NUS INVESTMENT SOCIETY

Global Macro Department – The Philippines (NEUTRAL)

Date: 20th April 2024

Analysts

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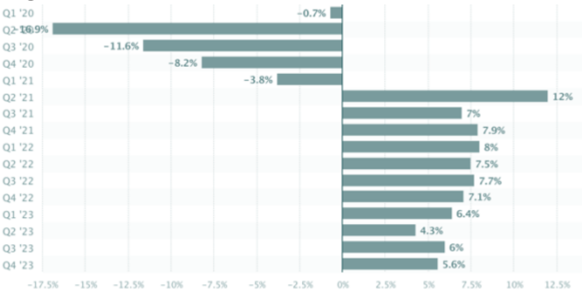
Basic Information

Real GDP (in 2023, USD)	436.68 B
M2 (Jan 2024, USD)	165.23 B
CPI (Feb 2024)	125.50
PPI (Jan 2024)	97.65
Consumer Con. (Q4 2023)	-19.03
Currency	PHP

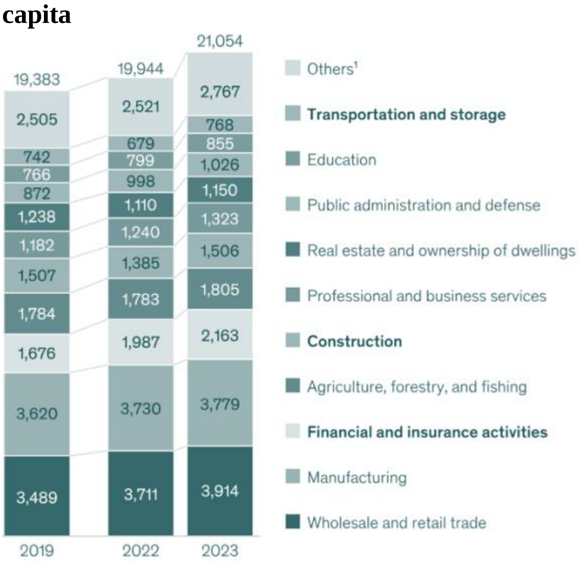
Chart info

Figure 1: GDP Growth Rates



Source: Philippines Statistics Authority

Figure 2: Forecasted Gross National Income per capita



Source: McKinsey

Figure 3: Inflation rate

Overview of the Philippines' Economy

The Philippines concluded 2023 on a high note, being the fastest growing economy across Southeast Asia with a growth rate of 5.6 percent—just shy of the government's target of 6.0 to 7.0 percent. Should projections hold, the Philippines is expected to, once again, show significant growth in 2024, demonstrating its resilience despite various global economic pressures. The growth in the Philippine economy in 2023 was driven by a resumption in commercial activities, public infrastructure spending, and growth in digital financial services. Most sectors grew, with transportation and storage, construction, and financial services, performing the best. While the country's trade deficit narrowed in 2023, it remains elevated at $52 billion due to slowing global demand and geopolitical uncertainties. Looking ahead to 2024, the current economic forecast for the Philippines projects a GDP growth of between 5 and 6 percent.

Inflation in the Philippines cooled to a 23 month low of 2.8 percent in January 2024. However, inflation picked up in February to 3.4% due to rising rice prices. Regardless, the inflation rate is well within the central bank's 2 percent to 4 percent target for the year. The central bank said inflation could overshoot its target range from the second quarter because of the impact of the El Nino weather phenomenon on farm production. "The risks to the inflation outlook have receded but remain tilted toward the upside", the Bangko Sentral ng Pilipinas said in a statement. The central bank, which last month kept its benchmark rate steady at 6.50 per cent for a third straight meeting said it deems it appropriate to keep monetary policy settings unchanged in the near term.

