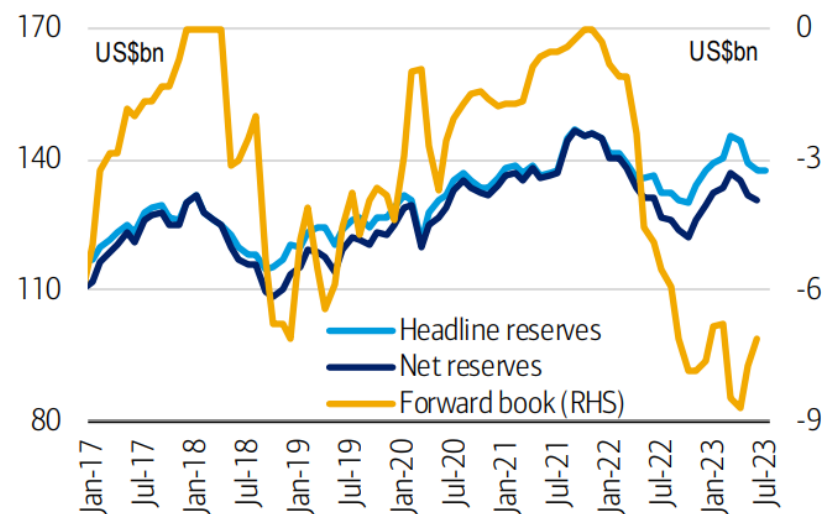


Source: BofA Global Research estimates, Haver

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Exhibit 4: Headline & net FX reserves (\$bn)

FX reserves have fallen recently, while short forward book remains large



Source: BofA Global Research estimates, CEIC

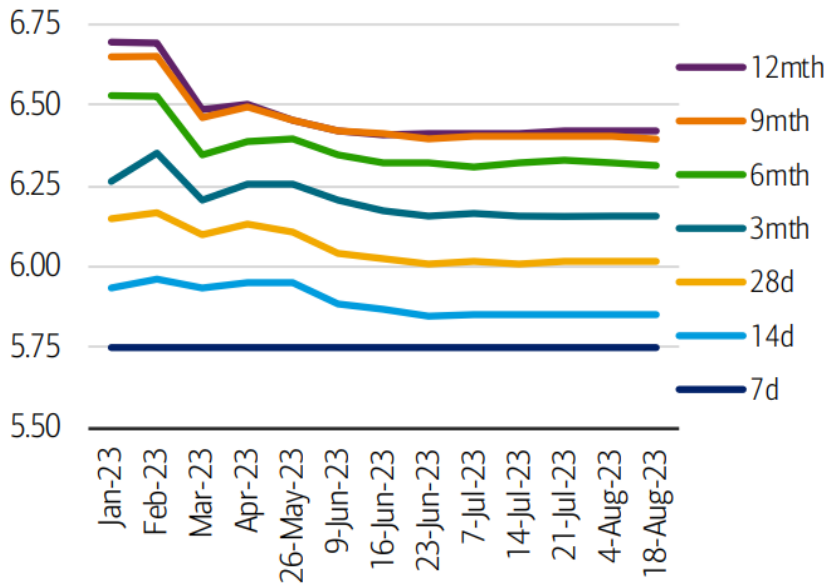
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Banking sector liquidity is declining , but still ample



Exhibit 5: Monetary operations (reverse repo, %)

