ASEAN **MACRO**

2024 Year Ahead

GREEN SHOOTS

IN A FRAGMENTED WORLD

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2024 Year Ahead:
Green Shoots in a Fragmented World

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2023 was full of surprises. The US economy defied gravity and dodged a recession. China's reopening bounce was shorter and weaker than expected. Global interest rates rose further and higher than anticipated. Tech reclaimed its market leadership with the Magnificent Seven and breakthrough on artificial intelligence (AI). The Israel-Hamas war worsened the geopolitical uncertainty and fragmentation.

In 2023, ASEAN was a *defensive harbour* but not immune to rising US interest rates and China's lethargic reopening bounce. ASEAN's GDP growth slowed to 4% in 2023 from 4.7% in 2022, as exports and manufacturing weakened. Domestic services, hospitality and aviation recovered and supported growth, even as China's revenge travel petered out by the third quarter. ASEAN FDI interest and approvals continued to rise, as MNCS reconfigure supply chains and derisk from China.

Going into 2024, the outlook for trade-sensitive ASEAN economies is brighter with green shoots sprouting in exports and manufacturing. We forecast ASEAN-6 GDP growth recovering to 4.7% in 2024. The US appears headed for a soft landing, with recession risks and inflation receding. The Fed and other major central banks will likely cut interest rates by the second half, easing the pressure on ASEAN currencies and widening the space for policy easing. ASEAN's export recovery will be supported by aggressive US fiscal spending and generous subsidies for semiconductors and electric vehicles; normalisation in global consumer spending towards goods as revenge spending in services dissipates; a replacement tech cycle; falling US inventories; and an AI boom. Rising FDI and added capacity from shifting supply chains will increase ASEAN's leverage to a global trade recovery.

2024 will be about transitions. There will be major political transitions in Indonesia and Singapore. Indonesia will be holding presidential elections in February, a three-way fight which will likely stretch into a run-off between the top two contenders in June. We expect Indonesia's GDP growth to remain resilient at 5.1% in 2024, despite the political uncertainty. Singapore will see current Prime Minister Lee hand over power to his deputy Lawrence Wong by November 2024, before the 2025 general elections. DPM Wong is expected to reflect the 4G policy tilt and recommendations from the Forward Singapore exercise in the February Budget.

2024 will be about implementation and execution. Malaysia is expected to undertake subsidy reforms and economic restructuring, following through on the New Industrial Masterplan and National Energy Transition Roadmap. Singapore is speeding up its green transition, with sharp increase in carbon taxes and deployment of massive capital to prepare for climate change and increase imports of renewable energy. Indonesia will be building her new capital city Nusantara to replace the congested and sinking city of Jakarta. Thailand will be rebooting and ramping up infrastructure projects - delayed by the elections - and launching a scaled-down digital wallet scheme. The Philippines will be allocating and building up its infrastructure projects, with more funds allocated for its "Build Better More" program. Vietnam will be the first in ASEAN to introduce the global minimum tax of 15%, significantly raising the tax bills for over 100 foreign companies. The additional revenue will be used to bolster other investment incentives, ensuring Vietnam's position as the big winner from the supply chain shifts. And all of ASEAN are fine-tuning their policies to attract FDI, boost tourism and increase investments in renewable energy.

Our fixed income team forecast US rates to fall in 2024, with the 10-year US treasury yield sliding to 3.25% by year-end. They are mildly bullish on Malaysian government bonds and expect another good year, with a 5%-7% return. They are mildly bullish on China bonds as the PBOC's easing bias remains intact given a structural slowdown. China's GDP growth is projected to normalise to a slower clip of 4.4% in 2024 from 5.2% in 2023, as the authorities wean the economy away from reliance on property towards new growth engines such as advanced manufacturing. Our fixed income team is neutral on Indonesia bonds as the positives on benign inflation, potential Bank Indonesia rate cut and strong fiscal discipline are offset by the rupiah's vulnerability to external risk sentiments and higher bond supply. They are neutral on Singapore bonds given an already low yield curve and the possibility of MAS reducing the S$NEER slope in the second half.

Our FX team expects the US dollar to be supported in early 2024 but start to weaken from the second quarter. The RMB will likely lag its peers amid concerns about China's outlook. Within ASEAN, they expect some divergence, with the THB outperforming the IDR and PHP. The recovery in global electronics demand could benefit the KRW, TWD and SGD. They recommend long KRW or TWD against the USD or CNY, and long SGD NEER. They expect the Bank of Japan to abolish yield curve control in the second quarter of 2024, which could lead to substantial upside to JPY.

Like 2023, there will be surprises and unforeseen shocks in 2024. The biggest known unknown and wildcard in 2024 will be a Trump victory in the US presidential elections in November. A Trump win could lead to sweeping policy changes, including a blanket 10% import levy, withdrawal of support for Ukraine and a reversal of Biden's policies on renewables and electric vehicles. The shift in FDI and supply chains to ASEAN may be suspended if the US imposes a universal tariff rate. The world may become even more fragmented, if America withdraws funding and support from Ukraine and Asia. Green shoots are sprouting but will be relying on good weather to bloom in 2024.

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Global Growth Drifts Lower but ASEAN-6 to Pick Up

We expect global real GDP growth to slow to +2.8% in 2024 after surprisingly resilient growth of +3.3% in 2023 (2022: +3.5%). The outlook mainly reflects our forecasts of slower growth in the US (2024E: +1.0%; 2023E: +2.2%) and China (2024E: +4.4%; 2023E: +5.2%), amidst continued sub-1% growth in Europe. However, we are constructive on ASEAN's growth (2024E: +4.7%; 2023E: +4.0%), reflecting, among others, policy measures to boost domestic economy (e.g. further boost to the ongoing tourism recovery via relaxations of visa requirements for foreign travelers), as well as emerging signs of turnaround in global electronics cycle that augurs well for the ASEAN-6 manufacturing output and export outlook.

Inflation and Interest Rate Dynamics

Inflation rates have peaked and are moderating. As inflation slows, benchmark interest rates have also peaked and central banks are broadly in pause mode, signaling the end of interest rate hike cycle. The debate on monetary policy has shifted to "hold for how long?" now. Markets are pricing in earlier and bigger interest rate cuts by major central banks in 2024. But central banks' interest rate decisions are also guided and influenced by inflation expectations going forward, not just actual inflation outcome thus far. Indicators on inflation expectations in major advanced economies remain "sticky". Consequently, we are more "guarded" on the timing and quantum of interest rate cuts in major advanced and ASEAN-6 economies in 2024.

China - Elephant in the Room

The outlook of slower growth in 2024 is premised on US growth "soft-landing" instead of recession, a prospect that is bolstered by factors like the drawdown of household excess savings and resilient job market supporting consumer spending, supply-side/industrial policies (e.g. Inflation Reduction Act; CHIPS Act) lifting US manufacturing investment, and expansionary fiscal policy negating Fed's monetary policy tightening. Consequently, the spotlight on key downside risk to global – and ASEAN-6 - economic outlook is on China, given its underwhelming post-pandemic growth and the risk of spillover from the weak real estate sector to the financial sector – and thus the broader economy. More policy interventions can be expected in 2024, including larger deficit spending by the Government and further interest rate cuts.

Wildcards - Geopolitics and Domestic Politics

The year 2023 ends with two major conflicts i.e. Russia-Ukraine and Israel-Palestine wars, amidst ongoing US-China geo-strategic competition that led to geo-economic fragmentation. The market is pricing a prolonged stalemate in Russia-Ukraine war and no or low risk of the Israel-Palestine conflict broadening into Middle East tensions. US President Biden and China President Xi meeting on 15 Nov 2023 among others led to agreement to re-establish military communications that eased risk of a "third war" given the Taiwan issue. But core economic issues remain i.e. trade tariffs in place since the time of President Trump, and restrictions in trade and investments in advanced technology between US (and allies) with China, which escalated under President Biden. There are also several key elections taking place in 2024 we need to keep an eye on. The big one is US Presidential election on 5 Nov 2024 considering the possibility of Trump comeback, which if happens will potentially have wide-ranging policy impact. Indonesia will go into election on 14 Feb 2024 to pick President Jokowi's successor, and thus see whether there will be policy continuity or change. Another key political event to watch is Taiwan election on 13 Jan 2024, the outcome of which has a bearing on US-China relations.

1. Global Economic Growth Drifts Lower

Global real GDP growth is expected to moderate to +2.8% in 2024 after displaying resilience with +3.3% expansion in 2023 (2022: +3.5%). This outlook mainly reflects our forecasts of slower growth in US (2024E: +1.0%; 2023E: +2.2%) and China (2024E: +4.4%; 2023E: +5.2%), amid continued sub-1% growth in Europe (Fig 1).

The onset of slower global growth in 2024 is signaled by the downtrend in the global composite purchasing managers index (PMI, Fig 2) since mid-2023 to just over 50 as of 4Q 2023. This mainly reflects the same trajectory in global services PMI as the expansion in services activities following the full re-opening of the global economy dissipates with the normalisation in pent-up spending. Meanwhile, global manufacturing PMI languishes below 50 throughout 2023 as consumer spending shift to services (with full economic opening) from goods (during lockdowns and movement restrictions), although it has essentially bottomed and showing green shoots of recovery in late-2023.

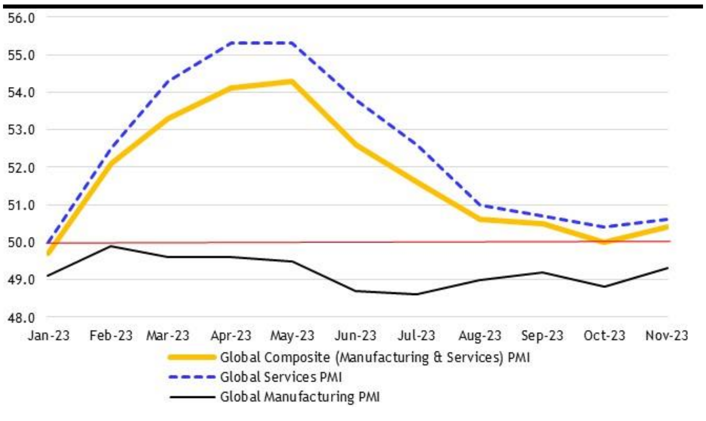
Nonetheless, we are constructive on ASEAN-6's growth which is expected to pick up to +4.7% in 2024 from +4.0% in 2023, reflecting among others policy measures to boost domestic economy (e.g. further boost to the ongoing tourism recovery via relaxations of visa requirements for foreign travelers), as well as the emerging sign of turnaround in the global electronics cycle (Fig 3) that augurs well for ASEAN-6 manufacturing output and exports outlook.

Fig 1: Real GDP Growth (% YoY)

	1Q 2023	2Q 2023	3Q 2023	2020	2021	2022	2023F	2024F	2025F
WORLD	**-**	**-**	**-**	**(2.8)**	**6.3**	**3.5**	**3.3**	**2.8**	**3.3**
US	2.1	2.5	2.8	(2.8)	5.9	2.1	2.2	1.0	1.8
Eurozone	1.2	0.5	0.1	(6.1)	5.3	3.3	0.6	0.9	1.6
Japan	2.0	1.7	1.2	(4.2)	2.2	1.0	1.5	1.0	0.9
UK	0.5	0.6	0.6	(11.0)	7.6	4.1	0.5	0.5	1.6
China	4.5	6.3	4.9	2.2	8.4	3.0	5.2	4.4	4.5
ASEAN-6	**4.1**	**3.6**	**3.9**	**(3.6)**	**4.1**	**5.7**	**4.0**	**4.7**	**4.8**
Singapore	0.1	0.5	1.1	(3.9)	8.9	3.6	1.1	2.2	2.1
Indonesia	5.0	5.2	4.9	(2.1)	3.7	5.3	5.0	5.1	5.2
Thailand	2.6	1.8	1.5	(6.2)	1.6	2.6	2.3	3.6	3.8
Malaysia	5.6	2.9	3.3	(5.5)	3.3	8.7	4.0	4.4	5.0
Philippines	6.4	4.3	5.9	(9.5)	5.7	7.6	5.8	6.5	6.2
Vietnam	3.3	4.1	5.3	2.9	2.6	8.0	4.8	5.8	6.2

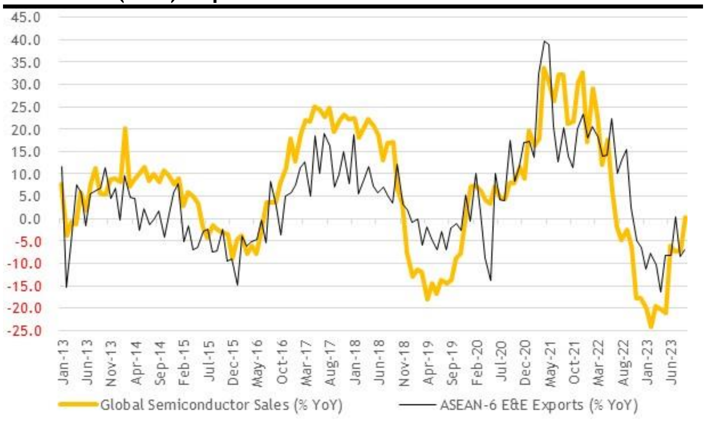
Source: Bloomberg & CEIC (1Q-3Q 2023, 2020-2022); Maybank IBG Research (2023E-2025E for World, China and ASEAN-6); Consensus (2023E-2025E for others)

Fig 2: Global Purchasing Managers Index (PMI)



Source: CEIC

Fig 3: Global Semiconductor Sales vs ASEAN-6 Electronics & Electrical (E&E) Exports



Sources: Bloomberg, CEIC

2. Inflation and Interest Rate Dynamics

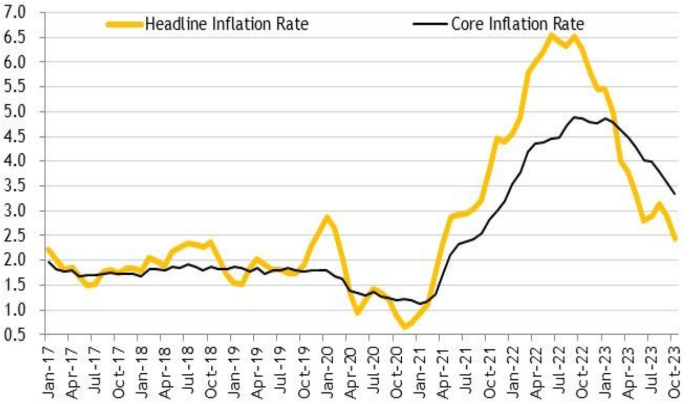
Inflation rates globally have peaked and are moderating (Fig 4). As inflation slows, benchmark interest rates have also peaked and central banks are broadly on pause mode, signaling the end of the hike cycle (Fig 5-7). The debate on monetary policy has shifted to “hold for how long?” now.

Market implied policy interest rates (Fig 8) are signaling major central banks’ benchmark interest rates – i.e. US Fed, ECB, BoE - will be cut by between -75bps to as much as -150 bps – and thus fairly early - in 2024. ASEAN central banks are also expected to lower their benchmark interest rates, although generally by smaller quantum (between -25bps and -50bps; except for Philippines at -100bps). The outlier is Japan, where BoJ is expected to start normalizing from its ultra-easy monetary policy stance.

It is important to note that central banks’ interest rate decisions are also guided and influenced by inflation expectations going forward, not just actual inflation outcome thus far. In particular, we noted that the US Fed’s 5-Year Breakeven Inflation Rate (i.e. a measure of market participants’ expected inflation rate next five years derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities) point to the still “sticky” inflation expectations (Fig 9).

In addition, ECB’s latest consumer expectations survey showed median expectations for inflation over the next 12 months remained at +4.0% - the same as in the previous survey in Sep 2023 and doubled ECB’s inflation target of +2.0%. Meanwhile, Bank of England’s (BoE) latest quarterly households survey indicated that consumers expect prices to rise by +3.3% over the next 12 months, the lowest predicted inflation rate in two years and easing from +3.6% in the previous survey in Aug 2023, but remain above BoE’s +2.0% target.

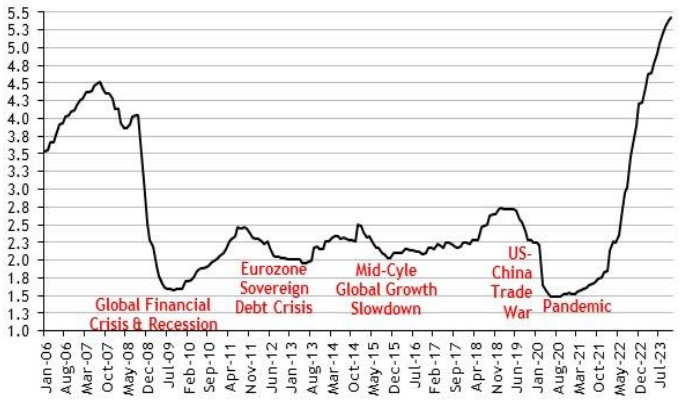
Fig 4: Weighted Average Headline and Core Inflation Rates of Selected Economies (% YoY)



Note: Average for US, Eurozone, UK, Japan, BRIC, Asian NIEs and ASEAN-6 weighted by the respective country’s GDP

Source: Maybank IBG Research

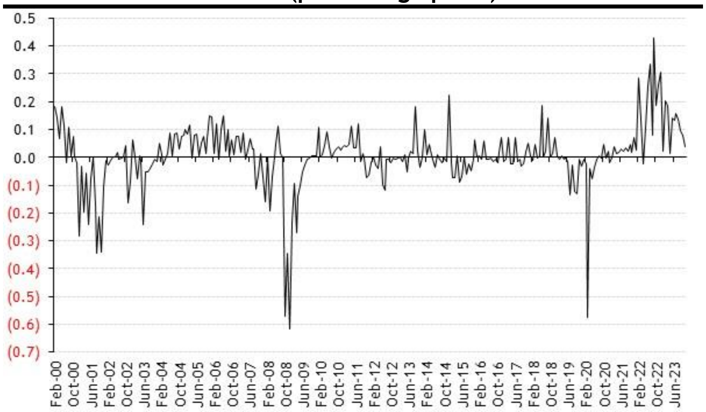
Fig 5: Weighted Average Global Benchmark Interest Rate (% p.a.)



Note: Average of benchmark interest rates of 34 central banks weighted by the respective country’s GDP

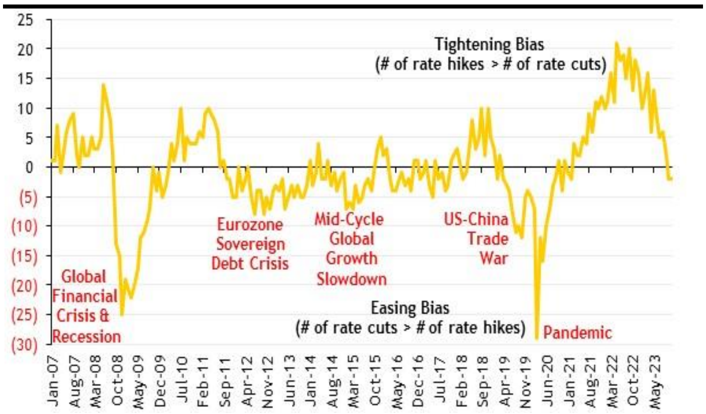
Source: Maybank IBG Research

Fig 6: Monthly Change in Weighted Average Global Benchmark Interest Rate (percentage point)



Source: Maybank IBG Research

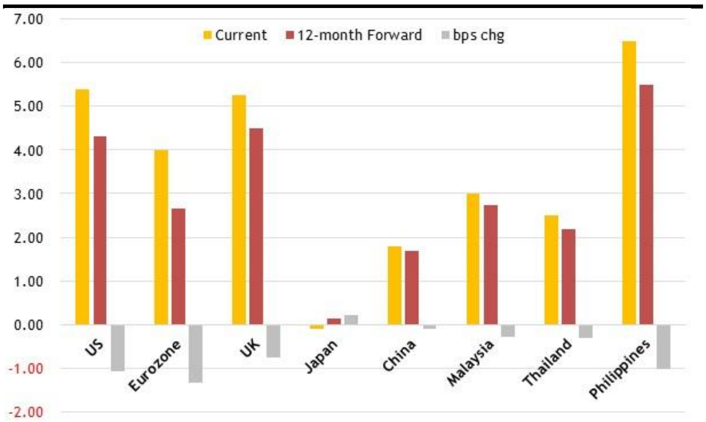
Fig 7: Global Benchmark Interest Rate Action Diffusion Index



Note: Global Benchmark Interest Rate Action Diffusion Index refers to the difference between the numbers of central banks that raise and cut their benchmark interest rates from a panel of 45 central banks

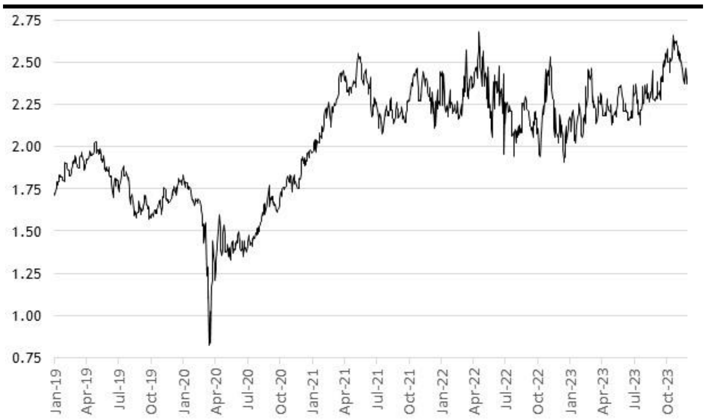
Source: Maybank IBG Research

Fig 8: Market Implied Policy Interest Rates 12 Month Forward



Source: Bloomberg (as at 7 Dec 2023)

Fig 9: US Fed's Five-Year Breakeven Inflation Rate (%)



Source: Bloomberg

At the same time, we have seen incidences of re-acceleration in inflation e.g. Philippines in Aug-Sep 2023; Indonesia in Oct 2023; Singapore in Sep-Oct 2023, that led to the surprise interest rate hikes in Indonesia and Philippines in Oct 2023. For Malaysia, there is upside risk to inflation in 2024, primarily due to consumption-related tax measures in Budget 2024 (i.e. hikes in Services Tax and Sugar Tax; broadening of the Sales Tax coverage), as well as the expected fuel subsidy rationalisation. Consequently, we are more "guarded" on the timing and quantum of interest rate cuts in 2024, penciling in monetary policy easing cycle in major advanced economies and ASEAN-6 (except for Malaysia and Vietnam where policy interest rates are expected to remain unchanged) to begin in 3Q 2024 (Fig 10).

Fig 10: Major Advanced Economies & ASEAN-6: Benchmark Interest Rates, 2021-2025 (% p.a.)

	2021	2022	2023F	2024F	2025F
US	0.00-0.25	4.25-4.50	5.25-5.50	4.50-4.75	3.50-3.75
EU	(0.50)	2.00	4.00	3.50	2.75
Japan	(0.10)	(0.10)	(0.10)	0.00	0.25
UK	0.25	3.50	5.25	4.50	3.75
China	0.44	4.25	3.35	3.00	3.00
Indonesia	3.50	5.50	6.00	5.25	4.75
Malaysia	1.75	2.75	3.00	3.00	3.00
Philippines	2.00	5.50	6.50	5.75	4.75
Singapore	0.19	3.10	3.80	3.25	2.60
Thailand	0.50	1.25	2.50	2.25	2.00
Vietnam	4.00	6.00	4.50	4.50	4.50

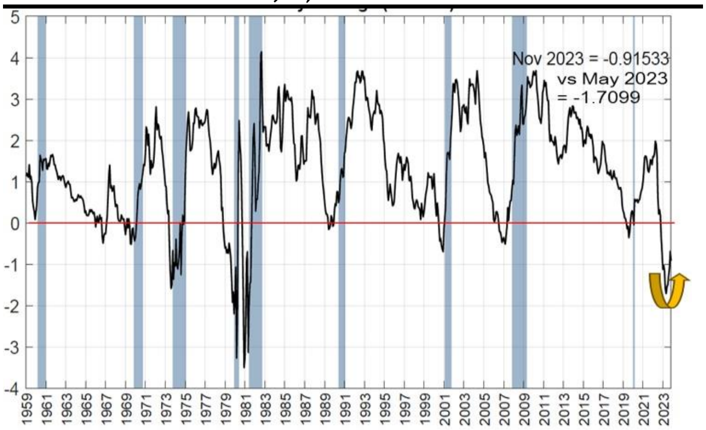
Sources: CEIC, Maybank IBG Research

3. Spotlight Shifts from US to China

The outlook of slower growth in 2024 is premised on the prospect of US economy heading to a growth "soft-landing" rather than plunging into recession. The prospect of US growth "soft-landing" is enhanced by the falling risk of 2024 recession as US yield curve inversion reversing into flattening (Fig 11-12).

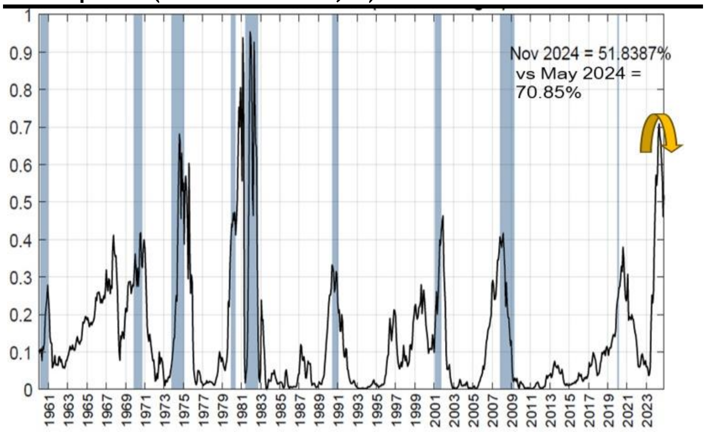
Granted the track record of US Treasury yield curve inversion – and the derived US recession probability – in signaling the past US recessions, and that from historical perspective there is nothing particularly unique about reversals of yield curve inversions and recession probabilities, the current situation do need to take into account of factors that mitigate US recession risk. These include 1) the availability and drawdown of households' excess savings from economic stimulus measures during the pandemic years as well as the robust post-pandemic job market condition that supported resilient US consumer spending; 2) supply-side/industrial policies like the Inflation Reduction Act and the CHIPS Act lifting US manufacturing investment especially in the high/advanced technology industries; and 3) continued expansionary fiscal policy negating US Fed's aggressive monetary policy tightening.

Fig 11: Monthly Average US Treasury Yield Spread (10 Year Bond Minus 3-Month Bill, %)



Source: Federal Reserve Bank of New York

Fig 12: Probability of US Recession Predicted by US Treasury Yield Spread (Next 12 Months, %)



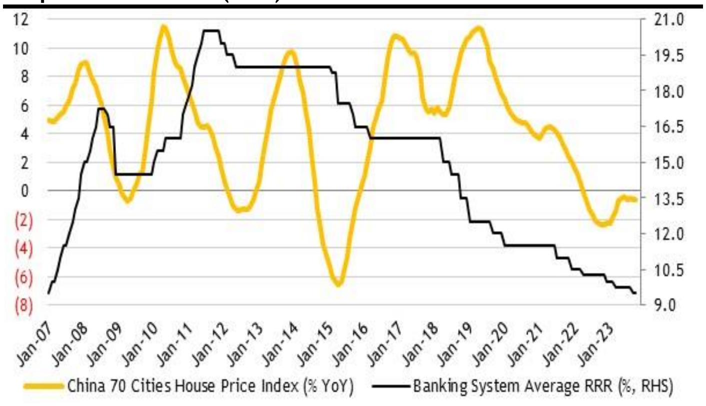
Source: Federal Reserve Bank of New York

Consequently, the spotlight on key downside risk to global – and ASEAN-6 - economic outlook is on the other "elephant in the room" i.e. China, given the underwhelming post-pandemic growth. China's key economic data and indicators point to an uneven economy i.e. domestic-driven industrial output and retail sales growth; mixed and volatile external trade amidst swings between gains and losses in exports and imports; composite (i.e. manufacturing and services) PMI hovering around a "stall" reading of 50.0 in the later parts of 2023; and consumer prices fluctuating between inflation and deflation since Apr 2023. This is despite policymakers' efforts to further stimulate the economy, reinvigorate the property sector, and revive consumer sentiment and business confidence.

To note, the 8 Dec 2023 meeting of the Politburo – the ruling Communist Party top-24 officials and chaired by President Xi Jinping – indicated 2024 real GDP growth target of +5%, to be backed by stronger fiscal policy and targeted monetary policy supports. We expect China's 2024 budget deficit to be larger at 4.1% of GDP (2023: 3.8% of GDP) and -35bps cut in policy interest rate to 3.00% (2023: -90bps to 3.35%).

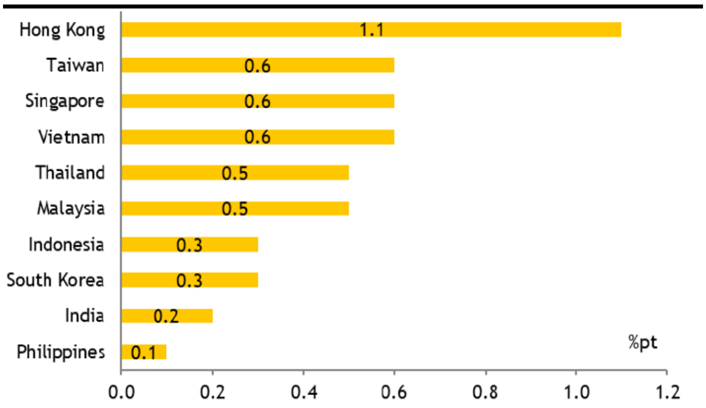
The real estate sector – accounting for around 25% of China's GDP – will be under scrutiny. The sector remained weak despite policy measures (Fig 13), exacerbating financial troubles at highly leveraged developers and local governments dependent on land sales for funding, as well as loss of wealth and confidence among homebuyers who are also consumers, plus concerns over the spillover to the financial sector. Downsides to our China's 2024 real GDP growth forecast will have a material impact on growth of regional economies like Hong Kong and Taiwan as well as ASEAN economies, particularly Singapore, Vietnam, Thailand and Malaysia (Fig 14).

Fig 13: House Prices vs Banking System's Reserve Requirement Ratio (RRR)



Source: Bloomberg

Fig 14: Impact of 1 Percentage Point Change in China's GDP Growth on Selected Asian Economies' GDP Growth



Source: Maybank IBG Research

4. Wildcards – Geopolitics and Domestic Politics

The year 2023 ends with two major conflicts i.e. the prolonged Russia-Ukraine war since Feb 2022, and the outbreak of Israel-Palestine war in Oct 2023. Currently, market appears to be pricing in the scenarios of prolonged stalemate in Russia-Ukraine war, and no/low risk of Israel-Palestine conflict broadening into another episode of Middle East tension.

The above are on top of ongoing US-China geostrategic competition that led to geo-economic fragmentation. Despite recent meeting between US President Biden and China President Xi on 15 Nov 2023 at the sideline of the APEC Summit in San Francisco that among others led to agreement to re-establish military communications which eased worries over a "third war" given the continued US-China divide over Taiwan issue, core economic issues in US-China relations remains, namely trade tariffs in place since the time of President Trump, and restrictions in trade and investments in advanced technology between US (and allies) with China, which escalated under President Biden).

At the same time, the fractious domestic politics have seen US repeatedly teetering on the edge of government shutdowns and debt defaults, only to be pulled back by last minute temporary budget deals, with the next round of US government funding "drama" returning in early-2024.

There are also several key elections taking place in 2024 we need to keep an eye on. The big one is US Presidential election on 5 Nov 2024 considering the possibility of Trump comeback as opinion polls point to Trump leading President Biden by wide margins. A Trump comeback potentially have wide-ranging policy impact e.g. continuation – even escalation – in US-China trade tariff and technology wars, thus deterioration in bilateral relations; possible reversals in US commitments and policies on climate change, renewable energy and electric vehicles; uncertainties over US foreign policies given the risk of an inward-looking US, especially on funding and support for Ukraine as well as US relations with Europe/NATO, Russia, Asia Pacific and Middle East.

Indonesia will go into election on 14 Feb 2024 to pick President Jokowi's successor, and thus see whether there will be policy continuity or change. Another key political event to watch is Taiwan election on 13 Jan 2024, the outcome of which has a bearing on US-China relations.

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ECONOMICS

ASEAN

ASEAN Economics

Green Shoots in a Fragmented World

Stronger and Balanced Growth in 2024

ASEAN will see stronger and more balanced growth in 2024, as manufacturing and exports recover while "revenge spending" in services fade. We forecast ASEAN-6 GDP growth recovering from 4% in 2023 to 4.7% in 2024 and 4.8% in 2025. The delta change in growth will be in the trade-dependent economies, including Vietnam (+5.8% in 2024), Malaysia (+4.4%), Thailand (+3.6%) and Singapore (+2.2%). Growth in domestic-oriented Indonesia (+5.1%) and Philippines (+6.5%) will remain resilient. Inflation will ease to within comfort zones of most ASEAN central banks. The Fed will hold "higher for longer" and start easing only in 3Q 2024. Some ASEAN central banks may ease after the Fed eases, including Indonesia (-75bps), Philippines (-75bps) and Thailand (-25bps).

Theme #1: Green Shoots in Exports & Manufacturing

Green shoots are sprouting in manufacturing and exports, brightening the outlook for trade-sensitive ASEAN economies. Aggressive US fiscal spending and generous subsidies for semiconductor and electric vehicles (EVs); normalisation in global consumer spending towards goods as revenge spending in services dissipates; a replacement tech cycle; falling US inventories; and bottoming of chip and commodity prices will help drive export growth. Rising FDI and added capacity from shifting manufacturing supply chains will increase ASEAN's leverage to a global trade recovery.

Theme #2: US Soft Landing & Fed Pivot

The US appears headed for a soft landing rather than a recession. The lockdown created pent-up demand that is only gradually losing steam. Large US stimulus during the pandemic led to a massive build-up in excess savings, estimated at $2.3t, which fueled a consumer boom. Recent studies suggest the excess savings remain large (>$1t) and could sustain consumer spending in 2024. Even after reopening, the US has pursued aggressive fiscal and industrial policies, running a large fiscal deficit. A soft landing implies "higher for longer" funds rate and a Fed pivot only in 3Q 2024.

Theme #3: China - The Lethargic Dragon

China's reopening momentum is waning. Outbound tourists to ASEAN are plateauing after the initial "revenge travel." The return of China tourists has been stronger in Singapore, Indonesia and Malaysia, and slower in Thailand and Vietnam. China imports from ASEAN are in the red (-4.8% in 11M23), but have fared better than total imports (-6.1%) due to structural shifts. China's FDI into ASEAN is picking up with the reopening and geopolitics-driven de-risking.

Wildcards: A Trump Victory

A Trump election victory could lead to sweeping US policy changes, including a blanket 10% import levy, withdrawal of support for Ukraine, and a reversal of Biden's policies on renewables and EVs. Geopolitical fragmentation may worsen. Shifts in supply chains to ASEAN may be disrupted.

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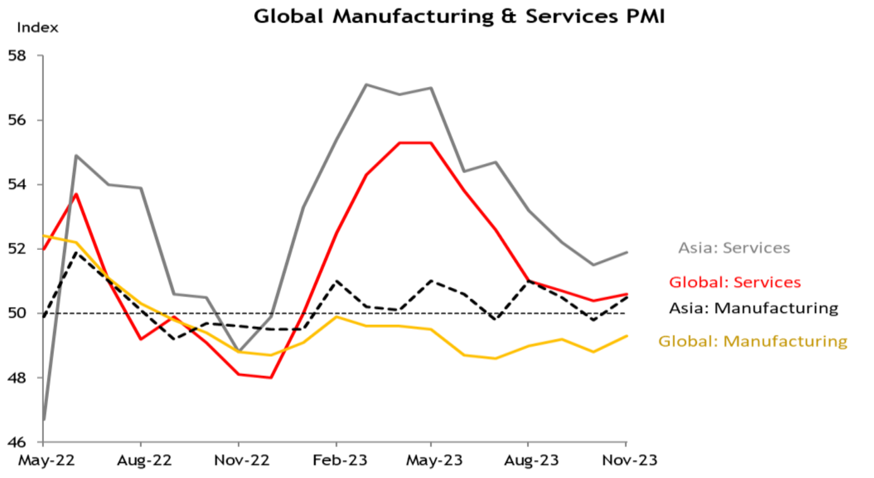
ASEAN: Green Shoots in a Fragmented World

ASEAN will see stronger and more balanced growth in 2024, as manufacturing and exports recover while "revenge spending" and tourism services growth fade. We forecast ASEAN-6 GDP growth recovering from 4% in 2023 to +4.7% in 2024 and 4.8% in 2025. Green shoots are sprouting, brightening the outlook for trade-dependent ASEAN economies going into 2024 (*ASEAN: Green Shoots Amidst Turmoil, 27 Oct 2023*). With most sectors and consumer spending having normalised to or above pre-pandemic levels, the pent-up revenge spending in travel, hospitality and dining will dissipate. Convergence of manufacturing and services growth will lead to more balanced growth in 2024.

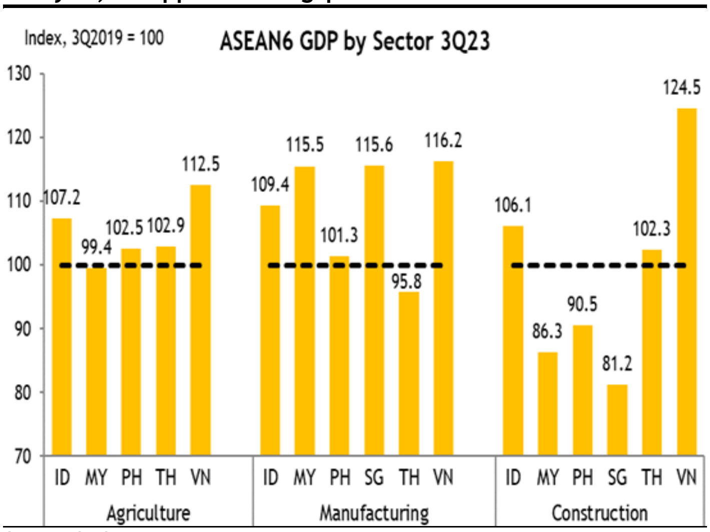
Fig 1: Divergence Between Services & Manufacturing is Narrowing, Global & Asia Manufacturing PMI Improving in November



Source: CEIC

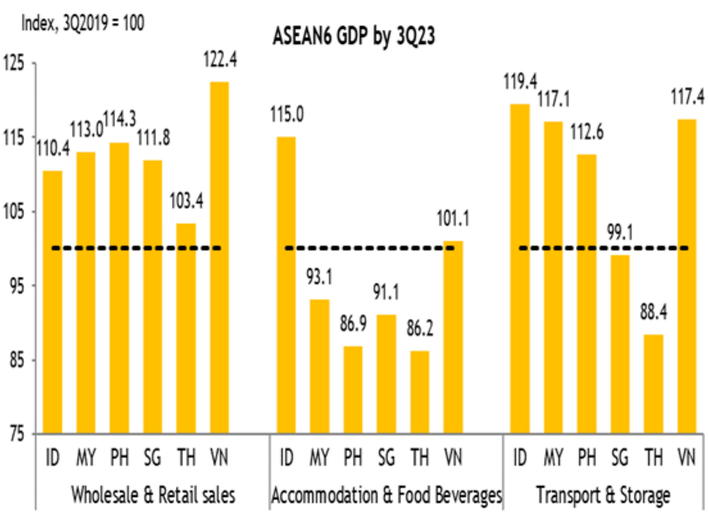
Real GDP has recovered above pre-pandemic levels across the ASEAN-6 countries, with the exception of Thailand (Fig 4). Accommodation and food and beverages (F&B) stands out as the sector that is below pre-pandemic levels for almost all the ASEAN countries, with the exception of Indonesia and Vietnam (Fig 3). Thailand is the most heavily dependent on tourism, which has been slow to recover due to the slow return of China tourists. For Thailand, several sectors remain below pre-pandemic levels, including manufacturing, accommodation and F&B, and transport & storage.

Fig 2: Construction Sector Still Below Pre-Pandemic Level in Malaysia, Philippines & Singapore



Source: CEIC

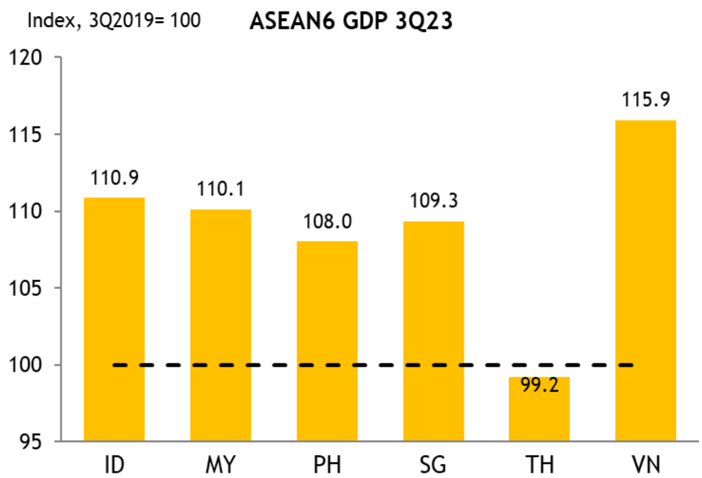
Fig 3: Wholesale & Retail Sales Have Surpassed Pre-Pandemic Levels While Accommodation & F&B is Still Below



Source:CEIC

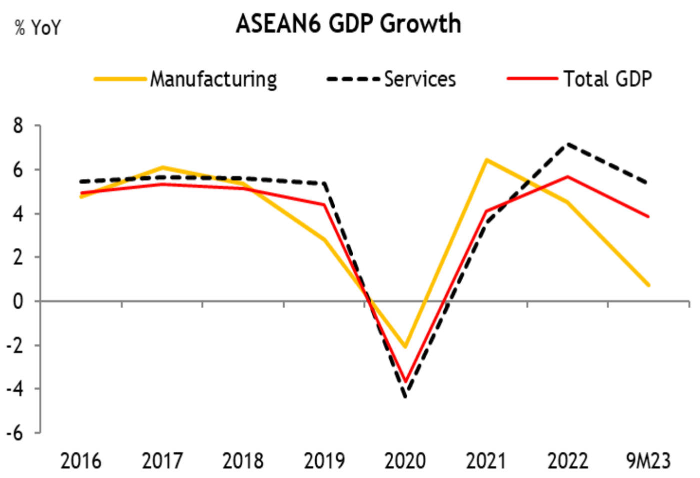
Growth was unusually uneven in 2023 on several fronts. First, global growth was largely driven and supported by a surprisingly strong US economy (+2.2%). Growth in the EU (+0.6%) was near stagnant, while China's reopening and recovery was more subdued than expected (+5.2%). The strength of the US economy is in large part because of excess pandemic savings and an aggressive expansionary fiscal policy, which cushioned the impact from tighter Fed policy.

Fig 4: ASEAN-6 GDP Have Surpassed Pre-Pandemic Levels in 3Q 2023, Except Thailand



Source: CEIC

Fig 5: Services Supported ASEAN Growth in First 9 Months, Cushioning the Slowdown in Manufacturing.



Source:CIEC

Second, manufacturing and services growth diverged in 2023 across ASEAN (Fig 5). Manufacturing contracted across ASEAN because of softer external demand, high inventories, and consumers' pent-up "revenge spending" on services after the reopening. The manufacturing-services divergence is especially stark for the trade-oriented economies – Singapore, Vietnam, Malaysia and Thailand. In Singapore for example, manufacturing contracted -5.8% in the first 9 months of 2023, while services expanded +2.2%. In Malaysia, manufacturing growth slowed to +1.1% in that same period, while services grew +5.7%.

There are nascent signs that green shoots are sprouting in recent manufacturing and export data, brightening the growth outlook going into 2024. ASEAN trade contracted sharply in the first 6 months of 2023, with exports falling by -9.1%. ASEAN-5 (excl. Phil) exports are recovering more visibly in October (+1.5%) after a year-long slump. Several ASEAN PMIs have reverted to expansion and are above 50, including Singapore, Indonesia and the Philippines.

Table 1: ASEAN & Major Economies GDP Forecast, 2021 – 2025F

	2021	2022	2023F	2024F	2025F
Indonesia	3.7	5.3	5.0	5.1	5.2
Malaysia	3.3	8.7	3.9	4.4	5.0
Philippines	5.7	7.6	5.8	6.5	6.2
Singapore	8.9	3.6	1.1	2.2	2.1
Thailand	1.5	2.6	2.3	3.6	3.8
Vietnam	2.6	8.0	4.8	5.8	6.2
ASEAN 5 (excl. SG)	**3.4**	**6.0**	**4.5**	**5.0**	**5.2**
ASEAN 6	**4.1**	**5.7**	**4.0**	**4.7**	**4.8**
US	5.8	1.9	2.2	1.0	1.8
EU	5.9	3.4	0.6	0.9	1.6
China	8.4	3.0	5.2	4.4	4.5

Source: CEIC, Maybank IBG Research (for Forecast), EUStat (for EU historical data)

Inflation is expected to continue easing in 2024 and remain within the comfort zones of most ASEAN central banks. We forecast ASEAN-6 inflation moderating from 3.6% in 2023 to 3% in 2024 and 2.8% in 2025 (Table 2). The energy and food price shocks from the supply disruptions after the Russia-Ukraine war have largely dissipated. Oil prices have fallen some 31% from their peak. The Israel-Hamas war has not led to any oil price spike. Services inflation in the reopening sectors, including hospitality, travel and F&B, are already fading as capacity and supply are slowly restored. Labour shortages have eased as foreign workers returned. China's subdued inflation is translating into softer producer and imported prices.

Table 2: ASEAN & Major Economies Inflation Forecasts, 2021 - 2025F

	2021	2022	2023F	2024F	2025F
Indonesia	1.6	4.2	3.7	3.0	3.0
Malaysia	2.5	3.3	2.6	3.0	3.0
Philippines	3.9	5.8	6.0	3.5	3.0
Singapore	2.3	6.1	4.8	3.0	1.8
Thailand	1.2	6.1	1.3	1.8	2.0
Vietnam	1.8	3.2	3.3	3.5	3.4
ASEAN 5 (excl. SG)	**2.1**	**4.6**	**3.5**	**3.0**	**2.9**
ASEAN 6	**2.1**	**4.7**	**3.6**	**3.0**	**2.8**
US	4.7	8.0	4.1	2.6	2.3
EU	2.6	8.4	5.6	3.0	2.3
China	0.9	2.0	0.3	1.1	1.9

Source: CEIC, Maybank IBG Research (for Forecast), EUStat (for EU historical data)

The Fed funds rate has probably peaked. We expect the Fed to maintain the rate "higher for longer" and only start easing in 3Q 2024. But the easing cycle will likely be calibrated and modest, with the US economy on track for a "soft landing." The Fed will likely lower the funds rate by about 75bps to 4.5%-4.75% by end-2024. We expect the Fed to cut by another 100bps only in 2025, bringing the Fed funds rate to a more neutral and higher "new normal" of about 3.5%.

Some ASEAN central banks may ease in 2024 after the Fed cut rates, including Indonesia (-75bps), Philippines (-75bps) and Thailand (-25bps). We expect central banks in Malaysia and Vietnam to stay on hold. The State Bank of Vietnam has already cut policy rates by 150bps in 2023. Bank Negara Malaysia has been measured in tightening, raising the policy rate by only 25bps in 2023. Singapore's MAS will likely ease its monetary policy via a lower S$NEER slope in late 2024, at the October meeting. Singapore's short-term interest rates will start falling only when the Fed cuts, with the 3M SORA projected to fall to 3.25% by end-2024 from 3.8% at end-2023.