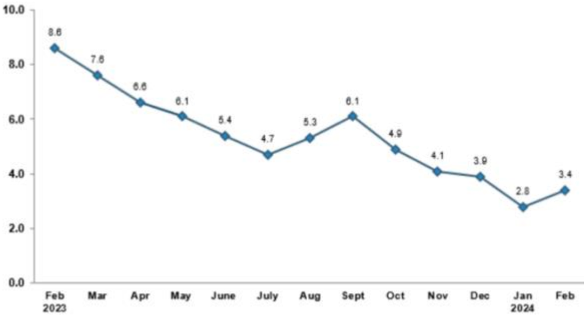
Summary of Events in the Past Year

Economic Growth

- The Philippines economy has continued to show robust expansion.
- The manufacturing sector is one of the fastest growing amongst the major economies worldwide.
- Philippine's PMI has strictly hovered above 50 from 2023 until February 2024, driven by a strong rise in new orders.
- In line with improved demand conditions, manufacturers raised their hiring activity, thereby marking the first month of job creation since last October.
- Sustained remittance inflows from workers abroad, fast growing IT-BPO sector exports and the continued recovery of the tourism sector are expected to support economic growth momentum during 2024.

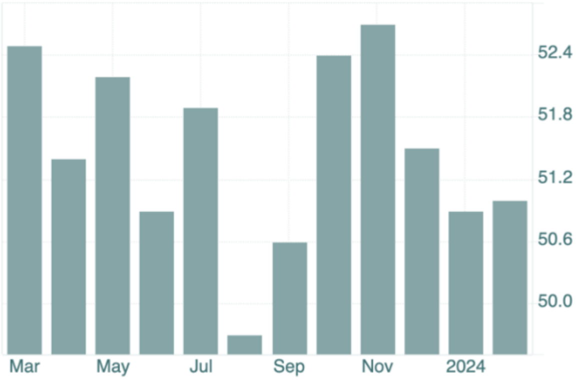
Financial Inclusion and Digitalisation

- Bangko Sentral ng Pilipinas continues to invest in financial inclusion activities to improve banking penetration and accessibility to financial services.



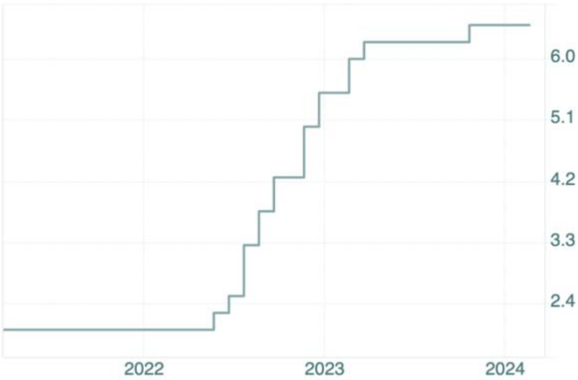
Source: Philippine Statistics Authority

Figure 4: Philippines Manufacturing PMI



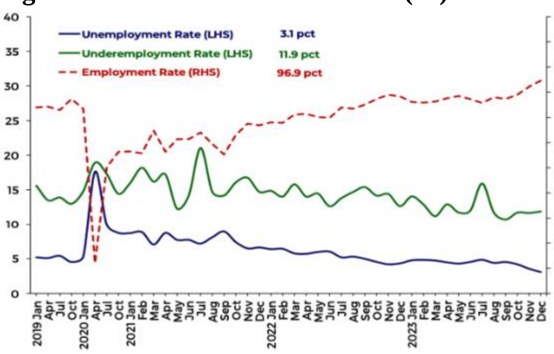
Source: Trading Economics

Figure 5: Interest Rate (%)



Source: Trading Economics

Figure 6: Labor Market Indicators (%)



Source: PSA

- For example, Basic Deposit Accounts reaches $22 million in 2023, with the proportion of adults with formal bank accounts increasing.

Rating Upgrade

- Japanese credit rating agency, R&I, affirmed the Philippines' 'BBB+' investment grade rating and upgraded the outlook to 'Positive.' This was based on robust macroeconomic fundamentals, an improving fiscal position, a stable banking system, comfortable external payments, and a stable political environment.

Monetary Policy

- To combat high inflation, the central bank has been on a higher for longer path for interest rates.
- The Philippine central bank kept its benchmark interest rate steady at 6.50 percent for a third straight meeting on February 15, as price pressures have further eased.
- The bank also held the overnight deposit and lending rates at 6% and 7% respectively.
- This high interest rate has cooled inflation significantly from its peak a year ago.
- Risks to inflation outlook have largely receded however certain risks such as possible price pressures from lower domestic supply of produce and grains such as rice and corn, crude oil prices and transport charges lingers.