BI's reverse repo rates have been kept steady in recent months

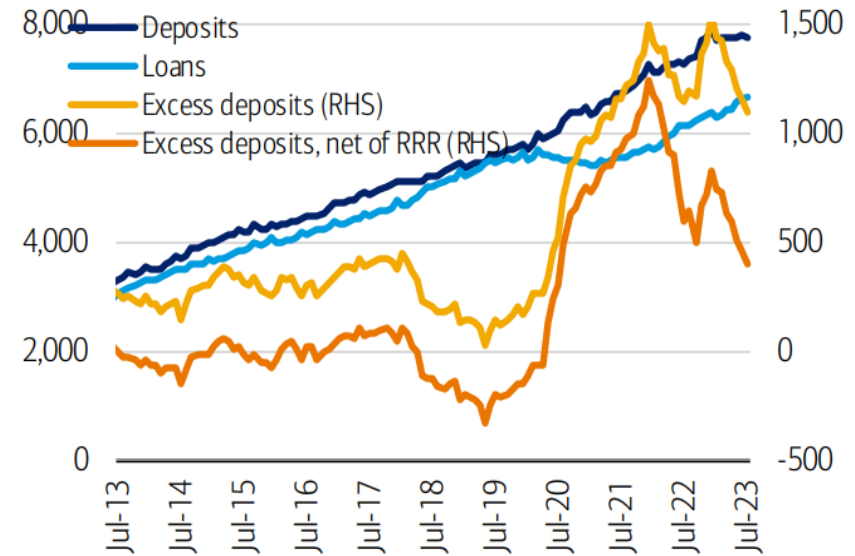


Source: BofA Global Research, Bank Indonesia

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Exhibit 6: Loans, deposits & excess liquidity (IDR tr)

Banking liquidity has retracted further in recent months



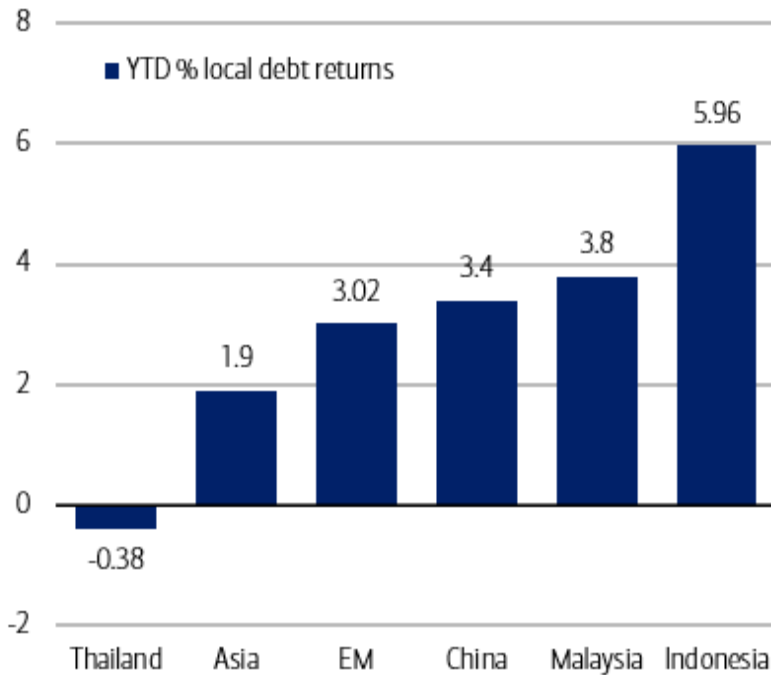
Source: BofA Global Research estimates, Haver

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Bond performance impressive and under-owned



Exhibit 33: EM Local debt market total returns year-to-date %
Indonesia outperforms, driven by better inflation and fiscal dynamics