Table 3: ASEAN & Major Economies Policy Rate Forecast, 2021 - 2025F

	2021	2022	2023F	2024F	2025F
Indonesia	3.50	5.50	6.00	5.25	4.75
Malaysia	1.75	2.75	3.00	3.00	3.00
Philippines	2.00	5.50	6.50	5.75	4.75
Singapore	0.19	3.10	3.80	3.25	2.60
Thailand	0.50	1.25	2.50	2.25	2.00
Vietnam	4.00	6.00	4.50	4.50	4.50
US	0.00-0.25	4.25-4.50	5.25-5.50	4.50-4.75	3.50-3.75
EU	-0.50	2.00	4.00	3.50	2.75
China	0.44	4.25	3.35	2.75	3.00

Source: CEIC, Maybank IBG Research, EUStat

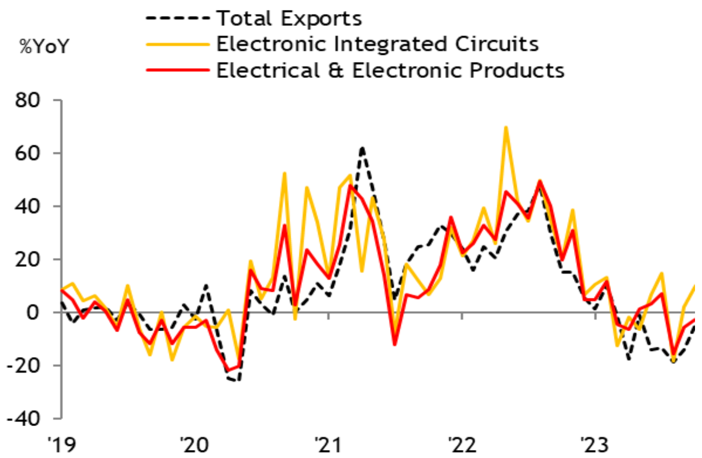
ASEAN: Three Major Themes in 2024

#1 Green Shoots in Exports and Manufacturing

Green shoots are sprouting in recent manufacturing and export data, brightening the outlook for trade-sensitive ASEAN economies in 2024. Aggressive US fiscal spending and generous subsidies for semiconductor and EV manufacturers; a shift and normalisation in global consumer spending towards goods as revenge spending in services dissipates; a replacement tech cycle with new upgrades and models; falling US inventories; and bottoming of chip and commodity prices will help drive ASEAN growth. Rising FDI and added capacity from shifting manufacturing supply chains will increase ASEAN's leverage to a global trade recovery. Stronger external demand could speed up and increase the translation of FDI approvals and applications into actual FDI inflows.

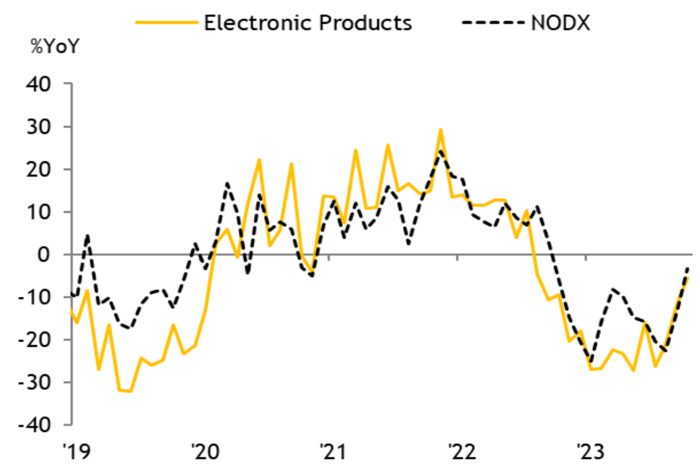
Nascent signs of a manufacturing and export recovery have surfaced in the ASEAN-6. Merchandise exports in Thailand and Vietnam returned to growth in 3Q on improving tech shipments. The Philippines shipments overseas hit a 10-month high in September, boosted by electronics. Singapore's electronics manufacturing posted double-digit output gains for the first time in 17 months in September and October. Manufacturing PMI are above 50 in Singapore, Philippines and Indonesia, indicating expansion. Tech bellwether export giants Korea and Taiwan are seeing electronics exports strengthen.

Fig 6: Malaysia's Exports (-4.4%) Dropped at Their Softest Pace in 5 Months in October, with Chip Exports Rising +10.3%



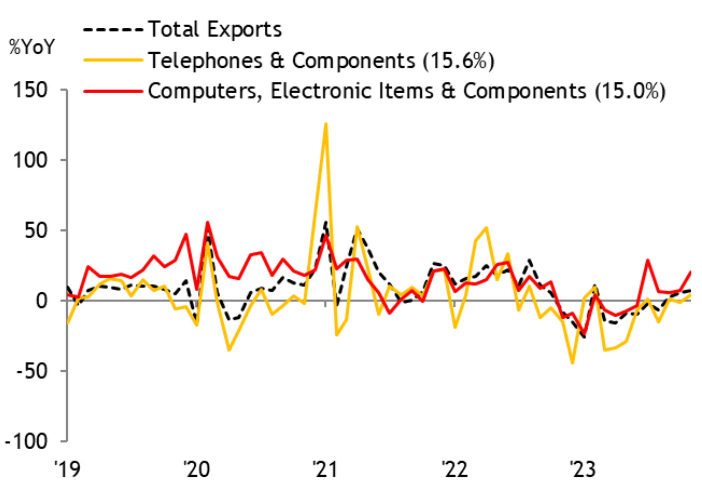
Source: CEIC

Fig 7: Contraction in Singapore's Non-Oil Domestic (-3.4%) and Electronics (-5.6%) Exports Continued to Narrow in October



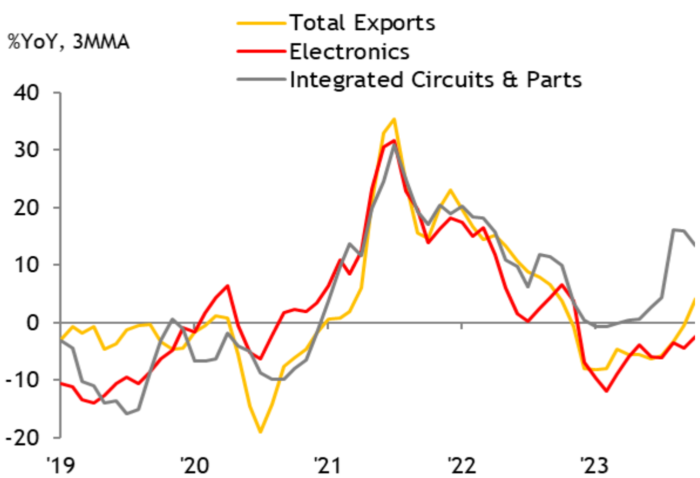
Source: CEIC

Fig 8: Vietnam Exports Rose 6.7% in Nov, Driven by a Surge in Computers, Electronics & Components Exports



Source: CEIC

Fig 9: Thai Exports Saw a Jump in Integrated Circuits & a Recovery in Electronics Exports in Oct

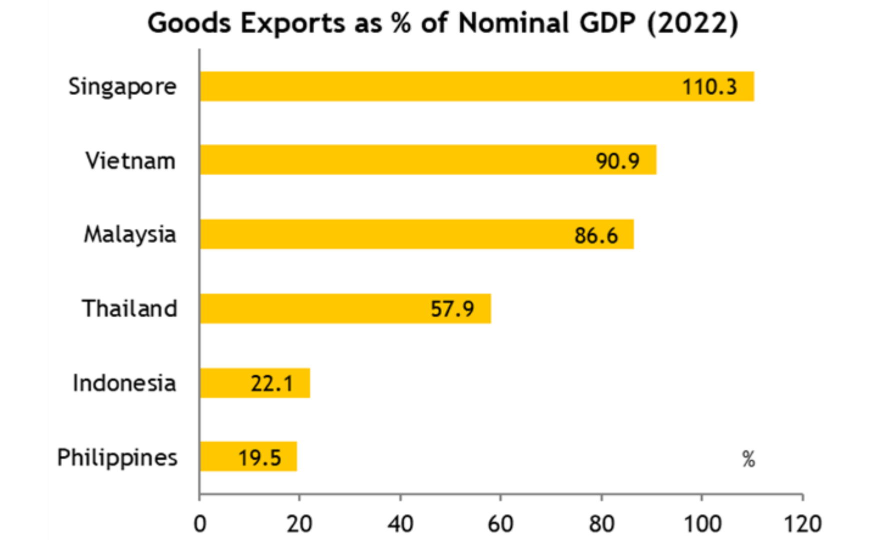


Source: CEIC

A stronger export recovery will have a larger impact on the trade-dependent economies. ASEAN economies with a higher share of merchandise exports to GDP include Singapore (110%), Vietnam (91%) and Malaysia (86%). Goods exports are a meaningful driver in Thailand (58%), but less so in Indonesia (22%) and Philippines (20%), which have larger domestic markets.

Rising FDI and shifting manufacturing supply chains will increase ASEAN's leverage to a global trade recovery (*ASEAN: Deepening Supply Chain in a Fragmented World, 12 May 2023*). The translation of approved to actual FDI will speed up with rising external demand (*On the Cusp of a Green Manufacturing Renaissance?*). ASEAN countries with a sizeable export and manufacturing base and outstanding FDI approvals will likely see a bigger lift. Stronger export recoveries will help widen trade surpluses, increase foreign reserves and stabilise currencies in 2024.

Fig 10: Singapore, Vietnam & Malaysia Are More Trade-Oriented



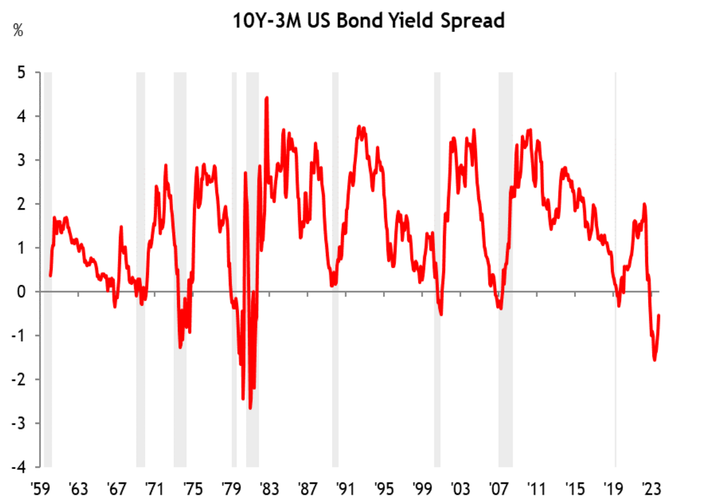
Source: CEIC

Electronics exports are leading the trade recovery, and account for a large proportion of exports from the Philippines, Malaysia, Vietnam and Singapore, and to a lesser extent, Thailand. Electronics exports account for about 58% of total exports in the Philippines; 38% in Malaysia; 31% in Vietnam; and 23% in Singapore. Electronics exports account for a smaller share of about 12% in Thailand.

#2 US "Soft Landing" & Fed Pivot

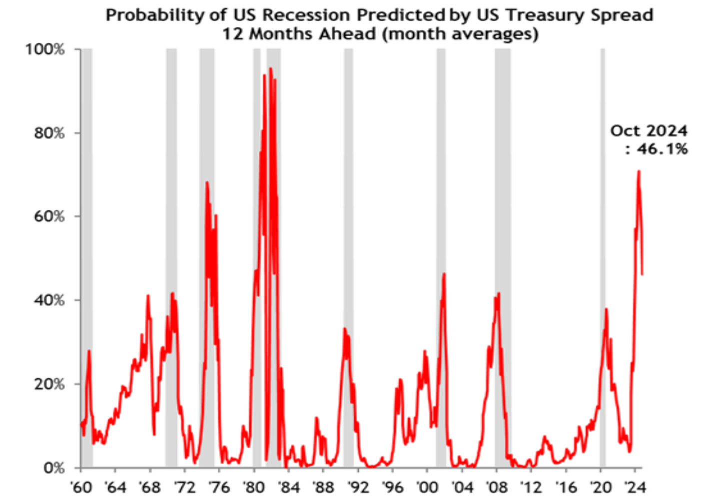
The US appears to be headed for a "soft landing" rather than recession, despite higher interest rates. Recession odds have fallen with a flatter yield curve, lower inflation and a resilient labour market. Probability of a US recession has eased significantly to 46% from a peak of 71% in May, according to the New York Fed Recession model (Fig 12). Several factors may be behind the US "exceptionalism" and resilience.

Fig 11: The 10Y-3M Yield Spread (-0.5%) Has Become Less Negative and Inverted



Source: New York Fed

Fig 12: US Recession Probability Eased to 46% From the Peak 71% in May 2023



Source: NewYork Fed

First, supply constraints during the pandemic and lockdowns created a burst of pent-up demand that is only gradually going away. The revenge spending on services and experiences is still playing out, but losing steam. Labour constraints and foreign labour shortages created a backlog of delayed and unfinished projects, which is still catching up.

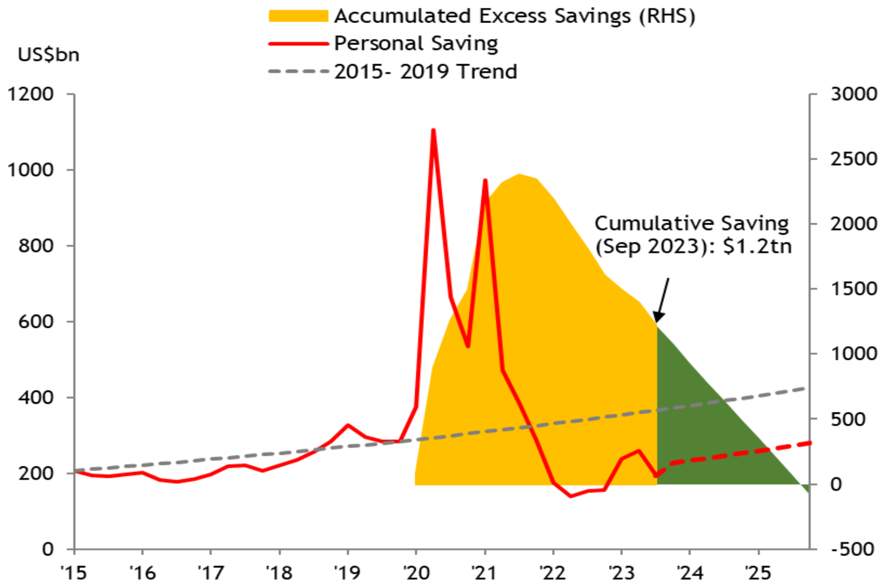
Second, large US fiscal stimulus (Biden's $1.9 trillion America Rescue Plan) combined with constraints on spending created a massive build-up in excess savings. Households amassed an estimated $2.3 trillion of excess savings during the pandemic, which fueled a post-pandemic consumer boom. US household savings as a share of disposable income is down by about 2.5% points from the pre-pandemic average. Consumers have been drawing down on their excess savings to support their "revenge spending".

There is debate about whether the excess savings will be depleted by early 2024. Updated Bureau of Economic Analysis national accounts figures suggest that the excess savings remains large and may be higher than previously thought, at well above $1 trillion, which could sustain consumer spending well into late 2024[1]. The estimate is sensitive and hinges on the assumption of the underlying trend in the savings rate, according to a Boston Fed study. A New York Fed study highlighted that the spending down of pandemic savings is an "only in the US" phenomenon, and not seen in the EU, UK, Japan and Canada[2]. Another case of US exceptionalism.

Based on pre-pandemic personal savings trend, we estimate that excess savings may still be about $1.2 trillion in September 2023 (Fig 13). The excess savings will only be depleted in early 2025, based on the current dissaving trend. Consumers may still be able to rely on their excess savings to support spending in 2024.

[1] Financial Times, "*Excess savings are back, maybe*", 2 October 2023.
[2] Klitgaard, T. and M. Higgins, "*Spending down pandemic savings is an "only-in-the-US" phenomenon*, Federal Reserve Bank of New York, 11 October 2023.

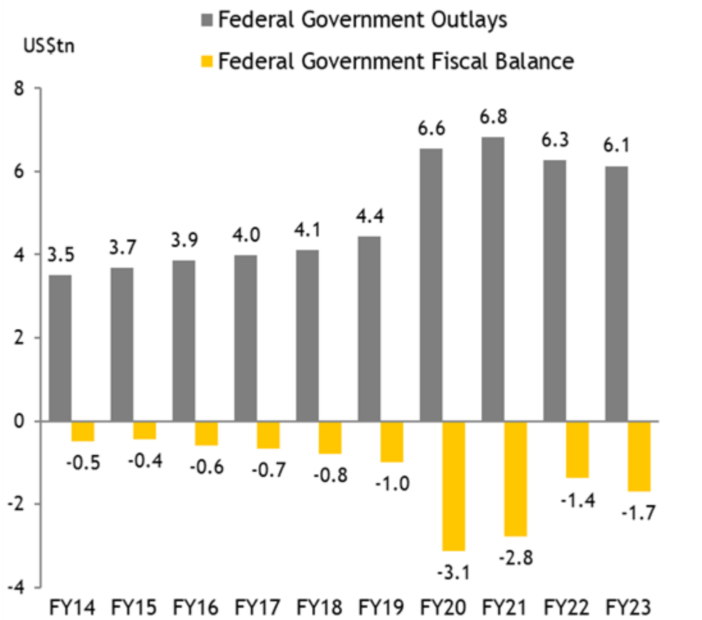
Fig 13: Total US Household "Excess Savings" Peaked at about $2.3t and May Still Be Above $1t in late 2023



Source: St.Louis Fed, CEIC, Maybank IBG Research calculation

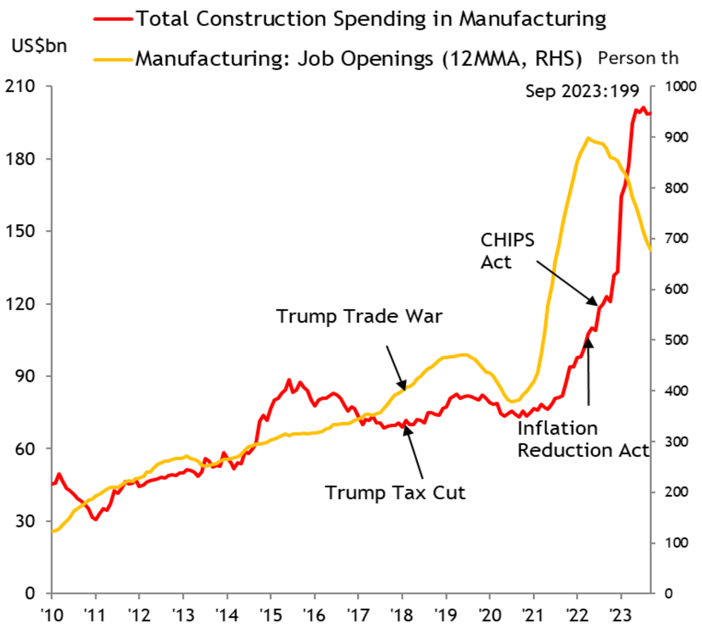
Third, even after the reopening, the US has pursued expansionary fiscal and aggressive industrial policies, which has offset the impact from tighter monetary policy. The US fiscal deficit is projected to widen to $1.7t (6.1% of GDP) in 2023 from $1.4t (5.3% of GDP) in 2022. Tax cuts, aggressive spending plans and higher debt servicing costs have widened the US fiscal deficit. The US Congressional Budget Office expects the shortfall to keep growing in the years ahead, reaching $2.9t in 2033, equal to about 7.3% of GDP.

Fig 14: US Fiscal Deficit Has Widened to $1.7t (6.1% of GDP) in FY 2023 from $1.4t (5.3% of GDP) in FY2022



Source: CEIC

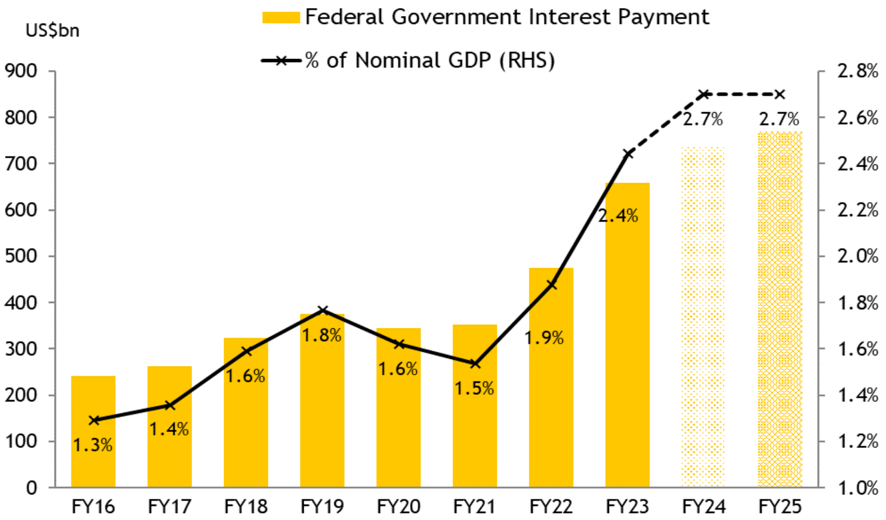
Fig 15: US Industrial Policies Fuelling Manufacturing Construction & Jobs



Note: Total construction and manufacturing job openings are seasonally adjusted.
Source: St. Louis Fed, Maybank IBG Research

Biden's two key pieces of legislation to spur industrial development, namely the $280b CHIPS Act and $500b Inflation Reduction Act, is fueling manufacturing and jobs (Fig 15). These bills have triggered a flurry of factory construction in the US, particularly for semiconductors and electric vehicles.

Fig 16: US Government Interest Payment Surged to $659b (2.4% of GDP) in FY2023, Rising from $352b (1.5% of GDP) in FY2021

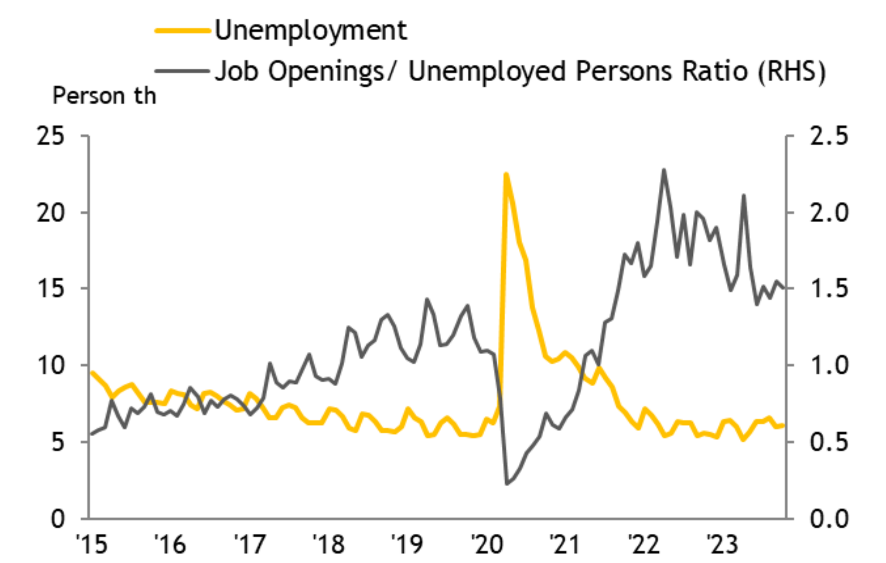


Note: Fiscal year ending September.
Source: CEIC, "The Budget and Economic Outlook: 2023 to 2033" US Congressional Budget Office

Another "fiscal channel" is supporting the US economy. The transfer and sharp increase in interest payments on government debt, of which about 70% accrues to the private sector, is helping to shore up household and corporate balance sheets. Government interest payments has surged to $659b (2.4% of GDP) in FY2023 from $352b (1.5% of GDP) in FY 2021. A large proportion of these interest payments accrue to the richest US households, which has supported their income and spending. Federal interest payments is forecasted to continue climbing to $739b (2.7% of GDP) in FY2024.

Both the pent-up demand and fiscal stimulus has created excess demand for workers. The ratio of job openings to unemployed workers remains high at about 1.5x despite the recent cooling. A tight labour market may defer the need for an early Fed easing.

Fig 17: US Job Openings to Unemployed Persons Ratio Remain Elevated at 1.5 in Oct 2023



Source: CEIC

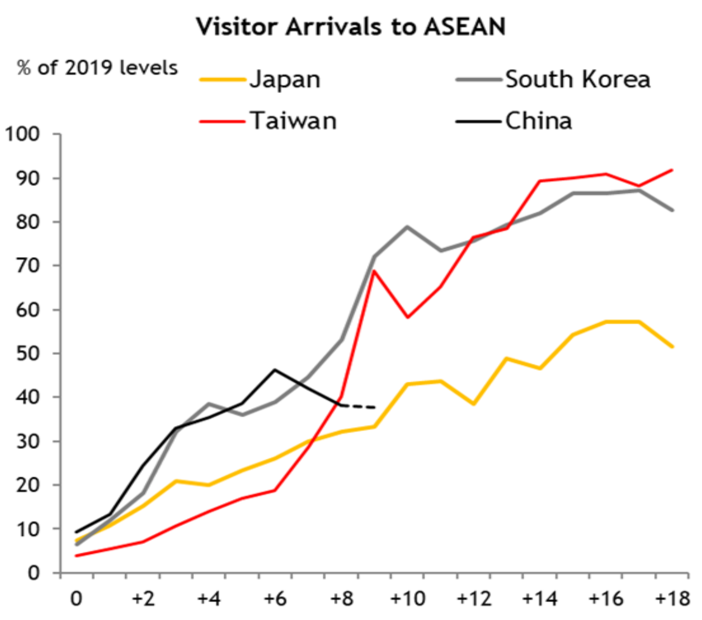
#3 China: The Lethargic Dragon

China's post-reopening growth momentum is waning going into the Year of the Dragon. The real estate slump will likely persist in 2024 and weigh on private investment. The weak job market and muted consumer confidence are short-circuiting "revenge travel". China's GDP growth is projected to slow from 5.2% in 2023 to 4.4% in 2024 as the reopening boost to consumer spending dissipates, while the real estate crisis weighs on private investment.

Impact on ASEAN's growth has been somewhat uncertain and uneven.

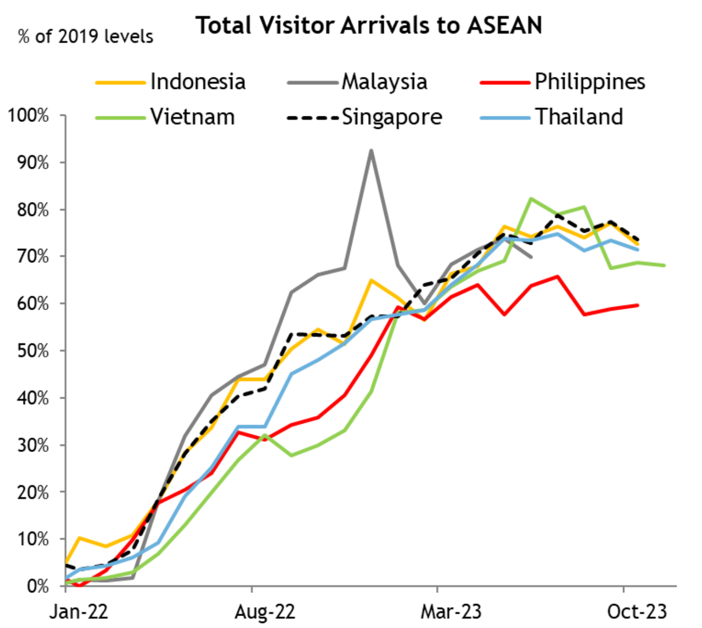
First, China's outbound tourists are plateauing after a strong start in early 2023 (Fig 19). In the first half of 2023, China's reopening led to a "revenge travel" surge in Chinese outbound visitors, which supported tourism activity across ASEAN (*ASEAN: China's Reopening: Gauging the Revenge Travel, 19 Jan 2023*). The initial recovery in China's outbound visitors tracked the sharp trajectory of South Korea, but has lost steam since July. The outbound tourism recovery path has slid back to Japan's slower trajectory (Fig 18).

Fig 18: ASEAN-6 Visitor Arrivals: China's Initial Strong "Revenge Spending" Has Lost Momentum Since July



Note: T refers to April 2022 (start of border easing) for Japan, South Korea, Taiwan, and January 2023 for China.
Source: CEIC

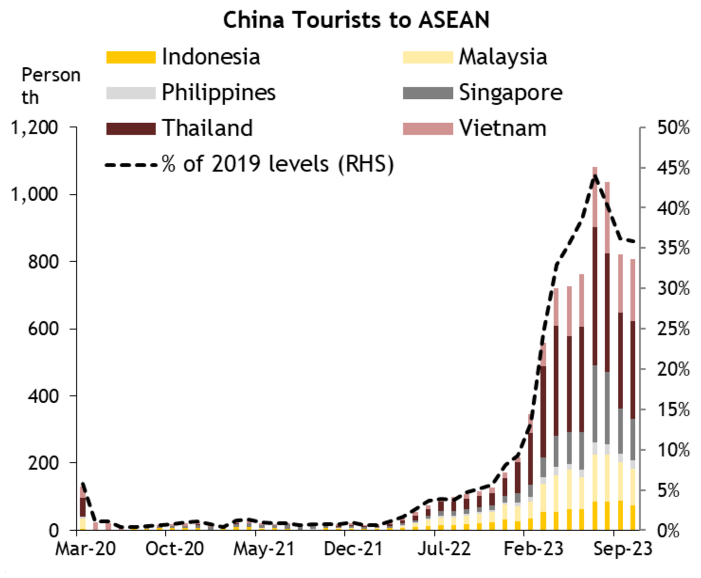
Fig 19: ASEAN Tourist Arrivals Have Been Plateauing in Recent Months, as China Tourists Recede



Source: CEIC

The recovery in China tourist numbers has been somewhat uneven across ASEAN, with Singapore, Indonesia and Malaysia seeing a stronger recovery than destinations like Thailand, Vietnam and Cambodia, which were popular pre-pandemic (Table 4). Safety concerns, further exacerbated by two Chinese movies, *Lost in the Stars* and *No More Bets*, which depicted Southeast Asia as a region troubled by murder, gang crime and fraud cases, influenced Chinese tourists' sentiment and choice of destinations. This divergence might persist in 2024.

Fig 20: China Tourist Numbers to ASEAN Dropped to a 4-Month Low in October 2023 or 36% of Pre-pandemic Levels



Note: Tourist arrivals for Malaysia up to Jun 2023 and includes arrivals from Hong Kong & Macau; figures for Jul-Oct 2023 refer to Maybank estimates.
Source: CEIC

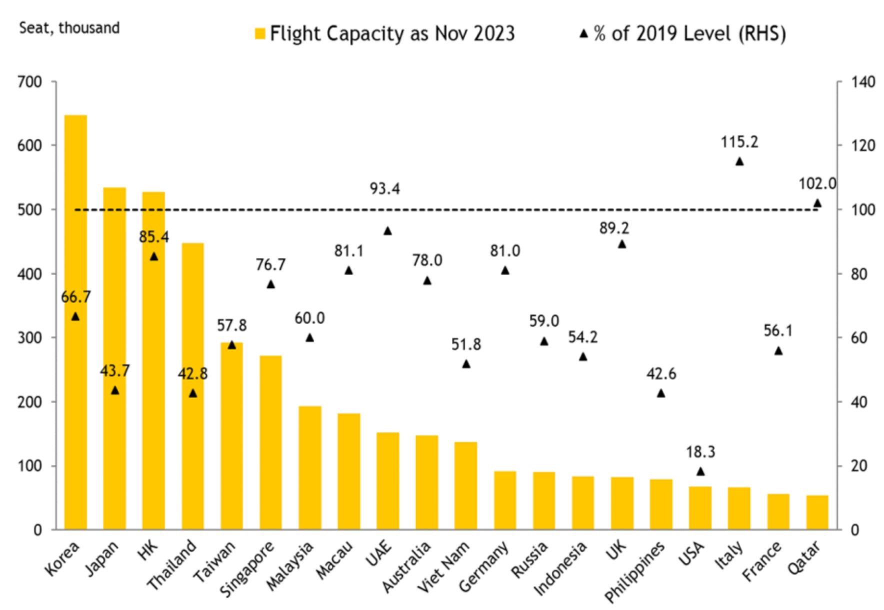
Table 4: China Tourist Arrivals to ASEAN-6 by Country (Latest Month)

	Person th	As of	% of pre-pandemic levels
Thailand	291.3	Oct	35.3%
Malaysia	95.4	Jun	43.0%
Indonesia	75.3	Oct	47.0%
Vietnam	202.0	Nov	30.0%
Singapore	122.8	Oct	47.5%
Philippines	23.7	Oct	17.0%
ASEAN-6*	**806**	**Oct**	**35.8%**

Source: CEIC

Flight capacity has also been a constraint. The restoration of flight capacity between China and ASEAN countries has been slow and uneven. As of November 2023, the flight capacity with China relative to pre-pandemic levels is highest for Singapore (77%) and Malaysia (60%), while Vietnam (52%), Thailand (43%) and Philippines (43%) have lagged (Fig 21). In the fourth quarter of 2023, China has been incrementally adding more flight capacity to Europe, Africa & the Middle East and the Americas rather than the Asia Pacific. China has resumed issuance of all types of visas for foreigners in September 2023. In December, China waived visa requirements for Malaysia and 5 EU countries – France, Germany, Italy, the Netherlands and Spain. Greater availability of flights to other countries will increase the competition for ASEAN as a destination.

Fig 21: Flight Capacity Between China & ASEAN Below Pre-Pandemic Levels

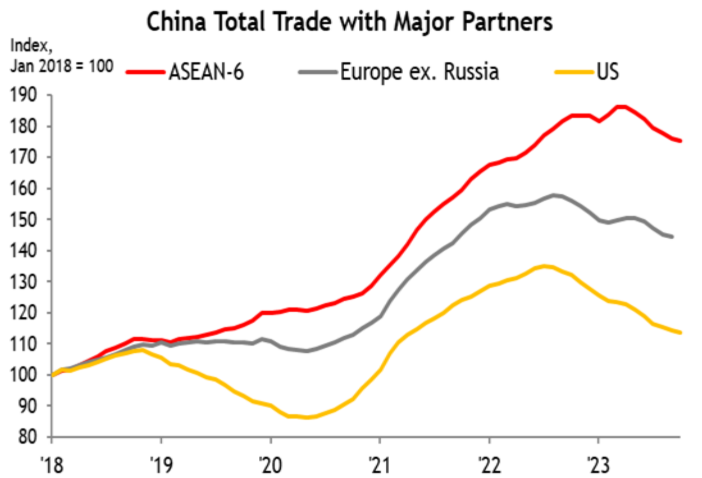


Source: OAG, Maybank IBG Research

We think China's outbound tourists will likely return to pre-pandemic level only in 2025, far later than most countries. The recovery will likely remain uneven across ASEAN. Singapore, Malaysia and Indonesia may see a quicker recovery to pre-pandemic levels relative to Thailand, Vietnam and the Philippines. Non-China tourists, including India and ASEAN, will help replace and cover the shortfall from China tourists. Singapore, Malaysia and Thailand are waiving visa requirements for visitors from China, and Indonesia is considering following suit to boost tourism.

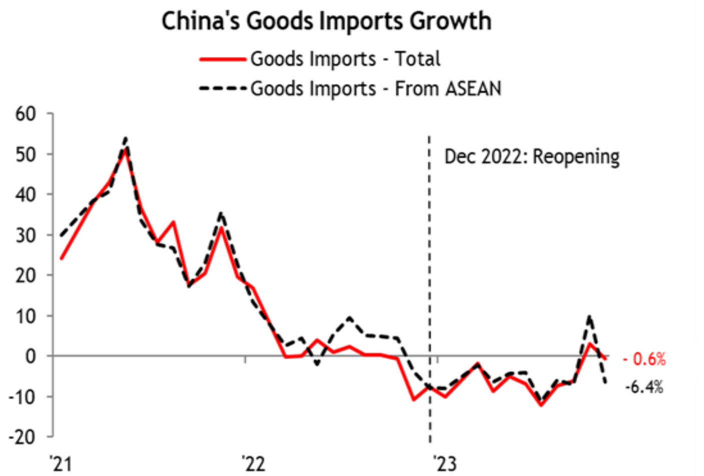
Second, China's import growth has been uneven. Although imports from ASEAN returned to contraction in November after a brief uptick in October, the year-to-date performance (-4.8%) has fared better than China's total imports (-6.1%). This may be reflecting the structural shift in manufacturing supply chains and trade flows away from the US and Europe. Imports from Vietnam are doing particularly well, rising +4.4% over the first 11 months alongside an influx of Chinese investments. ASEAN-6 has become the largest trading partner of China, larger than both Europe and the US. ASEAN's share of China imports has risen to 15% in 2022 from 12.6% in 2018.

Fig 22: China's Trade with ASEAN-6 Has Risen More Strongly than the US and Europe since the US-China Trade War Started



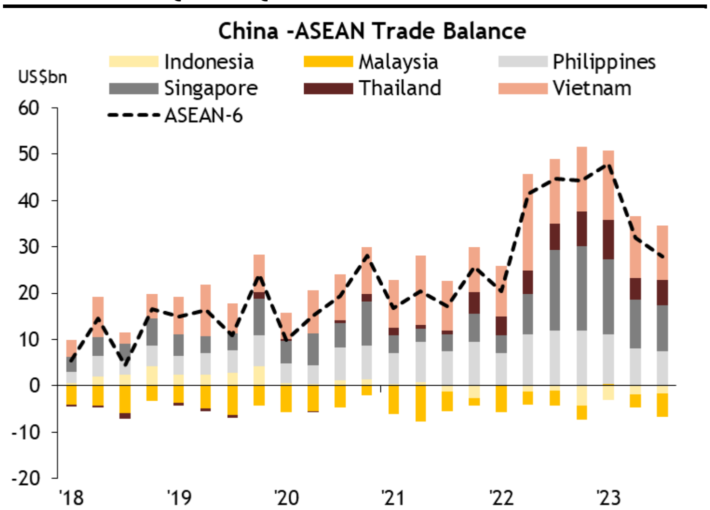
Source: CEIC

Fig 23: China Imports From ASEAN Declined -4.8% in 11M23, Better than -6.1% Declines of Total Imports



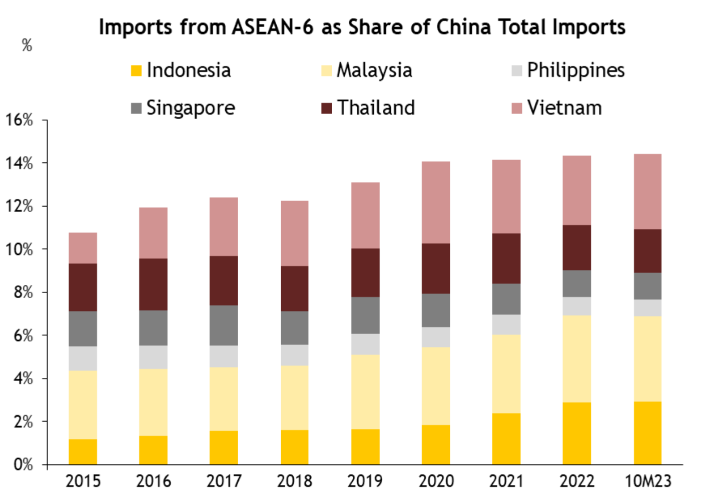
Source: CEIC

Fig 24: China's Bilateral Trade Surplus with ASEAN Has Narrowed in 2Q and 3Q 2023



Source: CEIC

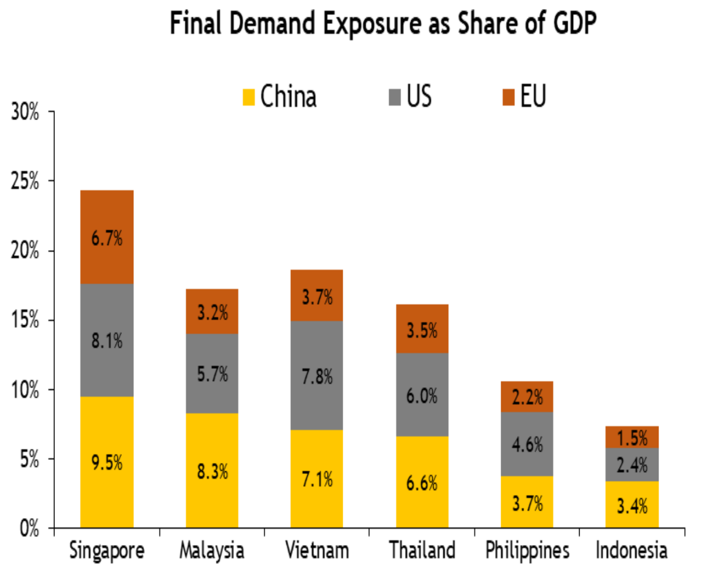
Fig 25: Malaysia, Vietnam & Indonesia Accounts for Larger Share of China's Total Imports from ASEAN



Source: CEIC

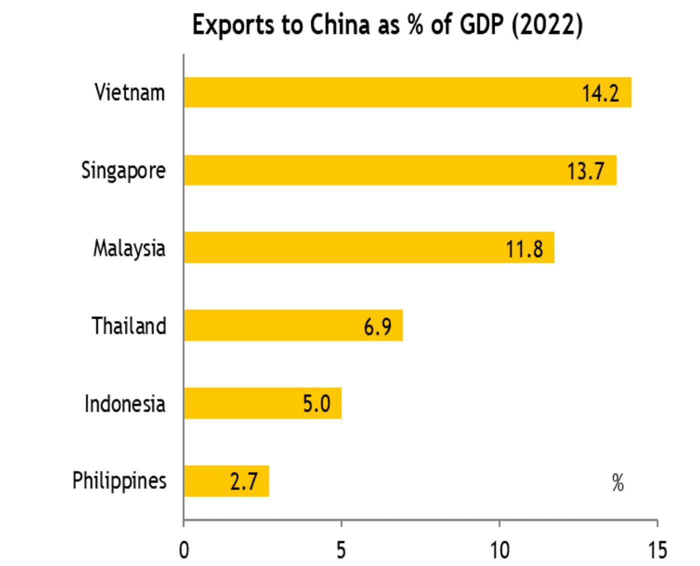
ASEAN economies which are more sensitive to China's final demand include Singapore, Vietnam, Malaysia and Thailand. Based on OECD's Trade in Value Added data, final demand in China accounts for 8% to 9% of GDP for Singapore and Malaysia, and around 7% of GDP for Vietnam and Thailand (Fig 26). ASEAN's exposure to China's economy is generally higher than the US and EU.

Fig 26: China's Final Demand Accounts for a Larger Share of GDP for Singapore, Malaysia and Vietnam



Note: Using 2018 data as the latest available data.
Source: OECD Trade in Value Added, Maybank IBG Research

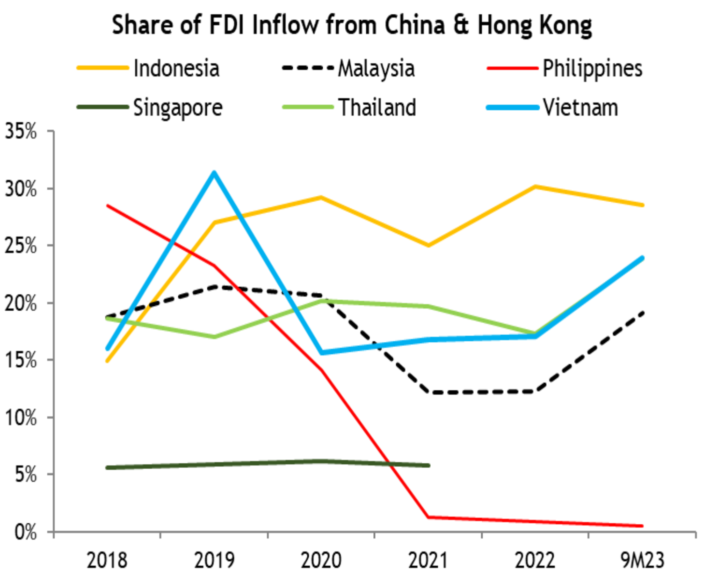
Fig 27: Vietnam, Singapore & Malaysia More Dependent on Exports to China



Source: CEIC, Maybank IBG Research

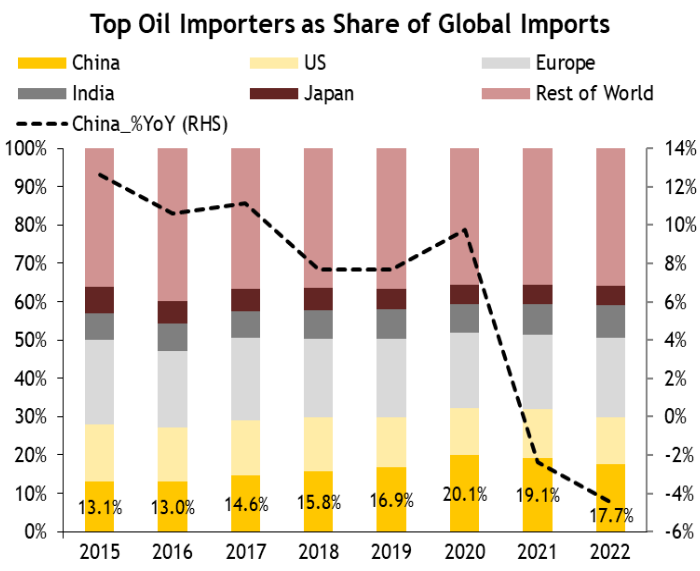
China's reopening and recovery are boosting investment flows into ASEAN. China and Hong Kong account for a substantial share of FDI inflows in the nine months of 2023, especially for Indonesia (29% share), Thailand (24%) and Vietnam (24%). China's reopening is also reviving Belt & Road infrastructure projects, especially in Indonesia, Cambodia and Laos.

Fig 28: Malaysia, Thailand & Vietnam Saw Higher FDI Inflows from China & Hong Kong in 2023



Source: CEIC, Maybank IBG Research

Fig 29: China Was The 2nd Biggest Oil Importer in the World, Accounting For 18% of Total Oil Imports in 2022



Source: CEIC, Maybank IBG Research

Wildcard: A Trump Victory

A known unknown and biggest wildcard in 2024 will be a Trump victory in the US Presidential elections in November 2024. In a New York Times poll, 59% of voters trusted Trump on the economy, well ahead of just 37% for Biden, despite the resilience of the US economy (Table 5). Several polls show Trump ahead of President Biden in key swing states (Table 6).