Structural Reforms

- The recent ratification of the Regional Comprehensive Trade Partnership (RCEP) Agreement, which is seen to support greater market access for goods and services, reduced trade barriers, and improved export competitiveness from simplified and harmonized rules.
- Complementary to RCEP's ratification is the recent implementation of key economic liberalization laws such as the amendments to the Retail Trade Liberalization Act (RTLA), Foreign Investments Act (FIA), Public Service Act (PSA), and the Build-Operate-Transfer (BOT) Law.
- All these structural reform measures could spur growth in the medium term, enhancing the investment climate as well as economic sentiment in the country.

Headline Inflation Further Eases

- The bulk of the decline can be traced primarily to lower y-o-y food inflation as prices of vegetables, tubers, plantains, cooking bananas and pulses, and meat and other parts of slaughtered land animals declined.
- Inflation for fish and other seafood also slowed.
- Similarly, non-food inflation eased owing to slower price increases of housing, water, electricity, gas and other fuels.

Labor Market

- The unemployment rate fell to 3.1 percent in December 2023 from 3.6 percent in November 2023 and significantly lower than the 4.3 percent recorded in December 2022.
- The unemployment rate was also the lowest since it peaked at 17.6 percent at the onset of the pandemic in April 2020.

Domestic Liquidity

- Preliminary data showed that domestic liquidity (M3) grew by 5.9 percent in December 2023 from 7.0 percent in November.
- During the same period, bank lending rose by 7.0 percent, the same rate of increase as in the previous month.
- In terms of credit conditions, lending standards based on the diffusion index method were mixed with a net tightening of credit standards on businesses and net easing on households.
- In the government securities market, the auctions of the Bureau of the Treasury were fully awarded amid strong demand.

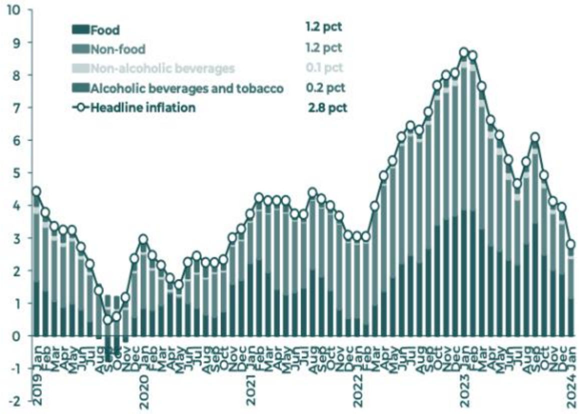
Policy Recommendations

- The government is urged to pursue revenue-enhancing policies, implement reforms early in its term, and improve public spending efficiency.
- Strengthening social protection measures, especially through digital platforms and tools, is emphasized.
- Increasing investments, including FDI, and facilitating stronger partnerships with the private sector are vital for long-term growth.

Energy Transition

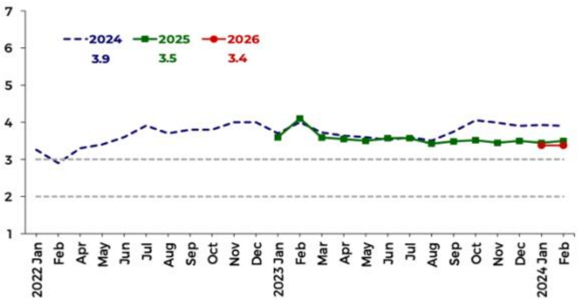
- The Philippines is undergoing a substantial energy transition, aiming for a cleaner, more secure, and affordable energy future.
- The government's strategy includes scaling up renewable energy, setting a cap on coal-fired power, promoting energy efficiency, electrifying transport, and exploring low- or zero-carbon technologies like nuclear power.