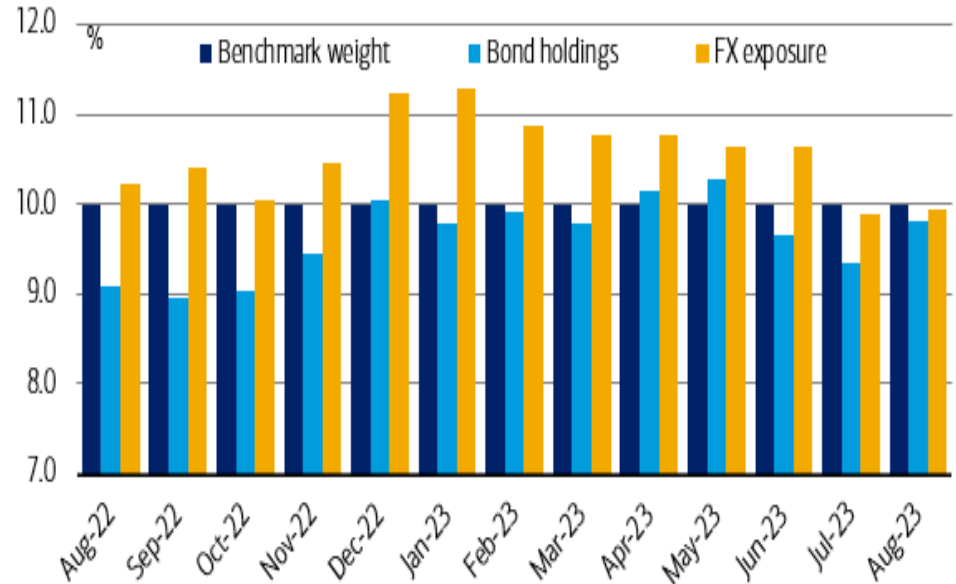


Source: BofA Global Research, Bloomberg

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Indonesia

Exhibit 6: Funds' exposure to Indonesian bonds and FX
Funds reduced underweight positions in bonds and IDR



Source: BofA Global Research, Fund factsheets

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FX forecasts: Strong USD remainder of 2023, depreciation in 2024



Global FX Forecasts

End of period

	Spot	3Q 2023 Fcst	4Q 2023 Fcst	1Q 2024 Fcst	2Q 2024 Fcst	3Q 2024 Fcst	4Q 2024 Fcst	1Q 2025 Fcst	2Q 2025 Fcst	3Q 2025 Fcst	4Q 2025 Fcst
Asia											
USD/CNY	7.31	7.40	7.20	7.10	7.00	6.80	6.70	6.60	6.50	6.40	6.30
USD/HKD	7.82	7.83	7.83	7.83	7.80	7.80	7.78	7.78	7.76	7.75	7.75
USD/IDR	15392	15100	14900	14800	14700	14600	14500	14500	14400	14400	14300
USD/INR	83.2	83.0	82.0	81.0	80.5	80.0	80.0	80.0	80.0	80.0	80.0
USD/KRW	1340	1340	1330	1305	1280	1210	1190	1170	1150	1150	1150
USD/MYR	4.69	4.70	4.66	4.62	4.58	4.56	4.54	4.52	4.50	4.48	4.46
USD/PHP	56.8	57.5	56.5	56.5	56.0	56.0	55.5	55.5	55.0	55.0	55.0
USD/SGD	1.37	1.360	1.350	1.335	1.320	1.31	1.30	1.30	1.29	1.29	1.29
USD/THB	36.2	35.5	34.0	33.5	33.0	32.5	32.0	32.0	31.5	31.5	31.0
USD/TWD	32.2	31.9	31.7	31.5	31.2	30.3	30.1	29.9	29.7	29.7	29.7
G10											
EUR/USD	1.07	1.08	1.05	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD/JPY	148	147	150	146	142	138	135	132	130	130	130
EUR/JPY	157	159	158	156	156	159	155	153	152	153	156
USD/CAD	1.35	1.33	1.32	1.32	1.30	1.28	1.26	1.26	1.26	1.26	1.26
AUD/USD	0.64	0.63	0.64	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD/USD	0.59	0.59	0.59	0.60	0.62	0.64	0.64	0.64	0.64	0.64	0.64
EUR/GBP	0.87	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
GBP/USD	1.23	1.27	1.24	1.26	1.29	1.35	1.35	1.36	1.38	1.39	1.41
EUR/CHF	0.96	0.98	0.98	0.99	0.99	1.00	1.00	1.02	1.02	1.05	1.05
USD/CHF	0.90	0.91	0.93	0.93	0.90	0.87	0.87	0.88	0.87	0.89	0.88
EUR/SEK	11.9	12.0	11.7	11.4	11.2	11.0	10.7	10.6	10.5	10.3	10.2
USD/SEK	11.16	11.11	11.14	10.65	10.18	9.57	9.30	9.14	8.97	8.73	8.50
EUR/NOK	11.5	11.3	11.0	10.8	10.7	10.5	10.3	10.2	10.1	10.0	9.9
USD/NOK	10.77	10.46	10.48	10.09	9.73	9.13	8.96	8.79	8.63	8.47	8.25

Source: BofA Global Research

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