Table 5: Donald Trump Leads Joe Biden in Latest Poll by a Wide Margin

	Joe Biden	Donald Trump	Don’t know/ Refused
The Economy	37%	59%	5%
Immigration	41%	53%	6%
National Security	41%	53%	6%
The Israeli-Palestinian Conflict	39%	50%	12%
Abortion	49%	40%	10%
Democracy	48%	45%	7%

Note: Total sample of 1,838 respondents
Survey period is from 22 Oct to 3 Nov 2023
Source: The New York Time & Siena College Survey, November 2023

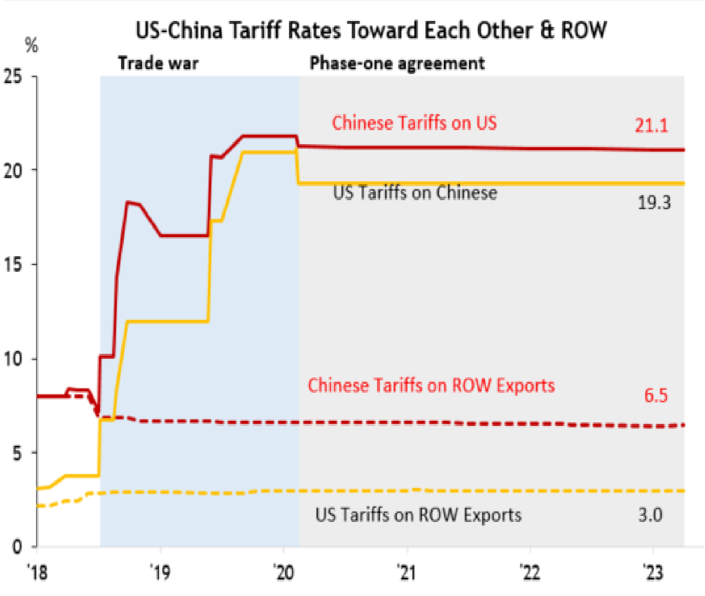
Table 6: Donald Trump Leads Joe Biden in Five Out of Six Key Battleground States in Recent Polls

		Joe Biden	Donald Trump	Another candidate	Not going to vote/ wouldn't vote if those were the choices	Don't know/ Refused
Registered Voters		44%	48%	2%	3%	3%
Battleground States	**Arizona**	44%	49%	2%	2%	3%
	Georgia	43%	49%	3%	2%	3%
	Michigan	43%	48%	2%	4%	3%
	Nevada	41%	52%	< 1%	4%	2%
	Penn	44%	48%	2%	3%	3%
	Wisconsin	47%	45%	3%	2%	3%

Note: Total sample of 3,662 respondents
Survey period is from 22 Oct to 3 Nov 2023
Source: The New York Time & Siena College Survey, November 2023

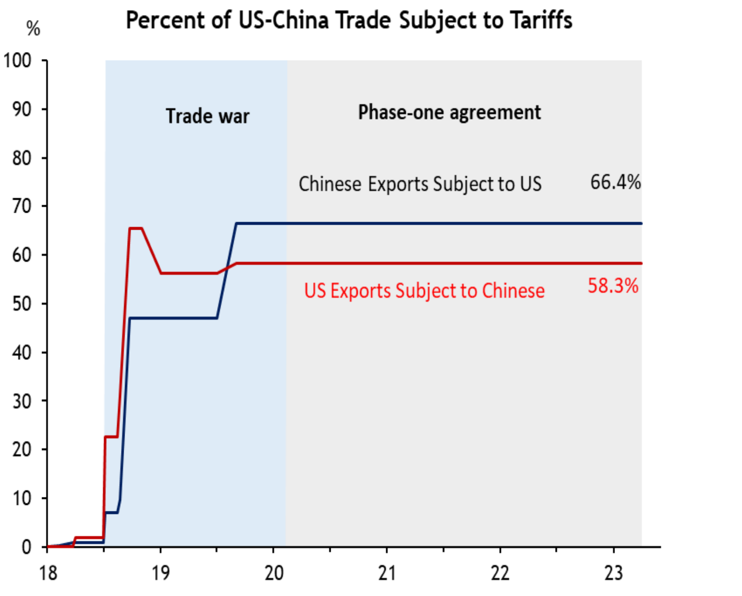
A “Trump win” will likely bring more protectionist & industrial policies, including a sweeping blanket 10% import tariff levy (on top of existing tariffs), which is more than three times the current level (Figs 30 & 31). This could short-circuit and reduce the incentives for MNCs to shift manufacturing supply chains to ASEAN from China. To counter the threat of reciprocity, Trump has proposed to retaliate with the equivalent tariff rate for any country placing a tariff on US goods, which could spark a tariff and trade war. Escalation in protectionist policies will impact the more trade-dependent economies, especially Singapore, Vietnam and Malaysia.

Fig 30: US Tariffs on China and Rest of the World



Note: ROW stands for Rest of World
Source: PIIE "US-China Trade War Tariffs: An Up-to-Date Chart" April 2023, Maybank IBG Research

Fig 31: Percent of US-China Trade Subject to Trade War Tariffs



Source: PIIE "US-China Trade War Tariffs: An Up-to-Date Chart" April 2023, Maybank IBG Research

Trump's policies towards China will likely remain hawkish and confrontational. His measures will likely be less strategic and cohesive, and more transactional, compared to Biden. He may threaten to expand export controls, sanctions, tariffs and investment restrictions. Trump's hawkish economic advisors could focus back on the wide US-China bilateral deficit and penalise countries for "currency manipulation".

Higher US tariffs tend to strengthen the US dollar and weaken the currencies of Asian exporters, due to the relative shifts in import demand. The RMB and other export-dependent Asian currencies could come under pressure, as was seen during Trump's presidential term.

Trump will likely reverse Biden's policies on renewables and electric vehicles, including the Inflation Reduction Act, and backtrack on the green transition. Without US leadership, a coordinated global climate action plan may not be achievable. How other countries will react and respond remain unclear.

Trump will likely pull back on defense spending in Ukraine and the Asia Pacific, and may be less committed to Taiwan's security. There may be a split with European allies. Geopolitical fragmentation will likely worsen. The uncertainty over America's commitment could spark an arms race across Asia. China may become more assertive and increase their military dominance in the face of a US vacuum in the South China Sea.

Other wildcards which may jeopardise the economic outlook include [1] persistently elevated core inflation and "higher for longer" US interest rates; [2] a protracted China real estate crisis spilling over to the financial sector and deepening the economic slump; [3] worsening US-China geopolitical rivalry and global fragmentation; and more country-specific [4] social unrest from Indonesia's presidential election (*Indonesia: 2024 Elections: Prolonged Contest, Jokowinomics to Continue, 15 Nov 2023*).

Maybank

Fixed Income Strategy

Stay the Course

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Malaysia: Stay the Course

This time last year, we set an abnormally high 6-8% total return target for 2023. This is materialising, as MYR govt bonds posted 6% YTD and will reach 6.2% full year if the curve holds. For 2024, we forecast another good year with 5-7% return as we think the late-cycle rally on bonds hasn't played out in full yet. We expect BNM to keep OPR at 3.00%. Fiscal consolidation helps limit bond supply. Demand from pension funds and lifers should remain strong, although foreign outflow is a potential risk. We forecast 3.50% 10y MGS yield by end-1H24. Near term, 3M KLIBOR may rise more due to tightness for cross-year liquidity, then ease in 1H24.

Regional: Differentiation on Local Fundamentals

EM Asia local currency bonds posted better returns in 2023 compared with a dismal 2022. Moving to 2024, we maintain a bullish tilt on the markets we monitor: 1) mildly bullish on China as the PBOC easing bias remains intact given structural slowdown in economy, additional CGB supply from fiscal stimulus being cushioned by liquidity injection and we recommend buying on yield uptick, 2) mildly bullish Malaysia, 3) neutral on Indonesia as the positives on benign inflation, potential BI rate cut and strong fiscal discipline are offset by Rupiah's vulnerable to external risk sentiment and expectations of higher bond supply in 1Q24, 4) neutral on Singapore given already low yield curve and the possibility of MAS lowering S$NEER slope in 2H24 could cause underperformance of SGS vs. UST.

US Rates: High But Not For Longer

Against our expectation a year ago that UST yields would fall in a short post-Covid expansion cycle, the US economy outperformed and kept interest rates high throughout 2023. But a high consensus on a "soft-landing" lowers the bar to disappoint and optimism tends to peak before a downturn. Indeed, yields have retraced markedly from YTD highs. Volatility may persist, but overall we expect UST yields to zig-zag down into 2024, seeing 2y UST at 4.00% and 10y UST at 3.50% by end-1H24. Fed QT may continue at current pace until at least 1H24 and perhaps through 2024 barring unexpected liquidity crunch. BOJ tightening poses risk to UST with rate hike likely in the next 1-3 meetings, but less likely for a disorderly exit from negative rate policy hence we expect no major negative spillovers to UST market.

Wildcard: 10y UST sub-3.00%

A sub-3.00% yield seems a distant memory especially just over a month ago when 10y UST hit 5.00%. The Fed is unlikely to ease prematurely, but because of this reason it might overtighten, having to keep rate high for too long, and need bigger rate cut slater, driving extreme volatility in rates market with the possibility of sending 10y UST back below 3.00% at one point although this is not our baseline forecast. Market is pricing for about 200bp total cut currently which looks reasonable and mild compared to the average of >300bp in past easing cycles since the late-1980s, but too dovish if the assumption is a soft landing scenario like the mid-1990s.

1. Malaysia: Stay the Course

At this time last year we set an abnormally high 6-8% total return target for 2023. This appears to be materialising as MYR government bonds posted a 6% total return YTD as of 7 December, and is projected to reach 6.2% full-year if the curve holds. For 2024, we forecast 5-7% total return, expecting another strong year back-to-back as we think the late-cycle rally on bonds hasn't played out in full yet. The long-term average return is a coupon-clipping 4%.

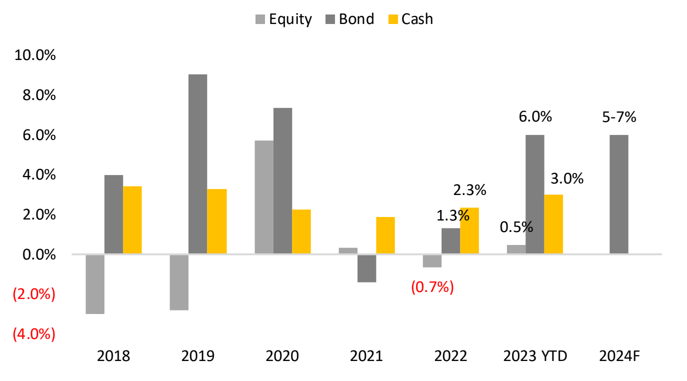
Fiscal consolidation helps limit debt issuances. We expect government bond supply profile to turn neutral after a heavy 2023. We forecast gross MGS+GII supply of MYR178b in 2024 to fund MYR85b budget deficit and MYR93b bond maturities, declining MYR8b YoY in gross (2023E: MYR186b) and MYR20b YoY in net (2023E: MYR105b), unchanged from our post-Budget report. Including GG bonds, total supply could be slightly below MYR85b as we expect net GG redemption for a third straight year (2022: -MYR1.9b, 11M2023: -MYR0.1b).

Demand: Local pension funds net bought MYR39b/48% of net MGS+GII supply in 9M23. Lifers also raised net purchases with steadily higher allocation to government-related securities in the portfolio. Demand from local pension funds and lifers should remain strong next year, anchoring long-end yields. Banks bought less govt bonds in 9M23 probably due to risk aversion, but is expected to remain a key buyer given still decent carry for funded positions with an upward sloping curve compared to mostly inverted DM curves.

We expect the OPR to stay flat at 3.00% in 2024. The probability of BNM resuming hike is not high even if the Fed surprises with 1-2 more hikes in 2024, in our view, unless domestic demand and credit growth accelerate. Similarly in the rate cut direction, BNM is unlikely to follow the large Fed rate cuts as per market pricing currently. CPI YoY has probably bottomed out and likely to trend higher depending on pace of subsidy rationalisation.

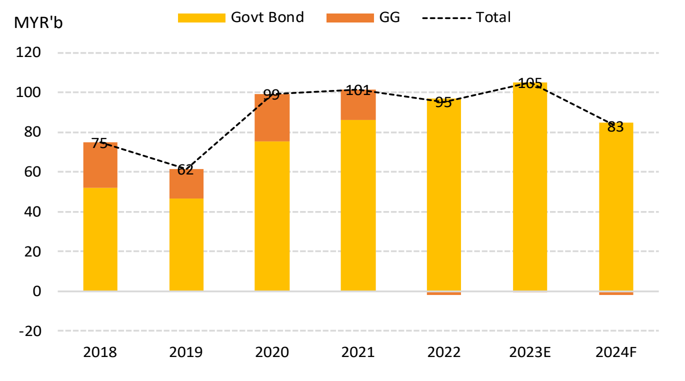
Interbank liquidity has been tight in recent months and OMO activities via BNIB and BNM reverse repo turned net injection in November. KLIBOR fixings may extend the surge into year-end as seasonally higher demand for cross-year liquidity persists. Come 1Q24, we expect 3M KLIBOR to ease slightly as seasonal tightness start to dissipate though sometimes it could take longer. A larger decline in 3M KLIBOR is possible in 1H24, but will require a stronger buildup in expectations for rate cut by G4 ex-Japan central banks.

Fig 1: MYR Govt Bond Total Rtn: 2015-2023 YTD as of 7 Dec



Sources: Bloomberg, Maybank IBG Research
**Total return: Bond = Ringgit government bonds, Equity = KLCI, Cash = Monthly average 1M KLIBOR as proxy*

Fig 2: Government + GG Bond Net Issuance: 2018-2024F



Sources: Bloomberg, Maybank IBG Research

Foreign Holdings: Foreign funds turned sellers of Ringgit debts in Aug-Oct, although cumulative inflows are still up MYR20.4b in 10M23. Near term, we are neutral on foreign demand. Foreign holdings of discount instruments is low, unlikely to be source of vulnerability. USD-hedged short-tenor MGS yields still offer decent spread over 2y UST due to favourable FX hedges which we think will continue until the USD-MYR rate differential narrows sharply. However, we will watch for outflow risk from offshore banks given large inflows earlier this year and their holdings tend to be less sticky.

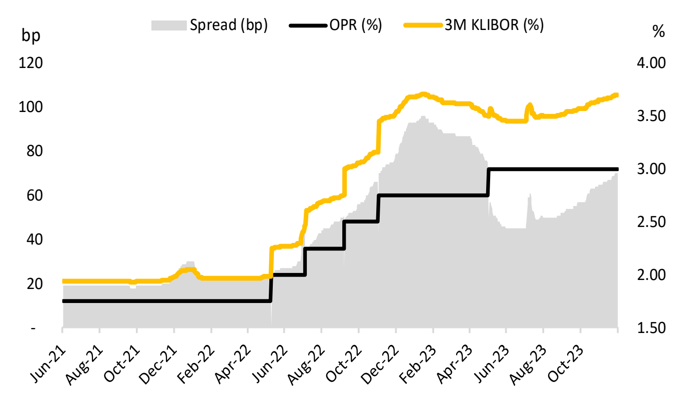
MGS Outlook: Maintain at Mildly Bullish. We think local bonds will continue to trade largely on late-cycle dynamics with sustained buy-on-dip demand for long durations and a fairly flat yield curve compared to the long-term average. We prefer to maintain our bond positioning recommendation at mildly bullish, while looking for opportunities to make tactical bullish switch when opportunities arise due to market dislocations like late-April to May 2022 and late-Sep to Oct 2022. MGS/GII durations remain an important hedge in MYR portfolio allocation as global rates dynamics may descend unexpectedly from late cycle to end of cycle pricing.

MGS Curve: The 3y MGS-OPR spread remains wide at about 50bp compared to c.25bp average when OPR was at ≥3.00%, although it has narrowed from 1-year mean of 59bp. 7y MGS offers relative value given very flat 7y10y. Because of the rally in 10y MGS recently, the 3y10y curve is a bit too flat at 27bp compare to 1-year mean of 40bp and the 10y30y curve looks slightly wide at 50bp compared to 1-year mean of 45bp.

Forecast: We forecast the following MGS yields by the end of 1H2024: 3y: 3.20%, 5y: 3.30%, 7y: 3.40%, 10y: 3.50%, 15y: 3.75%, 20y: 3.95%, 30y: 4.10%.

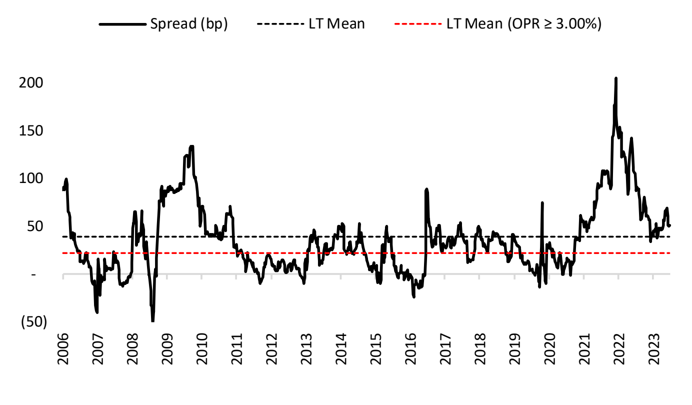
PDS: Issuances totaled MYR108.8b in 11M23 and is set to exceed our MYR110b full-year forecast slightly. For 2024, we project MYR120b gross supply, supported by healthy domestic economic growth, conducive MYR funding conditions and larger refinancing need. Rating migration was roughly balanced between the positive and negative rating actions. We expect the broad MYR credit conditions to remain stable. Credit spreads are near the tighter end of historical range as net supply stayed benign. In 2024, we expect moderately wider composite credit spreads by about 10-20bp.

Fig 3: 3M KLIBOR: More Upside Near Term due to Seasonal Liquidity Tightness But May Ease Slightly in 1Q24



Sources: Bloomberg, Maybank IBG Research

Fig 4: 3y MGS Offers Value Given Still Wide Spread vs. OPR



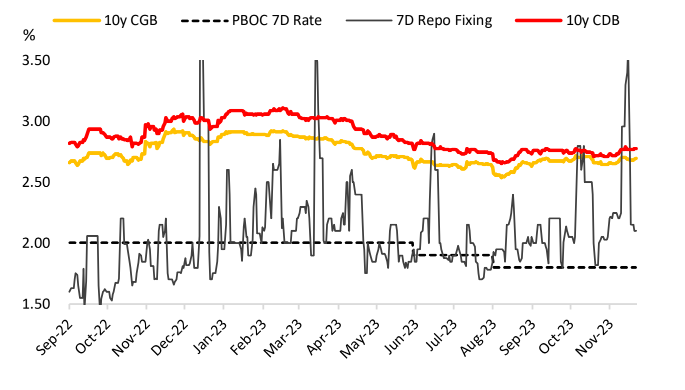
Sources: Bloomberg, Maybank IBG Research

2. EM Asia: Local Fundamental Differentiation

EM Asia local bonds posted better returns in 2023 against the dismal 2022. In local currency, high-yielders Philippines, Indonesia and India lead gain with 7.0-9.6% total return YTD. FX remained challenging for some regional FX as the CNY, KRW, MYR and THB lost 2-6% YTD vs. USD, but it would be unwise not to hedge the FX risks given attractive yield uplift via favourable FX hedges already from 4Q22. USD-hedged returns gave a strong 3.5-9.0% YTD. Moving to 2024, we maintain a bullish tilt on the markets we monitor: mildly bullish on China and Malaysia, neutral on Indonesia and Singapore.

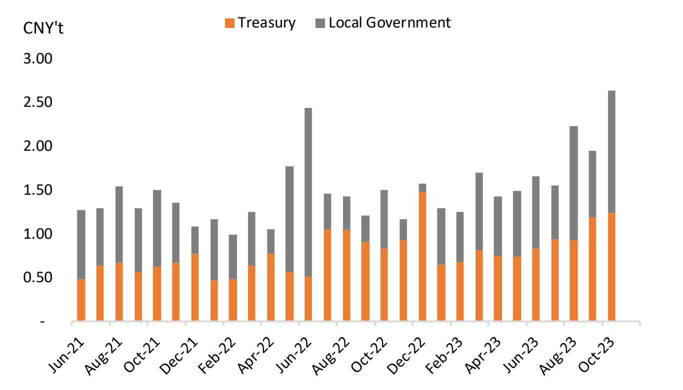
China: Mildly Bullish. The CGB market was driven mostly by local factors. Despite concerns about outflows due to wide USD-CNY rate differential, the PBOC cut the 7-day reverse repo and 1y MLF rates by 20-25bp this year to support sluggish domestic growth as earlier hope of a post-Covid reopening rebound faded quickly as expected. With China monetary policy going against the tide of global tightening, 10y CGB yield traded on small negative beta vs. 10y UST in 2023, similar to 2022. This makes CNY government bonds an ideal risk diversifier in global bond allocation, but didn't seem so in the eyes of foreign investors which pared holdings further albeit by a smaller -CNY253b in 10M23 (2022: -CNY569b). China stepped up fiscal stimulus with an additional CNY1t government bond issuance in 4Q23, but the impact on CGB curve was cushioned by PBOC liquidity injection. Net injection via MLF was CNY600b in November, the largest since Dec 2016, and totaled CNY889b in Oct-Nov, supporting the demand from banks which had bought >90% of the net CGB supply in 10M23. Interbank funding conditions appear to have normalised of late with the 7-day repo fixing easing back to 2.00-2.25% after rising to >3.50% at end-November and bond supply pressures are probably past its peak. We maintain a mildly bullish outlook on CGB as China's structural slowdown on growth remains intact with no easy way out in the property sector, although the urgency for PBOC easing has reduced, perhaps delaying rate cut to 1Q24. CGB yields may reprice slightly higher if a rebound in economic activity drives market optimism but we don't think it will last. We recommend adding positions on moderate 10bp yield uptick – less likely for sharp increase given the need to keep funding conditions conducive. Our economic research forecasts real GDP growth slowing to 4.4% next year from an estimated 5.2% in 2023. We expect a 2.60-2.80% range for 10y CGB yield in 1-2 months. Given already flat yield curve with the 2y10y spread at 25bp, we prefer short and mid over long durations. Our 10y CGB yield forecast is 2.50% by end-1H24.

Fig 5: China: Expect 2.60-2.80% Range for 10y CGB Near Term



Sources: Bloomberg, Maybank IBG Research

Fig 6: China: Higher Bond Supply Cushioned by Liquidity Injection

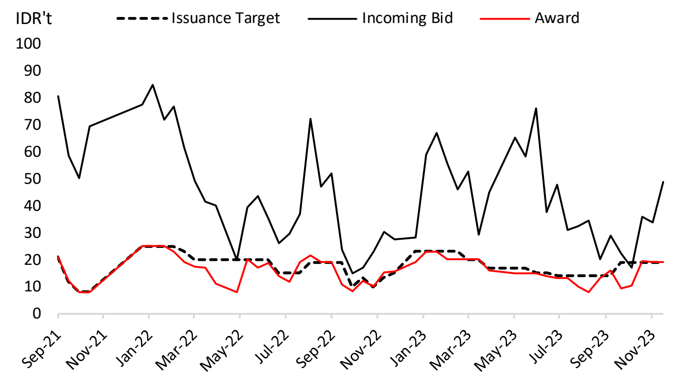


Sources: Bloomberg, Maybank IBG Research

Indonesia: Neutral. At the last policy meeting on 23 November, BI held the 7-day reverse repo rate at 6.00%, in line with our view that it was premature to extrapolate series of hikes ahead because the knee-jerk BI tightening in October happened at the height of UST selloff and USD strength which have now receded. We expect BI to hold in 1-3 months and cut by 75bp in total next year. With IndoGB yields already 25-35bp down across the 5y20y since the surprise BI rate hike on 19 October, we are hesitant to chase the rally. We think the currently stable macro settings of about 5% real GDP growth and benign inflation can sustain in 2024. The Rupiah remains vulnerable to changing external sentiment and a USD rebound. Supporting Rupiah via portfolio inflows using high-yielding short-term instruments is a double-edged sword. On a positive note, the local supply-demand profile of IndoGB remains favarouble. Indonesia has maintained strong fiscal discipline. Budget deficit was contained at -IDR0.7t in 10M23 (10M22: –IDR170t), helped by modest revenue growth of 2.7% YoY and a reduction in expenditure by -4.7% YoY. Expenditures could surge in the last two months, but full-year deficit will likely come in well below the downwardly revised target of 2.28% of GDP in 2023 and the initial target of 2.84%. Government financing totaled IDR169t YTD as of October. With surplus cash balance from past financing, we think Indonesia has met its financing requirement for the year with the option to cancel remaining auctions, although it may still choose to conservatively issue more to build buffer for 2024, which has a notably higher net issuance target of IDR666.4t compared to IDR362.9t in 2023. We forecast gross funding need of IDR1225t in 2024, of which 10-15% via FX debt and 80-85% in local currency. On local funding, we estimate 10-15% of the total to come from retail bonds and private placement, while the remaining 70%/c.IDR850t from IDR auctions. We expect issuance target of IDR22t for conventional and IDR13t for sukuk auctions in 1Q24, higher than IDR19t and IDR9t respectively in 4Q23. Actual bond financing could be lower depending on budget realisation and use of cash balance, but the DMO typically front-loads supply in 1Q. The demand for Rupiah bonds has been underpinned by domestic pension, insurance and retail investors while BI and banks pared down positions. Total foreign holdings recovered to IDR834t/14.9% of total as of end-November after the drawdown in Sep-Oct, up IDR72t YTD. We forecast 10y IndoGB yield of 6.25% by end-1H24.

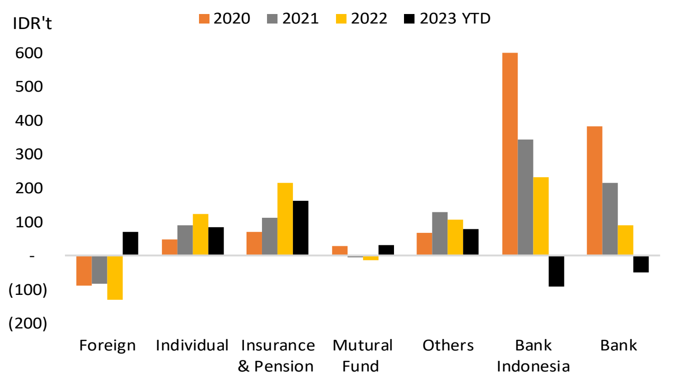
Singapore: We still expect a 3.50-4.00% range for SORA in 1H24, then eases toward 3.25% in 2H24 as the Fed starts rate cut. SORA will likely underperform US SOFR on the way down especially if MAS reduces the S$NEER slope. The SGS 2y10y curve may stay inverted until a clear dovish move by the Fed. While the SGS auction calendar 2024 has longer-tenor SGS and one additional mini auction, total duration supply will still be subject to market condition. We forecast 10y SGS yield of 2.90% by end-1H24.

Fig 7: Indonesia Conventional Auctions: Auction Demand Has Risen Recently on Better Sentiment



Sources: MOF, Maybank IBG Research

Fig 8: Indonesia: Local Pension, Insurance and Retail Investors Underpinned Demand for Rupiah Bonds in 2023



Sources: Bloomberg, CEIC, Maybank IBG Research

3. US Rates: High But Not For Longer

US Rates: Against our expectations a year ago that UST yields would fall in a short post-Covid expansion cycle, US economy outperformed and kept interest rate high throughout 2023 while fears of duration supply compounded the duration selloff some months back. But a high consensus on soft landing lowers the bar to disappoint and optimisms tend to peak before a downturn. UST yields have retraced markedly from YTD highs.

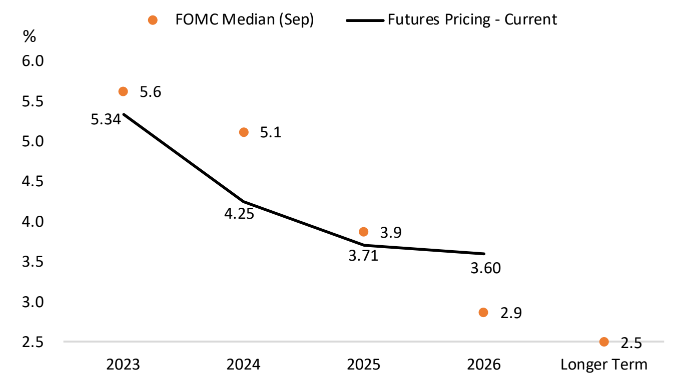
Going into 2024, we expect the US macro environment to get more challenging as the post-Covid surge in demand fades and the lagged effect of Fed monetary tightening weighs further. Our economic research expects the Fed to only start rate cuts from 3Q24, totaling 75bp in 2H24. Rates market pricing, however, tends to move ahead of actual easing. Volatility may persist, but we expect UST yields to extend the fall into 1H24, seeing 2y UST at 4.00% and 10y UST at 3.50% by end-Jun 2024. This means fairly significant yield declines as we think a potential technical recession in 1H24 could lead the market to price for a deeper downturn due to the Fed's reluctance to ease prematurely near term but a need for deeper cuts later.

US real rates have tightened considerably as disinflation continues. Labour market conditions have softened with lower payroll gains, less average hours worked per week and a steep rise in continuing jobless claims since October as laid off workers are probably finding it hard to get new jobs in a cooling market. Bank lending standards tightened more in 3Q23 update.

The second half of 2024, however, could get trickier. On one hand there could be concerns about inflation resurgence when the Fed starts rate cut especially if financial conditions ease considerably, but on the other hand the pace of slowdown could be non-linear with risk of a sharper downturn. A tussle between these two opposing drivers could generate increased bond market volatility. We will reassess the balance of risks to growth and rates outlook. For now, we forecast additional yield declines in 2H24 with 2y UST of 3.00% and 10y UST of 3.25% by end-2024. Overall, we expect the UST 2y10y curve to bull-steepen.

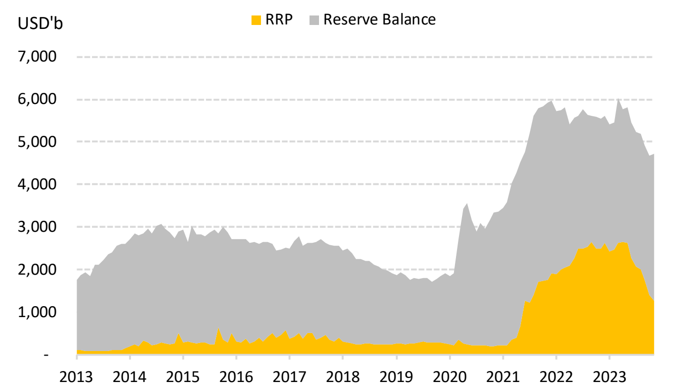
Trade Idea: We preferred outright long UST over curve trade in our 4Q23 outlook and recommended buying 10y UST in 4.55-4.80%. We recommend to stay long 10y UST although we are mindful of upside risk to yields to key data points especially after a strong rally recently.

Fig 9: A Mildly Recessionary 1H24 Could Drive Market Pricing For Deeper Cuts Than the 100-110bp Priced in Currently



Sources: Bloomberg, Maybank IBG Research

Fig 10: Fed QT May Extend to At Least 1H24 Barring Unexpected Liquidity Crunch Given Still Flushed Liquidity



Sources: Bloomberg, Maybank IBG Research

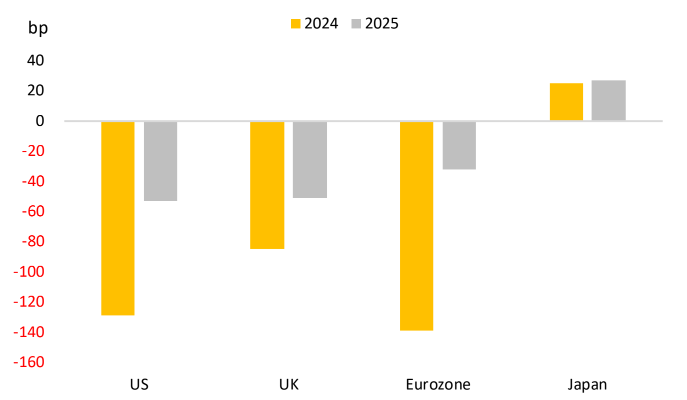
UST Yield and Curve Forecast: 10y UST: 1Q24: 3.90%, 2Q24: 3.50%, 3Q24: 3.50%, 4Q24: 3.25%. 2y UST: 1Q24: 4.40%, 2Q24: 3.90%, 3Q24: 3.50%, 4Q24: 3.00%. 2y10y Curve: 1Q24: -50bp, 2Q24: -40bp, 3Q24: 0bp, 4Q24: +25bp

Quantitative Tightening (QT): We expect the Fed to continue QT at the current monthly pace of USD60b for UST and USD35b for agency MBS until at least 1H24 or through 2024 barring unexpected liquidity crunch. The Fed's balance sheet is USD1.1t smaller since mid-2022, but still doubles that of pre-Covid. Excess liquidity at reverse repo programme (RRP) has seen faster decline in recent months partly due to competition from larger T-bill supply while reserve balance at the Fed has risen to USD3.4t, higher than pre-QT (USD3.2t) and pre-Covid (USD1.6t), suggesting still flushed liquidity condition. Governor Waller indicated previously a ballpark minimum reserve balance at 8-9% of GDP (c.USD2.4t) and potentially will start slowing QT at 10-11% of GDP (c.USD3t). Total RRP + reserve balance remains large at USD4.7t.

UK Rates: The Gilt curve has bull-flattened since mid-October, recouping almost half the losses from trough this year. At the last MPC in November, the BOE maintained rate at 5.25% with a larger 6:3 majority (Sep: 5:4). Since July, market has dialed down markedly terminal rate pricing from an overly hawkish 6.5% to a more realistic 5.20-5.25%. OIS pricing suggests first rate cut around mid-2024. We think UK could be the first in G4 to cut rate, not ruling out larger total cut than the 75bp currently priced in by market. UK inflations remain elevated with core CPI >5% YoY, but growth outlook has deteriorated. Unemployment rate has risen to 4.3% after bottoming out at 3.5% and the S&P Global services PMI dipped to first contraction in >2.5 years with services sector companies cutting jobs. We think 2y Gilt yield will fall to 4.00% by mid-1H24, slightly lower than forward implied level at the time of writing.

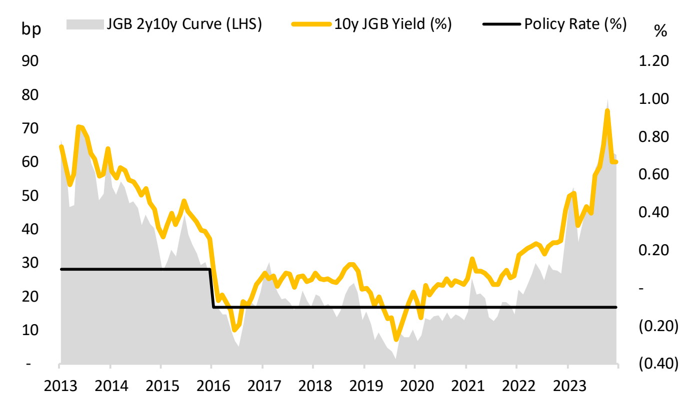
Japan Rates: The current macro settings no longer justify a stay of negative rate with inflations consistently above the BOJ price stability goal of 2%, although GDP growth has been weak. To prepare for an orderly exit from negative rate, BOJ has relaxed its yield curve control (YCC) incrementally, starting with widening the band to +/-0.5% in Dec 2022, raising operation limit to 1.0% in Jul 2023, and removing the 1.0% hard ceiling in Oct 2023. The JGB curve is sufficiently steep for BOJ hike rate, in our view, not ruling out +10bp to 0% from -0.1% in the next 1-3 meetings. We think there is still upside to 10y JGB yields perhaps rising to 0.90% by end-1H24. On JGB curve, we expect the 2y10y to bear-flatten as the focus of policy normalisation shifts from YCC tweak to rate increase, unless the BOJ surprises with QT.

Fig 11: G4 Rates Market Pricing: Total Change in 2024 and 2025



Sources: Bloomberg, Maybank IBG Research

Fig 12: Japan: We Think the JGB Curve Is Sufficiently Steep for BOJ to Hike Rate in Next 1-3 Meetings

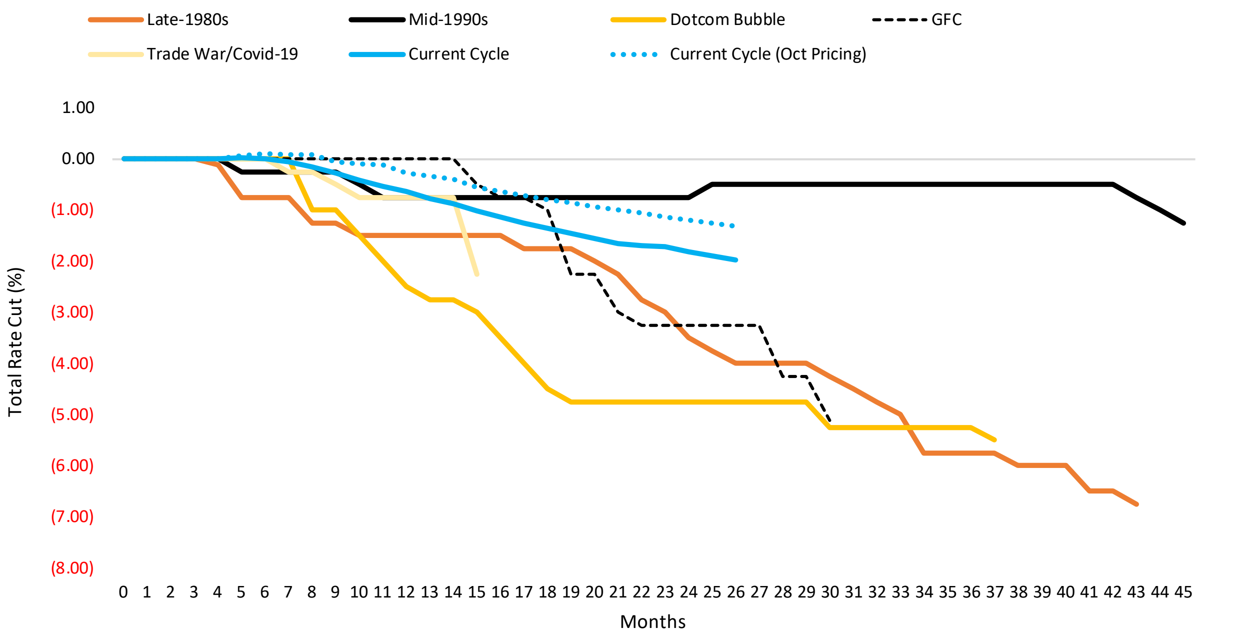


Sources: Bloomberg, Maybank IBG Research

4. Wildcard: 10y UST sub-3.00%

10y UST sub-3.00%. The last time 10y UST yields trading below 3.00% was in Aug 2022. It seemed a distant memory slightly over a month ago when the 10y yields hit 5.00%. US core inflation is back at the 4% crossroads. Around mid-2021 a sharp rise in core CPI to above 4% YoY on the back of exceptionally strong job growth was widely interpreted as "low for longer" by consensus the Fed itself included, and on the contrary a falling core CPI to 4% YoY currently amid weakening labour market condition is interpreted as "high for longer" by consensus. The recency bias on inflation forecast appears to be high, although we recognise the difficulty of getting it right. We share the view that the Fed is less likely to ease on first sign of weakness in the economy, and we would be somewhat concerned about inflation resurgence too if the Fed eases prematurely. But due to the need of having to keep policy restrictive for longer, it risks a deeper downturn later which could potentially cause the forward-looking rates market to price in for deeper rate cuts, in our view. Past easing cycles since late-1980s averaged >300bp, although it is important to highlight that the range was wide. The current market pricing for total rate cut of about 200bp over the next 1-2 years are relatively mild compared to other cycles, although it looks too dovish if the assumption is a soft-landing scenario like the mid-1990s.

Fig 13: Fed Rate Cut Cycle Since late-1980s: How Long and How Far It Goes?



Sources: Bloomberg, Maybank IBG Research
**Month 0 = Last rate hike, July 2023 in this cycle unless the Fed resumes rate hike in 2024*
***Current cycle is based on existing market pricing*

FX Strategy

Of Lukewarm Growth and Easing Bets

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The Decline of the USD and the Yuan

In 2023, markets were forced to contend with bumpy disinflation progresses, relentless outperformance of the U.S. economy and rising U.S. fiscal commitments that concomitantly spurred the re-pricing of term premium (added risk premium for holding longer-term debt) in the UST curve that has been long absent. Into 2024, our base case is that the U.S. economy will continue to slow and inflation to ease gradually. The USD is expected to remain supported in the near term before seeing a bumpy decline possibly in 2Q, especially if the narrative of a global growth slowdown starts to shift and G3 currencies such as the euro mildly strengthen amid expected eurozone recovery in the latter part of 2024. Once the greenback starts to weaken, in Asia we also see room for CNY to correct lower on a trade-weighted basis. This is due to the likely scenario that RMB is more likely to lag its peers in recovery against the greenback amid lingering concerns on its growth outlook. China might boost affordable housing, construction activities as well as infrastructure investment. That is likely to lift demand for Australia's resource exports. We look for AUDCNY to head towards the 5.00-figure.

Relative Value Plays in ASEAN

Going into 2024, we see that a number of ASEAN countries look to set to face diverging developments. Thailand looks to be settling down after the completion of its elections in 2023. Fundamentally, there could also be some improvements in play after a difficult few pandemic years as tourist returns and gold prices hold up. In contrast, political uncertainty could cloud Indonesia in 2024 as the country faces a tightly contested Presidential election in 2024. Meanwhile, the Philippines' economy looks like it could remain fundamentally challenged. Consequently, we suggest to long THBIDR and THBPHP.

Riding the AI Wave

There are subtle indicators that the global electronics cycle may have reached its nadir, poised for a resurgence driven by the burgeoning excitement surrounding artificial intelligence (AI). As the demand for hardware required to fuel advanced AI applications grows, the semiconductor industry stands at the forefront to power the next wave of innovation. The global electronics cycle could be on the brink of an upswing, and we think that this could benefit the KRW, TWD, and SGD via an improvement of trade balances. We suggest going long KRW/TWD against USD or CNY and being long SGDNEER.

Wild Card: An Aggressively Tightening BOJ

The BOJ has been gradually adjusting its YCC policy since end 2022 as it now no longer has a hard cap on 10y yield and instead only has a reference rate of 1.0% serving as the top end of its target range. Such moves increasingly point to the possibility of a YCC abolishment, which we actually see happening in 2Q 2024 alongside an NIRP exit. However, we would not rule out the possibility that the BOJ could move beyond just being at a neutral stance and assign a 30% chance they could embark on a more aggressive tightening cycle. As it stands, market does not look positioned for this and therefore potentially could be substantial JPY upside if this plays out.

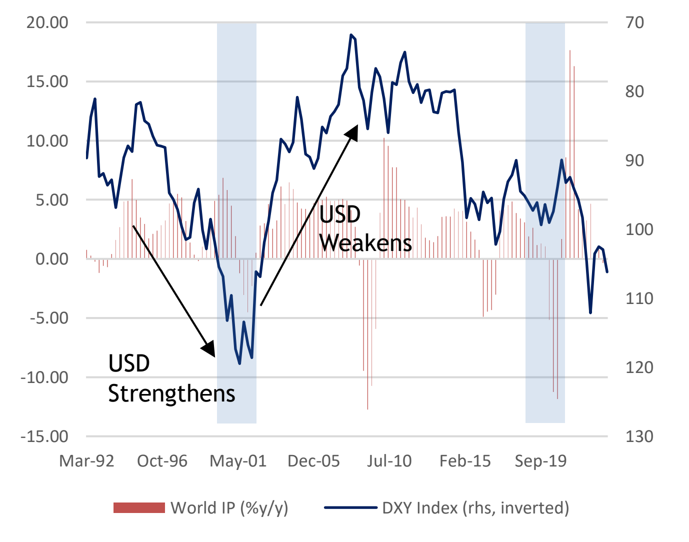
1. The Decline of the Dollar and the Yuan

1.1 The Bumpy USD Downtrend

In 2023, markets were forced to contend with bumpy disinflation progresses, relentless outperformance of the U.S. economy and rising U.S. fiscal commitments that concomitantly spurred the re- pricing of term premium in the UST curve that has been long absent. Such an environment had kept the USD buoyant for much of the year, especially against Asian currencies.

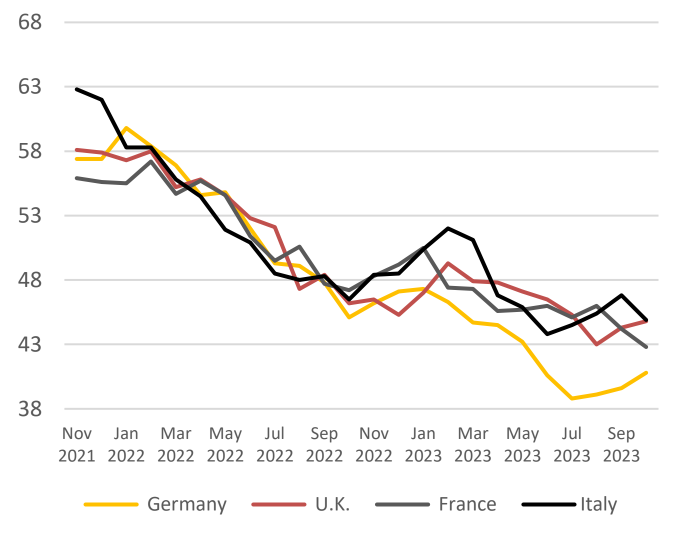
As we approach the close of the year and into 2024, the crux of the matter is whether the U.S. growth could start to converge with the rest of the world. Our base case is that the U.S. economy will continue to slow and inflation, to ease gradually. In turn, the Fed will hold policy target rate at its peak for the next few months and eventually kick-off the easing cycle from Q3 2024 onwards. UST yields and the USD have started to decline as markets shift their focus to the start of the Fed's easing cycle. While speculation on the timing and magnitude of rate cut bets could continue to provide directional cues on the USD at this stage of peak policy rates, we found that the eventual magnitude of rate cut does not necessarily correlate with the extent of USD weakness. History suggests that USD can strengthen even in periods of steep rate cuts. Global growth is likely the more important driver of the USD.

Fig 1: USD Strengthens when Global Growth Slows Down, Weakens When Growth Picks Up



Source: World Bank, Bloomberg, Maybank FX Research & Strategy

Fig 2: Eurozone Mfg PMIs seem to be bottoming out



Source: Bloomberg, Maybank FX Research & Strategy

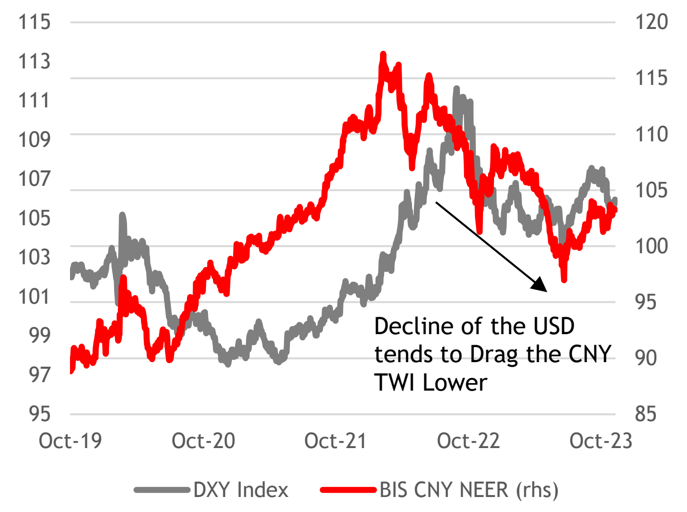
It is thus, possible that the USD still has more room to ease should the narrative of a global growth slowdown start to shift. Thus far, we have had data that suggest the US could head towards a soft-landing. However, we have not had solid evidence that suggest that Eurozone or China are on the mend and while that keeps the USD from making sharper retreats at this point, that also suggests that the USD can have room to fall further once that narrative gains traction.