Figure 8: USD/PHP Chart in the last 6 months



Source: Philippine Statistical Authority

Figure 9: BSP Survey of External Forecasters (%)



Source: BSP

Macro Trend 1 – Cooling Inflation

The y-o-y headline inflation fell to 2.8 percent in January 2024 from 3.9 percent in December 2023. The January inflation rate is the lowest since October 2020 when inflation was at 2.3 percent. The bulk of the decline can be traced primarily to lower y-o-y food inflation as prices of vegetables and meat fell while inflation for fish and other seafood slowed. Non-food inflation also moderated as a result of slower price increases of housing, water, electricity, gas and other fuels, along with the decline in transport inflation. On a month-on-month (m-o-m) seasonally adjusted basis, inflation declined to -0.1 percent in January 2024 from 0.1 percent in the previous month.

The official core inflation further eased to 3.8 percent in January 2024 from 4.4 percent in December 2023. Similarly, other measures of core inflation also continued to ease in January 2024.

<u>Factors Driving a Steady Decrease in Inflation</u>

1. Fall in Food Inflation:

Food inflation moderated to 3.5 percent in January 2024 from 5.4 percent in December as prices of vegetables, tubers, plantains, cooking bananas and pulses, and meat and other parts of slaughtered land animals declined. Similarly, inflation for fish and other seafood also slowed.

2. Fall in Non-Food Inflation:

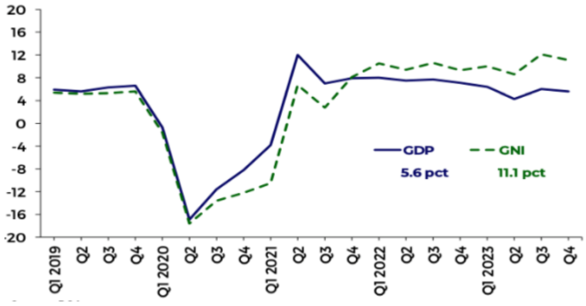
Non-food inflation also slowed down to 2.0 percent in January 2024 from 2.6 percent in the previous month as a result of slower price increases of housing, water, electricity, gas and other fuels. Transport inflation also declined y-o-y due to lower gasoline and diesel prices, along with easing inflation for sea fares.

<u>Inflation Expectations</u>

Results of the BSP Survey of External Forecasters (BSEF) for the February 2024 round showed steady mean inflation forecasts for 2024 and 2026 at 3.9 percent and 3.4 percent, respectively

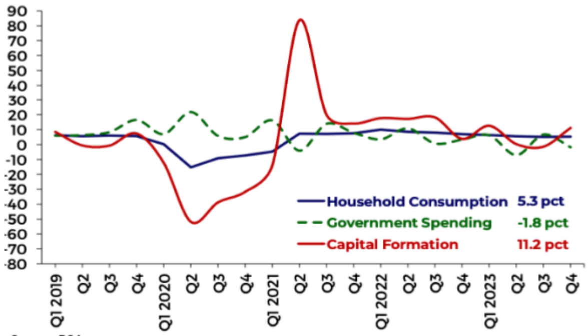
Analysts expect inflation to remain manageable this year and settle within the target range. However, risks to the inflation outlook continue to be dominated by upside pressures owing to supply-side shocks and second-round effects. The upside risks to inflation are seen to emanate mainly from the potential rise in basic goods and services owing to supply-side pressures attributed mainly to the adverse impact of El Niño and geopolitical conflicts in the Middle East and Red Sea. A few analysts also cited second-round effects from wage adjustments and higher electricity rates, as well as positive base effects as upside risks. The downside risks to the inflation outlook are the continued deceleration of food and non-food inflation, including oil; and implementation of nonmonetary government interventions such as E.O. no. 50 which lowers the import tariff of key food items, including rice. A few analysts also cited the subdued global demand as possible downside risks to inflation.

Figure 10: GDP and GNI (%)



Source: PSA

Figure 11: GDP by Expenditure Shares (%)



Source: PSA

Macro Trend 2 – Strong Domestic Demand

Real GDP grew by 5.6 percent y-o-y in Q4 2023 from 6.0 percent in Q3 2023 and 7.1 percent in the same period a year ago. Output growth in Q4 2023 was supported by firm domestic demand.

Meanwhile, the gross national income (GNI) grew by 11.1 percent y-o-y in Q4 2023 from 12.1 percent in Q3 2023 and 9.3 percent in Q4 2022. Net primary income moderated to 97.7 percent in Q4 2023 from the 111.6-percent growth in Q3 2023, albeit higher than the 59.9-percent increase in Q4 2022.

Aggregate Demand

Under the expenditure approach, household spending, government spending, investments (or capital formation), and exports contributed 4.0 percentage points (ppts), -0.2 ppt, 2.4 ppts, and -0.7 ppt, respectively, to total GDP growth in Q4 2023.

Household consumption, which accounted for 75.1 percent of GDP in Q4 2023, grew by 5.3 percent y-o-y during the review quarter, due to sustained strong consumer spending for restaurants and hotels, transport, and miscellaneous goods and services. This reflects some recovery in the labor market as well as steady growth in remittances. Nevertheless, real spending on food items moderated amid still high food prices albeit moderating in recent months.

Capital formation or investments expanded by 11.2 percent in Q4 2023, a reversal of the 1.4 percent contraction in Q3 2023, owing to significant growth in fixed capital. In particular, the expansion in durable equipment more than offset the slowdown in construction.

In contrast, government expenditures decreased by 1.8 percent in Q4 2023, a reversal of the 6.7 percent increase in Q3 2023 and 3.3-percent growth in Q4 2022. This was due to lower disbursements for maintenance and other operating expenditures (MOOE), infrastructure and other capital outlays, and allotment to Local Government Units.

Wage Developments

Following the minimum wage review across the regions amid the continued elevated inflation environment, 15 regional wage boards have approved new wage orders in their respective jurisdictions since January 2023. Regions X (Northern Mindanao) and XIII (CARAGA) have approved adjustments in January 2024. The average increase in the non-agriculture industry minimum wage is 8.6 percent for the 15 regions and 8.7 percent for areas outside the National Capital Region. Wage hikes serves to boost demand for consumption, driving economic growth.

Figure 15: USD/PHP Daily Chart

Source: Trading View

Trade Idea: Short USD/PHP

For the period 1-12 February, the peso has averaged ₱56.09/US$1, depreciating further by 0.13 percent relative to the previous month's average. This downward trend reflected partly broad US dollar strength amid expectations of delay in the US Fed's policy easing following stronger-than-expected US jobs data and cautious remarks from US Fed officials, as well as lingering geopolitical tensions in Gaza and the Middle East.

On the domestic front, dampened market sentiment amid elevated inflation outlook in Q2 2024, and lower gross international reserves in January 28 contributed to the depreciation of the peso.

Nonetheless, these factors were partly offset by the following positive domestic developments which will continue into 2024: i) robust economic growth prospects in 2024 following the release of stronger-than-expected Q4 and full-year 2023 Gross Domestic Product (GDP) growth;29 ii) hawkish rhetoric from the BSP despite further easing of inflation in January; iii) sustained growth in the country's manufacturing activity in January 30 iv) lower government debt-to-GDP ratio in 2023;31 and v) stronger net FDI inflows.

Recently, inflation ticked up in the Philippines due to a surge in rice prices. The BSP's hawkish rhetoric indicates that it is possible for the BSP to hike rates further to tame a pick-up in inflation. Meanwhile, the Fed is close to cutting interest rates as the Fed's preferred gauge for inflation has shown signs of cooling down in recent months. As the Fed cut rates and the BSP hike rates, it will lead to a widening of the interest rate differential between the USD and the PHP. There will be more capital inflows into Philippines assets, increasing demand for the Peso and causing appreciation of the Peso. Meanwhile, due to a fall in US interest rate, there may be a fall in capital inflows into US assets as people buy higher yielding currencies. This will lead to a fall in demand for the USD, depreciating the USD.

Technicals

The RSI is at 77.38, above the threshold of 70 which indicates overbought territory. Similarly, the trend line is close to touching the Bollinger Bands, which indicates a potential deterioration in the USD/PHP.