As we look for a very gradual grind lower over the next months, the USD could continue to remain buoyant on dips as the USD still retains quite a bit of carry advantage and any upside surprises to its data in the near-term could also shift expectations of Fed's rate trajectory and provide support to the USD on dips.

1.2 Yuan to Fall as USD Weakens

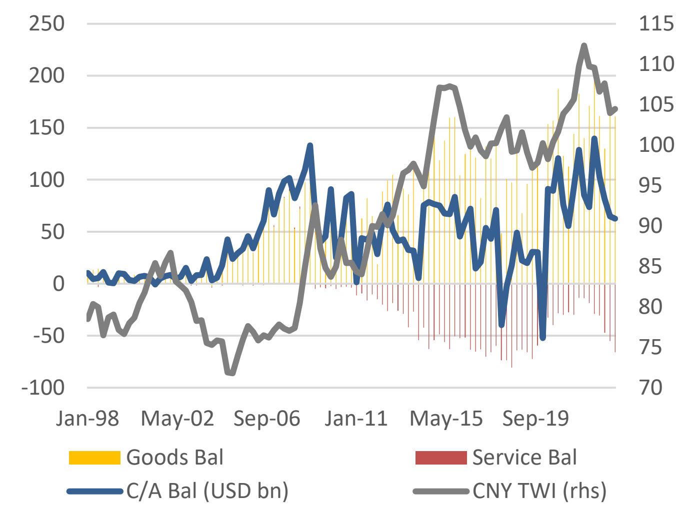
With the USD turn in mind, bumpy as it could be, we continue to be proponents of shorting the CNY TWI.

Fig 3: The Fall of the USD to Provide Room for Yuan Bears



Source: Bloomberg, BIS, Maybank FX Research & Strategy

Fig 4: Potential Narrowing of the Current Account Surplus Could



Source: Macrobond, BIS, SAFE, Bloomberg, Maybank FX Research & Strategy

Should the USD and UST yields continue to decline, most Asian currencies should benefit including the CNY. So it could be counterintuitive for us to see opportunities to short the CNY. PBoC's relentless support of the yuan through offshore yuan bills, daily central parity fixes, lowering of FX reserve requirement have resulted in the trade-weighted appreciation of the yuan as the yuan was unable to weaken as much as its DM and EM peers in the face of broad USD strength.

Once the greenback starts to weaken, we see room for CNY to correct lower on a trade-weighted basis. This is due to the likely scenario that RMB is more likely to lag its peers in recovery against the greenback amid lingering concerns on its growth outlook. Even as the worst could be over for the Chinese economy cyclically, a V-shape recovery is not expected. China's property sector has not stabilised and as such, consumer confidence remains weak. In addition, the Chinese government is reluctant to implement policies that boost consumption directly. A multi-year slowdown is still on the cards. Policy-wise, PBoC could still be on an easing cycle given lingering growth risks. Meanwhile, any material recovery in consumption could potentially drive the external balance into deficit and that is negative for the RMB.

We see possible opportunities to short the RMB crosses. For one, China might boost affordable housing, construction activities as well as infrastructure investment. That is likely to lift demand for Australia's base metals and other resource exports. Such an environment could continue to be mildly supportive of the AUD. **We therefore continue to remain bullish on the AUDCNY towards the 5.00-figure next year.**

2. Relative Value Plays in ASEAN (Long THBIDR, THBPHP)

2.1 Divergent Political and Economic Developments in ASEAN

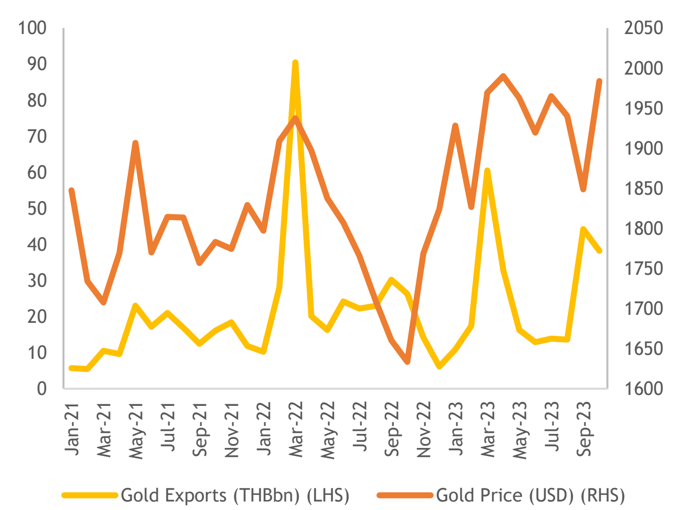
Going into 2024, we see that a number of ASEAN countries look to set to face diverging developments. Thailand looks to be settling down after the completion of its elections in 2023. Fundamentally, there could also be some improvements in play after a difficult few pandemic years. In contrast, political uncertainty could cloud Indonesia in 2024 as the country faces a tightly contested Presidential election in 2024. Meanwhile, the Philippines' economy looks like it could remain fundamentally challenged.

2.2 Looking Up For Thailand

After a difficult few years of pandemic, we increasingly believe that the situation in Thailand is now starting to improve. There appears to be more political stability in the country with the completion of the elections in 2023 and the formation of a Pheu Thai led coalition government that is encompassing of a wide spectrum of political parties. We do note that back in Aug, a survey by the National Institute of Development Administration found that 64% of 1,310 respondents did disagree with the idea of Pheu Thai forming a "special government" with military-backed rivals. However, for now, it looks like this administration would be given a chance at governing so we would just take that poll as only pre-term indicator of their popularity and continue to closely watch how opinion polls evolve.

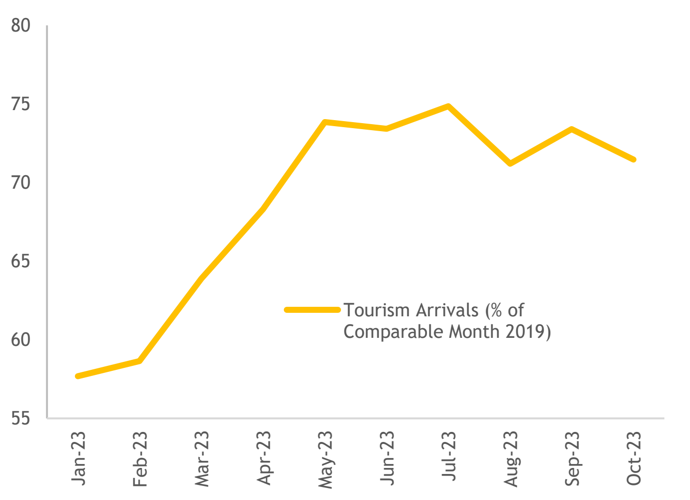
At the same time, Thailand's external position appears like it could see much improvement going into 2024. Gold prices have recently hit a record high, which in turn has given a boost to the country's gold exports. Whilst gold could see corrections in early 2024, we expect prices to continue to stay supported amid both reasonably decent safe haven demand (from on-going Israel – Gaza conflict and US Presidential Elections) and a turn in Fed policy to be less hawkish. Tourism inflows have also substantially recovered through 2023 and could see some further rise in 2024. We do note that Chinese tourism is struggling to recover amid recent unfavorable developments such as the Bangkok shooting incident. However, at the same time, we also believe that the security situation should improve and given a patchy economic situation next year, tourism travel to Thailand should be relatively more favourable amid its lower cost among other options.

Fig 5: Gold Prices Guide Exports Higher for Thailand



Source: Bloomberg, Maybank FX Research & Strategy

Fig 6: Tourism Arrivals in 2023 Recovering Gradually



Source: Bloomberg, Maybank FX Research & Strategy

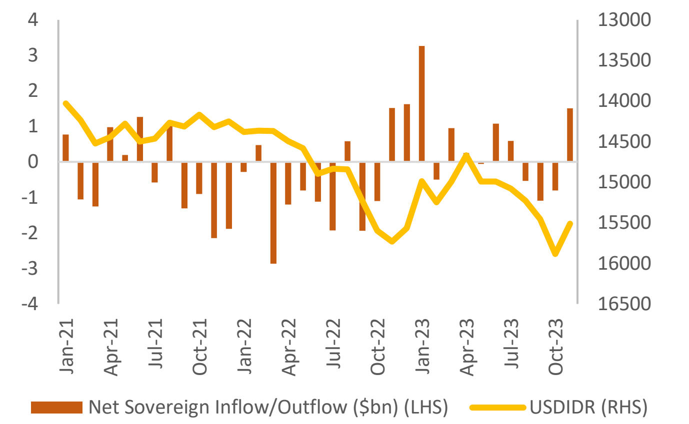
2.3 Lingering Political Uncertainty For Indonesia

Meanwhile, Indonesia looks set to face a tight Presidential election contest with three candidates vying for the Presidency – Prabowo Subianto, Anies Baswedan and Ganjar Pranowo. Since nomination, the Prabowo-Girban pair is leading in opinion polling but they have not actually crossed the 50% mark. Indonesia's Presidential Election rules requires that a candidate pair must get over 50% of the votes with at least 20% of the votes spread over more than half of the provinces in Indonesia to avoid a second-round. Therefore, the risk of a two-round contest that could stretch into Jul together with unrest that may accompany it may mean that political uncertainty could linger until Oct. This could imply that stronger decisive positioning by foreign investors into Indo Government bonds could hold off even as the Fed softens.

2.4 Unchanged Fundamentals For Philippines

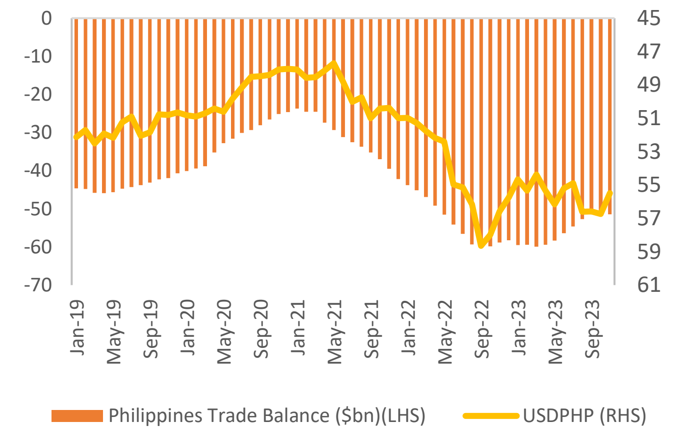
Meanwhile, for the Philippines, the country's fundamentals are likely to continue to be a limiting factor for its currency. There is little expectation as it stands for much change in the country's fiscal and CA deficit. The Marcos government is strongly pushing ahead "build, better, more' program", which is likely to keep weighing on the fiscal front whilst the external position remains under pressure from import needs. Such factors are likely to limit the gains for the PHP even as the Fed is expected to start easing policy. However, we do note that our in-house economists are only expecting 75bps of rate cuts in 2024 and hence, rates are still going to remain high, making it unfavourable for rate sensitive FX such as the PHP.

Fig 7: No Decisive Consistent Flows into IGBs Amid Concerns About Fed Rate Path and Domestic Political Uncertainty



Source: Bloomberg, Maybank FX Research & Strategy

Fig 8: Wide Philippines Trade Balance Keeps Weighing on the PHP



Source: Bloomberg, Maybank FX Research & Strategy

Taking together the expected situation in ASEAN, it looks that Thailand would face both diverging political and fundamental outcomes compared to Indonesia and the Philippines respectively. Thailand is looking to sit more favourable fundamentally compared to the Philippines whilst its political situation looks more settled relative to Indonesia. **We therefore recommend going long THBIDR and THBPHP.**

3. Resurgence of the Global Electronics Cycle: Riding the AI Wave (Long KRW, TWD, and SGD)

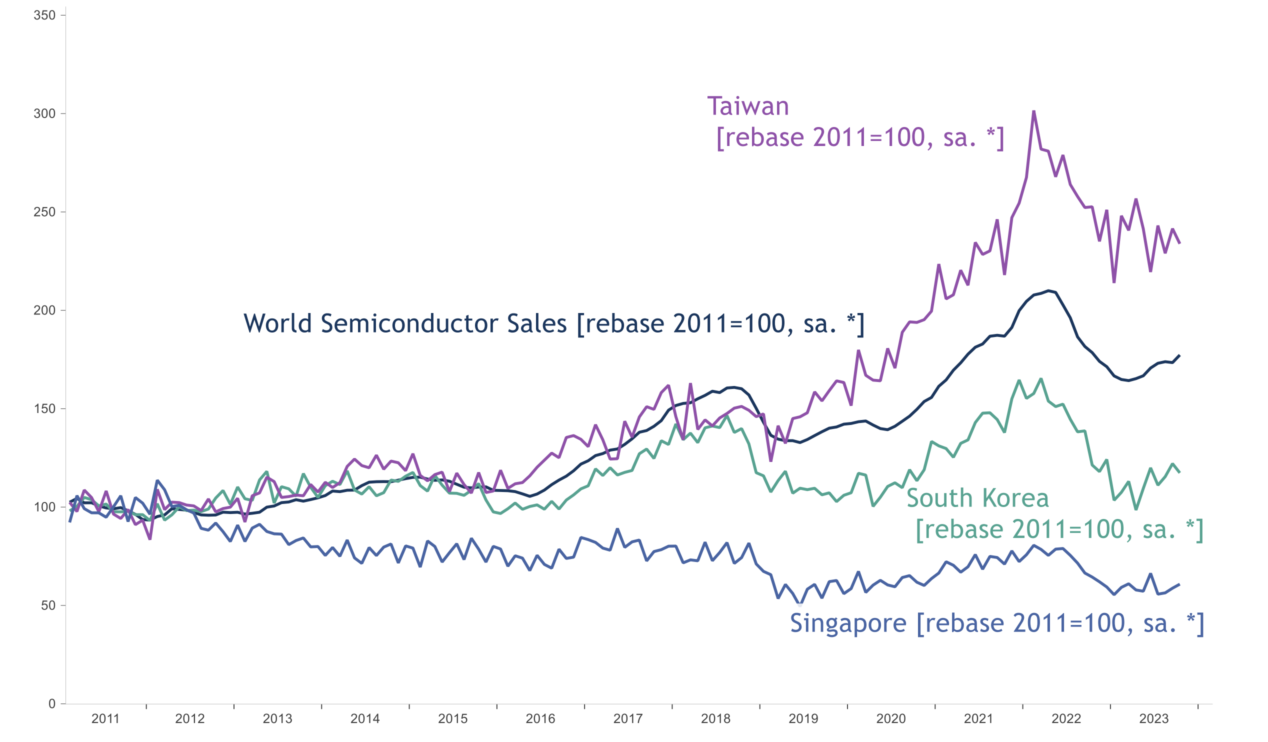
3.1 AI Wave Spurs Semiconductor Demand

There are subtle indicators that the global electronics cycle may have reached its nadir, poised for a resurgence driven by the burgeoning excitement surrounding artificial intelligence (AI). As the demand for hardware required to fuel advanced AI applications grows, the semiconductor industry stands at the forefront to power the next wave of innovation. The global electronics cycle could be on the brink of an upswing, and we think that this could benefit the KRW, TWD, and SGD.

The surge in AI development and implementation across various industries is placing an unprecedented demand on semiconductor manufacturers. From data centres to edge devices, AI applications require powerful and efficient processors, leading to increased orders for advanced semiconductor components. The increasing integration of AI-driven technologies in modern vehicles, including autonomous driving and smart features, contributes to sustained demand for semiconductor components. This surge in demand has the potential to catalyse a sustained revival in the global electronics cycle.

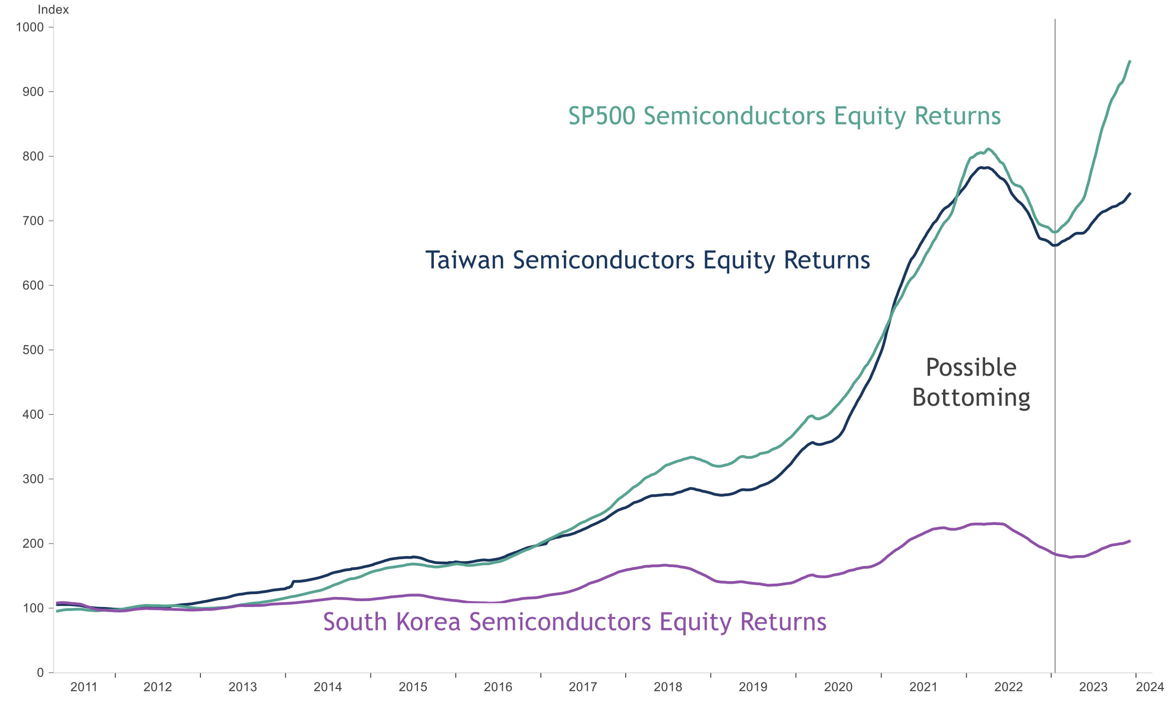
In addition, the widespread deployment of 5G networks is gaining momentum globally. As nations invest heavily in upgrading their telecommunications infrastructure, semiconductor manufacturers are faced with the demand for specialised chips to power 5G-enabled devices. This creates an additional avenue for semiconductor trade to increase.

Fig 9: Possible Bottoming and Recovery of Electronics Cycle



Source: Maybank FX Strategy and Research, Macrobond

Fig 10: Semiconductor Equity Indices Also Suggest Possible Bottoming



Source: Maybank FX Strategy and Research, Macrobond

3.2 FX Implications

The three currencies that are likely to outperform on this theme are the KRW, TWD, and SGD. We articulate strategies for each of these below.

a. Korean Won (KRW):

South Korea is home to major semiconductor manufacturers, such as Samsung and SK Hynix. As global demand for semiconductors rises, the Korean won is likely to benefit from increased exports and a positive trade balance. In addition, we think that Bank of Korea (BOK) will be on an extended hawkish hold on concerns over inflation. FTSE Russell could also potentially include Korea on its World Government Bond Index (WGBI) in Mar 2024. The confluence of these factors should provide further tailwinds for the KRW. We would look to be long KRW either against USD, on our broad belief that the greenback should decline or CNY on our belief of trade-weighted underperformance.

b. Taiwan Dollar (TWD):

Taiwan is a semiconductor manufacturing powerhouse, with TSMC (Taiwan Semiconductor Manufacturing Company) playing a pivotal role in the industry as the industry leader by revenue. The increased demand for semiconductors is likely to boost Taiwan's exports and positively impact the Taiwan dollar. Central Bank of the Republic of China (CBC) also looks to maintain restrictive policy on lingering concerns over inflation. This combination should spur the TWD higher. We look to be long TWD against the USD on the broad belief that the greenback should decline or the CNY on our belief of trade-weighted underperformance.

c. Singapore Dollar (SGD):

Singapore is a key player in the semiconductor supply chain, providing advanced manufacturing and testing services. As the global electronics cycle picks up, Singapore's economy and the SGD may experience an upswing due to increased semiconductor trade. This has been reflected in the recent pick up in electronics exports. MAS is also likely to keep policy restrictive for an extended period and this should be supportive of the SGD. We also maintain our call that the SGDNEER is likely to continue to experience upward pressures and would suggest to stay long SGD NEER or long SGD against USD on the broad belief that the greenback will start to decline into 2024.

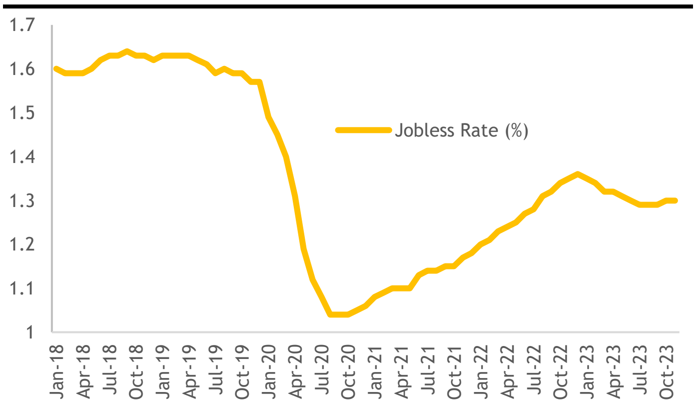
4. Wild Card: An Aggressively Tightening BOJ (Long JPY)

4.1 Changing Economics for the BOJ?

Since end 2022, the BOJ has been gradually making adjustments to its loose monetary policy. As a recap, we have seen the BOJ gradually allow more flexibility in its management of YCC by first allowing back in Dec 2022 for the JGB 10y yield to trade +/-0.50% compared to +/-0.25% prior. At the July 2023 meeting, there were further changes made as they decided to revise the yield of fixed-rate bond buying operations on 10-year JGBs from 0.5% to 1.0%, while maintaining the yield curve control (YCC) range cap at 0.5%. Finally, in Oct, they did another adjustment by redefining that 1.0% would only be a reference and not a rigid cap. These moves point increasingly to an eventual abolishment of YCC, which we believe would occur just before an NIRP exit in 2Q 2024. Preceding both moves would be the possibility that there would be strong results from the Spring wage negotiations which should yield strong results (as implied by Ueda at Oct meeting). As it stands, market expectations are similarly expecting such policy moves where the BOJ only moves to a neutral level. This also forms our own base case, which implies USDJPY could still trade at elevated levels given that UST-JGB yield differentials would remain wide. For now, this could still pan out to be the case even amid recent developments where Governor Ueda and Deputy Governor Himono have dropped hints of tightening (leading to the JPY sharply appreciating). If anything, Ueda is still reiterating keeping an easy monetary stance whilst the BOJ forecast still sees inflation being below 2.00% in 2025 and overall implying any adjustment could just be limited.

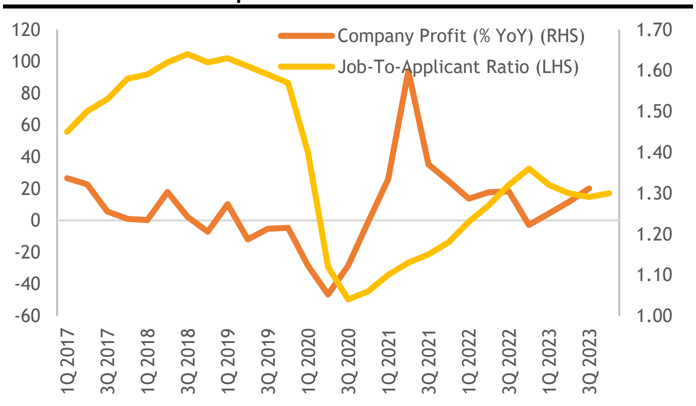
However, we would like to highlight a wildcard scenario whereby the BOJ could actually move much more aggressively in tightening beyond just a neutral level. A decision to do this by the BOJ would be premised on how the Japanese labour market pans out. There are some data points that we are keeping a close eye on in the coming year that could actually imply the possibility of a shift in the BOJ's stance in this direction. Such data points would include rising company profits and signs of a trending structurally tighter Japanese labour market. These developments can allow for a more virtuous cycle of wage increases that in turn can feed into more demand-pull inflation, which the BOJ is looking for. As it stands, jobless rates are moving downwards towards the level just before the spike during the pandemic whilst company profits have been rising significant recently. The job-to-applicant ratio has stalled recently after the post pandemic pick-up but if good recent corporate performance can persist, demand for workers could keep rising.

Fig 11: Jobless Rate on the Decline From Pandemic Highs



Source: Bloomberg, Maybank FX Research & Strategy

Fig 12: Job-To-Applicant Ratio Has Stalled But Can Rise in Line With Better Corporate Performance

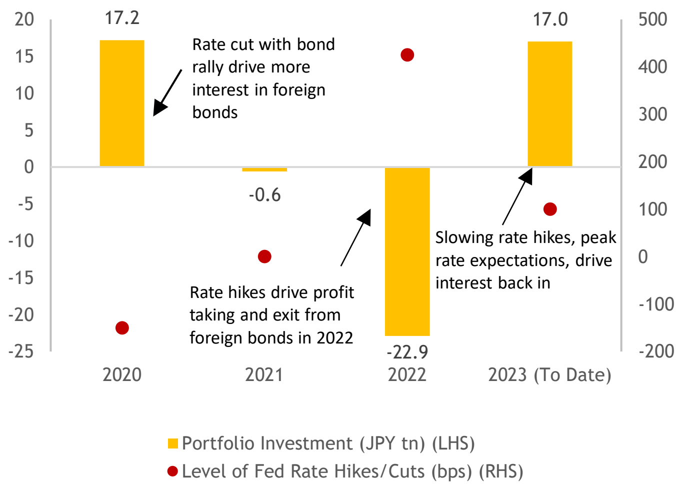


Source: Bloomberg, Maybank FX Research & Strategy

4.2 USDJPY Can See Strong Downward Moves?

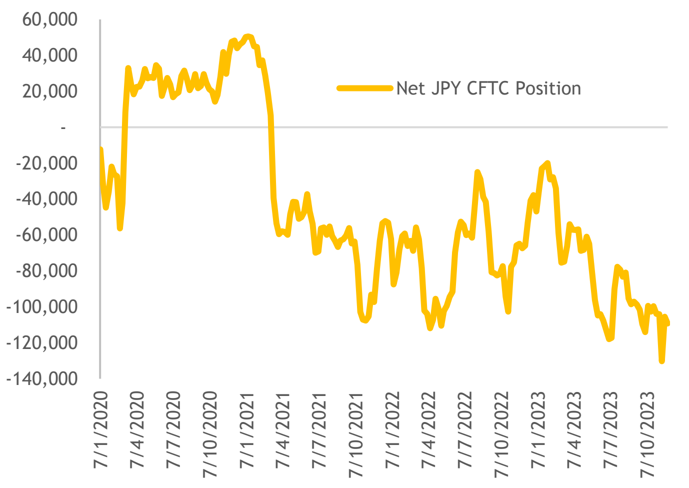
As it stands, we do not get much of an impression that the market has actually been trading on an assumption that a strong BOJ tightening cycle beyond neutral is about to start. If anything, Japanese investors still appear to be trading on the nature of the Fed's rate cycle instead. Japanese investors had appeared on net to have heavily exited from foreign bonds in 2022 amid the rise in rates but they seem to have gone back in in 2023 given expectations of peaking rates this year. At the same time, CFTC positioning in JPY remains deeply net short. **Therefore, a huge reversal in the JPY can be in play if the BOJ actually clearly embarks on an aggressive tightening cycle amid the possibility of portfolio relocation by Japanese investors. Going long JPY in this scenario can see some quite pronounced gains as the USDJPY could hit the 110.00 level (our 2024 forecast is at 136.00).** However, we would like to note that at this point, we are assigning about 30% probability that this could happen. The economic situation for Japan as a whole remains fragile as domestic consumption is anything but strong whilst external demand has been more of a support for the economy and corporate performance. The weak JPY in some sense has been actually the boost for this current fragile economy and therefore, the BOJ may not be so keen to move beyond neutral. Aside that, if inflation does run too hot in the US, there is a risk the Fed may embark on another tightening cycle, which in turn could limit JPY gains.

Fig 13: Japanese Positioning in Foreign Bonds Looks to Be Driven Mainly by Fed Rate Cycle



Source: Bloomberg, Maybank FX Research & Strategy

Fig 14: Net Short Positions for the JPY are Very Deep



Source: Bloomberg, Maybank FX Research & Strategy

FX Forecast

	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
USD/JPY	150.00	150.00	145.00	140.00	136.00	130.00	130.00	125.00	120.00
EUR/USD	1.0900	1.0950	1.1000	1.1050	1.1100	1.1200	1.1200	1.1400	1.1400
GBP/USD	1.2400	1.2400	1.2500	1.2500	1.2500	1.2550	1.2550	1.2600	1.2700
AUD/USD	0.6500	0.6600	0.6800	0.7000	0.7000	0.7200	0.7200	0.7400	0.7400
NZD/USD	0.6000	0.6000	0.6200	0.6300	0.6300	0.6400	0.6400	0.6500	0.6500
USD/CAD	1.3600	1.3600	1.3300	1.3300	1.3000	1.2800	1.2800	1.2700	1.2700
USD/SGD	1.3500	1.3500	1.3450	1.3400	1.3350	1.3300	1.3300	1.3200	1.3100
USD/MYR	4.7000	4.7000	4.6000	4.5000	4.4000	4.3500	4.3000	4.2500	4.2000
USD/IDR	15500	15500	15200	14800	14600	14400	14200	14200	14000
USD/THB	34.75	34.75	34.25	33.75	33.25	32.75	32.75	31.50	31.50
USD/PHP	55.00	55.00	54.00	53.50	53.00	52.00	52.00	51.00	51.00
USD/CNY	7.15	7.15	7.10	7.15	7.15	7.10	7.10	7.05	7.00
USD/CNH	7.15	7.15	7.10	7.15	7.15	7.10	7.10	7.05	7.00
USD/HKD	7.80	7.79	7.78	7.76	7.76	7.75	7.75	7.78	7.80
USD/TWD	30.50	30.25	30.00	30.00	29.00	29.00	29.00	29.00	29.00
USD/KRW	1350	1290	1270	1250	1220	1200	1200	1200	1200
USD/INR	83.50	83.50	83.00	82.50	82.00	81.00	81.00	81.00	81.00
USD/VND	24100	24100	23800	23700	23700	23700	23700	23500	23500
DXY Index	103.92	103.57	102.43	101.59	100.63	99.65	99.65	97.91	97.28
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
SGD/MYR	3.48	3.48	3.42	3.36	3.30	3.27	3.23	3.22	3.21
JPY/SGD	0.90	0.90	0.93	0.96	0.98	1.02	1.02	1.06	1.09
EUR/SGD	1.47	1.48	1.48	1.48	1.48	1.49	1.49	1.50	1.49
GBP/SGD	1.67	1.67	1.68	1.68	1.67	1.67	1.67	1.66	1.66
AUD/SGD	0.88	0.89	0.91	0.94	0.93	0.96	0.96	0.98	0.97
NZD/SGD	0.81	0.81	0.83	0.84	0.84	0.85	0.85	0.86	0.85
CAD/SGD	0.99	0.99	1.01	1.01	1.03	1.04	1.04	1.04	1.03
SGD/IDR	11481	11481	11301	11045	10936	10827	10677	10758	10687
SGD/THB	25.74	25.74	25.46	25.19	24.91	24.62	24.62	23.86	24.05
SGD/PHP	40.74	40.74	40.15	39.93	39.70	39.10	39.10	38.64	38.93
SGD/CNY	5.30	5.30	5.28	5.34	5.36	5.34	5.34	5.34	5.34
SGD/HKD	5.78	5.77	5.78	5.79	5.81	5.83	5.83	5.89	5.95
SGD/TWD	22.59	22.41	22.30	22.39	21.72	21.80	21.80	21.97	22.14
SGD/KRW	1000	956	944	933	914	902	902	909	916
SGD/INR	61.85	61.85	61.71	61.57	61.42	60.90	60.90	61.36	61.83
SGD/VND	17852	17852	17695	17687	17753	17820	17820	17803	17939
	End Q4-23	End Q1-24	End Q2-24	End Q3-24	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
JPY/MYR	3.13	3.13	3.17	3.21	3.24	3.35	3.31	3.40	3.50
EUR/MYR	5.12	5.15	5.06	4.97	4.88	4.87	4.82	4.85	4.79
GBP/MYR	5.83	5.83	5.75	5.63	5.50	5.46	5.40	5.36	5.33
AUD/MYR	3.06	3.10	3.13	3.15	3.08	3.13	3.10	3.15	3.11
NZD/MYR	2.82	2.82	2.85	2.84	2.77	2.78	2.75	2.76	2.73
CAD/MYR	3.46	3.46	3.46	3.38	3.38	3.40	3.36	3.35	3.31
MYR/IDR	3298	3298	3304	3289	3318	3310	3302	3341	3333
MYR/THB	7.39	7.39	7.45	7.50	7.56	7.53	7.62	7.41	7.50
MYR/PHP	11.70	11.70	11.74	11.89	12.05	11.95	12.09	12.00	12.14
MYR/CNY	1.52	1.52	1.54	1.59	1.63	1.63	1.65	1.66	1.67
MYR/HKD	1.66	1.66	1.69	1.72	1.76	1.78	1.80	1.83	1.86
MYR/TWD	6.49	6.44	6.52	6.67	6.59	6.67	6.74	6.82	6.90
MYR/KRW	287	274	276	278	277	276	279	282	286
MYR/INR	17.77	17.77	18.04	18.33	18.64	18.62	18.84	19.06	19.29
MYR/VND	5128	5128	5174	5267	5386	5448	5512	5529	5595

China

A Delicate Landing

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Three Challenges

After a reopening bounce that was weaker than expected, GDP growth will normalise to a slower clip (+4.4%) in 2024, from +5.2% in 2023. In what has been termed a "long and difficult journey" by PBOC governor Pan Gongsheng, the authorities are weaning the economy away from reliance on property and infrastructure, towards new growth engines such as advanced manufacturing. Policymakers must deftly juggle three key challenges: 1) ***taming risks in the property market and local government* debt** without triggering disorderly spillovers; 2) ***implementing the appropriate macro policy mix*** to support near-term GDP growth; and 3) ***ensuring self-sustaining growth*** by restoring consumer and business confidence. In our baseline scenario, the authorities should see reasonable success in the first and second tasks, while the third could prove more challenging but still achievable.

Unwinding Excesses, Taming Risks

In 2024, the authorities' efforts to tame risks emanating from the property sector as well as local government finances will likely kick into high gear. We expect policymakers to engineer a delicate landing for real estate, with policies geared towards ensuring the delivery of pre-sold housing. Beijing is expected to intensify its efforts to develop a local government debt management mechanism in 2024, to head off default risks.

Spender of Last Resort

In 2024, we expect the government to ramp up macro support, with more forceful fiscal policy and less reliance on monetary policy. We forecast a wider fiscal deficit of 4.1% of GDP in FY2024 (vs. 3.8% in FY2023) and the 1 year loan prime rate at 3.0% by end-2024. **Fiscal spending could be directed more towards supporting consumption and jobs,** in line with the Politburo's latest tilt towards "enhancing livelihoods and welfare, and maintaining social stability" (增进民生福祉，保持社会稳定).

Seeking Self-Sustaining Growth

Private consumption growth is forecast to slow to 4.1% in 2024 from 6.1% in 2023, as pent-up demand for "revenge spending" peters out. We expect tepid consumer sentiment to curb overseas travel demand. Private investments have been slow to recover, possibly due to "scarring" from past policy uncertainty. Perceptions of policy risk would need to hold steady in the coming year, for "animal spirits" to return decisively.

Wildcards: US-China Relations

Overall relations appear to have thawed in late 2023, with Biden and Xi meeting. In 2H 2024, American domestic politics will likely cloud progress in dismantling economic barriers. We also highlight the possibility of a Trump victory, which would bring more uncertainty.

1. Unwinding Excesses, Taming Risks

In 2024, the authorities' efforts to tame risks emanating from the property sector as well as local government finances will likely kick into high gear. At the latest Politburo meeting, the leadership has called for a "more coherent macro policy suite" (增强宏观政策取向一致性). In 2024, we foresee property and local government debt measures being rolled out in a more coordinated and less piecemeal fashion.

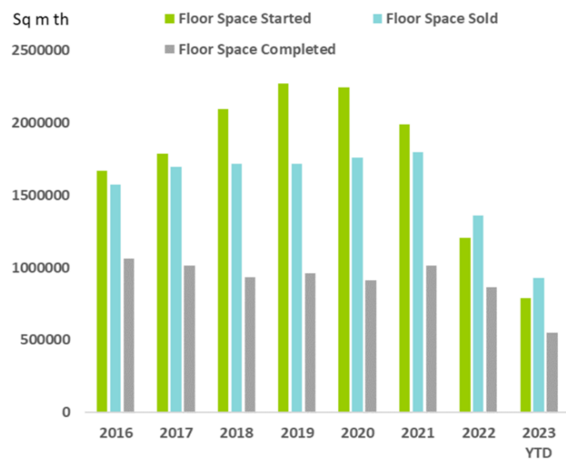
On the real estate sector, we expect policymakers to engineer a delicate landing, such that monthly developer sales stabilise at a monthly average of around 90–100 million sqm, which is more congruent with the structural deceleration in housing demand. In 2023 YTD, developers sold 93 million sqm on average a month, or two-thirds of 2019 levels (Fig 1).

We expect policies to be geared towards ensuring the delivery of pre-sold housing. **With completions shriveling due to developers' credit woes, faltering homebuyer confidence risks perpetuating a negative feedback loop.** Developers' access to credit depends on the state of their balance sheets (and hence revenues), but homebuyer confidence needs to recover first, for sales to find a floor.

In our baseline, real estate fixed asset investment (FAI) should stay flat in 2024, after contracting by -10% in 2023. Real estate-related sectors, such as construction materials, should continue to see muted activity in 2024. Financial market sentiments could be affected by some episodes of stress among industry players, but these are unlikely to be systemic.

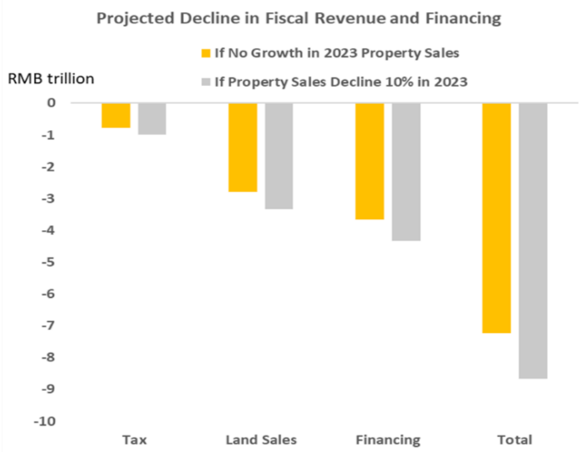
On local government finances, Beijing is expected to intensify its efforts to develop a holistic debt management mechanism in 2024. This is both to head off default risks as well as to alleviate hardships from cost-cutting. Local governments' debt loads have climbed to RMB92t or 76% of GDP in 2022, exacerbated by pandemic-related spending and a plunge in land sales proceeds (Fig 2). In 2024 and 2025, we expected the central government to gradually assume more debt previously borne by the localities.

Fig 1: Construction Starts Have Fallen by More than Half from 2020, While Completions Have Plunged Sharply



Source: CEIC

Fig 2: A 10% Fall in Property Sales Will Subtract RMB8.6t (or 17%) a Year From Government Finances



Source: CF40, "Fiscal Revenue and Government Financing Under Sustainable Development of the Real Estate Market", May 2023.

2. Spender of Last Resort

As 2023 comes to a close, high frequency data shows the recovery is still fragile and lacking self-sustaining impetus. Even as policymakers undertake the “long and difficult journey” of shifting growth engines away from property and infrastructure, stronger government support is needed to counter deficient demand.

In 2024, we expect the government to ramp up macro support, with more forceful fiscal policy and less reliance on monetary policy. In 2023, on top of cutting interest rates, monetary policy has also been called upon to usher credit towards strategically-important sectors, forestall liquidity problems at property developers and local governments, and support SMEs.

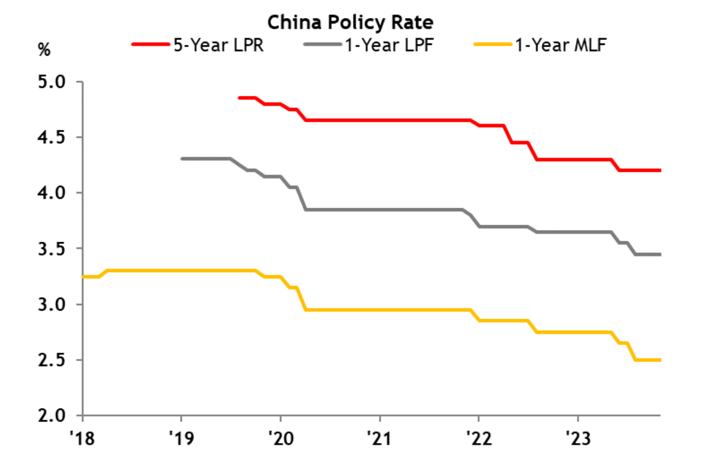
At the latest Politburo meeting on 8 Dec 2023, the leadership called for an “appropriate intensifying of proactive fiscal policy”, while the word “forceful” has been omitted from the stance on monetary policy, which will henceforth be “flexible, appropriate, targeted and effective”.

We expect the 1 year loan prime rate to be further cut to 3% by end-2024, in lockstep with moves by major central banks (Fig 3). **But we foresee the effectiveness of monetary easing becoming limited, as credit demand remains subdued.**

In 2025, we see fiscal policy playing a stronger role, via increased deficit spending by the central government. In 2023 Jan–Oct, government spending had contracted by 15.1% y-o-y, while revenues rose +10.7% (Fig 4). The FY2023 budget deficit was raised from 3% to 3.8% of GDP in November, alongside RMB1t of bond issuance to finance disaster mitigation works by local governments.

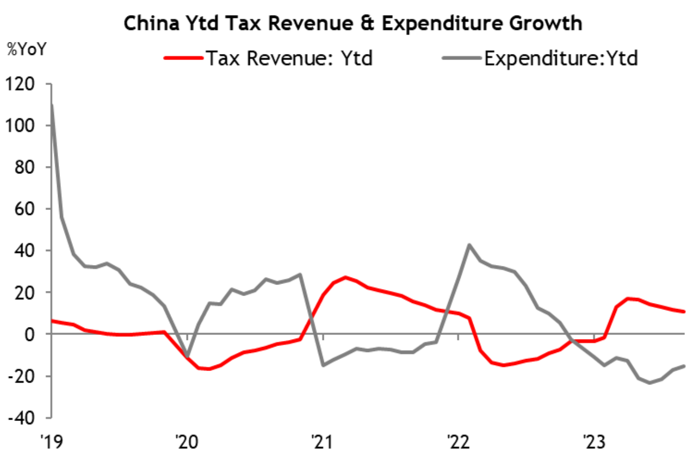
We forecast a wider fiscal deficit of 4.1% of GDP in FY2024, up from 3.8% in FY2023. **There is scope to raise the deficit above 4% in FY2024, with some spending directed towards supporting household consumption and jobs,** in line with the Politburo’s latest tilt towards “enhancing livelihoods and welfare, and maintaining social stability” (增进民生福祉，保持社会稳定).

Fig 3: Monetary Policy Has Done the Heavy Lifting to Support Growth Since the Reopening



Source: CEIC

Fig 4: Government Expenditure Has Pulled Back by -15% So Far in 2023



Source: CEIC

3. Seeking Self-Sustaining Growth

Although macro policy easing may be useful in shoring up growth in the near term, underlying drivers are expected to be fragile in 1H 2024. Private consumption is forecast to grow at a slower pace of +4.1% in 2024, from +6.1% in 2023, as pent-up demand for “revenge spending” peters out. Compared to previous years, households were more inclined to save their incomes, rather than spend or invest.

Their caution is reflected in flagging consumer confidence numbers in the latter half of 2023. **In particular, employment and income confidence levels have sunk since spiking briefly since the reopening.** Coupled with falling asset prices, the impact on household wealth has led to belt-tightening and rising consumer defaults. The first Golden Week public holiday since Covid underperformed expectations, as spending per domestic traveler came in below pre-pandemic levels, and overseas travel demand was especially muted. **The number of Chinese borrowers blacklisted for missing their payments have climbed by +49.8% since early 2020, to a record 8.54m.**[3] We expect tepid consumer sentiment to curb overseas travel demand to most destinations in 2024.

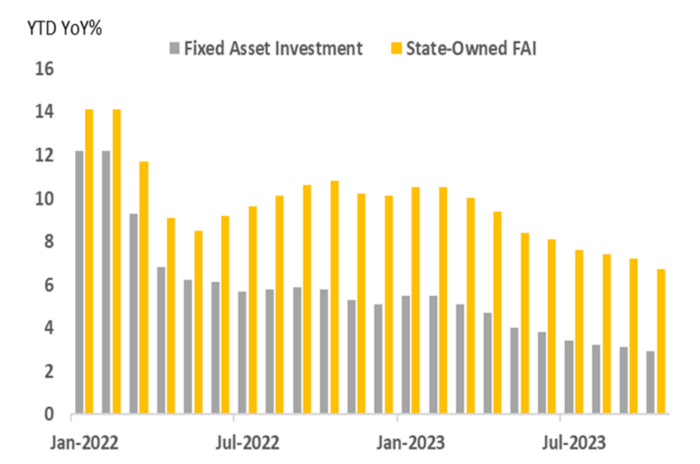
In addition to consumption, investments by private businesses have been slow to recover. Private FAI has contracted by -0.5% in the first 10 months of 2023, while state-owned investments drove expansion (+6.7% in the same period) (Fig 6). In end-November 2023, eight government agencies jointly announced a 25-point plan to revive private sector activity, including steps to improve businesses’ access to financing.

Businesspeople have likely turned more cautious about expansions as the regulatory environment became more unpredictable in the last four years. Even though such volatility, measured by the Economic Policy Uncertainty index, has receded, “scarring” from previous disruptions to businesses caused by past policy changes could linger. **Perceptions of policy risk would need to hold steady in the coming year, for private sector “animal spirits” to return decisively (Fig 5).**

Fig 5: Economic Policy Uncertainty Was Elevated Through the Pandemic, But Has Receded Since the Reopening

Source: Steven J. Davis, Dingqian Liu and Xuguang S. Sheng, "Economic Policy Uncertainty in China Since 1949: The View from Mainland Newspapers."

Fig 6: FAI Growth Has Been Increasingly Driven by the State-Owned Sector



Source: CEIC

[3] Yu, Sun. “Chinese borrowers default in record numbers as economic crisis deepens” Financial Times, 3 December 2023.

4. Wildcards: US-China Relations

Overall relations between the two major powers appear to have thawed in late 2023, with the Biden-Xi meeting in San Francisco yielding some assuring de-escalation on Asia security. Even as the US and China found common ground in areas such as artificial intelligence regulation, narcotics control and climate issues, there are few signs of an easing of restrictions on bilateral trade and investments.

In 2H 2024, American domestic politics in the lead-up to the Presidential election will likely cloud progress in dismantling economic barriers such as tariffs, investment restrictions and export bans. In our baseline scenario, trade policy under the Biden administration towards China would remain governed by a "small yard, high fence" approach of restricting the flow of sensitive technology.

We also highlight the non-trivial possibility that a Trump victory in end-2024 would further exacerbate bilateral tensions, with less predictable outcomes from 2025 onwards.

Table 1: China - Key Macroeconomic Indicators

	2020	2021	2022E	2023E	2024E	2025E
Real GDP (%)	2.5	8.5	3.0	5.2	4.4	4.5
Private Consumption (%)	0.0	13.1	2.3	6.4	4.1	4.2
Government Consumption (%)	5.0	4.6	6.6	6.9	6.5	6.0
Gross Fixed Capital Formation (%)	1.9	12.0	5.4	4.3	4.4	4.6
Net Exports of Goods & Services (% pt cont)	0.6	1.9	0.5	0.3	0.5	0.7
Current Account Balance (% of GDP)	1.5	2.0	2.2	1.6	1.6	1.8
Fiscal Balance (% of GDP)	(3.7)	(3.1)	(2.8)	(3.8)	(4.1)	(3.6)
Inflation Rate (%)	2.5	0.9	2.0	0.3	1.1	1.5
Unemployment Rate (%)	5.2	5.1	5.5	5.2	4.9	4.5
Exchange Rate (per USD, end-period)	6.52	6.38	6.96	7.15	7.15	7.00
*Benchmark Interest Rate (% p.a., end-period)	3.85	3.80	3.65	3.45	3.00	3.00

** Refers to 1 Year Loan Prime Rate.*

Source: CEIC, Maybank IBG Research

Cambodia

A Brighter Outlook, But Real Estate Slump Poses Risks

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GDP Growth to Strengthen on Exports and Tourism

We forecast GDP growth strengthening to +5.9% in 2024 and +6% in 2025, from +5.4% in 2023. Growth will be underpinned by an export recovery, FDI and tailwinds in consumption and tourism. External demand has picked up, led by electrical components and agriculture. Garment exports remain weak, but should be shored up by normalizing US retail inventories. "Green shoots" are seen in imports of production inputs like knitted fabrics and cotton. FDI should remain robust, given an improving investment environment. Recently-signed FTAs and the new Law on Investment will be positive for FDI.

Domestic consumption will be supported by an improving economy, minimum wage hikes and tourism. Visitor arrivals recovered to pre-pandemic levels in October, but remain -17% below for the first 10 months of 2023. The new Siem Reap-Angkor International Airport and Angkor Wat's new status as the 8th Wonder of the World could draw in more tourists.

Real estate and construction sectors have been grappling with sluggish Chinese demand and a property glut, and may remain subdued in 2024. Non-performing loans have risen and property prices are falling. The government will allow foreigners to purchase real estate using Cambodian representatives, in a bid to shore up demand. Authorities have asked banks and microfinance companies to make refinancing more available.

China Tourists Scared by Scams; Thai & Vietnam Cover Shortfall

Thailand has become the largest source of tourist arrivals, accounting for 34% of the total in Jan-Oct 2023. But the recovery in visitors has yet to translate fully to the hospitality sector, as majority may be day trippers keen on daily trade or border casinos. At only 453k in Jan-Oct 2023, China visitors remain far from the government's 1m target. China tourists will likely be slow to return in 2024, as the country's reputation has been tarnished by the prevalence of cyberscam syndicates. A Sina Weibo poll taken after release of "No More Bets" revealed that 181k Chinese netizens felt it was too dangerous to visit the Kingdom.

Inflation to Return Towards Long-Term 3% Trend

We forecast inflation picking up and converging to its long-term trend of +3.0% in 2024 and 2025 (vs. 2.5% in 2023), on the back of a stronger economy. The stable exchange rate will put a lid on imported inflation. The official rate has been stable against the US dollar in 2023. We expect the NBC to maintain its benchmark rate at 2% through 2024.

Wildcards: Tightening Financial Conditions, EU Trade Restrictions

One downside risk is a prolonged tightening of global financial conditions due to higher-for-longer US rates, which may exacerbate the real estate slump. US dollar strength is hurting export competitiveness, given that Cambodia is a dollarised economy.

Stricter trade restrictions from the EU constitute another risk. The EU threatened suspension of EU's Everything But Arms preferential tariffs in March 2023 over Cambodia's elections. Recently-introduced European Union Deforestation-free Products Regulation (EUDR) may threaten Cambodia's rubber and furniture exports.

1. Stronger GDP Growth on Exports & Tourism

We forecast GDP growth strengthening to +5.9% in 2024 and +6% in 2025, from +5.4% in 2023. Growth will be underpinned by an export recovery, FDI and tailwinds in consumption and tourism.

We expect exports to recover in 2024 on a low base and lower US inventories. Growth in US retail inventories cooled to +5.4% in September, from average +22% growth over May-Oct 2022. The government's new Sub-Decree No 122 (implemented from 1 July) may boost trade with lower import and export duties. Goods exports account for 75% of GDP.

Merchandise exports (+11.6% vs. +17.2% in Sep) grew for the third consecutive month in October, led by electrical components and machinery (+24.3%) and agricultural shipments like cereals (+97.9%), vegetables (+67.9%) and fruits (+71.3%). Leather, travel goods & handbags exports grew nearly +10% from a year ago. Knitted apparel (-1.8%) and non-knitted apparel & clothing accessories (-15.3%) remained in a slump, but could improve as overseas retail inventories normalise.

Although imports (-6.8% vs. +4.1% in Sep) resumed their decline, this was largely due to lower vehicle imports (-59%) and oil prices, which resulted in a -18% decline in mineral fuels imports. "Green shoots" were seen in imports of production inputs such as knitted fabrics (+23.7%), cotton (+26.9%) and fertilizers (+7.1%), which point to brighter external demand prospects.

Domestic consumption will be supported by an improving economy, minimum wage hikes and tourism. The key garments, travel goods and footwear (GFT) sector account for approximately 14% of total employment. Minimum monthly wage for GFT will be increased to $204 in 2024 from $200 in 2023 (+2%).

International visitors could recover in 2025. Visitor arrivals recovered to the pre-pandemic (Oct 2019) level in October 2023, but remain -16.8% below for the full period of Jan-Oct 2023. ASEAN tourists are the main source, whereas China tourists (30% of pre-pandemic levels) have been slow to return due to safety concerns. Angkor Wat was recently named the 8th Wonder of The World, which could boost interest. The Chinese-invested Siem Reap-Angkor International Airport was launched in November 2023, with hopes of drawing in more tourists. The airport serves as the main gateway to the Angkor temples, with annual passenger capacity of 7m.

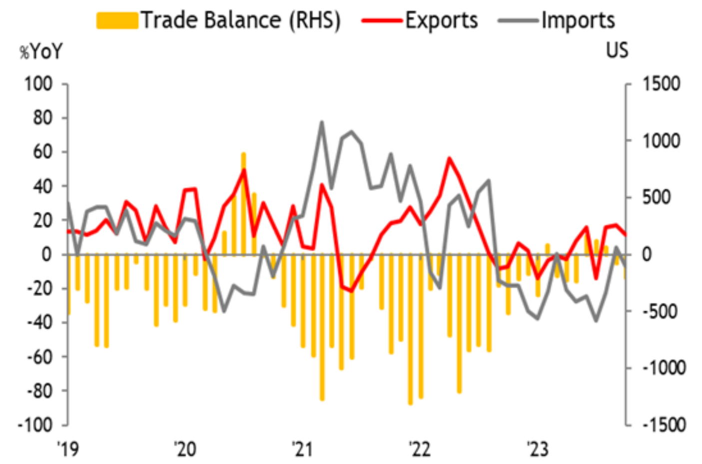
FDI should remain robust in 2024, given an improving investment environment. Authorities take a liberal approach towards FDI, allowing 100% foreign ownership in many investment projects, unlike many other countries that require a local partner. Recently-signed FTAs and the new Law on Investment will also be positive for FDI. EuroCham's Business Confidence Survey reveals that 62% of businesses intend to invest more into Cambodia over the next 12 months (from Aug 2023).

The real estate and construction sectors have been grappling with a slow rebound in Chinese demand and a property glut, and may remain subdued in 2024. Mid-range condominium prices per sq m dropped -2.5% from a year ago in 3Q 2023, while asking prices for villas and shophouses fell -14% and -13%. According to CBRE, non-performing loans in the sector hit around 4% (as of Aug 2023), putting significant pressure on banks and developers[4]. The real estate and construction sectors account for about 10% of GDP, while mortgages (14%), real estate activities (10%) and construction (9%) account for a combined 34% of total outstanding credit by deposit money banks as of June 2023.

The government recently announced that it would allow foreigners to purchase real estate using Cambodian representatives, in a bid to shore up demand[5]. This will allow foreigners to own freehold land, rather than 50 year leases under current policies. Authorities have also asked banks and microfinance companies to make refinancing more available.

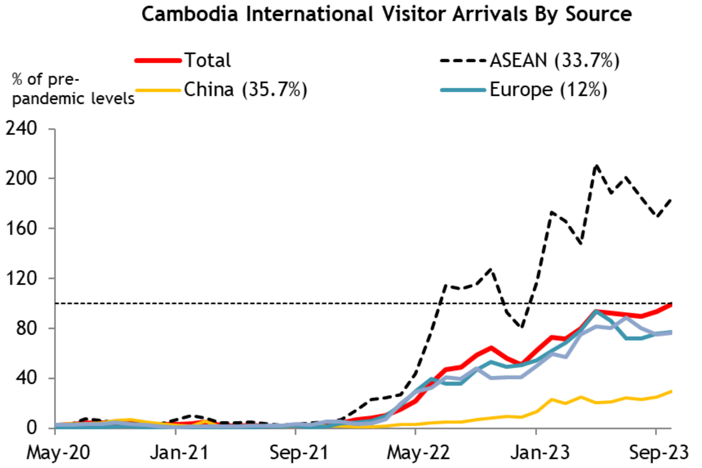
[4] Cambodia Investment Review, "CBRE Cambodia: Phnom Penh Real Estate Market Undergoes Profound Shift in 2023, Investors Urged to Seek Accurate Data-Driven Valuations", 24 Aug 2023.
[5] Radio Free Asia, "New Cambodian policies aimed at foreign real estate investment", 15 Nov 2023.

Fig 1: Exports Grew for 3 Consecutive Months in October, While Imports Contracted



Source: CEIC

Fig 2: Visitor Arrivals Returned to Pre-Pandemic Levels in October, Led by ASEAN



Source: CEIC

2. China Tourists Scared by Scams; Thailand and Vietnam Make Up Shortfall

ASEAN visitors have been making up for the shortfall in Chinese tourists, particularly from Thailand and Vietnam. Thailand has become the largest source of arrivals, accounting for 34% of the total in Jan to Oct 2023. Visitor arrivals from Thailand were 4.5 fold of pre-pandemic levels. Vietnam visitors were +15% above pre-pandemic levels (same period in 2019). The Southeast Asian (SEA) games may have boosted interest from regional tourists.

The recovery in visitors has yet to translate fully on the ground to the hospitality sector. For instance, Angkor Enterprise figures show that only 498k out of the 3m arrivals in the first 7 months of 2023 visited Angkor Wat. Inbound agents believe that the majority of arrivals may be people crossing the border for daily trade or visiting border casinos[6].

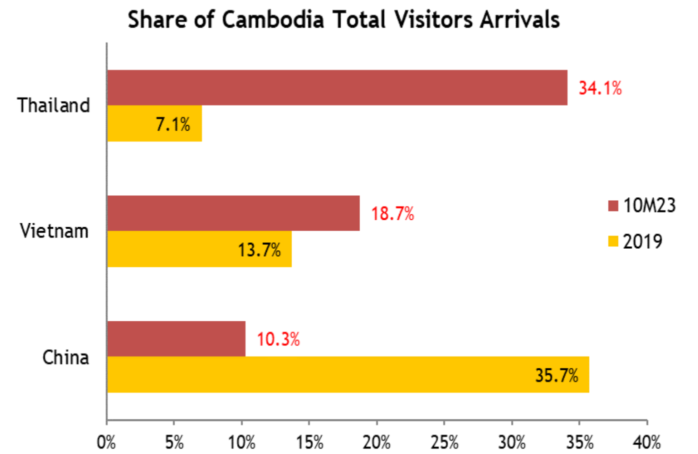
China visitors have surged six-fold from a year ago to 453k in Jan-Oct 2023 after the reopening, but remain far from the government's full-year forecast of 1m. Arrivals stand at only 22% of pre-pandemic (10M 2019) levels, despite Cambodia pulling out all stops. Initiatives include a "Cambodia-China Good Friend" campaign and allowing Chinese tourists to pay in yuan for all tourism services nationwide. As of October, the recovery of China tourists to Cambodia is the second slowest in ASEAN-7 (in front of the Philippines; see Table 1).

China tourists will likely be slow to return in 2024, given that Cambodia's reputation has been tarnished by the prevalence of cyberscam syndicates. Daily flights (34) amount to 32% of 2019 levels. Tourists are afraid of visiting Cambodia for fear of being abducted. There have been multiple accounts of foreign nationals being held captive. The Chinese blockbuster film "No More Bets" has propelled the issue into national consciousness. A Sina Weibo poll taken after the film's release revealed that about 181k Chinese netizens felt that it was too dangerous to visit the Kingdom, while only 3,778 said they would visit "cost effective" destinations[7].

Chinese authorities have actively discouraged their citizens from visiting, with the police warning tour groups about safety issues and increasing scrutiny of citizens residing in Cambodia. There have also been public campaigns and billboards at airports and train stations warning about trafficking and scams[8].

[6] TTG Asia, "Cambodia's reportedly strong arrivals fail to impact tourism businesses", 7 Sep 2023.
[7] Nikkei Asia, "Cambodia's 'scamdemic' reputation scares off travelers from China", 8 Sep 2023.
[8] Nikkei Asia, "Cambodia's 'scamdemic' reputation scares off travelers from China", 8 Sep 2023.

Fig 3: Thailand- Top Source of Visitors to Cambodia, Followed by Vietnam, China Tourists Still Lagging Behind



Source: CEIC

Table 1: China Tourist Arrivals to ASEAN by Country (Latest Month)

	Person th	As of	% of pre-pandemic levels
Thailand	291.3	Oct	35.3%
Vietnam	202.0	Nov	30.0%
Singapore	122.8	Oct	47.5%
Malaysia	95.4	Jun	43.0%
Indonesia	75.3	Oct	47.0%
Cambodia	48.1	Oct	29.7%
Philippines	23.7	Oct	17.0%

Source: CEIC

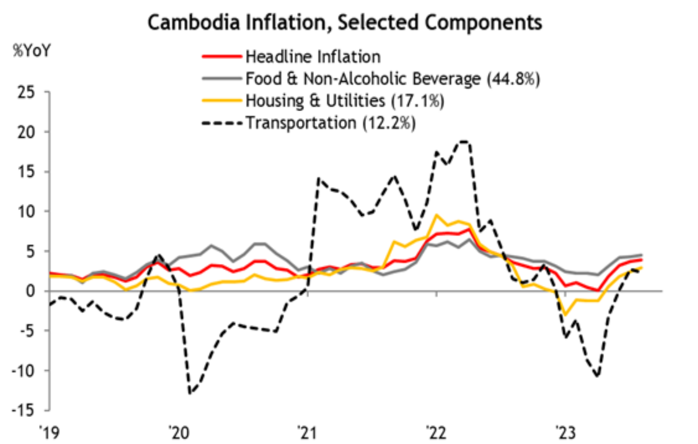
3. Inflation to Return To Long-Term 3% Trend

We forecast inflation returning and converging to its long-term trend of +3% in 2024 and 2025 (vs. 2.5% in 2023), on the back of a stronger economy. Headline inflation rose to a 13-month high of +3.9% in October. After bottoming out at +0.1% in June, inflation has risen steadily due to higher food and fuel-related utilities costs. Transportation costs rose +2.3% from a year ago in October (vs. -10.9% in June) as favorable base effects dissipated and higher global oil prices increased fuel & lubricant costs.

The stable exchange rate will put a lid on imported inflation. The National Bank of Cambodia (NBC) manages the riel on a tightly managed float regime. The official rate has been stable against the US dollar in 2023.

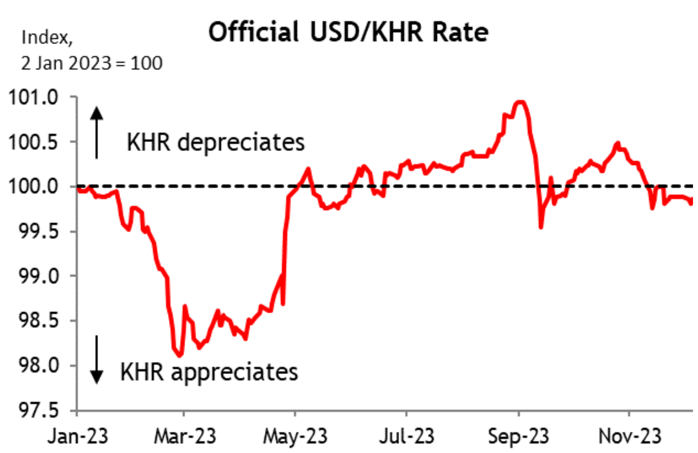
We expect the NBC to maintain its one-year liquidity-providing collateralised operation (LPCO) interest rate at 2.0% through 2024. The central bank will use exchange rate management as its main tool to anchor price stability. FX reserves amounted to $15.6b in July, equivalent to 7.5 months of imports.

Fig 4: Headline Inflation Rose to 13-Month High of +3.9% in October, Driven by Food and Housing & Utilities Costs



Source: CEIC

Fig 5: Riel Has Been Stable Against USD



Source: CEIC

4. Risks: Tightening Financial Conditions, Stricter EU Trade Restrictions

One downside risk is a prolonged tightening of global financial conditions due to higher-for-longer US rates, which may exacerbate the real estate slump. The US dollar strength may also hurt export competitiveness, as Cambodia is a dollarised economy.

Trade restrictions from the EU constitute another risk. The EU accounts for 17% of Cambodia's exports. The EU threatened further suspension of EU's Everything But Arms preferential tariffs in March 2023 over Cambodia's elections, but is waiting to see whether new Prime Minister Hun Manet can improve ties (see *Cambodia Economics - Bright Spots in 3Q, But Real Estate Slump Poses Risks to Growth*, 17 Oct 2023).

Recently-introduced European Union Deforestation-free Products Regulation (EUDR) may threaten Cambodia's rubber and furniture exports. The scheme prevents importation of commodities linked to deforestation, and producers have been given till Dec 2024 to comply.

Table 2: Cambodia - Key Macroeconomic Indicators

	2020	2021	2022E	2023E	2024E	2025E
Real GDP (%)	**(3.1)**	**3.0**	**5.2**	**5.4**	**5.9**	**6.0**
Private Consumption (%)	(4.3)	(5.3)	16.7	5.0	6.0	5.8
Government Consumption (%)	13.0	22.7	(41.6)	6.0	5.8	5.6
Gross Fixed Capital Formation (%)	(2.7)	6.8	20.0	5.4	7.0	6.8
Exports of Goods & Services (in USD terms, %)	(11.3)	13.5	20.7	0.9	8.5	8.0
Imports of Goods & Services (in USD terms, %)	(8.9)	23.1	22.3	1.3	7.5	7.3
Current Account Balance (% of GDP)	(3.4)	(40.7)	(29.3)	(5.0)	(4.0)	(3.8)
Fiscal Balance (% of GDP)	(4.0)	(6.4)	(0.2)	(3.4)	(2.7)	(2.5)
Inflation Rate (%)	2.9	2.9	5.3	2.5	3.0	3.0
Unemployment Rate (%)	0.3	0.3	0.4	0.5	0.5	0.4
Exchange Rate (per USD, end-period)	4,046	4,074	4,070	4,100	4,080	4,040
*Benchmark Interest Rate (% p.a., end-period)	2.0	2.0	2.0	2.0	2.0	2.0

** We take this to be the one-year interest rate for negeotiable certificates of deposits (NCDs), used as collateral for Liquidity-Providing Collateralized Operations (LPCO).*

Source: CEIC, Maybank IBG Research

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ECONOMICS

Indonesia

Indonesia

Steady Growth in an Election Year

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Steady Consumption & Export Pick-Up to Offset Softer Investment

We expect real GDP to grow +5.1% in 2024 and +5.2% in 2025, from +5% in 2023. Household expenditure will likely remain steady with a resilient labour market, pre-election spending and policy support. Consumption may see a boost in 1Q 2024, driven by election campaign spending and pre-election festivities. Net exports should improve in 2H 2024, as global demand recovers with easier monetary policies.

Business investment is expected to cool, as firms wait and see on whether there will be major changes to policies and the business landscape after the elections. Nonetheless, investment activities will be cushioned by the doubling down on downstreaming and Electric Vehicle push before President Jokowi's term ends in October 2024, as well as infrastructure spending.

Inflation Within BI Range; BI to Cut by -75bps in 2H 2024

Inflation is projected to ease to +3% in 2024 and 2025, from +3.7% in 2023. Inflation has returned to Bank Indonesia's (BI) 2%-4% target range since May 2023, averaging just +2.8% in July to November. Inflation is picking up, due to higher food prices and import prices from the recent bout of rupiah depreciation. Nevertheless, inflation will be capped by favorable base effects in the initial months of 2024, thus remaining within +3% for at least the first quarter. We expect inflation to be higher in 2H 2024, lifted by stronger GDP growth. BI is targeting a lower inflation range of 1.5%-3.5% in 2024.

We project BI to cut rates by -75bps in 2H 2024, as an easing US Fed provides leeway to relax monetary policy. The policy rate differential currently stands at only 0.67% points, providing BI with limited scope to ease ahead of the Fed. The rupiah was among Asia's worst performing currencies in 3Q 2023, as high US interest rates led to capital outflows.

Modest Fiscal and Current Account Deficits

The current account balance will likely wind down to 0% of GDP in 2023 (vs. 1% in 2022). We expect a small current account deficit of 0.5% of GDP in 2024, as commodity prices may remain soft due to slowing global demand in the first half. A renewed commodity price boom is unlikely (which fueled current account surpluses in 2021-22), given China's lethargic growth. The current account deficit in 2024 will still be lower than pre-pandemic levels, reflecting the downstreaming push to boost export value-added. The current account should improve in the second half as exports recover.

The fiscal balance will be supported by robust revenue stemming from a stable economy and ongoing tax reforms. Budget 2024 targets a fiscal deficit at 2.3% of GDP. The budget deficit will likely be slightly below 2% in 2023, due to higher-than-target tax revenue.

Wildcards: Election Unrest, Deep China Downturn

The 2024 election comes with its own set of risks, including social unrest from a polarizing campaign, the rift between the President and ruling party, and terrorism threats. A deep China downturn could hit exports and investment, and pressure global commodity prices. China is Indonesia's largest export market, accounting for 23% of total goods exports.

1. Steady Consumption and Export Pickup to Offset Cooling Business Investment

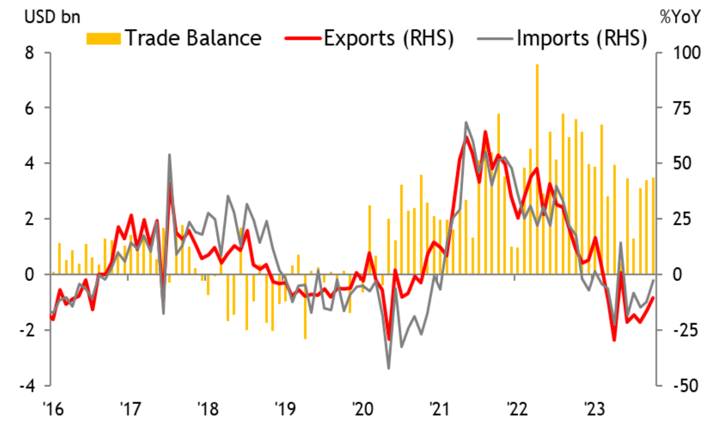
Real GDP is forecasted to expand by +5.1% in 2024 and +5.2% in 2025 (vs. +5.0% in 2023).

Net exports should improve in the second half of 2024, as exports rebound from a low base and pickup in global demand. The year-long disinflation cycle in commodities could be coming to an end, which should boost the earnings of resource exporters.

Household expenditure will likely remain steady with a resilient labour market, pre-election spending and policy support. The unemployment rate fell to 5.3% in Aug 2023 (vs. 5.5% in Feb) while average monthly wages grew by the fastest (+3.5% vs. +1.8% in Feb) since Feb 2020 (Fig 2). BI extended easier credit rules, including down payment rules on property purchases (100% LTV) and zero down payment for auto loans, which were set to expire at end 2023, until end 2024. A Rp13.4t ($842m) fiscal package announced in October 2023 scrapped the 11% VAT on home purchases (worth less than Rp5b) until June 2024[9], in addition to cash and rice handouts for lower-income households.

Spending by both households and governments have historically risen in the run-up to elections, driven by campaign spending and pre-election festivities (see *Indonesia Economics - 2024 Elections: Prolonged Contest, Jokowinomics to Continue,* 15 Nov 2023). A similar boost in 1Q 2024 is likely prior to the 14 Feb Presidential and Legislative elections. The 45-day campaign period will last from 28 Nov to 10 Feb. A second round of campaigning will likely take place in June ahead of a runoff election, given that no presidential candidate is close to securing a simple majority in opinion polls.

Fig 1: Export Contraction (-10.4%) Narrowed in Oct, Trade Surplus Widened to 6-Month High



Source: CEIC

Fig 2: Improving Labour Market to Support Consumption - Unemployment Rate Fell to Post-Pandemic Low in Aug 2023

Source: CEIC

Business investment is expected to cool, as firms wait and see on whether there will be major changes to policies and the business landscape after the election. In the past 3 elections, investment growth eased by an average of -1.1% point and -1.2% point respectively in the two quarters prior, although there is significant variation between each election year (Fig 3).

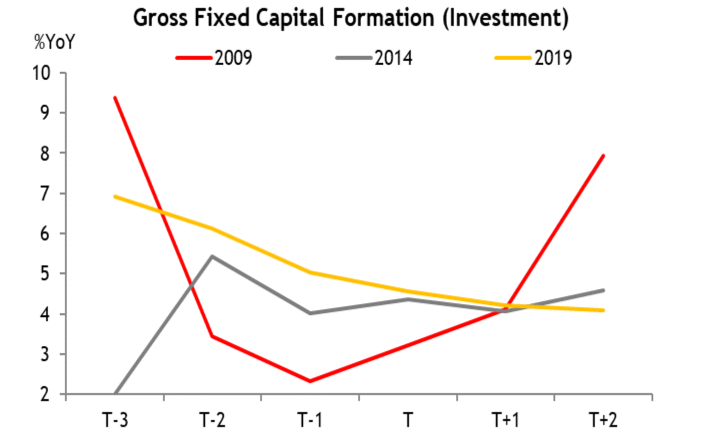
Foreign investment realisation climbed by a slower +13.2% in the first 9 months of 2023 (vs. +46.7% in 2022), driven by the secondary (+15.6%) and tertiary sectors (+12.5%) (Fig 4).

[9] VAT will be halved from July 2024 till Dec 2024. Rp200k monthly cash handouts to 18.8mn households in Nov and Dec 2023. 10kg of rice monthly to 213mn households until June 2024.

Investment activities will be cushioned by the doubling down on the downstreaming and Electric Vehicle (EV) investment push before President Jokowi's term ends in October 2024, as well as infrastructure development. A memorandum of understanding (MoU) was signed with Australia on 23 Nov to cooperate on battery manufacturing and critical minerals processing, with Australia being a crucial source of lithium.

The government allocated Rp423t (12.8% of budget) for infrastructure in Budget 2024, a +7.9% increase from the previous year, ranging from basic infrastructure, access to information and communications technology and construction of Nusantara. Rp40.6t (vs. Rp26.7t in 2023) was set aside for completion of Nusantara's first stage, which includes vital infrastructure (e.g. presidential palace, VVIP airport and hospitals) and government buildings.

Fig 3: Investment Growth Weakened in the 2 Quarters Before Past Elections



Note: T refers to election quarter, i.e. 3Q 2009, 3Q 2014 and 2Q 2019.
Source: CEIC, Statistics Indonesia, Maybank IBG Research calculations

Fig 4: Foreign Investment Grew by Slower +13.2% in 9M23 (vs. +47% in 2022), Driven by Secondary and Tertiary Sectors

Source: CEIC

2. Inflation Within BI Range; BI to Cut by -75bps in 2H 2024

We forecast inflation easing to +3% in 2024 and 2025 (vs. +3.7% in 2023), staying within Bank Indonesia's (BI) 1.5%-3.5% target. Inflation has returned to BI's 2%-4% target range since May 2023, averaging just +2.8% in July to November. BI is targeting a lower inflation range of 1.5%-3.5% in 2024.

Inflation is picking up, due to higher food prices and import prices from the recent bout of rupiah depreciation. Headline inflation (+2.9%) rose to a 3-month high in November, with the highest month-on-month uptick (+0.4%) since December 2022.

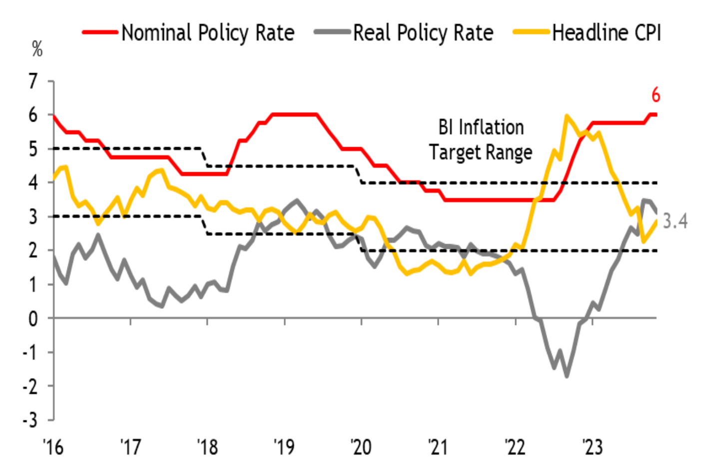
The USD/IDR lost -8% from early May to end October. The National Food Agency expects El Nino to delay rice harvests by two months till May 2024, which could lead to higher rice prices.

Nevertheless, inflation will be capped by favorable base effects in the initial months of 2024, thus remaining within +3% for at least the first quarter. We expect inflation to be higher in the second half of 2024, lifted by stronger GDP growth.

We project BI to cut rates by -75bps in 2H 2024, as an easing US Fed (Maybank forecast: 75bps cuts in 2H24) provides leeway to relax monetary policy. Both nominal and real policy rates are already at restrictive levels, near all-time highs (Fig 5). Nonetheless, the policy rate path remains uncertain and data dependent – BI will be watching incoming data and the Fed closely to decide its next move.

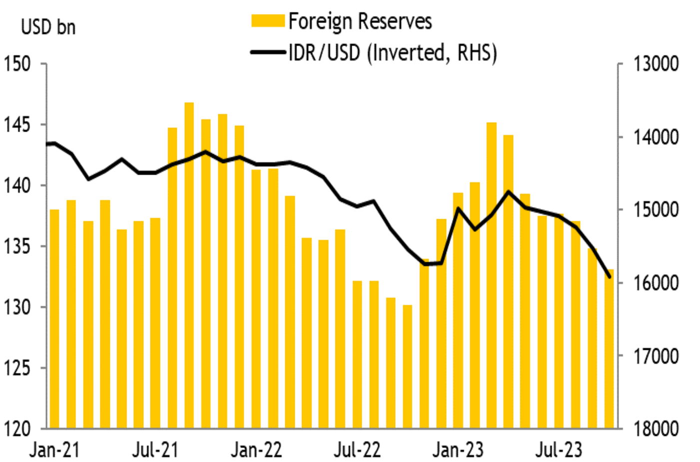
The Indonesia-US policy rate differential stands at a near-record low of 0.67% point, providing BI with limited scope to ease ahead of the Fed. The rupiah has been among Asia's worst performing currencies in 3Q this year as high US interest rates led to capital outflows. Foreign reserves dipped to a 12-month low of $133.1b as of end October as BI intervened to support the currency (Fig 6). Other tools including rupiah securities (SRBI), dollar securities (SVBI) and dollar sukuk are being used to attract capital inflows and shore up the currency. Our FX team is forecasting the IDR strengthening to 14,600 by end-2024 and 14,000 by end-2025.

Fig 5: Nominal and Real Policy Rates Near All-Time Highs



Source: CEIC

Fig 6: Foreign Reserves Dipped to 12-Month Low of $133.1b as of end Oct



Source: CEIC

3. Modest Budget and Current Account Deficits

Current account will likely wind down to 0% of GDP in 2023 (vs. 1% in 2022). There have been small deficits since the second quarter as export momentum fades with falling commodity prices (Fig 7).

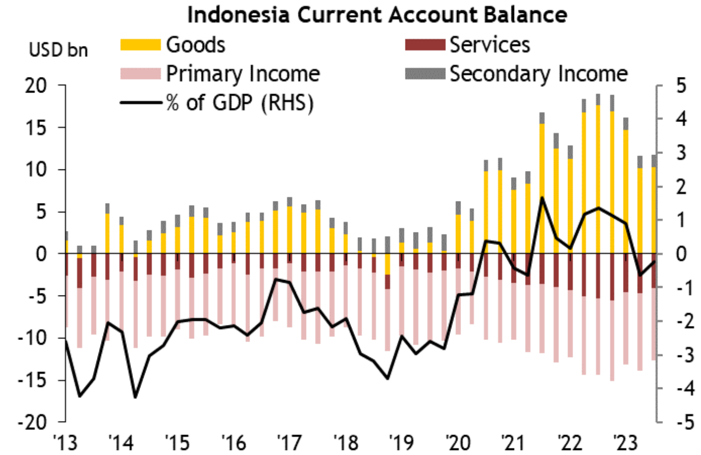
We expect a small current account deficit of 0.5% of GDP in 2024, as commodity prices may remain soft due to slowing global demand in the first half. We do not anticipate a renewed commodity price boom (which fueled current account surpluses in 2021-22), given China's lethargic growth. Nonetheless, the current account deficit is still well below the pre-pandemic level of above 2% of GDP, reflecting the downstreaming push to boost export value-added. The current account should improve in the second half, with exports and global demand recovering as central banks ease.

The fiscal deficit will likely remain below its 3% of GDP ceiling, supported by robust revenues stemming from a stable economy and the tax reform measures introduced in 2021. Budget 2024 set the fiscal deficit at Rp522.8t (2.29% of GDP), with revenue expected to grow by +6.3% and expenditure to rise by +6.5%. Higher revenues from income tax, VAT and luxury taxes are projected, which will be achieved by tax reforms. For instance, the Finance Ministry will implement the Core Tax Administration System to improve collections.

The Finance Ministry expects the 2023 fiscal deficit to come in below the revised Budget estimate of 2.3% of GDP, due to above-target revenues (Fig 8). Revenues are anticipated at Rp2634t, +7% higher than the initial estimate, mainly due to higher income taxes and revenue from natural resources and state-owned enterprises. This outweighs the +2% upward revision to expenditure, implying that the budget deficit will come in slightly below 2% of GDP.

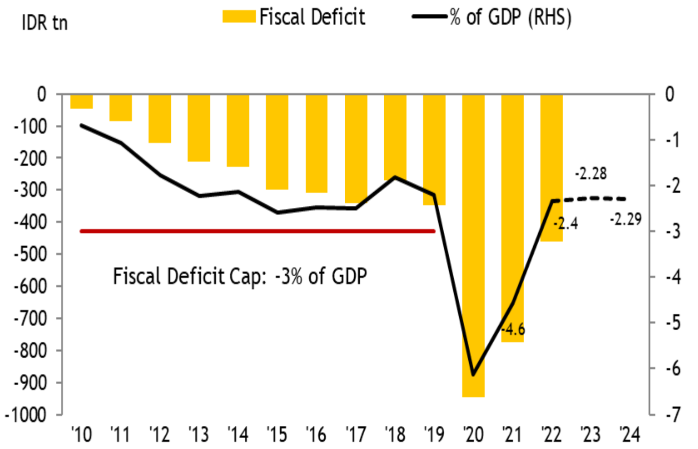
As of October, the year-to-date fiscal balance has swung to a small deficit of Rp0.7t (0.003% of GDP), much smaller than the 0.9% of GDP in 2022. Spending will rise significantly for the remainder of 2023, as the government spends on upcoming bills including the recent fiscal package. Fiscal outlays are typically higher in the fourth quarter, as authorities wait until auditors check bills for subsidies and projects.

Fig 7: Current Account Deficit Narrowed to -0.2% of GDP in 3Q 2023 With Smaller Services and Primary Income Deficits



Source: CEIC

Fig 8: Government Projects Fiscal Deficit at 2.3% of GDP in 2023 and 2024



Source: CEIC

4. Wildcards: Election Unrest, Deep China Downturn

A central risk is election-related unrest. There were brief protests and riots after the last election in 2019, in dispute over election results, which killed 8 and injured 600. The terrorism threat remains pertinent, with 59 suspected militants from Jemaah Islamiyah (JI) and Islamic State-linked Jamaah Ansharut Daulah (JAD) recently arrested for an alleged plot to disrupt the elections. Tensions have also been brewing between President Jokowi and the ruling PDI-P over his tacit support of Prabowo. Several PDI-P ministers were considering to resign in protest, but were asked by Chairwoman Megawati to stay the course.

Another downside risk is a deeper-than-expected China slowdown, which would hit exports and investment. China and Hong Kong are Indonesia's largest investor, accounting for 30% of total FDI in 2022. About 23% of Indonesia's goods exports went to China in 2022, with the top commodities being iron and steel, coal, palm oil and nickel. A China downturn will also pressure commodity prices, magnifying the negative impact on export earnings, the current account balance and the Rupiah.

Table 1: Indonesia - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**-2.1**	**3.7**	**5.3**	**5.0**	**5.1**	**5.2**
Private Consumption (%)	-2.6	2.0	4.9	4.6	5.0	5.2
Government Consumption (%)	2.1	4.2	-4.5	4.0	5.0	4.8
Gross Fixed Capital Formation (%)	-5.0	3.8	3.9	4.0	3.8	4.9
Exports of Goods & Services (%)	-8.4	18.0	16.3	2.0	8.3	7.2
Imports of Goods & Services (%)	-17.6	24.9	14.7	-0.9	7.5	7.4
Current Account Balance (% of GDP)	-0.4	0.3	1.0	-0.4	-0.5	-0.7
Fiscal Balance (% of GDP)	-6.1	-4.6	-2.4	-1.9	-2.3	-2.3
Inflation Rate (%, period average)	2.0	1.6	4.2	3.7	3.0	3.0
Unemployment Rate (%, end-period)	7.1	6.5	5.9	5.3	5.1	5.1
Exchange Rate (per USD, end-period)	14,050	14,253	15,568	15,500	14,600	14,000
BI Policy Rate (% p.a., end-period)	3.75	3.50	5.50	6.00	5.25	4.75

Note: Unemployment rate is released bi-annually, in February and August.

Source: CEIC, Maybank IBG Research

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ECONOMICS

Malaysia

Malaysia

"Take off" for the "Transition"

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A year of "Take Off" for the "Transition"

July-Oct 2023 saw blueprints, masterplans, roadmaps and legislations for the medium-to-long-term economic "transition" i.e. MADANI Economy (27 July 2023); National Energy Transition Roadmap (NETR - Part 1 on 27 July 2023; Part 2 on 29 Aug 2023); New Industrial Master Plan (NIMP2030, 1 Sep 2023); 12th Malaysia Plan Mid-Term Review (12MP MTR, 11 Sep 2023); Hydrogen Economy & Technology Roadmap (HETR, 5 Oct 2023); Fiscal Responsibility Act and Energy Efficiency & Conservation Act (FRA and EECA, 11 Oct 2023).

2024 should be the "take off" year i.e. execution and implementation of the above, with fiscal reforms and economic restructuring high on the agenda. Key element of fiscal reform in 2024 is targeted fuel subsidy rationalisation to achieve lower budget deficit and government debt (as % of GDP) as per 12MP MTR and MADANI Economy, and legislated by FRA, as well as reduce emissions and develop EV ecosystem under NETR and NIMP2030. The main item under economic restructuring is Progressive Wage Policy (PWP) to address the cost of living, adequacy of retirement savings and equality issues i.e. raise workers income and labour share of GDP next 10 years, which are 12MP MTR, NIMP2030 and MADANI Economy targets.

More "Follow-Up" Policies, Legislations, Measures

There will also be sector/industry-specific policy announcements and measures plus legislations as "follow ups" e.g. Government Procurement Act (GPA); establishment of renewable energy (RE) exchange; blueprints for High-Value, High Growth (HVHG) sectors and industries (e.g. tech & digital; modern agriculture & agro-based; rare earth elements); and updated National Automotive Policy (NAP). In addition, Malaysia and Singapore is scheduled to ink the MoU on the Johor-Singapore Special Economic Zone (SEZ) on 11 Jan 2024.

Translating into Firmer Growth in 2024

Despite the outlook of slower global economic growth (2024E: +2.8%; 2023E: +3.3% in 2023), we expect Malaysia's real GDP growth to be firmer (2024E: +4.4%; 2023E: +3.9% in 2023), underpinned by resilient consumer spending, pick up in Government consumption and private investment, plus recoveries in trade-related services and manufacturing industries, namely tourism and electronics. Consequently, 2024 economic growth will be driven primarily by private consumption (2024E: +5.1%; 2023E: +4.9%), Government consumption (2024E: +4.1%; 2023E: +3.2%) and private investment (2024E: +5.3%; 2023E: +5.0%) amid rebounds in exports (2024E: +3.2%; 2023E: -7.7%) and imports (2024E: +3.8%; 2023E: -7.5%) of goods and services, plus services (2024E: +5.7%; 2023E: +5.5%) and manufacturing (2024E: +3.0%; 2023E: +1.0%) sectors.

Wildcard - "Political Will" is Key…

"Political will" is key for restructuring and reforms, especially on fuel subsidy rationalisation. The next general election in four years' time, sub-2% monthly inflation rate currently and FRA's fiscal targets are the "carrots and sticks" to execute and implement. Exact details on timing and mechanics of targeted fuel subsidy rationalisation are still pending, but we need to see 1) strict enforcement is needed to address serious diesel subsidy leakage; 2) rollout of Central Database Hub (PADU) to "means-testing" eligibility for targeted RON95 subsidy; and 3) gradual adjustments in fuel prices to mitigate impact on inflation, which we expect to re-accelerate (2024E: +3.0%; 2023E: +2.6%), hence our view of BNM keeping the Overnight Policy Rate (OPR) at 3.00% in 2024.

1. 2024 “Take Off” after 2023 “Transition”

1.1 “Transition” in 2023

2023 started with the fifth government in charge since 2018 following the 15th General Election (GE15, 19 Nov 2022). However, with the Unity Government led by Prime Minister (PM) Datuk Seri Anwar Ibrahim controlling two-thirds majority in the Parliament i.e. 147 MPs from the ruling coalition plus 5 Opposition MPs (from Bersatu party) supporting PM, we see a “transition” to political stability, at least until the next general election which is not due until within 60 days after 18 Dec 2027 when Parliament “auto-dissolves” i.e. completion of full five-year term after the start of current Parliament on 19 Dec 2022.

2023 also saw a flurry of blueprints, masterplans, roadmaps and legislations – notably between July and Oct - that aim to “transition” the economy over the medium to long term. These include MADANI Economy (27 July 2023), National Energy Transition Roadmap (NETR - Part 1 on 27 July 2023 and Part 2 on 29 Aug 2023), New Industrial Master Plan (NIMP2030, 1 Sep 2023), 12th Malaysia Plan Mid-Term Review (12MP MTR, 11 Sep 2023), Hydrogen Economy & Technology Roadmap (HETR, 5 Oct 2023), as well as Fiscal Responsibility Act and Energy Efficiency & Conservation Act (FRA and EECA, 11 Oct 2023).

1.2 “Take off” in 2024

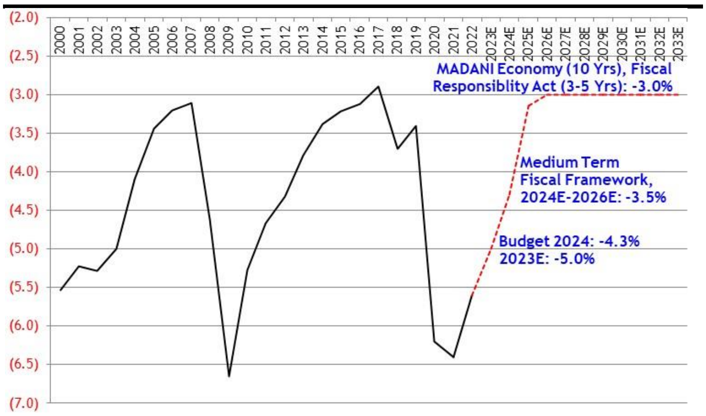
2024 should be the “take off” year i.e. execution and implementation of the blueprints, masterplans and roadmaps, with fiscal reforms and economic restructuring high on the agenda.

The key element of fiscal reform in 2024 is the targeted rationalisation of fuel subsidy, which is the largest item in Government spending on subsidies and social assistances (Fig 1) to realise the targets in 12MP MTR and MADANI Economy – and legislated by FRA - to lower budget deficit, as per Budget 2024 (4.3% of GDP vs the estimated 5.0% of GDP in 2023), the Medium-Term Fiscal Framework (2024-2026 average: 3.5% of GDP), and ultimately capping deficit spending to no more than 3% of GDP under FRA and MADANI Economy (Fig 2). This is on top of FRA’s target to lower Government’s total debt to 60% of GDP in 3-5 years’ time (end-3Q 2023: 62.5%; end-2023E: 63%; 2024E: 64%; Fig 3). Furthermore, blanket fuel subsidy is at odds with NETR and NIMP2030, especially in relation to the overall objective of net zero greenhouse gas (GHG) emission by 2050 (*note: in 2019, road transport contributes to 85% of total transport emissions, and transport accounts for 21% total emissions in Malaysia*), as well as specific targets on EV ecosystem like 1) raising the electric vehicle (EV) shares of new vehicles sales to 20% by 2030, 50% by 2040 and 80% by 2050[10] (vs <1% currently), and 2) building 10,000 EV charging stations nationwide by 2025 (vs 1,434 EV charging stations nationwide currently[11]).