Trade

Entry: 56.42
Take profit: 55.28
Stop Loss: 56.77
Risk-reward ratio: 3.26

Disclaimer

NUS INVESTMENT SOCIETY

Global Macro Department – Indonesia (UNDERWEIGHT)

Date: 20th April 2024

Analysts

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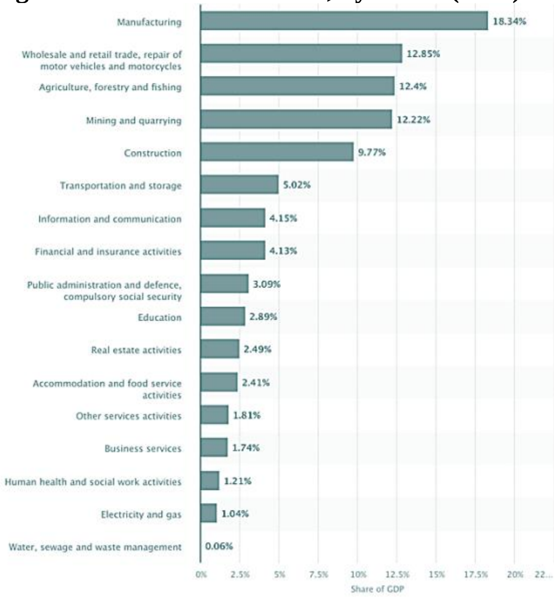
Basic Information

Real GDP (in 2022, USD)	1.540 T
M2 (Feb 2024, USD)	552.64 B
CPI (Jan 2024)	105.19
PPI (Feb 2024)	118.60
Consumer Con.(October 2023)	124.30
Currency	IDR

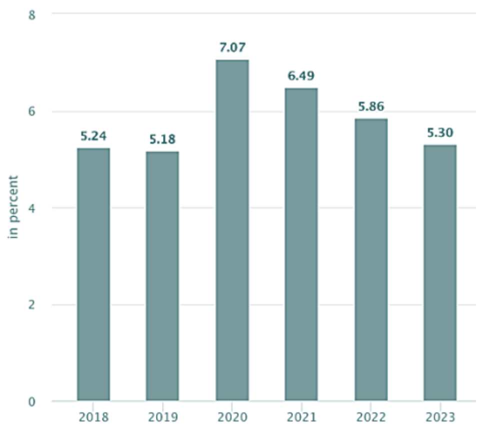
Chart info

Figure 1: Breakdown of GDP, by sector (2022)



Source: Statista

Figure 2: Unemployment Rate



Source: Statista

Overview of Indonesia's Economy

The largest economy in Southeast Asia, Indonesia – a diverse archipelago nation of more than 300 ethnic groups – has charted impressive economic growth since overcoming the Asian financial crisis of the late 1990s.

Today, Indonesia is the world's fourth most populous nation with more than 277 million people and 10th largest economy in terms of purchasing power parity. Furthermore, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to under 10 percent in 2019 before the COVID-19 pandemic hit.

As seen in Figure 1, the largest component of Indonesia's GDP is services (48%), followed by manufacturing (40%) and agriculture (12%). Each sector employs 49%, 22% and 29% of the Indonesian workforce respectively.

In 2023, Indonesia's export market experiences remarkable growth with the total value of exports reaching a record breaking US$23.50 billion, a 9.89% increase from 2022. Indonesia's major trade partners have been consistent with China being the largest (22.6%), United States (9.7%) and Japan (8.5%).

Domestically, Indonesia's remarkable economic recovery continues, recording 5.03% YoY GDP growth in Q1 2023. Inflation has moderately decreased since January 2023, touching 4% YoY in May 2023. Export remains strong and was the largest growth contributor in Q1 2023, recording 11.68% YoY growth, as fueled by China's domestic recovery. Investment realisation (foreign and domestic) recorded satisfying growth of 16.5% YoY in Q1 2023. Sector-wise, the Transportation and Storage sector was recorded as the fastest growing in Q1 2023 (15.93% YoY). Meanwhile, the second fastest was the Accommodation and Food & Beverages sector (11.55% YoY). Bank Indonesia's growth projection for Indonesia in 2023 is between 4.5% to 5.3%. Unemployment has also been decreasing from previous years as economic growth picks up after the pandemic (Figure 2).