Fig 1: Subsidies and Social Assistances in 2022

Sources: Bank Negara Malaysia

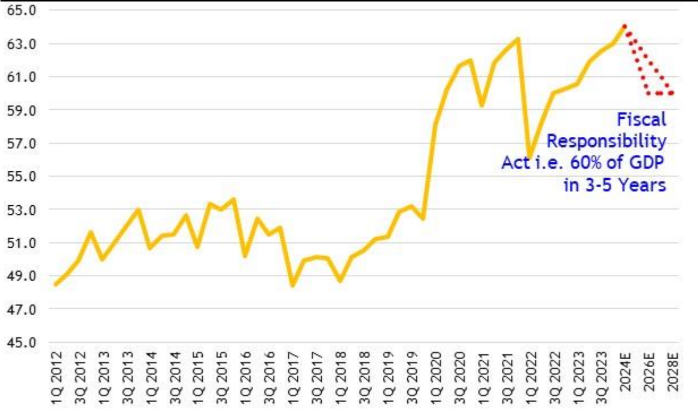
Fig 2: Budget Deficit to GDP (%)



Sources: Bank Negara Malaysia, Department of Statistics, Ministry of Finance (Fiscal Outlook 2024), Fiscal Responsibility Act, MADANI Economy

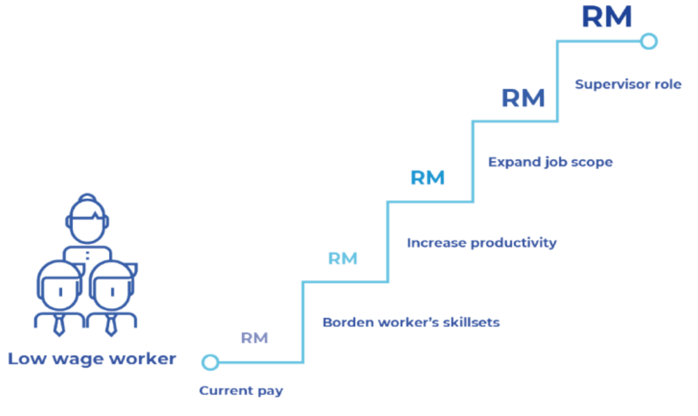
[10] https://paultan.org/2023/11/24/malaysia-targets-evs-and-hybrids-to-make-up-50-of-new-car-sales-by-2040-80-by-2050-tengku-zafrul/
[11] https://www.planmalaysia.gov.my/mevnet/

Fig 3: Government Total Debt to GDP (%)



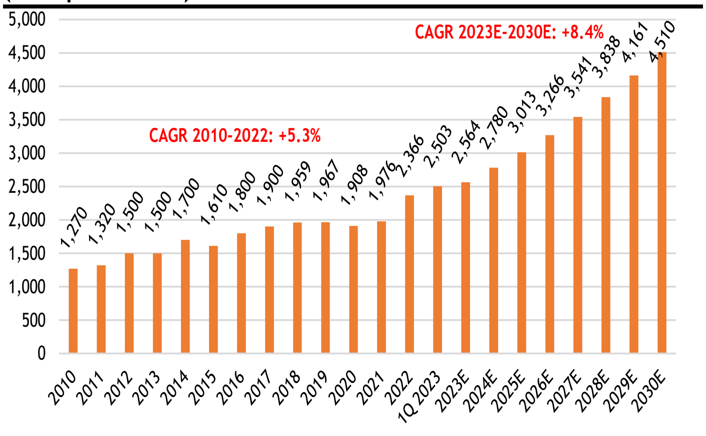
Sources: Bank Negara Malaysia, Department of Statistics, Ministry of Finance (Fiscal Outlook 2024), Fiscal Responsibility Act

Fig 4: Progressive Wage Policy



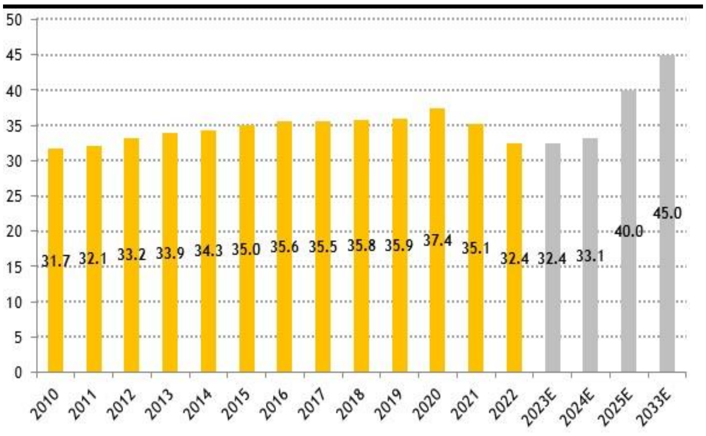
Source: NIMP2030

Fig 5: Manufacturing Sector Median Monthly Wage/Salary (MYR per month)



Sources: NIMP2030

Fig 6: Labour (Compensation of Employees) Share of GDP (%)



Sources: Department of Statistics, Ministry of Finance (Economic Outlook, 2024), MADANI Economy

On economic restructuring, the main "event" is Progressive Wage Policy (PWP, Fig 4) as the key labour market policy intervention/measure to address the economic, social and political issues of cost of living, adequacy of retirement savings and equality i.e. raise workers income (Fig 5) and ultimately labour share of GDP over the next 10 years (Fig 6), which are the targets under 12MP MTR, NIMP2030 and MADANI Economy.

The White Paper on PWP was tabled at the Parliament on 30 Nov 2023, and key takeaways and highlights include 1) PWP is optional via voluntary participation of employers and complements the mandatory Minimum Wage of MYR1,500 per month by covering *local workers* earning above the Minimum Wage and up to MYR4,999 per month; 2) PWP subsidises workers' wage increases by *MSME* (i.e. excluding MNCs and GLCs) who are qualified and registered as "Progressive Wage Employers" for 12 months with monthly incentive of up to MYR200 for entry-level workers and up to MYR300 for non-entry level workers; and 3) wage increases under PWP is productivity-based, thus committing workers to raise productivity, improve skills via Government-recognised training courses and programmes, and expand job scopes. In terms of PWP's implementation timeline, there will be engagement sessions between the stakeholders (i.e. representatives of government, employers and workers), development of PWP registration, selection and monitoring systems, and publication of proposed guidelines on annual wage increases in 1Q 2024; registration and selection of employers for the PWP pilot programme in Apr-May 2024; implementation of PWP pilot programme in July-Sep 2024; and assessment of the PWP pilot programme in Sep 2024.

2. “Follow Up” Policies, Legislations, Measures

We also expect to see further policy announcements to complement - and as follow ups to - the “macro” or “big-picture” blueprints, masterplans and roadmaps, especially at sector/industry levels. These include:

- **Government Procurement Act (GPA)** is the next key legislative measure after FRA to further enhance fiscal governance and strengthen discipline and oversight in public finance. It is expected to be tabled at the Parliament in 2Q 2024. GPA is to improve governance in public spending and contracts, including via open tender as well as compulsory audit and accountability in large-value procurement/contracts. The legislation is in line with the MADANI Economy target to improve Malaysia’s position in the Global Corruption Perception Index to Top-25 in 10 years’ time (2022: #61).
- **Establishment of a renewable energy (RE) exchange** as a marketplace and aggregator to facilitate RE pricing and trade both domestically and cross-border. This is a crucial next step following earlier key RE policy moves such as adjustments of RE tariffs to better reflect local and international market pricing; raising RE quota and installed capacity targets; and as well as abolishing RE export ban.
- **Releases of blueprints for High-Value High Growth (HVHG) sectors and industries** that provide details on sector/industry-specific targets, incentives, initiatives and pilot/flagship/catalytic projects. After such blueprints for the electronics and electrical (E&E) industry and energy transition-based industry embedded in NIMP 2030 and NETR respectively, the next blueprint is for technology and digital-based industries that aims to intensify the development of start-ups and attract global technology companies to Malaysia, which is expected to be out in Feb 2024. This will be followed by blueprints for modern agriculture and agro-based industry and the rare earth industry.
- **The next installment of National Automotive Policy (NAP) after the last “update” back in 2020**. We expect the next version of NAP to further advance the policy focus and facilitations on EV ecosystem in support of NETR and NIMP 2030. We will also be looking at measures like vehicle “end of life” or “scrapping” policy for both internal combustion engine (ICE) vehicles and EV, coupled with specific incentives for EV as replacement for ICE vehicles under the “end of life” or “scrapping” policy.

In addition, Malaysia and Singapore is scheduled to sign the Memorandum of Understanding (MoU) on the Johor-Singapore Special Economic Zone (SEZ) on 11 Jan 2024. The SEZ aims to further enhance the long-standing economic ties between the two neighbouring countries, among others by strengthening the ecosystem of the Iskandar development region and Singapore; increase the flows of investments/capitals, goods and people between the two sides of the Causeway; and what we see as the focus industries/sectors as well as areas of cooperations/collaborations like RE, tourism, environment, innovation, education and finance (taking cue from the designation of Johor’s Forest City as Special Financial Zone that was announced in Aug 2023, with incentives that include special income tax rate of 15& for skilled workers and multiple entry visas).

Another policy announcement pending that is worth mentioning here is the review of plantation sector’s windfall profit levy. Currently, the levy is presently charged at a rate of 3% on crude palm oil (CPO) prices above MYR3,000/tonne in Peninsular Malaysia and above MYR3,500/tonne in Sabah & Sarawak. To note, the 2023 Shadow Budget of Pakatan Harapan (PH – the main group in the current coalition Government) proposed reverting the levy on Sabah and Sarawak to the original 1.5% as well as raising the CPO price thresholds for the imposition of the levy to above MYR3,500/tonne for Peninsular Malaysia and above MYR4,000/tonne for Sabah and Sarawak.

3. Translating Into Firmer Growth

3.1 Domestic growth pick up despite slower global growth

Despite our forecast of slower global economic growth (2024E: +2.8%; 2023E: +3.3% in 2023) that is mainly due to the projected slowdowns in US (2024E: +1.0%; 2023E: +2.2%) and China (2024E: +4.4%; 2023E: +5.2%), we expect firmer domestic real GDP growth (2024E: +4.4%; 2023E: +3.9%), underpinned by resilient consumer spending, pick up in Government consumption and private investment, plus recoveries in the trade-related services and manufacturing industries, namely tourism and electronics. Consequently, 2024 economic growth will be driven primarily by private consumption (2024E: +5.1%; 2023E: +4.9%), Government consumption (2024E: +4.1%; 2023E: +3.2%), private investment (2024E: +5.3%; 2023E: +5.0%) amid rebounds in exports (2024E: +3.2%; 2023E: -7.7%) and imports (2024E: +3.8%; 2023E: -7.5%) of goods and services, plus services (2024E: +5.7%; 2023E: +5.5%) and manufacturing (2024E: +3.0%; 2023E: +1.0%) sectors.

Fig 7: Malaysia: Real GDP (% Chg / % YoY)

	ACTUAL					MAYBANK IBG			OFFICIAL	
	2022	1Q 2023	2Q 2023	3Q 2023	9M 2023	2023E	2024E	2025E	2023E	2024E
Real GDP	**8.7**	**5.6**	**2.9**	**3.3**	**3.9**	**3.9**	**4.4**	**5.0**	**4.0**	**4.0-5.0**
Services	10.9	7.3	4.7	5.0	5.7	5.5	5.7	6.0	5.5	5.6
Manufacturing	8.1	3.2	0.1	(0.1)	1.1	1.0	3.0	4.3	1.4	4.2
Agriculture	0.1	1.0	(1.1)	0.8	0.3	0.5	1.7	1.7	0.6	1.2
Mining	2.6	2.4	(2.3)	(0.1)	0.0	0.2	0.8	1.0	(0.8)	2.7
Construction	5.0	7.4	6.2	7.2	7.0	6.8	6.5	6.5	6.3	6.8
Domestic Demand	9.2	4.6	4.5	4.8	4.6	4.8	4.9	5.5	4.9	5.3
Private Consumption	11.2	5.9	4.3	4.6	4.9	4.9	5.1	5.5	5.6	5.7
Public Consumption	4.5	(2.2)	3.8	5.8	2.5	3.2	4.1	4.7	1.0	2.6
Gross Fixed Capital Formation	6.8	4.9	5.5	5.1	5.2	5.5	5.1	6.0	5.1	6.1
Private Investment	7.2	4.7	5.1	4.5	4.8	5.0	5.3	5.8	4.3	5.4
Public Investment	5.3	5.7	7.9	7.5	7.0	7.3	4.3	6.6	8.2	8.3
Net External Demand	(1.0)	54.4	(3.7)	(22.7)	2.8	(9.8)	(4.8)	(7.1)	1.1	5.5
Exports of Goods & Services	14.5	(3.3)	(9.4)	(12.0)	(8.4)	(7.7)	3.2	3.4	(6.2)	4.1
Imports of Goods & Services	15.9	(6.5)	(9.7)	(11.1)	(9.2)	(7.5)	3.8	4.1	(6.8)	3.9

Sources: Department of Statistics, Ministry of Finance (Economic Outlook 2024), Maybank IBG Research

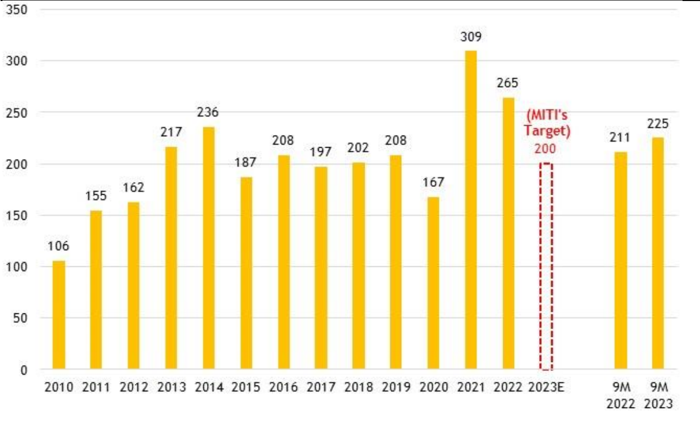
3.2 Domestic demand to benefit from policy measures

The outlook of resilience in consumer spending growth is predicated on factors like stable job market conditions (e.g. unemployment rate forecast of 3.4% in 2024 vs 3.5% in 2023), implementation of PWP, and consumer-friendly Budget 2024 measures such as the “special bonus” of between MYR1,000 and MYR2,000 for civil service employees and retirees to be paid in Feb 2024, and higher allocations for financial assistance programmes for low and low-middle income individuals/households e.g. Rahmah Cash Assistance (STR) raised to MYR10b in 2024 from MYR8b in 2023 with the minimum and maximum amount per eligible recipient raised to MYR500 and MYR3,700 respectively from MYR300 and MYR3,100 respectively; expand and extend the coverage of the MYR100 per month Basic Rahmah Contribution (SARA) to 700,000 recipients (from 200,000 recipients) and to 12 months (from 6 months).

Investment growth momentum are expected to be sustained, reflecting 1) higher Budget 2024’s gross development expenditure allocation of MYR90b (vs MYR83.6b in 2023 i.e. after taking out the USD3b redemption of 1MDB bond from the MYR97b total); 2) realisation of the robust approved private sector investments (Fig 8-9) – which at MYR225b in 9M 2023 exceeded full-year target of MYR200b - and is expected to remain strong in 2024, especially with the MYR347b potential FDIs garnered from Prime Minister’s trips and MITI’s missions to China, US, Japan, South Korea, Singapore and the Middle East (i.e. Saudi, UAE); and 3) progress in the on-going major infrastructure projects [e.g. Klang Valley Light Rail Transit 3 (KVLRT3); East Coast Rail Link (ECRL); Pan Borneo Highway (PBH); Johor Bahru-Singapore Rail

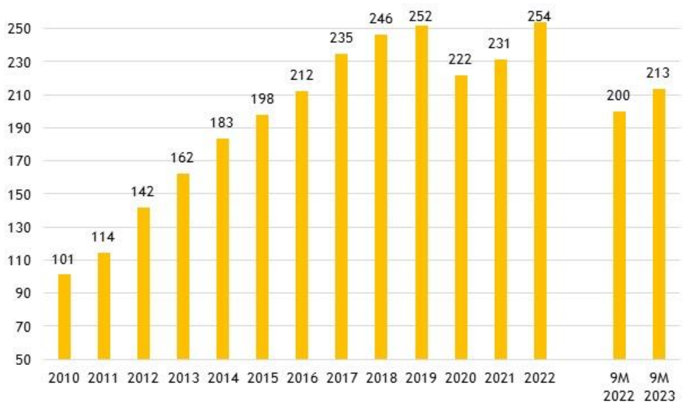
Transit System (JB-SG RTS); MyDIGITAL 5G], and the upcoming and potential new major infrastructure projects e.g. Klang Valley Mass Rapid Transit 3 (KVMRT3); five additional stations for KVLRT3; Penang LRT; Penang and Johor Bus Rapid Transits (BRT); Subang, Penang and Tawau Airports expansions; new Kota Kinabalu (Sabah) International Airport; Sarawak-Peninsular Malaysia Submarine Power Cable; as well as MYR11.8b for nationwide flood mitigation.

Fig 8: *Approved* Private Sector Investment (MYRb)



Source: Malaysian Investment Development Authority (MIDA)

Fig 9: *Actual* Private Investment (MYRb)

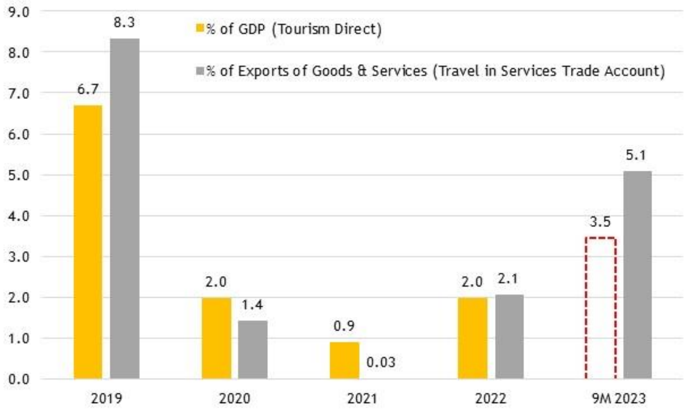


Source: Department of Statistics

3.3 Tourism and Technology to spur exports rebound

Our forecast of rebound in exports of goods and services mainly reflects the continuing recovery in tourism (Fig 10) and the emerging recovery in electronics cycle (Fig 11). To note, the government on 27 Nov 2023 announced visa-free entry to citizens of China and India for stays of up to 30 days starting 1 Dec 2023 until 31 Dec 2024 to boost inbound tourists and further support the tourism industry's post-pandemic recovery. Meanwhile, the World Semiconductor Trade Statistics (WSTS) reported that global chip sales stabilised in Sep 2023 at +0.3% YoY after 14 straight months of decline. Further, WSTS expects global semiconductor sales to rebound by +11.8% in 2024 (2023E: -10.3%) which augurs well for the outlook of Malaysia's electronics – specifically semiconductor – exports.

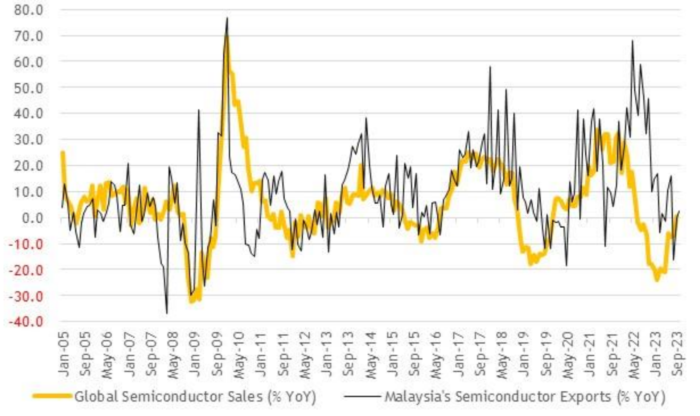
Fig 10: Tourism's Contribution to GDP and Exports of Goods & Services



Note: Tourism direct contribution to GDP for 9M 2023 is estimate by Maybank IBG Research as official data is available on annual basis.

Source: Department of Statistics

Fig 11: Global Semiconductor Sales vs Malaysia's Semiconductor Exports (% YoY)



Source: Bloomberg, Department of Statistics

4. Wildcard – "Political Will"...?

"Political will" is key in any medium-to-long-term economic restructuring and reforms, especially with the politically unpopular rationalisation of the long-standing fuel subsidy. Timing wise, the government "can do" it because of the "political runway" of four years before the next general election i.e. not due until within 60 days of 18 Dec 2027 when current Parliament "auto-dissolves" on completion of the full five-year term from the start of current Parliament on 19 Dec 2022.

And the government "have to do" it because of the FRA targets on budget deficit and Government total debt reductions (re: Figs 2-3). Furthermore, things have already moved in 2023 as far as subsidy rationalisation is concerned i.e. the targeted electricity bill subsidy since the start of 2023 that excluded MNCs, high-and-medium voltage industrial and commercial users as well as 83,000 domestic/residential users (of total 8.1m) with monthly electricity consumption of over 1,500 kilowatt hours (kWh); the removal of chicken price ceiling - and thus subsidy - on 1 Nov 2023.

In addition, with monthly inflation rate decelerating to low-single digit i.e. sub-2% YoY since Sep 2023, there is the window of opportunity to execute the targeted subsidy rationalisation.

The exact details on the timing and mechanics of targeted fuel subsidy rationalisation are also still pending, but there is urgent need to address the serious leakage amounting to MYR10b of the MYR18b annual cost of diesel subsidy via strict enforcement.

In addition, the Central Database Hub (PADU) will be key in "means-testing" eligibility for targeted RON95 subsidy based on net disposable income. PADU was announced in May 2023. It combines 270 databases from ministries, federal government agencies, state governments and statutory bodies through data-sharing agreements to consolidate and centralise the socio-economic information of individuals/households in the country. According to the Economy Minister, PADU is 72% complete as of late-Oct 2023, and is currently (Nov-Dec 2023) undergoing system tests and trial runs before being made accessible to the public during 1Q 2024 for information updates and verifications prior to it being fully operational.

The fuel subsidy rationalisation – and hence the adjustment in fuel prices – must also be gradual to mitigate impact on inflation, which we expect to re-accelerate (2024E: +3.0%; 2023E: +2.6%), hence our view of BNM keeping the Overnight Policy Rate (OPR) at 3.00% in 2024. We estimated every 10 sen per litre hike in fuel prices can push up annual inflation rate by as much as +0.3 percentage point.

Fig 12: Malaysia - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**(5.5)**	**3.3**	**8.7**	**3.9**	**4.4**	**5.0**
Private Consumption (%)	(3.9)	1.9	11.2	4.9	5.1	5.5
Government Consumption (%)	4.1	6.4	4.5	3.2	4.1	4.7
Gross Fixed Capital Formation (%)	(14.4)	(0.8)	6.8	5.5	5.1	6.0
Exports of Goods & Services (%)	(8.6)	18.5	14.5	(7.7)	3.2	3.4
Imports of Goods & Services (%)	(7.9)	21.2	15.9	(7.5)	3.8	4.1
Current Account Balance (% of GDP)	4.2	3.9	2.6	2.0	2.1	2.0
Fiscal Balance (% of GDP)	(6.2)	(6.4)	(5.6)	(5.0)	(4.3)	(3.3)
Inflation Rate (%, period average)	(1.2)	2.5	3.3	2.6	3.0	3.0
Unemployment Rate (%, period average)	4.5	4.6	3.9	3.5	3.4	3.3
Exchange Rate (per USD, end-period)	4.02	4.17	4.40	4.70	4.40	4.25
10-Year Government Bond Yield (%, end-period)	2.65	3.59	4.00	3.80	3.30	3.30
Benchmark Interest Rate (% p.a., end-period)	1.75	1.75	2.75	3.00	3.00	3.00

Source: CEIC, Maybank IBG Research

Philippines

Managing Challenges to Keep the Growth Momentum

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Domestic demand to drive growth

After the grueling, elevated inflation rate and aggressive interest rate hikes in 2023, we expect the Philippines economy to grow at a faster clip in 2024 at +6.5% (2023E: +5.8%). We envisage growth to be driven by domestic demand, supported by resilient private consumption, stable employment and continued infrastructure drive with 197 Infrastructure Flagship Project (IFP) under the "Build Better More" initiatives. The aggressive monetary policy tightening and series of non-monetary measures are in place to ensure inflation expectations anchored, together with sufficient supply of food. We expect growth to pick up speed in 2H 2024 as we expect BSP to start cutting the policy rate in 3Q 2024 from 6.50% to 5.75% by end-2024.

Inflation: Upside risk due to supply shocks

Monthly headline inflation in Philippines has stayed above BSP's upper end of the 2.0-4.0% target for 20 months now (since Apr 2022 up to Nov 2023) due to elevated global food and fuel prices from the Russia-Ukraine conflict, weakening Peso against USD as well as demand-pull inflationary pressure from the robust economic growth. BSP reacted with a +25bps rate hike in May 2022 and end up raising the policy rate by total of +350bps in 2022 and subsequently by another +100bps in 2023. While we expect headline inflation to move within BSP's target range by 1Q 2024, there are upside risks due to supply shocks from the impact of El Nino and the insufficient domestic agriculture sector to meet domestic demand.

Addressing the imbalances

The Philippines has persistent deficits in both the fiscal and current accounts (CA). The fiscal deficit shrank to -5.7% of GDP in 9M 2023 (2022: -7.3% of GDP) as revenues grew at higher pace than expenditure. This is expected to continue as the government proposed new tax measures such as the excise tax on sweetened beverages and junk food; VAT on digital service providers; and mining fiscal regime. The CA deficit narrowed to -4.0% of GDP in 1H 2023 (2022: -4.6% of GDP) attributed to smaller goods account deficit and larger services account surplus. At the same time, as at end-Sep 2023, the debt-to-GDP ratio stood at 60.2%; with government debt growth moderated to +5.6% YoY in Sep 2023 (2022: +15.0%).

Wildcards - Tourism, FDI and Rice Inflation

Three factors that could sway growth in 2024, namely recovery in the tourism industry, Foreign Direct Investment (FDI) inflows and rice inflation. The performance of the tourism industry in 2023 has been below expectations, with the number of tourists in 11M 2023 stood at 4.82m (2022: 2.65m; 2019: 8.26m); mainly due to lower-than-expected tourists from China. On FDI, the country only attracted USD5.45b FDI in 8M 2023 (8M 2022: USD6.26b); despite the legislative reforms introduced. With rice accounting for 8.9% of the national CPI basket, rice inflation brings upside risk to headline inflation due to the inability of local agriculture production to meet domestic demand.

1. Domestic Demand to Drive Growth

1.1 Private consumption to remain resilient

Private consumption growth has been hit by the rising and elevated inflation as well as policy interest rate and with 77.0% share of GDP in 9M 2023, slowdown in private consumption will drag real GDP growth. We expect private consumption to maintain the pace of +5.5% in 2024 (2023E: +5.5%; 2022: +8.3%) (Fig 11), as we anticipate it to recover in 2H 2024 in line with expectation that BSP will cut the policy interest rate by -75bps in 2H 2024. "Food and Non-Alcoholic Beverages" (FNAB) continues to dominate household spending with 36.1% share in 9M 2023. The last two years saw surge in spending on services such as "Transport" (9M 2023: +18.7%; 9M 2022: +19.8%), "Recreation & Culture" (9M 2023: +21.7%; 9M 2022: +31.8%) and "Restaurants & Hotels" (9M 2023: +20.5%; 9M 2022: +29.5%) attributed to revenge spending on services as consumers take advantage of the opening of the economy. We expect spending on these three services to gradually normalise towards single digit growth in 2024.

Private consumption will also be supported by the robust Overseas Filipino Workers Remittances (OFWR), which hit a record USD36.14b in 2022 (9M 2023: USD24.5b). Headline inflation is also moderating with the latest print at +4.1% YoY in Nov 2023 (11M 2023: +6.2% YoY), with core inflation easing to +4.7% YoY (11M 2023: +6.8% YoY), hence expect this to be favorable to consumers disposable income.

1.2 Employment stable but informal employment is high

During pre-Covid period (2016-2019), employment grew at annual average of +1.8%, kept low mainly by the average -4.9% decline in agriculture employment. The construction sector nevertheless remained the fastest growing employment with annual average employment growth of +11.1% during the period, supported by the infrastructure drive under the previous administration. We expect this to continue as President Marcos Jr also embark on infrastructure drive under the "Build Better More" initiatives. Post Covid (2020-Sep 2023), employment expanded +6.3%, driven by the +8.0% growth in services sector (supported by the recovery in tourism industry) and +7.2% growth in construction employment during the period.

For Jan-Oct 2023, the economy added +1.97m jobs (2022: +3.34m), mainly contributed by the services sector with +1.51m new jobs (2022: +2.47m). The services sector remained the largest contributor to employment with 59.4% share of total employment, mainly in the "wholesale & retail trade" with 35.7% share of total services employment during the period.

While total employment increased from 41.9m in 2019 to 47.8m in Oct 2023, the number of employment in the informal sector increased from 14.8m in 2019 to 17.9m in 10M 2023, comprising 37.4% of total employment. As those employed in the informal sector do not have employment or wage contract, they would not benefit from minimum wage hikes order. The International Labor Organization (ILO) defines the informal economy as "independent, self-employed, small-scale producers and distributors of goods and services". Hence, despite unemployment rate in Philippines currently back to pre-Covid level at 4.6% for 10M 2023, the number of employment in the informal sector is still elevated.

1.3 Infrastructure: "Build Better More" (BBM)

For 2024, PHP1.418tr is allocated for the BBM program, +6.6% higher than the 2023 allocation of PHP1.33tr. There are currently 197 Infrastructure Flagship Project (IFP) which are in various stages of implementation, mainly focused on physical connectivity, which comprise 61.4% of total number of IFPs (Fig 1). Funding wise, Official Development Assistance (ODA) funds 78 of the IFPs with 52.6% share of total costs, 39 IFPs with 25.1% of total costs are financed via Public-Private Partnership (PPP) and 62 IFPs with 16.7% of total costs under the General Appropriation Act (GAA).

The infrastructure drive is supporting employment in construction sector, which rose from 2.2m in 2012 to 3.4m in 2016 and 4.5m for 10M 2023; which is the fastest growing employment for the past 10 years at +7.5% (+9.4% if exclude year 2020).

We expect the BBM drive to continue supporting employment and economic growth, as well as attracting FDIs, as the government plans to maintain the infrastructure spending-to-GDP ratio at 5.0%-6.0% annually during 2023-2028 period (2022: 5.0% of GDP).

Fig 1: Infrastructure Flagship Projects

Sector	Previous Administration	Current Administration	Total No of Projects	Share (%) of total IFPs
Physical Connectivity	50	71	121	61.4
Water Resources	12	32	44	22.3
Agriculture	0	15	15	7.6
Health	4	2	6	3.0
Digital Connectivity	4	1	5	2.5
Power and Energy	1	0	1	0.5
Other Infrastructure	2	3	5	2.5
TOTAL	**73**	**124**	**197**	**100.0**

Source: National Economic and Development Authority (NEDA), as of Aug 2023

2. Inflation: Upside Risk From Supply Shocks

2.1 Managing upsides in FNAB inflation

In 2021, meat inflation surged to +15.9% (2020: +3.4%), attributed to the African Swine Fever (ASF) outbreak. In 2022, corn inflation surged to +27.2% (2021: +8.7%), attributed to domestic shortage of supply. In 2023, rice inflation rose +7.0% YoY for 11M 2023 (2022: +2.1%), attributed to India's decision to ban exports of non-basmati rice. As FNAB carries the largest CPI weight at 37.7%, shocks to FNAB costs have a significant impact on headline inflation. While inflation moderated in recent months, we continue to see upside risks that could elevate food prices. These include the potential disruptions from El-Nino and other weather-related disruptions, the ongoing Russia-Ukraine war that could further interrupt food commodity supply, and the risk of Israel-Hamas war turning into Middle East instability that could adversely affect crude oil supply triggering surge oil prices.

Executive Order (EO) No. 10, which allows lower import tariff on pork, rice, corn and coal (expires on 31 Dec 2023) is expected to be extended in 2024 to ensure sufficient food supply for domestic use. Upon expiry of EO10, pork tariffs will increase from 15% to 30% for in-quota[12] and from 25% to 40% for out-quota, rice tariff to increase from 35% to 40% for in-quota and from 35% to 50% for out-quota, corn tariffs to increase from 5% to 35% for in-quota and from 15% to 50% for out-quota while coal tariff to increase from 0% to 7.0%.

2.2 Reviving the Agriculture sector

Agriculture sector is the second largest jobs provider in the Philippines with 23.0% share of total employment in 10M 2023 and 9.2% share of GDP. The share of spending on agricultural machinery (capital formation in durable equipment) of total durable equipment spending has been gradually rising from the average share of 0.4% in 2000-2010 to 1.0% in 2011-2022 (3Q 2023: 1.1%), indicating continuous efforts to ensure more efficient agriculture sector, and is also attributed to recovery spending/replacement due to the damages from typhoons that hit the country. The sector also has low output per employee as compared to other sectors, indicating labour intensive activities and low farm mechanisation. For Jan-Sep 2023, the output per employee for the agriculture is PHP41,523; significantly low as compared to PHP82,303 for construction, PHP112,812 for services, PHP169,612 for mining and PHP250,160 for manufacturing.

[12] *"In-Quota Tariff Rate" refers to the tariff rates for minimum access volumes committed by the Philippines to the World Trade Organization (WTO) under the Uruguay Round Final Act. "Minimum Access Volume" refers to the volume of a specific agricultural product that is allowed to be imported with a lower tariff as committed by the Philippines to the WTO under the Uruguay Round Final Act.*

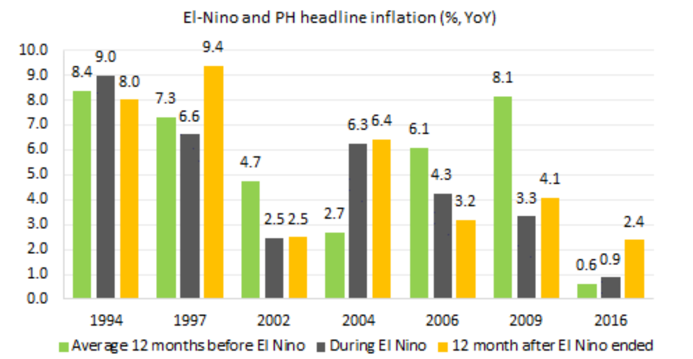
Agriculture sector is also key in providing raw materials to the manufacturing and service sectors, resulting in forward linkages in terms of higher-paying and more stable job opportunities. As manufacture of food products comprise almost half of domestic manufacturing output, inputs from agriculture sector are essential to support manufacturing activities. The Philippine Development Plan (PDP) 2023-2028 targets annual growth in the Agriculture's GVA[13] at 1.8%-3.3% for 2023-2028 (2022: +0.5%), with the ultimate objective of raising the level of income of farmers beyond the poverty threshold.

2.3 El Nino-agriculture loss and impact on inflation

The Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) declared on 4 Jul 2023 the onset of El Nino which is expected to bring dry spells, droughts and stronger typhoons; expected until mid-2024. This could result in declining agricultural production and lift food prices (Fig 2 & 3 depict headline and FNAB inflation during previous El Nino period). PAGASA also expects the provinces of Batangas, Cavite and Oriental Mindoro to experience drought starting end of Dec 2023.

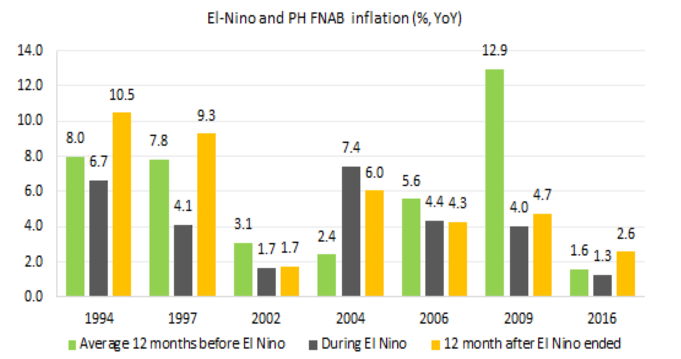
Since 1994, strong El Nino hit the country in 1997-1998, 2009-2010 and 2016, lasting between 6-14 months and affecting 596,421ha of average agriculture area with average production loss of 1.24m MT (Fig 4). During these 3 strong El-Nino years, average production loss for rice amounted to 571,990MT while for corn at 502,172MT. As 1997-1998 and 2009-2010 coincide with the recessions caused by the Asian financial crisis (AFC) and global financial crisis (GFC) respectively, the impact of El-Nino on inflation may not reveal the true picture. Nevertheless, in 2016, headline and FNAB inflation were +1.5ppt and +1.3ppt higher, respectively, during the period between El Nino and 12 months after El Nino ended.

Fig 2: El Nino and Philippines headline inflation



Source: *CEIC, Maybank IBG Research*

Fig 3: El Nino and Philippines FNAB inflation



Source: *CEIC, Maybank IBG Research*

Fig 4: Agriculture losses in Philippines caused by El Nino phenomenon (1994-2016)

El-Nino period	No. of month	Category	Total area affected (ha)	Production loss (volume, MT)		
				Total	Rice	Maize
1994-1995 *(Aug-Apr)*	9	Moderate	183,572	405,775	230,515	175,260
1997-1998 (Apr-May)	14	Strong	677,441	1,056,743	684,262	372,481
2002-2003 (Apr-Mar)	12	Moderate	159,043	340,938	247,254	93,684
2004-2005 (Jun-Feb)	9	Weak	204,688	349,762	34,651	315,111
2006-2007 (Aug-Feb)	7	Weak	224,419	321,164	25,411	292,072
2009-2010 (Jun-May)	12	Strong	555,102	1,180,000	540,469	623,579
2016 (Feb-Jul)	6	Strong	556,721	1,480,672	491,238	510,457

Source: Striking a Balance: Managing El Niño and La Niña in Philippines' Agriculture (World Bank, 2019)

[13] *Gross Value Added.*

3. Addressing the Imbalances

3.1 Fiscal deficits and new revenue measures

Fiscal deficit improved to -5.7% of GDP in 9M 2023 (2022: -7.3% of GDP; 9M 2022: -6.5% of GDP) as revenue expanded at higher pace than expenditure. In 2024, the total projected revenue will amount to PHP4.27tr with 95.3% are from taxes. These estimates include the projected revenue of PHP120.5b from the proposed new tax measures such as the excise tax on sweetened beverages and junk food, value added tax (VAT) on digital service providers and mining fiscal regime.

The VAT on digital service providers (such as Netflix and Spotify) is proposed at 12.0% and exemptions given to educational services, including online courses and webinars of private institutions. Digital service refers to any service that is delivered or subscribed over the internet or other electronic network. The government estimates that this VAT to collect PHP17.0b in new revenues in 2024.

The government is also pushing for the passage and implementation of the excise tax on sweetened beverages and junk food. This introduces a new tax on junk foods while raising the levy and expanding the tax base on sweetened beverages. For FY 2024, this will translate to PHP75.7b in additional tax revenue.

3.2 Current account (CA) deficit

The Philippines continue to be a net food and fuel importer, as local productions are insufficient to meet increasing domestic demand. Share of food imports from total goods imports increased to 13.9% in 2022 (2021: 13.2%) from 7.0% in 2000, while the share of fuel rose to 17.6% (2021: 12.5%) from 11.1% in 2000. The moderating global commodity prices help the CA to narrow this year. As at 1H 2023, the CA deficit stood at -USD8.2b or -4.0% of GDP (Fig 5) (2022: -USD18.1b or -4.6% of GDP).

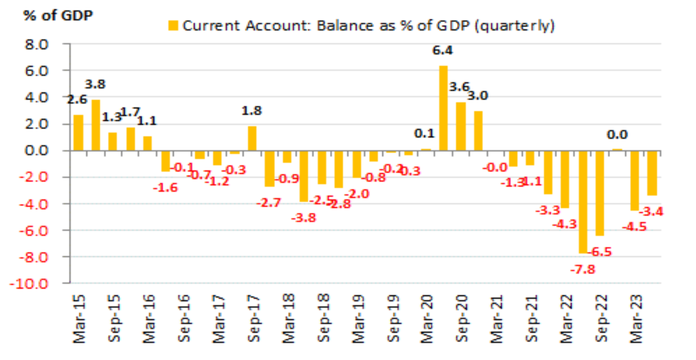
Exports of goods continue to trail imports of goods as the country embarked on aggressive infrastructure push and as the economy recovers from COVID-19 pandemic. As at end 1H 2023, deficit in the goods account was -USD33.2b (2022: -USD69.7b), too large to be offset by the surplus in services account of +USD15.9b) during the same period (Fig 6). We expect CA to remain in deficit in 2024, driven by persistent deficit in goods account, despite some possible improvements in surplus of the services and secondary income accounts.

3.3 Managing government debt

As at end-Sep 2023, debt-to-GDP ratio stood at 60.2%; with government debt growth moderated to 5.6% YoY in Sep 2023 (9M 2023: 8.5% YoY; 2022: 15.0%). Our debt-to-GDP ratio simulations based on various combinations of debt growth and real GDP growth (ceteris paribus) indicates that every 0.5ppt rise in real GDP growth will lower debt-to-GDP ratio by 0.3ppt. Hence, it is an incentive for the government to ramp up spending to ensure higher growth and arithmetically lower the debt-to-GDP ratio.

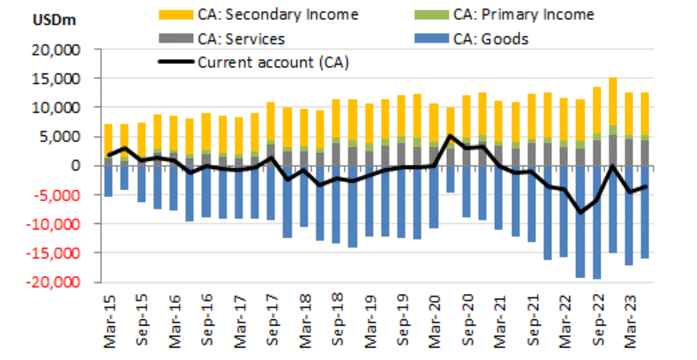
Under the Medium-Term Fiscal Framework (MTFF 2023-2028), the government plans to reduce the debt-to-GDP ratio to less than 60.0% by 2025, reduce the deficit-to-GDP ratio to 3.0% by 2028, while keeping infrastructure spending at 5.0%-6.0% of GDP (Fig 12). Hence, the fiscal consolidation plan will remain supportive to sustain economic growth momentum. Recent investment grade rating affirmation by both Fitch and S&P with “stable” outlook on the economy indicates strong medium term growth prospects together with expectations of improving fiscal performance.

Fig 5: Quarterly CA balance (% of GDP; 1Q 2015-2Q 2023)



Source: BSP, IMF, CEIC

Fig 6: Quarterly CA balance components (in USDm; 1Q 2015-2Q 2023)



Source: BSP, CEIC

4. Wildcards-Tourism, FDI and Rice Inflation

4.1 Tourism-below expectations so far

Tourism is one of the low hanging fruits that we thought would flourish when the economy reopens to tourism activities in Feb 2022. Nevertheless, the performance so far has been below expectations. For 11M 2023, the number of tourist arrivals stood at 4.82m (2022: 2.65m), which is still well off the 8.26m tourist arrivals in 2019. This is mainly attributed to the lower-than-expected tourist arrivals from China, which in 2019 comprise 21.2% share of total tourist arrivals (11M 2023: 5.0% share). The 11M 2023 period posted only 242,107 tourists from China (2019: 1.74m).

The number of employment in tourism industry rose from 2.64m in 2000 to 5.35m in 2022 (2019: 5.72m), with 11.4% share of total employment (2019: 13.6% share), mainly in the passenger transport sub-sector at 36.5% of total tourism employment (2019: 38.3%). Philippines' Tourism Direct Gross Value Added (TDGVA) rose from PHP208.8b (5.6% share of GDP) in 2000 to the high of PHP2.51tr (12.9% share of GDP) in 2019. In 2022, it stood at PHP1.38tr (6.2% share of GDP), indicating that the industry is yet to recover to achieve the pre-COVID level. Domestic tourism contributed the most to the sector with 80.3% share of tourism expenditure in 2022 (2019: 84.0%; 2018: 86.5%). While President Marcos Jr. has recently approved the National Tourism Development Plan (NTDP) for 2023-2028, which will serve as the blueprint and framework for the tourism industry, further details of the plan are still not made public.

4.2 FDI looks lethargic

Total foreign direct investments (FDI) picked up significantly in 2016 to USD8.28b as compared to annual average of USD2.92b during 2005-2015 (Fig 7 & 8). It has steadily increased to the recent peak of USD11.98b in 2021 but fell to USD9.37b in 2022. For 8M 2023, the country posted USD5.45b of FDI, which is lower than the corresponding period in 2022 (8M 2022: USD6.26b). These were channeled primarily in the manufacturing, construction, and real estate industries, and mainly from Singapore, Japan and US.

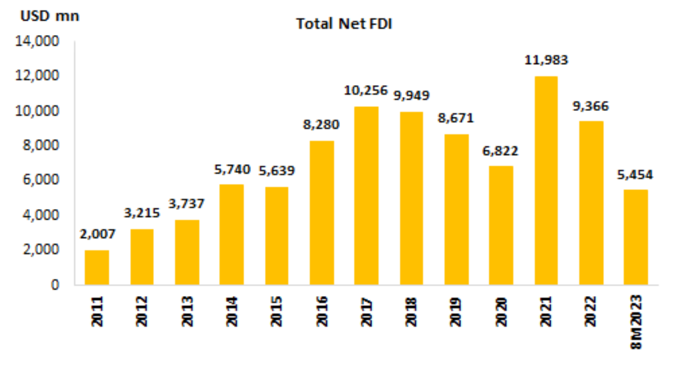
Manufacturing sector in the Philippines has the highest output multiplier at 2.43 together with the biggest backward and forward linkages at 1.33 and 2.97, respectively. Within the manufacturing sector, electrical equipment has the largest output multiplier at 2.73 vs food products at 2.28. As such, higher FDI in manufacturing has a huge potential as the catalyst to boost growth. FDI in the manufacturing sector accounts for 37.0% of total FDI (average 2011-8M 2023) in the Philippines. Hence, the government needs to promote and attract more high quality domestic direct investment (DDI) and FDI to set up more manufacturing activities in the country and provides jobs opportunities. The legislative reforms and improved infrastructure are expected to enhance Philippines position in the competitiveness ranking.

4.3 Rice inflation-needs long term solution

Rice production in the past 10 years has been hovering at annual average of 12.4m MT with average annual growth of +1.0%. At the same time, rice consumption grew at annual average of +2.5%. The insufficient domestic rice supply to meet increasing demand resulted in import growth at average +1.4% per year during the same period. The Philippines Rice Roadmap (PRIR) 2030 cited that hired labour, land rent and fertilizer accounted the most for the higher production cost in the Philippines as compared to Vietnam and Thailand. We expect the situation will linger in the short to medium term unless the government embarks on large scale rice production by increasing the harvests area and use high-yield seeds as well as modern farming technology to ensure higher output. Otherwise, rice inflation will remain upside risk to headline inflation as rice accounts for 8.9% of the national CPI basket.

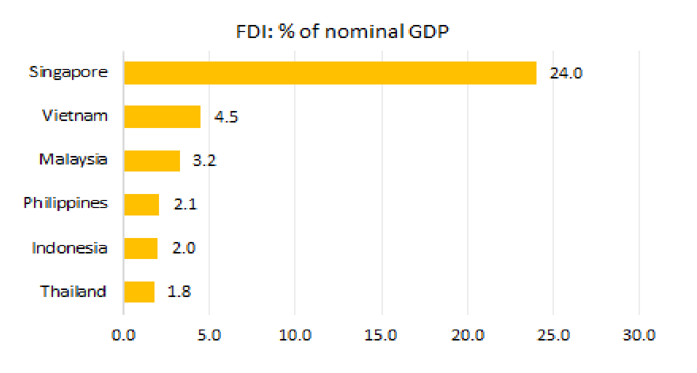
For 11M 2023, rice inflation stood at +7.0% YoY (2022: +2.1%) and previous years where rice inflation surge were in 2018 (+5.6%), 2008 (+22.0%), 2009 (+8.7%), 2005 (6.7%), 1995 (+13.5%) and 1996 (+19.2%). Self-sufficiency ratio for rice fell in 2022 to 77.0 (2021: 81.5%) from the high of 95.0% in 2016.

Fig 7: Philippines: Foreign Direct Investment (FDI)



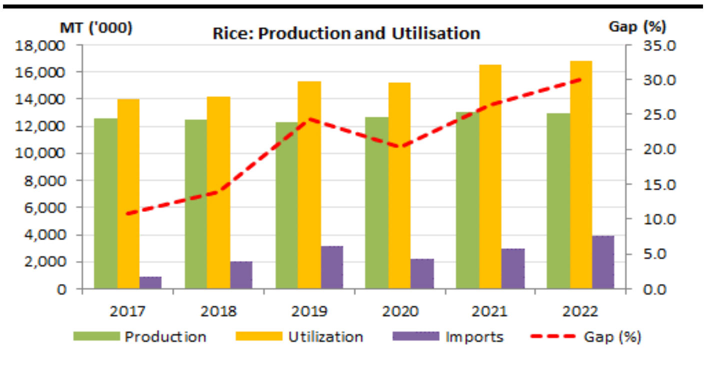
Source: CEIC

Fig 8: ASEAN: Total FDI as % of nominal GDP



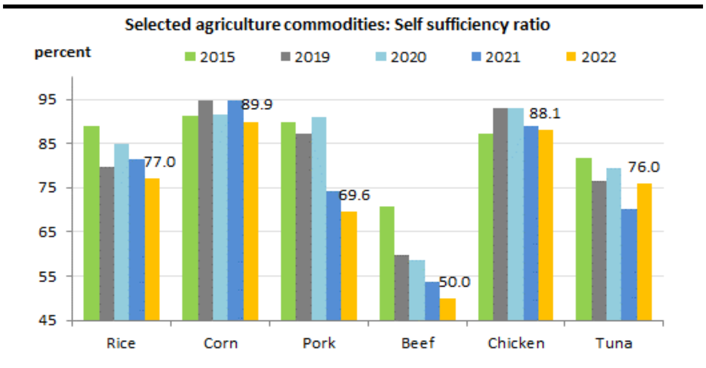
Source: CEIC

Fig 9: Rice production and utilisation



Source: The Agricultural Indicators System by PSA

Fig 10: Self-sufficiency ratio for selected agriculture products



Source: The Agricultural Indicators System by PSA

Fig 11: Philippines: Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (growth, %)	(9.5)	5.7	7.6	5.8	6.5	6.2
By Expenditure (growth, %):						
Private Consumption	(8.0)	4.2	8.3	5.5	5.5	6.4
Government Consumption	10.5	7.2	4.9	3.5	6.2	5.2
Gross Fixed Capital Formation	(27.3)	9.8	9.7	7.9	10.4	9.8
Exports of Goods & Services	(16.1)	8.0	10.9	2.7	4.5	8.9
Imports of Goods & Services	(21.6)	12.8	13.9	1.7	5.8	10.3
By Industry (growth, %):						
Agriculture	(0.0)	(0.3)	0.5	1.1	1.0	0.9
Mining & Quarrying	(17.6)	5.1	5.3	0.4	1.3	0.8
Manufacturing	(9.9)	8.9	4.9	1.9	2.8	3.0
Construction	(23.8)	10.1	12.1	10.3	10.6	8.0
Services	(8.8)	5.4	9.2	7.0	7.9	7.6
Current Account Balance (% of GDP)	3.3	(1.4)	(4.6)	(3.8)	(3.5)	(3.0)
Fiscal Balance (% of GDP)	(7.6)	(8.6)	(7.3)	(6.0)	(5.5)	(4.5)
Headline Inflation Rate (%, period average)	2.6	3.9	5.8	6.0	3.5	3.0
Unemployment Rate (%, period average)	10.4	7.8	5.4	4.5	4.8	4.8
Exchange Rate (per USD, end-period)	48.0	51.0	55.6	57.0	54.5	52.0
Benchmark Interest Rate (% p.a., end-period)	2.00	2.00	5.50	6.50	5.75	4.75

Source: Bloomberg, CEIC, Maybank IBG Economic Research, Maybank FX Research

Fig 12: Philippines - Medium-Term Fiscal Framework targets for 2023-2028

Macro Variables	Current/Latest	Target
Real GDP growth	2022: 7.6% 9M2023: 5.5%	6.0 -7.0% in 2023 6.5-8.0% in 2023-2028
Poverty rate	2022: 18.1%	9.0% by 2028
Fiscal deficit to GDP ratio	9M2023: -5.7%	-3.0% by 2028
Debt to GDP ratio	Sep 2023: 60.2%	60.0% by 2025
Infrastructure spending-to-GDP Ratio	2022: 5.0%	5.0-6.0% annually between 2023 to 2028
Gross national income per capita	2022: USD3,950	At least USD4,256 or attainment of upper-middle-income status by 2024

Source: Department of Finance, CEIC, PSA

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Speeding Up Transitions

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The Political and Green Transitions

Singapore is in the midst of two major transitions: [1] a *political transition* that will see current PM Lee hand over power to his deputy Lawrence Wong by November 2024, before the 2025 general elections; and [2] a *green transition* that will see Singapore deploy massive capital to prepare for climate change and achieve its target of net zero emissions by 2050. The government estimated that more than S$100b (US$73b) will be needed to be spent over the next century on climate change protection. S$5b has been injected toward a coastal and flood protection fund. Creation of a reclaimed 800ha “Long Island” – twice the size of Marina Bay - in the East Coast is being studied. Singapore’s appetite for renewables is catalyzing investments and trade across the region, including solar energy from Johor and Indonesia; hydropower from Laos; wind power from Vietnam; and possibly hydropower from Sarawak in East Malaysia. Singapore is raising the carbon tax from S$5 to S$25 per tonne in 2024; S$45 in 2026; and between S$50 – S$80 by 2030.

Manufacturing and Export Green Shoots

We expect growth to be stronger and more balanced in 2024, as manufacturing recovers while revenge spending in services fades. GDP growth will likely rebound to +2.2% in 2024 and +2.1% in 2025, from +1.1% in 2023. Green shoots are sprouting in exports and manufacturing, brightening the outlook. Global electronics demand is recovering, driven by a replacement cycle with new models and upgrades; depleting US inventories; and generous US subsidies on semiconductors and electric vehicles. China imports from Singapore are recovering more strongly than expected, despite a sluggish Chinese economy and real estate slump. Trade-related and outward-oriented services sectors, including wholesale trade and financial services, will revert to positive growth in 2024.

Sticky Core Inflation, MAS to Ease Only in Late 2024

We expect core inflation to average +2.8% in 2024, down from 4.2% in 2023. Headline inflation is forecast to drop to +3% in 2024 (vs. +4.8% in 2023). Core inflation will remain sticky and cool only marginally in 2024, remaining above historical norms. There will be an uptick in early 2024, given hikes in GST, carbon taxes and other administrative prices (water, public transport). Wage cost pressures amidst a tight labour market will limit the fall in inflation. Prices will also be supported by steady consumer demand, on the back of a GDP recovery. Headline inflation will however be capped by lower private transport prices from higher COE supply, while accommodation inflation should ease. We expect the MAS to maintain the current appreciation stance at the first three quarterly meetings, and ease only at the Oct 2024 meeting via a flatter S$NEER slope. The 3-month SORA rate is projected to fall to 3.25% by end-2024 from the current 3.8%, tracking Fed rate cuts.

Risks: US Recession, Stubborn Inflation

A global or US recession may derail the export recovery. This could be triggered by further Fed rate hikes, if US inflation is not yet under control. Higher for longer US rates could dampen global demand and impact leveraged Singapore corporates. Another risk could be stubbornly high and persistent core inflation which could dampen consumer spending and prompt the MAS to tighten policy, hurting export competitiveness.

1. The Political and Green Transitions

Singapore is in the midst of two major transitions, which will continue to unfold in 2024:

[1] a *political transition* that will see current Prime Minster Lee hand over power to his deputy Lawrence Wong by November 2024, before the 2025 general elections;

[2] a *green transition* that will see Singapore deploy massive capital and shift policies to prepare for climate change and achieve its target of net zero emissions by 2050.

On the *political transition*, PM Lee has set a concrete timeline for the handover of power to his deputy Lawrence Wong, which will likely lead to a cabinet reshuffle and promotion of the fourth generation (4G) leaders to more prominent roles. Finance Minister Wong will be delivering Budget 2024 in February, which will likely reflect the various policies and recommendations from the *Forward Singapore* exercise.

DPM Wong has described the new elements in the Singapore Dream as [1] vibrant and inclusive; [2] fair and thriving; and [3] resilient and united.

From the Forward Singapore exercise, the government is planning to introduce unemployment support which is pegged to training; expand HDB housing with more subsidies but tighter restrictions; improve the support for lower-income households and seniors; strengthen water and food security; prepare for climate change; expand Skillsfuture; and make the tax system more progressive. More details will be unveiled in Budget 2024 in February.

Table 1: Forward Singapore and Policy Implications

Key Pillars	Details	Policy Implications
Embracing Learning Beyond Grades	• Advance well-being of broad middle by helping them stay competitive & take on better jobs • Cultivate love for learning from young, promote lifelong learning beyond school • Provide more diverse pathways beyond focus on grades	Boost to Skillsfuture: credit top-ups for mid-career workers, training allowance and protected time-off for workers on full-time, longer courses (e.g. second degree/diploma)
Respecting and Rewarding Every Job	• Reduce wage gaps: better pay for 'hand' and 'heart' jobs, enable more ITE graduates to upskill and upgrade • Support job transitions • Nurture more Singaporean specialists and leaders in respective fields	• Unemployment support pegged to retraining: cash to help workers tide through, and training allowances for unemployed who attend upskilling courses. • More Work-Study Diplomas for ITE students: 5 new WSDips announced in Nov 2023 • Enhance Workfare support and Expand Progressive Wage Model to more sectors and occupations
Supporting Families through Every Stage	• Ensure public remains affordable and fair • More support for parents of infants and caregivers • Support work-life harmony (e.g. flexible work arrangements)	• New Prime and Plus Housing Model with more subsidies and tighter restrictions. • More parental leave and infant care options
Enabling Seniors to Age Well	• New "Age Well SG" programme • Ensure seniors retire with peace of mind	• Age Well SG: more community activities, more accessible care services, more senior-friendly homes and neighbourhoods • S$7b Majulah Package for 'young seniors'
Empowering Those in Need	• Uplift lower-income families by providing financial support tied to progress on their longer-term goals • Enable children to attend preschool regularly to close early gaps • Build a more inclusive society for persons with disabilities	Conditional transfers under Comlink+ program: • Top-ups to Child Development Account for children attending preschool by age 3 • Cash and CPF top-ups for those who stay in stable employment; matching repayments for paying off debt • Matching voluntary CPF contributions for saving up to buy HDB flat
Investing in Our Shared Tomorrow	• Optimize limited land and secure climate-resilient future • Strengthen food and water security • Uphold fiscal prudence and responsibility	• Hike water prices by 18% over two phases in 2024 and 2025 to support infrastructure investments and rising PUB costs • Green transition initiatives: higher carbon tax, carbon credits scheme, renewable energy imports • Enhance Climate Friendly Households Program • Higher wealth taxes: property tax will increase by 1% point to 9% point in 2024; tax structure will become more progressive • Higher personal income taxes for high-earners
Doing Our Part as One United People	• Nurture stronger culture of giving, especially those who have done well in society • Better connect donors and volunteers to local community needs • Strengthen multi-racialism and create more avenues for civic participation	Incentivise better workplace support for volunteering, CSR

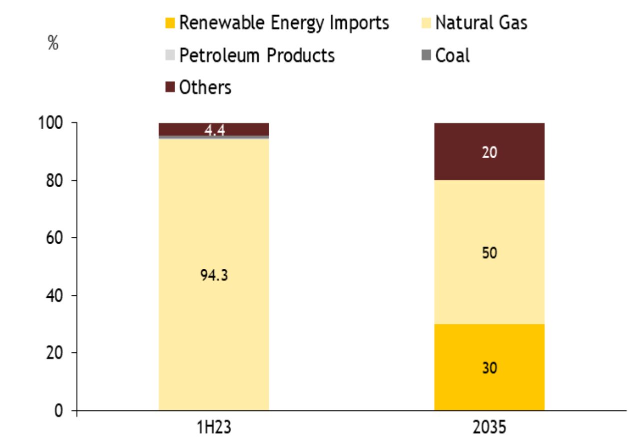
Source: Forward SG Report and Summary Booklet (link), Maybank IBG Research

On the *green transition*, Singapore will be accelerating the strong push towards its target of achieving net zero emissions by 2050. Emissions will be cut to around 60 $MtCO_2e$ in 2030 after peaking sometime this decade (vs. 57.7 $MtCO_2e$ in 2021).

The carbon tax will be hiked to S\$25/tCO_2e in 2024 and 2025; S\$45/tCO_2e in 2026 and 2027; with a view to reaching S\$50-80/tCO_2e by 2030. The 5% carbon tax collects about S\$215m in revenue. A 25% carbon tax in 2024-25 will increase the annual revenue generated to about S\$1b. The 2024 carbon tax hike will translate directly to a 4% hike in household electricity tariffs (S\$4 per month) with electricity costs making up 1.6% of the CPI basket. Total electricity consumption was 54.9TWh in 2022, which amounts to roughly S\$15b by our estimates.

By 2035, Singapore aims to reduce reliance on natural gas, which will make up about 50% of the energy mix, down from the current 94% in 2023. Some 30% is expected to come from renewable energy imports (Fig 1). This could include low-carbon electricity, predominantly solar, from Indonesia; 1GW of solar, hydropower and potentially wind from Cambodia; and 1.2GW of primarily wind energy from Vietnam. The final 20% could include solar, various forms of hydrogen, biofuels, nuclear power and geothermal power.

Fig 1: Singapore's Energy Mix, 2023 vs. 2035



Note: "Others" for 2023 include solar and municipal energy waste. "Others" for 2035 could include solar, various forms of hydrogen, biofuels, nuclear power and geothermal power.

Source: Energy Market Authority, The Straits Times

Fig 2: Planned "Long Island" Reclamation in East Coast

Source: Urban Redevelopment Authority

Singapore's appetite for renewable energy will be a key catalyst for investments in regional clean energy projects. About 70% of Singapore's electricity supply will eventually be replaced with hydrogen, ammonia or offset with carbon capture and storage. The remainder will need to be covered by importing 4GW of low-carbon electricity by 2035.

Undersea cables are being planned to import electricity from Indonesia, Vietnam and Cambodia. Solar energy may be imported from Johor and Indonesia; hydropower from Laos; wind power from Vietnam; and possibly hydropower from Sarawak in East Malaysia.

The government estimated that more than S$100b (US$73b) will be needed to be spent over the next century on climate change protection. Around 30% of Singapore lies less than 5m above mean sea level. S$5b has been injected into a coastal and flood protection fund.

Technical studies into a "Long Island" off the east coast will start from 2024, which would reclaim around 800ha of land - twice that of Marina Bay - over the next few decades (Fig 2). Apart from protection against rising sea levels, the new land could be used for commercial and residential developments. Other mitigation measures include building Changi Terminal 5 on higher ground, and potentially storm surge barriers on waterways.

Beyond additional costs and infrastructure investments, the green transition brings about substantial opportunity for Singapore to become Asia's environmental hub. A key vision is to become a carbon trading hub with related services such as carbon monitoring, credit verification and climate risk analysis.

Singapore already has the highest concentration of carbon service providers (more than 70) in ASEAN. This includes two exchanges (Climate Impact X and AirCarbon Exchange) which were created in 2021. Companies subjected to Singapore's carbon tax may be able to purchase carbon credits to offset up to 5% of their taxable emissions. Singapore is prepared to buy carbon credits generated from the early retirement of coal-fired power plants around the region[14], if found to meet environmental criteria.

[14] Business Times, "Singapore will buy credible carbon credits from coal plant closures", 2 Dec 2023.

2. Manufacturing and Export Green Shoots

We expect growth to be stronger and more balanced in 2024, as manufacturing recovers while revenge spending in services fade. GDP growth is projected to rebound to +2.2% in 2024 and +2.1% in 2025, from +1.1% in 2023. Green shoots are sprouting in exports and manufacturing, brightening the outlook. Global electronics demand is recovering, driven by a replacement cycle with new models and upgrades; depleting US inventories; and generous US subsidies on semiconductors and electric vehicles. China imports from Singapore are recovering more strongly than expected, despite a sluggish Chinese economy and real estate slump. Trade-related and outward-oriented services sectors, including wholesale trade and financial services, will revert to positive growth in 2024.

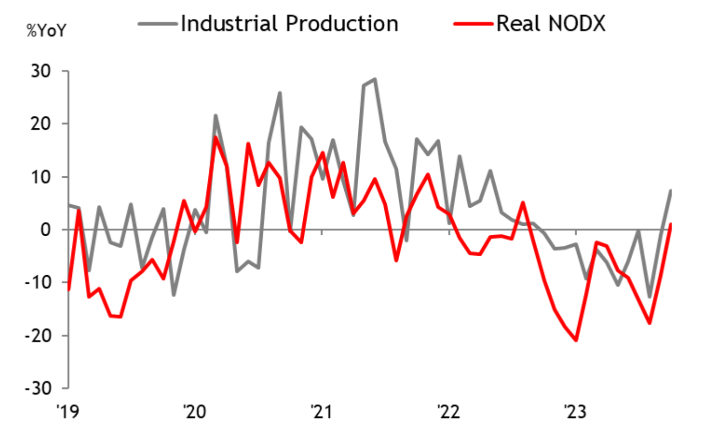
Exports and manufacturing have been picking up steam in recent months on the back of "green shoots" in global electronics demand. NODX is expected to rebound to between +7% to +9% growth from the double-digit slump in 2023. Manufacturing production (+7.4%) grew in October for the first time since Sep 2022, while real non-oil domestic exports (NODX) rose +0.9% from a year ago (Fig 3). The PMI (50.3) improved for a third straight month, while electronics PMI (50.1) broke a 15-month contractionary streak in November.

Easing domestic interest rates and the trade recovery will support more upbeat activity in the finance & insurance sector. Business loans should pick up with higher trade financing, while consumer loans should recover as mortgage rates slide.

Retail sales growth should improve compared to the second half of 2023, driven by a resilient job market and higher car sales due to the bringing forward of COE quota from peak years. Motor vehicles account for around 11% of nominal retail sales. Hospitality, dining and entertainment may see more moderate growth, as pent-up revenge spending and travel cools off. There remains some "normalisation" tailwinds, with accommodation and F&B activity still below pre-pandemic levels (-9% as of 3Q 2023). The 30-day visa free arrangement for China visitors should boost the tourism recovery in 2024.

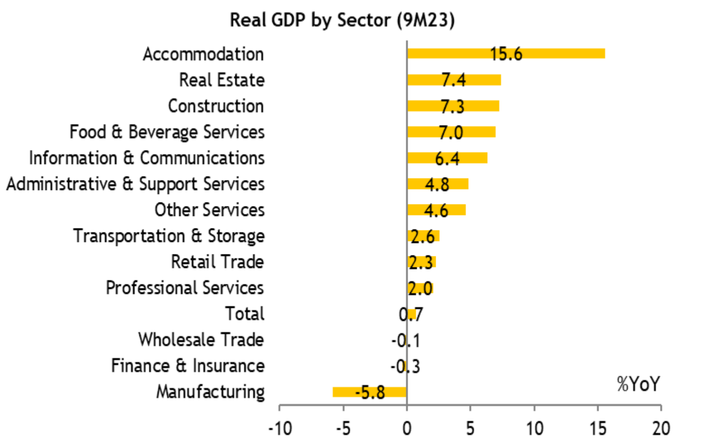
Construction will continue to expand at a robust pace, given the backlog of public and private sector projects, such as in public housing, infrastructure and healthcare. Nonetheless, high construction costs have eroded profit margins, including for manpower, dormitories, building materials and borrowing costs. The construction sector remains a laggard, with real levels in 3Q 2023 still -19% below pre-pandemic (3Q19) levels.

Fig 3: Manufacturing (+7.4%) and Real NODX (+0.9%) Grew in October After More Than A Year of Decline



Source: CEIC

Fig 4: GDP Growth by Sector – 9M23 Weighed Down by Outward-Oriented Manufacturing, Finance and Wholesale Trade



Source: CEIC

3. Sticky Core Inflation, MAS to Ease Only in Oct 2024

We expect core inflation to average +2.8% in 2024, down from 4.2% in 2023. Headline inflation is forecasted to drop to +3% in 2024 (vs. +4.8% in 2023).

Core inflation will remain sticky and cool only marginally in 2024, remaining above historical norms. There will be an uptick in early 2024, given hikes in GST, carbon taxes and other administrative prices (water, public transport). Wage cost pressures amidst a tight labour market will limit the fall in inflation. Prices will also be supported by steady consumer demand, on the back of a GDP recovery.

Labour costs could stay elevated due to the upbeat job market, as well as the hike to S Pass and Employment Pass qualifying salaries and scheduled wage hikes under the Progressive Wage Model. Salary increments are likely to hold steady at around 4% in 2024 according to talent firms Mercer and Aon, which draw on surveys across multiple industries[15].

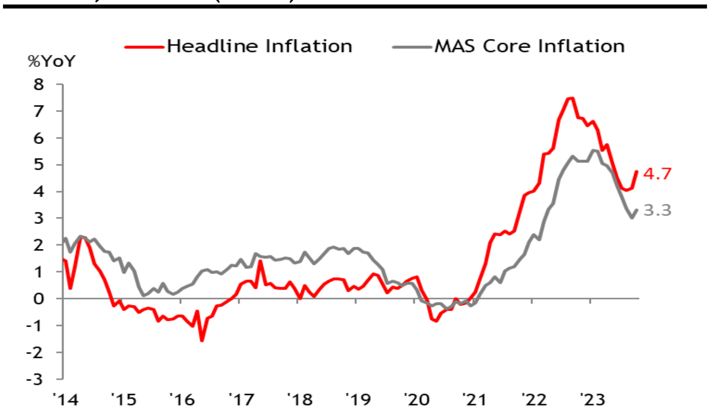
The unemployment rate (1.9% in Oct 2023; see Fig 6) remains below pre-pandemic levels, and job vacancy rates remain elevated, particularly in the services sector. Employment growth has moderated in recent quarters, but labour demand could see a pickup in 2024 as growth improves.

Headline inflation will be capped by lower private transport prices from higher supply of COEs, as the Land Transport Authority (LTA) is bringing forward more quota from peak periods to contain COE premiums. Accommodation inflation should ease, on the back of an increase in housing supply.

We expect the MAS to maintain the current appreciation stance at the first three quarterly meetings in 2024, and ease only at the Oct 2024 meeting via a flatter S$NEER slope. The MAS will likely maintain the current appreciation stance in the first half of the year, given the economic recovery and still elevated core inflation. The central bank views current monetary settings as appropriate to guide core inflation down to near 2% by end-2024. Our S$NEER model suggests that the S$NEER is trading at the upper half of the band, about +2% above the mid-point (Fig 8).

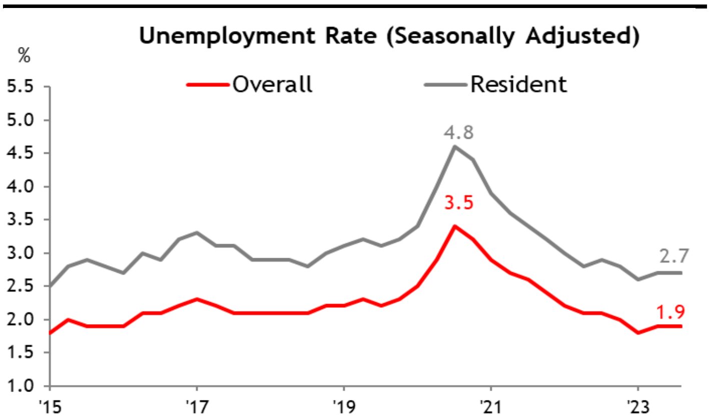
The 3-month SORA rate is projected to fall to 3.25% by end-2024 from the current 3.8%, tracking Fed rate cuts in the second half. Short-term interest rates are likely close to their peak, as the Fed is no longer expected to raise rates. The 3-month SORA rate is projected to fall to 3.25% by end-2024 and 2.6% by end-2025 (Fig 7). This is predicated on -75bps of Fed rate cuts in 2H 2024 and -100bps of cuts in 2025.

Fig 5: Headline CPI (+4.7%) Rebounded to 5-Month High in October, Core CPI (+3.3%) Also Rose



Source: CEIC

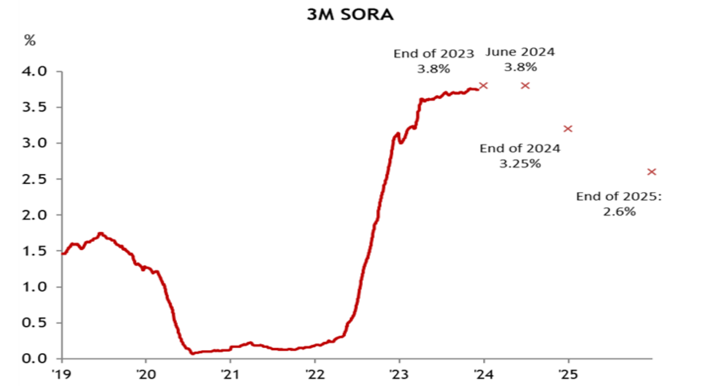
Fig 6: Tight Labour Market - Unemployment Rate Below Pre-Pandemic Levels



Source: CEIC

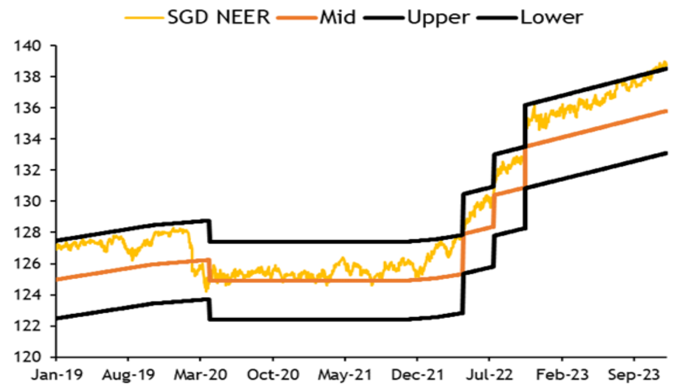
[15] The Straits Times, "S'pore salary increments likely to hold steady while inflation abates in 2024: Talent firms", 4 Dec 2023.

Fig 7: 3M SORA Projected to Fall to 3.25% at end-2024 and 2.6% at end-2025



Source: Bloomberg, Maybank IBG Research estimates

Fig 8: S$NEER About 2% Above Estimated Midpoint



Source: Maybank GM FX Research

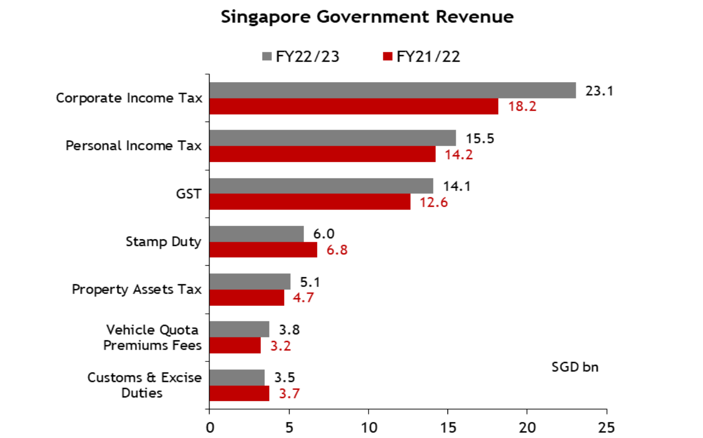
4. Wildcards: US Recession, Stubborn Inflation

A key downside risk to the 2024 outlook is a global recession, which will derail demand and the trade recovery. Merchandise exports account for 110% of GDP in Singapore, the highest exposure in ASEAN. We cannot rule out the risk of a US recession, even though our base case is for a soft landing. Further Fed rate hikes could trigger a recession, if it turns out that inflation is not yet fully under control. Higher interest rates for an extended period will dampen the recovery of the financial sector and impact highly indebted companies. A deeper China downturn could also raise the risk of a global recession.

Another risk is a renewed climb in inflation. This could stem from more persistent labour market tightness or fresh commodity price shocks from a broadening of the Israel-Hamas war, El Nino or other weather events. “High-for-longer” inflation may crimp purchasing power and household consumption. The MAS may have to tighten via a steeper appreciation bias to contain price pressures, hurting exports competitiveness. Cost of living concerns may affect public sentiments going into the general elections, which has to be called by November 2025.

There is ample fiscal space to deploy additional policy support if downside risks materialise. Operating revenue is on track to exceed MOF’s projections in FY23/24 (Apr-Mar), as total collections over the first 7 months (S$62.2b) already amounted to 64.3% of budgeted revenue (Fig 10). More generous top-ups and transfers can be provided to households and firms, akin to the S$1.1b Cost-of-Living Support Package announced in 2023.

Fig 9: FY22/23 Tax Revenue Up S$7.9b (+13%), Mainly Due to Corporate Tax (S$4.9b)



Source: IRAS, CEIC, Maybank IBG Research

Fig 10: Revenue in First 7 Months of FY23/24 Reached 64% of Full-Year Budget; Double-Digit Gains in Major Components

	%YoY		% of FY23/24 Budgeted Revenue
	Apr-Oct 2022	Apr-Oct 2023	
Operating Revenue	**+12.5**	**+15.9**	**64.3**
Corporate Income Tax	+26.8	+29.0	-
Personal Income Tax	+8.9	+11.3	-
GST	+13.6	+11.4	-
Stamp Duty	-9.8	-1.7	-

Source: CEIC, Maybank IBG Research

Table: Singapore - Key Macroeconomic Indicators

	2021	2022	2023F	2024F	2025F
Real GDP (%)	**8.9**	**3.6**	**1.1**	**2.2**	**2.1**
By Expenditure:					
Private Consumption	6.6	9.7	3.9	3.4	3.3
Government Consumption	3.7	-2.3	2.3	2.0	1.9
Gross Fixed Capital Formation	18.0	1.6	-0.1	2.0	2.1
Exports of Goods & Services	11.7	-1.3	1.4	3.0	2.7
Imports of Goods & Services	12.0	-1.9	0.3	3.7	3.1
By Industry:					
Manufacturing	13.3	2.5	-3.3	4.0	2.0
Construction	20.5	6.7	6.9	5.3	4.8
Services	7.6	4.8	2.2	1.9	2.1
Wholesale & Retail Trade	9.8	3.5	0.4	1.9	1.9
Transportation & Storage	9.9	4.0	2.5	2.2	1.9
Accommodation & Food Services	-2.3	12.0	9.3	4.6	3.3
Information & Communication	13.4	8.6	6.0	3.4	2.6
Finance & Insurance	8.3	1.4	0.2	2.1	2.4
Business Services	2.6	9.0	3.5	1.9	1.8
Other Services	5.5	5.2	4.3	1.8	1.8
Current Account Balance (% of GDP)	18	19.3	19.1	18.5	18.2
Fiscal Balance (% of GDP)	0.3	-0.3	-0.1	0.5	0.1
Headline Inflation (%, period average)	2.3	6.1	4.8	3.0	1.8
Core Inflation (%, period average)	0.9	4.1	4.2	2.8	2.0
Unemployment Rate (%, end-period)	2.7	2.1	2.0	2.0	2.0
Exchange Rate (per USD, end-period)	1.35	1.34	1.35	1.335	1.31
10-Year Government Bond Yield (%, end-period)	1.64	3.09	3.10	2.75	2.50
3M SORA (% p.a., end-period)	0.19	3.10	3.80	3.25	2.60

Source: CEIC, Maybank IBG Research forecasts

Maybank

Thailand

Fulfilling Its Potential

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Build, Build, Build

Public and private investments are poised to accelerate in 2024, after being held back in 2023 by a confluence of factors. On the public investment front, the delayed approval of the FY2024 Budget Bill could lead to disbursements being ramped up from Q2 2024 onwards. In the next year, the authorities plan to speed up construction of the pipeline of mega infrastructure projects, including the 323km Double-Track Railway. 2024 should also see a healthy rise in private capex, as the pipeline of gestating BOI-approved projects are realised. We expect gross fixed capital formation to rise by +3.8% in 2024, from +1.4% in 2023.

Tourism Adapts to a Changed Landscape

In 2024, we expect visitor arrivals to stage a steady recovery to between 34m and 36m—with non-Chinese Asian markets playing a starring role. After an initial burst of "revenge travel", China consumers' appetite for outbound tourism is waning. In contrast, ASEAN, Europe and South Asia are emerging as new key markets for Thai tourism. These three markets have individually overtaken China in terms of visitor arrivals to Thailand year-to-date. Combined, they account for 63% of its visitors, five times of those from China. As the travel industry pivots its offerings to cater to a changed landscape, this will forge a tourism sector that is more diversified and resilient.

Exports Shake Off the Blues

Goods exports are set to stage a gradual recovery in 2024, after shedding the cyclical and structural weaknesses that sank shipments in 2023. We expect the structural drag from hard disk drives and petrochemicals to subside in 2024. We also expect a broad-based cyclical recovery in global demand for goods to benefit the country's key exports, including tech gadgets, autos and food products. Beyond 2024, the economy is gradually pivoting its industrial sector to capture opportunities in fast-growing export segments. On the demand side, the authorities are redoubling efforts to ink free trade agreements with more trading partners.

Wildcards: Digital Wallet - Boon or Distraction?

The government hopes to launch the digital wallet handout from Q2 2024, but constitutional and fiscal hurdles risk turning it from a quick cash splash to a drawn-out distraction. Uncertainty surrounds the funding of the digital wallet, as well as its impact on GDP growth and inflation. There is a risk of legal challenges throwing the item's approval off-track. Even if the digital wallet is passed intact, it is unclear if this would entail austerity in other parts of fiscal spending to prevent the budget deficit from ballooning. In the meantime, there could be downside risks for the economy, if legislative tussles over the scheme consume an excessive amount of political attention and distract policymakers from strengthening longer-term fundamentals.

1. Build, Build, Build

Public and private investments are poised to accelerate in 2024, after being held back this year by a confluence of factors. In 2023, investment growth likely slumped to +1.4%, whereas private consumption is estimated to have expanded by quadruple that pace. In contrast, we project GDP growth in 2024 to be more balanced, driven by moderate growth in consumption, investment as well as net exports. The capex recovery not only lifts GDP growth in the construction phase, but creates the conditions for industrial take-off in the medium term.

On the public investment front, the delayed approval of the FY2024 Budget Bill could lead to disbursements being ramped up from Q2 2024 onwards. The Budget had been pushed back from Q4 2023, due to the post-election delay in forming a government. In 2024, the authorities plan to speed up construction of the pipeline of mega infrastructure projects. Key projects include two Double-Track Railway works valued at THB153b (slated to start operations in 2028), the THB224b High Speed Rail linking the country's three airports and the THB155b Phase 3 of Laem Chabang Port in the Eastern Economic Corridor. (Table 1)

In terms of private capex, Thailand is one of the key beneficiaries of the ongoing shift of manufacturing capacity to locations outside China. The developed network of supporting industries has drawn a strong pipeline of projects. Key industries expanding capacity include the electric vehicle (EV) supply chain, electronics and appliances as well as data centers. However, given the long gestation for these investments, some of the projects that received certification from the Board of Investments (BOI) in previous years have yet to commence construction, resulting in a disconnect between investments pledged and investments realised.

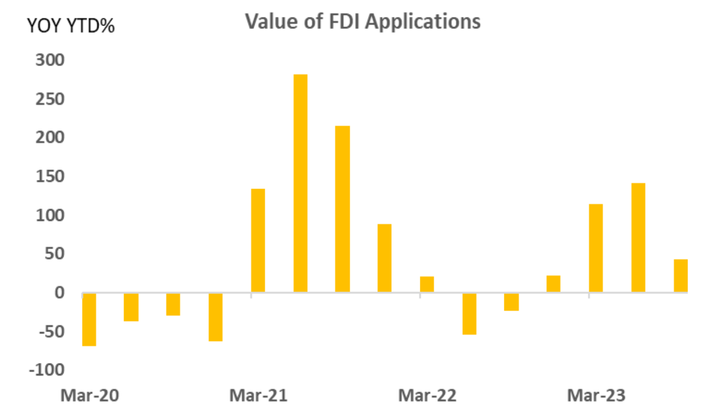
The BOI secured THB665b (US$18.9b) of investment commitments from corporates such as BYD Auto, Foxconn and Amazon Web Services in 2022. In January—September 2023, the BOI received 1,555 domestic and foreign project applications worth THB517b. In particular, the value of foreign direct investment pledges soared by +43% (Fig 1). 2024 should see a healthy rise in private capex, as the pipeline of gestating projects are realised. **We expect gross fixed capital formation to rise by +3.8% in 2024, from +1.4% in 2023.**

Table 1: Key Public Infrastructure Projects in the Pipeline

	Value of Project (THB)
678km Double Track Railway Projects (Den Chai – Chiang Rai - Chiang Khong and Ban Phai-Nakhon Phanom))	153b
220km High Speed Rail Linking Don Mueang, Suvarnabhumi, and U-Tapao Airports	224b
Mass Rapid Transit Orange Line (Thailand Cultural Centre –Suwinthawong)	122b
Mass Rapid Transit Purple Line (Tao Poon – Rat Burana)	124b
Laem Chabang Port Phase 3 (Eastern Economic Corridor)	155b

Source: Media Reports, Ministry of Transport

Fig 1: Value of FDI Applications Jumped 43% in the First Nine Months of 2023



Source: CEIC

2. Tourism Adapts to a Changed Landscape

In 2023, growth of the tourism-related industries fell short of expectations, largely because China's long-awaited reopening brought an underwhelming uptick in "revenge travel" to the kingdom (Fig 1). Before the pandemic, Thailand welcomed nearly 40m foreign visitors, including 11m from China. In 2023, the Tourism Authority expects only 3.4m–3.5m Chinese tourists, less than a third of 2019 numbers (Fig 2). This translates to just 12% of the total 29m projected arrivals in 2023.

In 2024, we expect visitor arrivals to stage a steady recovery to between 34m and 36m—with non-Chinese Asian markets playing a starring role.

First, while the Tourism Authority expects Chinese arrivals to more than double to 8m in 2024, we are projecting a more modest 5m to 7m. Generally, after an initial burst of "revenge travel", China consumers' appetite for outbound tourism is likely to stay tepid, due to the continuing slowdown in their domestic economy. Furthermore, their fervor for travelling to Thailand, in particular, has been undermined by perceptions about safety. Even as the government courted mainland market with visa waivers, those efforts were dented by a shooting incident in October involving a Chinese fatality.

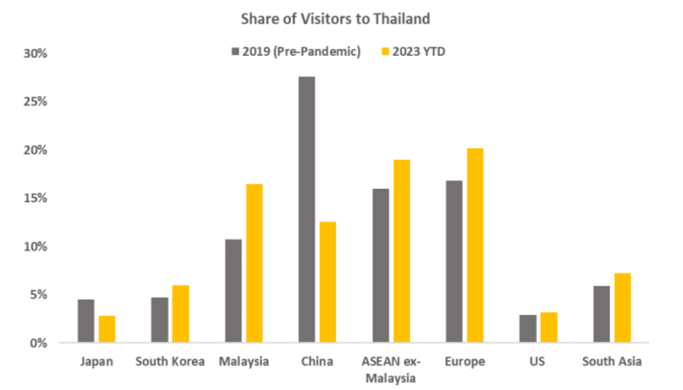
The Civil Aviation Authority of Thailand said that 10 Chinese airlines have cancelled 46% of 10,939 flights to the kingdom previously scheduled for December 2023, due to low demand. Thus far, the airlines also cancelled 32% of the 10,939 flights planned for January 2024.

Second, **ASEAN, Europe and South Asia are emerging as new key markets for Thai tourism**, recovering to 91%, 87% and 83% of pre-pandemic visitor numbers in Jan-Oct 2023 respectively. These three markets have individually overtaken China in terms of visitor arrivals to Thailand year-to-date. Combined, they account for 63% of its visitors, five times of those from China (Fig 3). The government is mulling visa waivers for some European countries, while Thai Airways is reportedly diverting some aircraft from China to other routes. As the travel industry pivots its offerings to a changed landscape, this will forge a tourism sector that is more diversified and resilient.

Fig 2: Visitor Arrivals Have Climbed to 71% of Pre-Pandemic Levels, But Those from China Have Only Recovered to 35%

Source: CEIC

Fig 3: China Made Up 28% of Visitors in 2019, But Their Share Fell to 13% in 2023 YTD, While ASEAN Visitors Jumped



Source: CEIC

3. Exports Shake Off the Blues

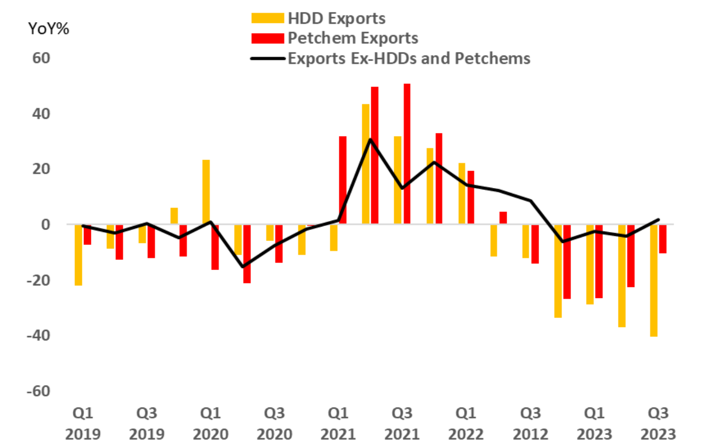
Goods exports are set to stage a gradual recovery in 2024, after shedding the cyclical and structural weaknesses that sank shipments in 2023. In the first 10 months of 2023, merchandise exports shrank by -2.7%, reversing the robust growth of the preceding two years. On top of the cyclical weakness in goods demand that hit ASEAN exporters, Thailand's shipments suffered from a structural step-down in demand for two of its key manufactures: hard disk drives (HDDs) (-35.4% YTD) and petrochemicals (-19.8% YTD) (Fig 4).

Exports of HDDs, which accounted for one-third of its electronics shipments in 2021, are being phased out by the industry globally. Their shipments have slumped by around 50% from the September 2021 peak, as of October 2023. Petrochemical demand has been hurt by China's self-sufficiency drive to build capacity on the mainland. **We expect these two factors to pose smaller drags in 2024 as they run their course.** We also expect a broad-based cyclical recovery in global demand for goods to benefit Thai exports, including tech gadgets, autos and food products.

Beyond 2024, there are positive developments that point to healthy long-term prospects for exports. On the supply side, the economy is gradually pivoting its industrial sector to capture opportunities in fast-growing export segments. These include new energy vehicles and batteries, biotechnology and IC chips. In the first nine months of 2023, 71% of the value of investment applications to the Board of Investment were in the high-growth "target sectors". In addition, the government has ambitious plans to enhance port infrastructure serving its leading industrial zones.

On the demand side, the authorities are redoubling efforts to ink free trade agreements (FTAs) with more trading partners, after lagging countries such as Vietnam on this front (Table 2). In September 2023, the Thai government held FTA negotiations with the European Union, after talks were halted in 2014. The trade deal, projected to be concluded in 2025, should boost the longer term prospects for exports.

Fig 4: On Top of Weak Global Demand, Goods Exports Were Hit By A Structural Step-Down in Hard Disks and Petrochemicals



Source: CEIC

Table 2: Thailand Lags Vietnam in Securing FTAs with Markets Such As the European Union and United Kingdom

Free Trade Agreements Signed

	RCEP	CPTPP	China	EU	US	UK	Japan
Indonesia	✓		✓				✓
India							✓
Malaysia	✓	✓	✓				✓
Philippines	✓		✓				✓
Singapore	✓	✓	✓	✓	✓	✓	✓
Thailand	✓		✓				✓
Vietnam	✓	✓	✓	✓		✓	✓

Source: Maybank IBG Research

4. Wildcards: Digital Wallet – Boon or Distraction?

The government plans to go ahead with its 10,000 baht digital wallet handout to 50m Thais in 2024. A flagship campaign promise of the Pheu Thai Party, the government hopes to launch it from Q2 2024. However, constitutional and fiscal hurdles risk turning the handout from a quick cash splash to a drawn-out distraction.

Uncertainty surrounds the funding of the digital wallet, as well as its impact on GDP growth and inflation. The THB50b cost to the Budget amounts to some 3% of GDP. Financing it through loans will involve a parliamentary bill whose passage requires justification that this was urgent spending needed stave off an "economic crisis". There is a risk of legal challenges throwing the item's approval off-track.

Even if the digital wallet is passed intact, it is unclear if this would entail austerity in other parts of fiscal spending to prevent the budget deficit from ballooning. Conversely, if the fiscal deficit were to increase substantially, this would leave little policy space for the government to respond to genuine economic shocks.

There is also debate on the impact of the wallet on GDP growth and inflation. While proponent expect the scheme to strongly boost domestic demand, the multiplier is likely to be significantly less than 1, especially because of import leakage. The Bank of Thailand, for example, forecasts only a +0.6% point increase in GDP growth from the scheme in 2024, after which GDP growth in 2025 is 0.3% lower with the wallet.

It is possible that the digital wallet might stall, or be rolled out at a smaller scale. **In the meantime, there could be downside risks for the economy, if legislative tussles over the scheme consume an excessive amount of political attention and distract policymakers from strengthening longer-term fundamentals.**

Table: Thailand - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	-6.1	1.5	2.6	2.3	3.6	3.0
Private Consumption (%)	-0.8	0.6	6.3	5.5	4.2	2.4
Government Consumption (%)	1.4	3.7	0.2	-4.0	1.8	1.5
Gross Fixed Capital Formation (%)	-4.8	3.1	2.3	1.4	3.8	3.9
Exports of Goods & Services (%)	-19.7	11.1	6.8	2.1	4.3	4.5
Imports of Goods & Services (%)	-13.9	17.8	4.1	-0.7	4.8	4.1
Current Account Balance (% of GDP)	4.2	-2.1	-3.4	2.0	3.2	3.5
Fiscal Balance (% of GDP)	-5.2	-4.8	-3.5	-3.5	-3.9	-3.5
Inflation Rate (%, period average)	-0.8	1.2	6.1	1.3	1.8	2.0
Unemployment Rate (%, period average)	1.7	1.9	1.3	1.1	1.0	1.0
Exchange Rate (per USD, end-period)	30.0	33.4	34.6	36.5	33.5	31.5
Benchmark Interest Rate (% p.a., end-period)	0.50	0.50	1.25	2.50	2.25	2.00

Source: CEIC, Maybank IBG Research

Vietnam

Export-Fuelled Recovery

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Exports Recover, But Real Estate Remains a Drag

We forecast firmer GDP growth of 5.8% in 2024 and 6.2% in 2025, up from 4.8% in 2023. The recovery will be led by green shoots in exports and manufacturing, as the economy is highly trade-sensitive. Higher capacity from manufacturing supply chain shifts has increased leverage to a global demand recovery. Easing mortgage burdens and improving sentiment alongside a recovering economy will support higher household consumption. Fiscal policy will remain supportive, with strong infrastructure spending and several relief measures extended into 2024, including cuts in VAT and other tax and fees until June 2024.

Several factors could cool FDI in 2024 compared to the strong pledges in 2023, even as structural advantages anchor investment interest. Investors will be mindful of infrastructure strains, including an overloaded transmission grid and limited renewable energy supply. Another impediment is the growing dependence on imported inputs, as homegrown suppliers are only able to supply non-core and low value-added parts and components. A global minimum tax of 15% will be imposed from 1 Jan 2024, significantly raising tax bills for 122 foreign companies. A cash subsidy package for large high-tech investors is being prepared, but will only be finalised in 2024.

The property sector will remain a drag on domestic demand. Bond refinancing pressure will continue in 2024 given the sluggish property market and high debt burden, although the worst is likely over with the slew of supportive policies. Real estate investment may remain subdued in the face of cash flow strains. Homebuyer demand should gradually recover with lower lending rates and the economic recovery, which could brighten the outlook for the real estate sector in 2H 2024.

Inflation Stable and Below Target

We forecast headline inflation rising slightly to +3.5% in 2024 and +3.4% in 2025 (vs. +3.3% in 2023). Prices will be supported by higher consumer spending, but should be kept in check by the VAT cut. Food inflation will remain contained due to favorable global supply conditions. Transport prices will be capped by stable oil prices, but contribution to headline CPI will revert to positive. Impact of recent electricity price hikes should be modest, with every 10% hike raising consumer prices by just +0.3%.

SBV to Hold Policy Rates, But Risks Tilted Towards Tightening

We expect SBV to hold policy rates in 2024 and 2025. Policy rates were cut by -150bps in 2023, and may not be cut further given the economic recovery. SBV will be constrained by FX concerns, as the Fed holds US interest rates at a multi-decade high in 1H 2024. SBV can be patient on rates given below-target inflation and the property slump. Risks to our view include higher-than-expected inflation and a sharp VND weakening to Oct-Nov 2022 levels, which could force the SBV to hike. SBV is also concerned about the financial stability impact of loose monetary policy, which could indicate a bias towards normalizing policy rates once headwinds have passed.

Wildcards: Deeper Property Crisis and Global Downturn

Risks to the global economy remain high, given elevated US interest rates and sluggish China growth. While aggregate banking system exposure to developers is moderate at 7% of total credit, some banks face significantly higher exposures. A deeper property downturn may severely impact some banks' asset quality and heavily leveraged developers, worsening the crisis.

1. Export-Led Recovery, But Real Estate Remains a Drag

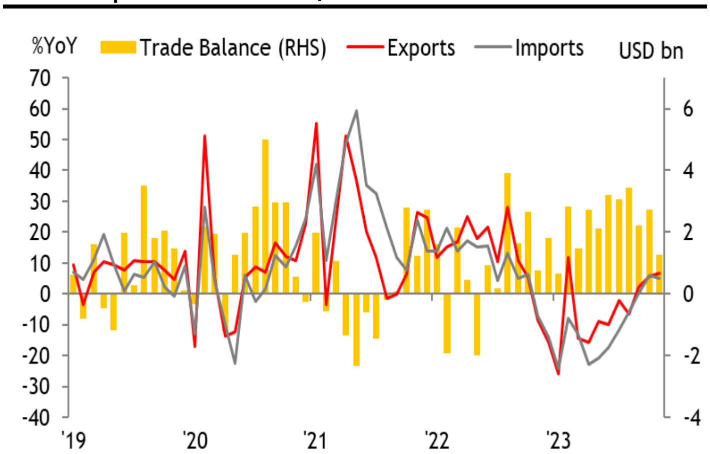
We forecast firmer GDP growth of +5.8% in 2024 and +6.2% in 2025, up from +4.8% in 2023. The recovery will be led by green shoots in exports and manufacturing, given that the economy is highly trade-sensitive. FDI and added capacity from shifting manufacturing supply chains will increase leverage to a global trade recovery. Fiscal policy remains supportive, with the extension of some relief measures into 2024. However, the property slump will continue to weigh on domestic demand and banks' credit quality.

Exports and manufacturing will benefit from the turnaround in global electronics demand, normalizing retail inventories, and a shift in consumer spending towards goods as revenge spending in services fades.

Merchandise export growth powered to a 9-month high of +6.7% in November, after growth turned positive in Sep for the first time since Feb 2023 (Fig 1). The base effect will turn more favorable given the deep contractions from end-2022, which sets the stage for stronger growth.

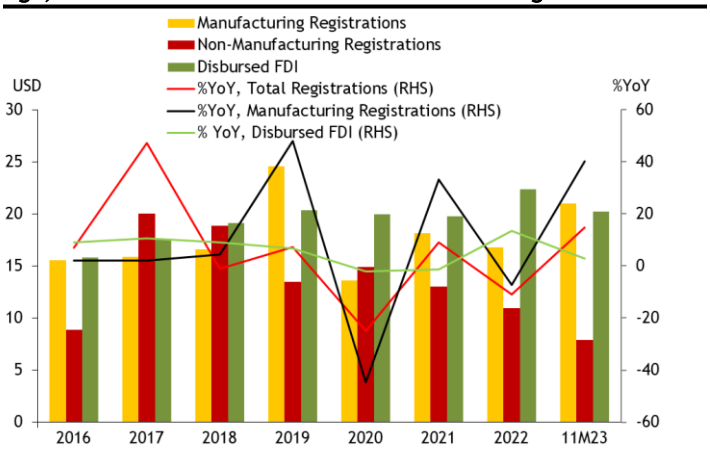
FDI registrations (i.e. pledges) have surged +14.8% YoY over 11M 2023 and should materialise in higher inflows in 2024 (Fig 2). Realised FDI over Jan-Nov 2023 rose +2.9% from a year ago to hit $20.3b, a 5-year high. Robust FDI inflows have raised production capacity, as suggested by a quicker turnaround in manufacturing output relative to exports (since June).

Fig 1: Exports (+6.7%) & Imports (+5.1%) Expanded in Nov, Trade Surplus Narrowed to $1.3b



Source: CEIC

Fig 2: Registered FDI Surged +15% in Jan-Nov 2023 from Year Ago, Disbursed FDI Rose +2.9% to Hit 5-Year High



Source: CEIC

Structural advantages including a strategic geographic location, political stability, extensive free trade agreements (FTA) and competitive labour costs will anchor foreign investment interest, as global firms seek to diversify supply chains. "Multi-aligned" foreign policy is working to Vietnam's advantage, with the state pursuing warmer relations and closer cooperation with both the US and China.

There are however several factors that could cool FDI. Firms will be mindful of infrastructure strains, including an overloaded transmission grid and limited renewable energy supply, which contributed to frequent power blackouts during the summer in 2023. Wind and solar energy accounted for 26% of energy capacity as of end-2022, but only 13% of electricity generation. Another impediment is the growing dependence on imported inputs for production, as local suppliers tend to be small firms that are generally only able to supply non-core and low-value added components (see *Vietnam Economics - FDI Darling - Now & Forever?*, 5 Sep 2022). Implementation of a 15% global minimum tax (GMT) from 1 Jan 2024 will increase costs for MNCs. Additional estimated revenue of VND14.6t ($601m) annually can be used to bolster other investment incentives, but there remains concern around violation of global rules and legal risks from companies that do not qualify. Many

MNCs in priority sectors currently enjoy multi-year corporate tax exemptions and reductions, thus paying a lower effective tax rate than the standard 20%. About 122 foreign companies will face a significant increase to their tax bill, with a large portion shouldered by Samsung (which enjoys ~5% effective tax).

A draft plan by the Investment Ministry in August proposes that only high-tech companies with at least VND12t ($494m) of investments would benefit from cash subsidies to cover other costs (training, research and infrastructure). However, the exact measures will only be finalised in 2024.

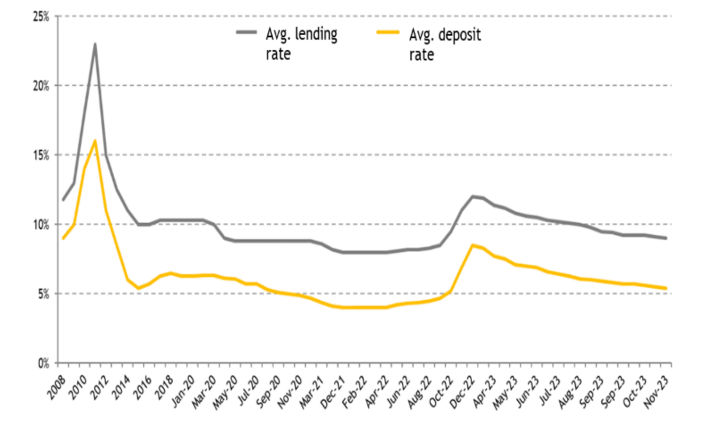
We do not expect further major changes in the key leadership in 2024, after President Nguyen Xuan Phuc quit in January 2023 amid a corruption crackdown. There were earlier rumours that the Prime Minister would come under pressure to resign due to his purported close ties to AIC chairwoman Nguyen Thi Thanh Nhan, who was convicted in the Dong Nai Hospital corruption scandal. The risk has subsided, due to satisfaction over his handling of the economy. The Prime Minister secured overwhelming support from legislators during the National Assembly's mid-term confidence vote on 25 Oct, receiving "high-confidence" (78%) or "confidence" (19%) votes from 97% of delegates.

Retail and consumer-facing sectors are expected to pick up, as domestic consumption improves with a recovering economy. Households have tightened their belts on the back of a soft labour market and high borrowing costs. Although retail sales (+10.1% in Nov) remained surprisingly resilient, several listed large retailers continue to see weak sales.

Easing mortgage burden and improving sentiments will support household spending in 2024. Average bank lending rates have eased by about 3% points to 9% (Fig 3). Hospitality, F&B and other consumer services still enjoy reopening tailwinds from the tourism recovery. Visitor arrivals remain at around 32% below pre-pandemic levels as of Nov 2023, with the slow return of China tourists.

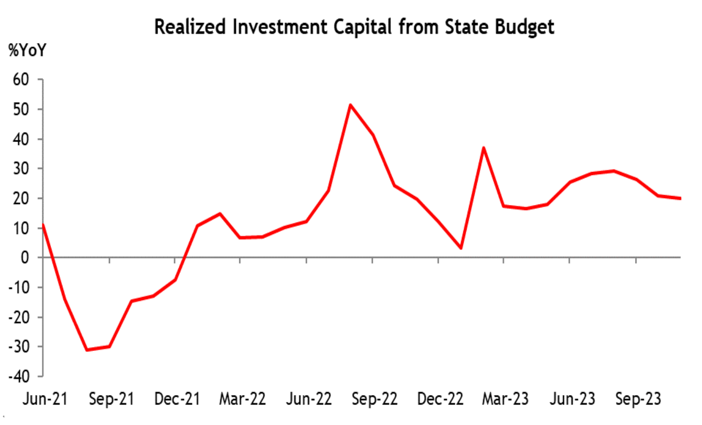
Fiscal policy remains supportive, with strong infrastructure spending and several relief measures extended into 2024 (Fig 4). Ongoing projects include sections of the planned $6b North-South Expressway and the $16b Long Thanh airport. The government projects a VND399t ($16.4b) budget deficit for 2024, amounting to 3.6% of GDP. Fiscal space will remain adequate with public debt at about 40% of GDP by end-2024, well below the 60% ceiling. The 2% point reduction in value-added tax (from June 2023) has been extended until June 2024. The 50% cut to environmental protection taxes on fuel will be kept in place until late 2024. Other tax and fee cuts remain in place, including lower export and import tax rates to support domestic businesses.

Fig 3: Average Bank Lending Rate Has Declined After SBV Cuts



Source: CEIC

Fig 4: Public Investment Climbed +22% in Jan-Nov of 2023



Source: CEIC

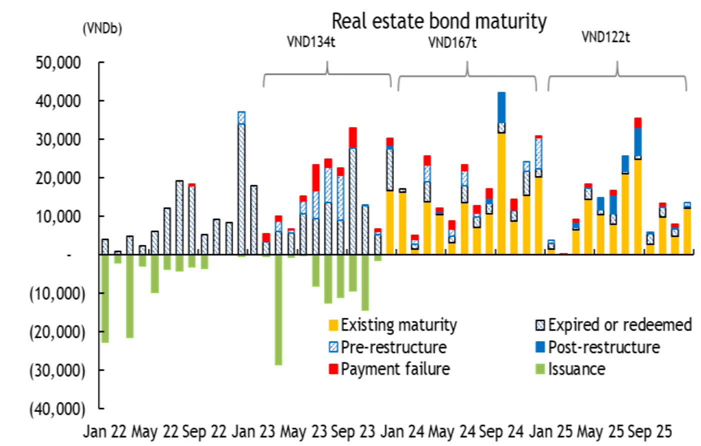
The property sector will remain a drag on domestic demand, with real estate-related activities accounting for a sizeable 12% of GDP. Bond refinancing pressure will likely continue in 2024 given the sluggish property market and high debt burden, although the worst is likely over with the slew of supportive policies (e.g. Decree 08/2023) to ease repayment difficulties.

Developers have struggled to repay their bonds with several defaults to-date. The non-performing loan ratio in the real estate sector hit 2.6% in July 2023 (vs. 1.8% a year ago). More than 60 issuers (economy-wide) have successfully negotiated to extend bond repayment dates in 2023, amounting to VND107t ($4.4b) as of 27 Oct[16]. However, there remains substantial bond maturities coming due, with an estimated VND167t ($6.9b) and VND122t ($5b) maturing in 2024 and 2025 respectively (Fig 5).

Real estate investment may remain subdued in the face of cash flow strains. Property construction has been sluggish due to tight liquidity, even as authorities stepped up licensing approvals to restart stalled projects. Only 3,028 new apartments/houses were granted construction permits in 3Q 2023, compared to 24,369 in 3Q 2022 (Fig 6).

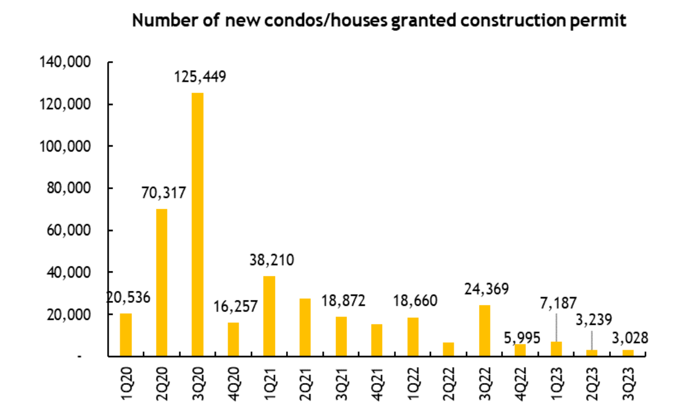
Homebuyer demand should gradually recover with easing lending rates and the economic recovery, which could brighten the real estate outlook in the second half of 2024. Fundamental long-term prospects remain strong, given an expanding middle class and rising urbanisation. Nonetheless, the supply-demand imbalance will take time to clear, with excess inventory in the high-end property segment and a shortage of affordable housing.

Fig 5: Substantial Bond Maturities Coming Due in 2024 and 2025



Source: Maybank Securities Vietnam estimates

Fig 6: Only 3,028 New Condos/Houses Granted Construction Permit in 3Q 2023 (vs. 24,369 in 3Q22)



Source: Ministry of Construction, Maybank Securities Vietnam

[16] According to Hanoi Stock Exchange (HNX) data. Retrieved from Vietnam Plus, "Repayment pressure on corporate bonds to peak next year", 16 Nov 2023 (see link).

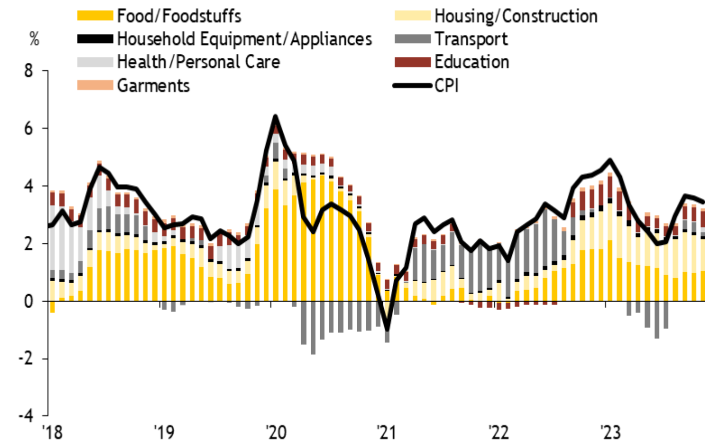
2. Inflation Stable and Below 4%-4.5% SBV Target

We forecast headline inflation rising slightly to +3.5% in 2024 and +3.4% in 2025 (vs. +3.3% in 2023). Inflation will likely be below the 4%-4.5% SBV target. Prices will be supported by a pickup in consumer demand, but should be kept in check by the VAT cut and other measures to reduce taxes and fees. Impact of recent electricity price hikes should be modest, with every +10% hike raising consumer prices by +0.33% point[17]. Vietnam Electricity (EVN) hiked its average retail electricity price by another +4.5% on 9 Nov, following the +3% hike on 4 May 2023.

We expect transport inflation (9.7% of CPI basket) to be capped by stable oil prices (Maybank forecast: $85/bbl in 2023; $80/bbl in 2024). Nonetheless, the contribution from transport to overall inflation will likely increase in 2024, compared to the negative contribution for much of 2023. Transport deflation weighed on the CPI from February to August, but transport price growth has since turned positive from Sep to Nov due to the dissipating base effect and rising oil prices.

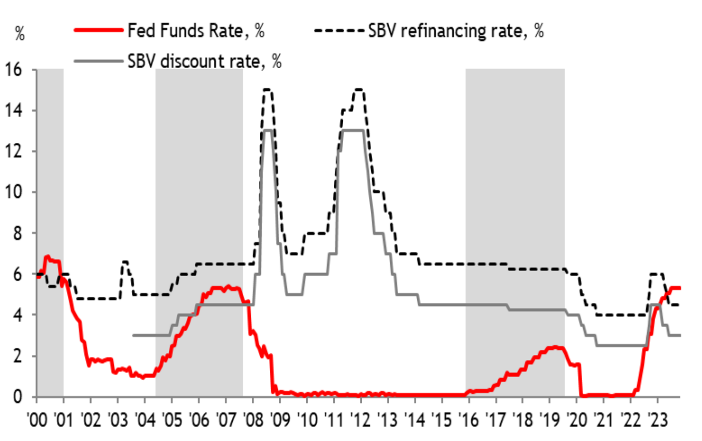
Food inflation (33.6% of CPI basket) is expected to be kept in check by favorable supply conditions, even as higher demand support prices. The World Bank expects global grain supply to improve in 2024, due to record high production of wheat, maize and rice[18]. US Department of Agriculture (USDA) expects Vietnam's pork production to rebound by +5% to 3.7mt[19]. We cannot however rule out the risk that El Nino disrupts global food supply and increase prices by more than expected in 2024.

Fig 7: Headline Inflation (+3.4%) Eased to 3-Month Low in Nov



Source: CEIC

Fig 8: Expect SBV to Hold Policy Rates in 2024



Source: Ministry of Construction, Maybank Securities Vietnam

[17] Estimated by General Statistics Office of Vietnam. Retrieved from VOV, "3% power price hike not much impact on CPI", 4 May 2023 (see link).
[18] World Bank Blogs, "Falling food prices, yet much higher than pre-COVID", 16 Aug 2023.
[19] AsianAgribiz, "USDA expects Vietnam's pork production to rebound", 17 Oct 2023.

3. SBV to Hold, But Risks Tilted Towards Higher Policy Rates

We expect SBV to hold policy rates constant in 2024. Policy rates were cut by -150bps in 2023, and do not need to be cut further given the economic recovery (Fig 8). FX pressure has also constrained the central bank from implementing further rate cuts, when the US Fed continued to hike. We are not expecting the Fed to lower rates until the third quarter of 2024.

We think the SBV can be patient on hiking rates, given that inflation is projected to remain below the 4% target and authorities remain concerned about the property slump. That said, risks to our view include higher-than-expected inflation and a sharp weakening of the dong to levels seen in Oct-Nov 2022, which could materialise if the Fed turns more hawkish than expected. We also caution that SBV said in July that relying too much on easing monetary policy may "show instability in bad debt and in the system's safety within a few years". This could indicate a bias towards normalizing policy rates once headwinds have passed.

4. Wildcards: Deeper Property Crisis and Global Downturn

Risks to our GDP forecast include uncertainty on global growth and more acute developer stress, which risks spilling into the banking sector. Higher for longer US interest rates and a widening of the Hamas or Ukraine war could derail the recovery. Supply disruptions may intensify commodity price shocks. Tighter global financial conditions could reduce FDI and capital inflows, weaken the currency and force SBV into hiking rates.

A deeper property crisis risks broadening the fallout to banks (*Vietnam Economics - How Systemic is the Property Sector?*, 4 Jan 2023). While exposure of the banking system to developers as a whole is moderate at around 7% of total credit, some banks face significantly higher exposures. In a worst case scenario, the collapse of a large developer may severely impact banks asset quality and trigger homebuyer panic, worsening the property downturn.

Table: Vietnam - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**2.9**	**2.6**	**8.0**	**4.8**	**5.8**	**6.2**
Private Consumption (%)	0.4	2.0	7.8	3.1	5.3	5.5
Government Consumption (%)	1.2	4.7	3.6	5.8	5.6	5.7
Gross Fixed Capital Formation (%)	4.1	3.7	6.0	5.3	6.6	6.8
Exports of Goods & Services (%)	4.1	14.0	4.9	-2.6	5.8	5.8
Imports of Goods & Services (%)	3.3	16.2	2.2	-3.3	5.7	5.5
*Current Account Balance (% of GDP)	4.3	(2.1)	(0.3)	3.5	3.2	2.9
*Fiscal Balance (% of GDP)	(2.7)	(2.5)	2.4	(4.1)	(3.6)	(3.2)
Inflation Rate (%)	3.2	1.8	3.1	3.3	3.5	3.4
Unemployment Rate (%)	2.5	3.0	2.3	2.3	2.2	2.2
Exchange Rate (per USD, end-period)	23,098	22,826	23,633	24,100	23,700	23,500
Benchmark Interest Rate (% p.a., end-period)	4.00	4.00	6.00	4.50	4.50	4.50

**Vietnam started using new nominal GDP series in 2021.*

Source: CEIC, Maybank IBG Research

Appendix

ASEAN-6 Key Macroeconomic Indicators

	Real GDP growth (%)					Headline Inflation (%, average)					Policy Rate (%, year-end)				
	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E
Global	6.3	3.5	3.3	2.8	3.3	8.7	6.8	4.8	4.6	8.7			-		
US	5.8	1.9	2.2	1.0	1.8	8.0	4.1	2.6	2.3	8.0	0.125	4.375	5.375	4.625	3.625
China	8.5	3.0	5.2	4.4	4.5	0.9	2.0	0.3	1.1	1.5	3.80	3.65	3.45	3.00	3.00
Indonesia	3.7	5.3	5.0	5.1	5.2	1.6	4.2	3.7	3.0	3.0	3.50	5.50	6.00	5.25	4.75
Malaysia	3.3	8.7	3.9	4.4	5.0	2.5	3.3	2.6	3.0	3.0	1.75	2.75	3.00	3.00	3.00
Philippines	5.7	7.6	5.8	6.5	6.2	3.9	5.8	6.0	3.5	3.0	2.00	5.50	6.50	5.75	4.75
Singapore	8.9	3.6	1.1	2.2	2.1	2.3	6.2	4.8	3.0	1.8	0.19	3.10	3.80	3.25	2.60
Thailand	1.6	2.6	2.3	3.6	3.0	1.2	6.1	1.3	1.8	2.0	0.50	1.25	2.50	2.25	2.00
Vietnam	2.6	8.0	4.8	5.8	6.2	1.8	3.2	3.3	3.5	3.4	4.00	6.00	4.50	4.50	4.50
Cambodia	3.0	5.1	5.4	5.9	6.0	2.9	5.3	2.5	3.0	3.0	2.00	2.00	2.00	2.00	2.00

	Exports of Goods & Services (%)					Gross Fixed Capital Formation (%)					Private Consumption (%)				
	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E	2021	2022	2023E	2024E	2025E
Indonesia	18.0	16.3	2.0	8.3	7.2	3.8	3.9	4.0	3.8	4.9	2.0	4.9	4.6	5.0	5.2
Malaysia	18.5	14.5	(7.7)	3.2	3.4	(0.8)	6.8	5.5	5.1	6.0	1.9	11.2	4.9	5.1	5.5
Philippines	8.0	10.9	2.7	4.5	8.9	9.9	9.7	7.9	10.4	9.8	4.2	8.3	5.5	5.5	6.4
Singapore	11.7	-1.3	1.4	3.0	2.7	18.0	1.6	-0.1	2.0	2.1	6.6	9.7	3.9	3.4	3.3
Thailand	11.1	6.8	2.1	4.3	4.5	3.1	2.3	1.4	3.8	3.9	0.6	6.3	5.5	4.2	2.4
Vietnam	14.0	4.9	-2.6	5.8	5.8	3.7	6.0	5.3	6.6	6.8	2.0	7.8	3.1	5.3	5.5
Cambodia	13.5	20.7	0.9	8.5	8.0	6.8	20.0	5.4	7.0	6.8	(5.1)	16.7	5.0	6.0	5.8
China*	1.9	0.5	0.3	0.5	0.7	12.8	5.7	4.3	4.4	4.6	13.1	2.3	6.4	4.1	4.2

Note: Total consumption shown for Myanmar, as Myanmar does not provide breakdown of private & government consumption. Gross Capital Formation shown for Myanmar. Laos' real GDP data is provided with breakdown by industry. Data series on breakdown of real GDP by expenditure components was discontinued since 2017.

Source: CEIC, Maybank IBG Research

* Net Exports of Goods and Services for China is expressed in percentage point contribution.

USD vs. Major & Regional Currencies Forecast

	4Q2023	1Q2024	2Q2024	3Q2024	4Q2024	1Q2025	2Q2025	3Q2025	4Q2025
DXY (Dollar Index)	103.92	103.57	102.43	101.59	100.63	99.65	99.65	97.91	97.28
Japanese Yen	150	150	145	140	136	130	130	125	120
Euro	1.090	1.095	1.100	1.105	1.110	1.120	1.120	1.140	1.140
Pounds Sterling	1.24	1.24	1.25	1.25	1.25	1.255	1.255	1.26	1.27
Australian Dollar	0.65	0.66	0.68	0.7	0.7	0.72	0.72	0.74	0.74
Renminbi	7.15	7.15	7.10	7.15	7.15	7.10	7.10	7.05	7.00
Indian Rupee	83.5	83.5	83.0	82.5	82.0	81.0	81.0	81.0	81.0
HK Dollar	7.80	7.79	7.78	7.76	7.76	7.75	7.75	7.78	7.80
Taiwan Dollar	30.5	30.25	30.00	30.00	29.00	29.00	29.00	29.00	29.00
Korean Won	1350	1290	1270	1250	1220	1200	1200	1200	1200
Singapore Dollar	1.35	1.35	1.345	1.34	1.335	1.33	1.33	1.32	1.31
Malaysian Ringgit	4.70	4.70	4.60	4.50	4.40	4.35	4.30	4.25	4.20
Indonesian Rupiah	15500	15500	15200	14800	14600	14400	14200	14200	14000
Thai Baht	34.75	34.75	34.25	33.75	33.25	32.75	32.75	31.5	31.5
Philippines Peso	55	55	54	53.5	53	52	52	51	51
Vietnamese Dong	24100	24100	23800	23700	23700	23700	23700	23500	23500

Fixed Income: Government Bond Yield Forecast

10-year Yield (%)	Outlook	Current (as of 24 Nov 2023)	4Q23	4Q24	4Q25
China	Mildly Bullish	2.70	2.50	2.25	2.50
Indonesia	Neutral	6.63	6.50	5.75	5.50
Malaysia	Mildly Bullish	3.85	3.80	3.30	3.30
Philippines	Neutral	6.32	6.25	5.50	5.25
Singapore	Neutral	2.93	3.10	2.75	2.50
Thailand	Neutral	3.00	2.90	2.50	2.25
US	Bullish	4.41	3.90	3.25	3.00

Source: Bloomberg, Maybank IBG Research

Country Summary Tables

Table 1: China - Key Macroeconomic Indicators

	2020	2021	2022E	2023E	2024E	2025E
Real GDP (%)	2.5	8.5	3.0	5.2	4.4	4.5
Private Consumption (%)	0.0	13.1	2.3	6.4	4.1	4.2
Government Consumption (%)	5.0	4.6	6.6	6.9	6.5	6.0
Gross Fixed Capital Formation (%)	1.9	12.0	5.4	4.3	4.4	4.6
Net Exports of Goods & Services (% pt cont)	0.6	1.9	0.5	0.3	0.5	0.7
Current Account Balance (% of GDP)	1.5	2.0	2.2	1.6	1.6	1.8
Fiscal Balance (% of GDP)	(3.7)	(3.1)	(2.8)	(3.8)	(4.1)	(3.6)
Inflation Rate (%)	2.5	0.9	2.0	0.3	1.1	1.5
Unemployment Rate (%)	5.2	5.1	5.5	5.2	4.9	4.5
Exchange Rate (per USD, end-period)	6.52	6.38	6.96	7.15	7.15	7.00
*Benchmark Interest Rate (% p.a., end-period)	3.85	3.80	3.65	3.45	3.00	3.00

** Refers to 1 Year Loan Prime Rate.*

Source: CEIC, Maybank IBG Research

Table 2: Indonesia - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**-2.1**	**3.7**	**5.3**	**5.0**	**5.1**	**5.2**
Private Consumption (%)	-2.6	2.0	4.9	4.6	5.0	5.2
Government Consumption (%)	2.1	4.2	-4.5	4.0	5.0	4.8
Gross Fixed Capital Formation (%)	-5.0	3.8	3.9	4.0	3.8	4.9
Exports of Goods & Services (%)	-8.4	18.0	16.3	2.0	8.3	7.2
Imports of Goods & Services (%)	-17.6	24.9	14.7	-0.9	7.5	7.4
Current Account Balance (% of GDP)	-0.4	0.3	1.0	-0.4	-0.5	-0.7
Fiscal Balance (% of GDP)	-6.1	-4.6	-2.4	-1.9	-2.3	-2.3
Inflation Rate (%, period average)	2.0	1.6	4.2	3.7	3.0	3.0
Unemployment Rate (%, end-period)	7.1	6.5	5.9	5.3	5.1	5.1
Exchange Rate (per USD, end-period)	14,050	14,253	15,568	15,500	14,600	14,000
BI Policy Rate (% p.a., end-period)	3.75	3.50	5.50	6.00	5.25	4.75

Note: Unemployment rate is released bi-annually, in February and August.

Source: CEIC, Maybank IBG Research

Table 3: Malaysia - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**(5.5)**	**3.3**	**8.7**	**3.9**	**4.4**	**5.0**
Private Consumption (%)	(3.9)	1.9	11.2	4.9	5.1	5.5
Government Consumption (%)	4.1	6.4	4.5	3.2	4.1	4.7
Gross Fixed Capital Formation (%)	(14.4)	(0.8)	6.8	5.5	5.1	6.0
Exports of Goods & Services (%)	(8.6)	18.5	14.5	(7.7)	3.2	3.4
Imports of Goods & Services (%)	(7.9)	21.2	15.9	(7.5)	3.8	4.1
Current Account Balance (% of GDP)	4.2	3.9	2.6	2.0	2.1	2.0
Fiscal Balance (% of GDP)	(6.2)	(6.4)	(5.6)	(5.0)	(4.3)	(3.3)
Inflation Rate (%, period average)	(1.2)	2.5	3.3	2.6	3.0	3.0
Unemployment Rate (%, period average)	4.5	4.6	3.9	3.5	3.4	3.3
Exchange Rate (per USD, end-period)	4.02	4.17	4.40	4.70	4.40	4.25
10-Year Government Bond Yield (%, end-period)	2.65	3.59	4.00	3.80	3.30	3.30
Benchmark Interest Rate (% p.a., end-period)	1.75	1.75	2.75	3.00	3.00	3.00

Source: CEIC, Maybank IBG Research

Table 4: Philippines - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	(9.5)	5.7	7.6	5.8	6.5	6.2
Private Consumption (%)	(8.0)	4.2	8.3	5.5	5.5	6.4
Government Consumption (%)	10.5	7.2	4.9	3.5	6.2	5.2
Gross Fixed Capital Formation (%)	(27.3)	9.8	9.7	7.9	10.4	9.8
Exports of Goods & Services (%)	(16.1)	8.0	10.9	2.7	4.5	8.9
Imports of Goods & Services (%)	(21.6)	12.8	13.9	1.7	5.8	10.3
Current Account Balance (% of GDP)	3.3	(1.4)	(4.6)	(3.8)	(3.5)	(3.0)
Fiscal Balance (% of GDP)	(7.6)	(8.6)	(7.3)	(6.0)	(5.5)	(4.5)
Inflation Rate (%, period average)	2.4	3.9	5.8	6.0	3.5	3.0
Unemployment Rate (%, period average)	10.4	7.8	5.4	4.5	4.8	4.8
Exchange Rate (per USD, end-period)	48.0	51.0	55.7	55.0	53.0	51.0
Benchmark Interest Rate (% p.a., end-period)	2.00	2.00	5.50	6.50	5.75	4.75

Source: CEIC, Maybank IBG Research

Table 5: Singapore - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	(3.9)	8.9	3.6	1.1	2.2	2.1
Private Consumption (%)	(13.1)	6.6	9.7	3.9	3.4	3.3
Government Consumption (%)	13.0	3.7	-2.3	2.3	2.0	1.9
Gross Fixed Capital Formation (%)	(14.8)	18.0	1.6	-0.1	2.0	2.1
Exports of Goods & Services (%)	0.4	11.7	-1.3	1.4	3.0	2.7
Imports of Goods & Services (%)	(1.1)	12.0	-1.9	0.3	3.7	3.1
Current Account Balance (% of GDP)	16.4	18	19.3	19.1	18.5	18.2
Fiscal Balance (% of GDP)	(10.5)	0.3	-0.3	-0.1	0.5	0.1
Inflation Rate (%)	(0.2)	2.3	6.1	4.8	3.0	1.8
Unemployment Rate (%)	3.0	2.7	2.1	2.0	2.0	2.0
Exchange Rate (per USD, end-period)	1.3	1.35	1.34	1.35	1.335	1.31
10-Year Government Bond Yield (%, end-period)	0.83	1.64	3.09	3.10	2.75	2.50
3M SORA (% p.a., end-period)	0.13	0.19	3.10	3.80	3.25	2.60

Source: CEIC, Maybank IBG Research

Table 6: Thailand - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	-6.1	1.5	2.6	2.3	3.6	3.0
Private Consumption (%)	-0.8	0.6	6.3	5.5	4.2	2.4
Government Consumption (%)	1.4	3.7	0.2	-4.0	1.8	1.5
Gross Fixed Capital Formation (%)	-4.8	3.1	2.3	1.4	3.8	3.9
Exports of Goods & Services (%)	-19.7	11.1	6.8	2.1	4.3	4.5
Imports of Goods & Services (%)	-13.9	17.8	4.1	-0.7	4.8	4.1
Current Account Balance (% of GDP)	4.2	-2.1	-3.4	2.0	3.2	3.5
Fiscal Balance (% of GDP)	-5.2	-4.8	-3.5	-3.5	-3.9	-3.5
Inflation Rate (%, period average)	-0.8	1.2	6.1	1.3	1.8	2.0
Unemployment Rate (%, period average)	1.7	1.9	1.3	1.1	1.0	1.0
Exchange Rate (per USD, end-period)	30.0	33.4	34.6	34.75	33.25	31.5
Benchmark Interest Rate (% p.a., end-period)	0.50	0.50	1.25	2.50	2.25	2.00

Source: CEIC, Maybank IBG Research

Table 7: Vietnam - Key Macroeconomic Indicators

	2020	2021	2022	2023E	2024E	2025E
Real GDP (%)	**2.9**	**2.6**	**8.0**	**4.8**	**5.8**	**6.2**
Private Consumption (%)	0.4	2.0	7.8	3.1	5.3	5.5
Government Consumption (%)	1.2	4.7	3.6	5.8	5.6	5.7
Gross Fixed Capital Formation (%)	4.1	3.7	6.0	5.3	6.6	6.8
Exports of Goods & Services (%)	4.1	14.0	4.9	-2.6	5.8	5.8
Imports of Goods & Services (%)	3.3	16.2	2.2	-3.3	5.7	5.5
*Current Account Balance (% of GDP)	4.3	(2.1)	(0.3)	3.5	3.2	2.9
*Fiscal Balance (% of GDP)	(2.7)	(2.5)	2.4	(4.1)	(3.6)	(3.2)
Inflation Rate (%)	3.2	1.8	3.1	3.3	3.5	3.4
Unemployment Rate (%)	2.5	3.0	2.3	2.3	2.2	2.2
Exchange Rate (per USD, end-period)	23,098	22,826	23,633	24,100	23,700	23,500
Benchmark Interest Rate (% p.a., end-period)	4.00	4.00	6.00	4.50	4.50	4.50

**Vietnam started using new nominal GDP series in 2021.*

Source: CEIC, Maybank IBG Research

Table 8: Cambodia - Key Macroeconomic Indicators

	2020	**2021**	**2022E**	**2023E**	**2024E**	**2025E**
Real GDP (%)	**(3.1)**	**3.0**	**5.2**	**5.4**	**5.9**	**6.0**
Private Consumption (%)	(4.3)	(5.3)	16.7	5.0	6.0	5.8
Government Consumption (%)	13.0	22.7	(41.6)	6.0	5.8	5.6
Gross Fixed Capital Formation (%)	(2.7)	6.8	20.0	5.4	7.0	6.8
Exports of Goods & Services (in USD terms, %)	(11.3)	13.5	20.7	0.9	8.5	8.0
Imports of Goods & Services (in USD terms, %)	(8.9)	23.1	22.3	1.3	7.5	7.3
Current Account Balance (% of GDP)	(3.4)	(40.7)	(29.3)	(5.0)	(4.0)	(3.8)
Fiscal Balance (% of GDP)	(4.0)	(6.4)	(0.2)	(3.4)	(2.7)	(2.5)
Inflation Rate (%)	2.9	2.9	5.3	2.5	3.0	3.0
Unemployment Rate (%)	0.3	0.3	0.4	0.5	0.5	0.4
Exchange Rate (per USD, end-period)	4,046	4,074	4,070	4,100	4,080	4,040
*Benchmark Interest Rate (% p.a., end-period)	2.0	2.0	2.0	2.0	2.0	2.0

** We take this to be the one-year interest rate for negeotiable certificates of deposits (NCDs), used as collateral for Liquidity-Providing Collateralized Operations (LPCO).*

Source: CEIC, Maybank IBG Research

Performance and Valuation Summary

Equity performance by Country (in local currency terms)

Name	Index level	FX rate	--- Absolute performance (local currency) ---							
			-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	698		0	0	3	5	13	0	2	15
MSCI Emerging Market	975		(1)	0	0	(2)	1	(1)	(1)	2
MSCI Asia Pac (inc Japan)	161		(0)	0	0	(2)	3	(0)	(1)	3
MSCI Asia Pac (ex Japan)	501		(0)	0	(0)	(3)	(2)	(0)	(2)	(1)
MSCI Asia x JP	612		(1)	0	(1)	(4)	(2)	(1)	(2)	(1)
MSCI Far East (ex Japan)	526		(2)	0	(3)	(7)	(5)	(2)	(4)	(4)
MSCI ASEAN	604		(0)	0	(3)	(5)	(6)	(0)	(4)	(7)
MSCI Emerging Asia	519		(1)	0	(1)	(3)	(1)	(1)	(2)	1
MSCI EM Latin America	2,479		(1)	0	8	4	15	(1)	4	16
MSCI EMMEA	190		(1)	0	1	(1)	(0)	(1)	(1)	(1)
MSCI Frontier	497		1	0	(2)	3	1	1	(2)	5
MSCI Asia x JP Small Cap	1,294		0	0	1	7	13	0	2	14
China - Shanghai Composite	2,970	7.2	(2)	0	(5)	(8)	(7)	(2)	(5)	(4)
China - H-shares	5,598	7.8	(3)	0	(11)	(14)	(16)	(3)	(12)	(17)
Hong Kong - HSI	16,334	7.8	(3)	0	(10)	(15)	(16)	(3)	(11)	(17)
Taiwan - TAIEX	17,384	31.4	(0)	0	5	4	19	(0)	4	23
Korea - KOSPI	2,518	1,306.9	1	0	(1)	(4)	6	1	(2)	13
Singapore - STI	3,111	1.3	1	0	(3)	(2)	(4)	1	(4)	(4)
Malaysia - KLCI	1,442	4.7	(1)	0	(1)	5	(2)	(1)	(1)	(4)
Thailand - SET	1,381	35.3	0	0	(11)	(11)	(15)	0	(12)	(17)
Indonesia - JCI	7,160	15,510.0	2	0	4	8	5	2	3	5
Philippines - PSEi	6,235	55.3	(0)	0	0	(5)	(4)	(0)	1	(5)
India - Sensex	69,826	83.4	3	0	5	11	12	3	7	15
Vietnam - Ho Chi Minh	1,124	24,230.0	2	0	(9)	2	7	2	(8)	12
Australia ASX 200	7,195	1.5	2	0	1	1	0	2	(1)	2
New Zealand - NZX50	11,496	1.6	1	0	1	(2)	(1)	1	(0)	0
Japan - Nikkei 225	32,308	144.5	(3)	0	(1)	2	17	(3)	(1)	24
Japan - TOPIX	2,324	144.5	(2)	0	(1)	6	20	(2)	(1)	23
S&P 500	4,604	1.0	0	0	3	7	16	0	2	20
Russell 2000	1,881	1.0	1	0	2	0	3	1	(2)	7
FTSE 100	7,554	0.8	0	0	1	(1)	1	0	1	1
Euro Stoxx	4,523	0.9	2	0	7	5	15	2	6	19

Source: Maybank IBG Research, Factset, MSCI, data as of 8 December 2023

Equity performance by Country (in USD terms)

			--- Absolute performance (USD) ---							
Name	Index level	FX rate	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	698		0	0	3	5	13	0	2	15
MSCI Emerging Market	975		(1)	0	0	(2)	1	(1)	(1)	2
MSCI Asia Pac (inc Japan)	161		(0)	0	0	(2)	3	(0)	(1)	3
MSCI Asia Pac (ex Japan)	501		(0)	0	(0)	(3)	(2)	(0)	(2)	(1)
MSCI Asia x JP	612		(1)	0	(1)	(4)	(2)	(1)	(2)	(1)
MSCI Far East (ex Japan)	526		(2)	0	(3)	(7)	(5)	(2)	(4)	(4)
MSCI ASEAN	604		(0)	0	(3)	(5)	(6)	(0)	(4)	(7)
MSCI Emerging Asia	519		(1)	0	(1)	(3)	(1)	(1)	(2)	1
MSCI EM Latin America	2,479		(1)	0	8	4	15	(1)	4	16
MSCI EMMEA	190		(1)	0	1	(1)	(0)	(1)	(1)	(1)
MSCI Frontie	497		1	0	(2)	3	1	1	(2)	5
MSCI Asia x JP Small Cap	1,294		0	0	1	7	13	0	2	14
China - Shanghai Composite	2,970	7.2	(2)	0	(2)	(8)	(10)	(2)	(4)	(7)
China - H-shares	5,598	7.8	(3)	0	(11)	(14)	(16)	(3)	(11)	(17)
Hong Kong - HSI	16,334	7.8	(3)	0	(10)	(15)	(16)	(3)	(11)	(18)
Taiwan - TAIEX	17,384	31.4	0	0	7	2	17	0	6	21
Korea - KOSPI	2,518	1,306.9	0	0	1	(4)	7	0	(1)	9
Singapore - STI	3,111	1.3	1	0	(1)	(2)	(3)	1	(3)	(4)
Malaysia - KLCI	1,442	4.7	(1)	0	(1)	4	(7)	(1)	(2)	(9)
Thailand - SET	1,381	35.3	(1)	0	(10)	(13)	(16)	(1)	(12)	(19)
Indonesia - JCI	7,160	15,510.0	1	0	2	3	6	1	1	5
Philippines - PSEi	6,235	55.3	0	0	3	(3)	(4)	0	3	(4)
India - Sensex	69,826	83.4	3	0	4	10	10	3	6	14
Vietnam - Ho Chi Minh	1,124	24,230.0	2	0	(10)	(1)	5	2	(9)	9
Australia ASX 200	7,195	1.5	1	0	4	(0)	(2)	1	1	(1)
New Zealand - NZX50	11,496	1.6	0	0	5	(1)	(5)	0	3	(3)
Japan - Nikkei 225	32,308	144.5	(1)	0	1	(2)	11	(1)	(0)	13
Japan - TOPIX	2,324	144.5	(0)	0	1	2	13	(0)	(0)	12
S&P 500	4,604	1.0	0	0	3	7	16	0	2	20
Russell 2000	1,881	1.0	1	0	2	0	3	1	(2)	7
FTSE 100	7,554	0.8	(0)	0	1	(1)	4	(0)	1	6
Euro Stoxx	4,523	0.9	2	0	7	5	18	2	5	20

Source: Maybank IBG Research, Factset, MSCI, data as of 8 December 2023

Equity performance by Country - relative performance

			--- Relative performance to MSCI Asia x Japan ---							
Name	Index level	FX rate	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	698		1	0	4	9	15	1	4	17
MSCI Emerging Market	975		(0)	0	1	2	3	(0)	1	3
MSCI Asia Pac (inc Japan)	161		0	0	1	2	5	0	1	5
MSCI Asia Pac (ex Japan)	501		0	0	1	1	0	0	1	0
MSCI Asia x JP	612									
MSCI Far East (ex Japan)	526		(1)	0	(2)	(3)	(3)	(1)	(2)	(3)
MSCI ASEAN	604		1	0	(1)	(1)	(4)	1	(2)	(6)
MSCI Emerging Asia	519		0	0	0	1	2	0	1	2
MSCI EM Latin America	2,479		0	0	9	7	17	0	6	18
MSCI EMMEA	190		(1)	0	2	3	2	(1)	1	0
MSCI Frontier	497		1	0	(1)	7	4	1	(0)	6
MSCI Asia x JP Small Cap	1,294		1	0	3	11	15	1	4	16
China - Shanghai Composite	2,970	7.2	(2)	0	(1)	(4)	(7)	(2)	(2)	(6)
China - H-shares	5,598	7.8	(2)	0	(10)	(10)	(14)	(2)	(9)	(15)
Hong Kong - HSI	16,334	7.8	(2)	0	(9)	(11)	(14)	(2)	(9)	(16)
Taiwan - TAIEX	17,384	31.4	1	0	8	6	19	1	8	22
Korea - KOSPI	2,518	1,306.9	1	0	2	0	10	1	1	10
Singapore - STI	3,111	1.3	1	0	0	2	(0)	1	(1)	(3)
Malaysia - KLCI	1,442	4.7	0	0	1	8	(5)	0	0	(8)
Thailand - SET	1,381	35.3	(0)	0	(9)	(9)	(14)	(0)	(10)	(18)
Indonesia - JCI	7,160	15,510.0	2	0	3	7	8	2	3	6
Philippines - PSEi	6,235	55.3	1	0	4	1	(2)	1	5	(3)
India - Sensex	69,826	83.4	4	0	6	14	13	4	8	15
Vietnam - Ho Chi Minh	1,124	24,230.0	3	0	(9)	3	8	3	(7)	10
Australia ASX 200	7,195	1.5	2	0	5	3	0	2	3	0
New Zealand - NZX50	11,496	1.6	1	0	6	3	(2)	1	5	(2)
Japan - Nikkei 225	32,308	144.5	(1)	0	2	2	13	(1)	2	14
Japan - TOPIX	2,324	144.5	0	0	2	6	16	0	2	13
S&P 500	4,604	1.0	1	0	5	11	19	1	4	21
Russell 2000	1,881	1.0	2	0	3	4	6	2	0	8
FTSE 100	7,554	0.8	0	0	3	3	6	0	3	7
Euro Stoxx	4,523	0.9	2	0	9	9	20	2	7	21

Source: Maybank IBG Research, Factset, MSCI, data as of 8 December 2023

Links to past reports

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