Summary of events in the past 6 months

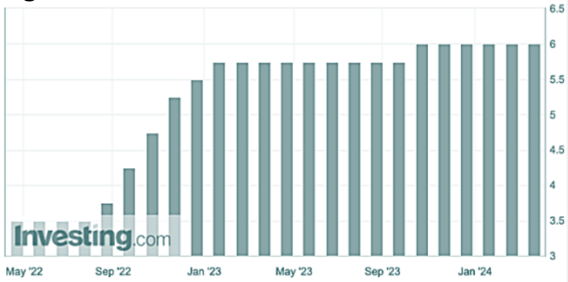
<u>2024 Indonesian General Election</u>

- Indonesian Defence Minister Prabowo Subianto declared victory in the presidential election held on 14 February 2024 after clinching about 58% of votes.
- Prabowo's running mate, Gibran, is the former president Joko Widodo's
  son and as a result, he received a lot of support and backing. Prabowo billed himself to voters and investors alike as the "continuity candidate". He pledges to use as a guide Jokowi's economic policies, which have modernised infrastructure and delivered growth and prosperity in the trillion dollar, G20 economy.
- Prabowo is expected to take over from Jokowi in October.

<u>Key Interest Rates Unchanged</u>

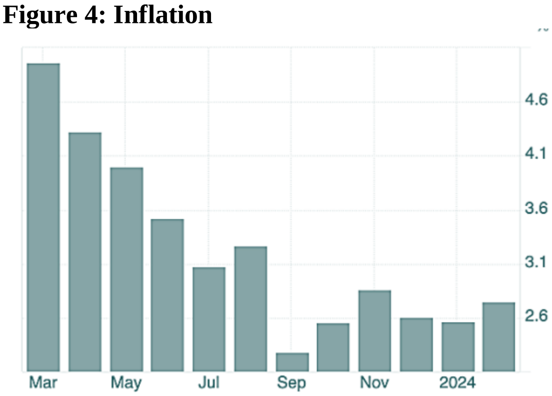
- BI kept its key interest rate unchanged at 6% for the fifth consecutive Time during its March 2024 meeting (Figure 3), aiming to ensure headline inflation remains within the target of 2.5±1% this year while
  supporting economic growth and strengthening the rupiah's stability.
- BI also left the overnight deposit and the lending facility at 5.25% and

Figure 3: Indonesia Interest Rate



Source: Investing.com

Figure 4: Inflation

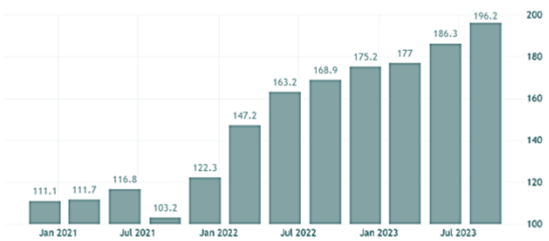


Source: Trading Economics

Figure 5: USDIDR Exchange Rate

Source: Trading Economics

Figure 6: Indonesia's FDI



Source: Trading Economics and Macro Trends

6.75% respectively.

<u>Cost Push Inflation</u>

- While inflation has begun to show signs of slowing down in Indonesia,
  The volatile food prices have put pressure on Southeast Asia's Largest economy. The annual inflation rate in Indonesia increased to 2.75% in February 2024 from 2.57% in January (Figure 4), above expectations of 2.6%. This was the highest inflation rate since last November, with food prices rising the most in three months.
- However, core inflation was unchanged at an over 2-year low of 1.68% in February, below forecasts of 1.71% and is well within BI's target range (1.5 to 3.5%),

<u>Currency</u>

- The Indonesian rupiah remains steady as the central bank stood pat on interest rates
- The IDR has remained broadly range bound since the middle of January
- However, a Fed rate cut in June would open door for central banks in Asia's emerging markets to start lowering their key rates given the progress of inflation, depreciating the currency.

<u>Bond Market</u>

- Indonesia is front loading its debt issuance as finances may tighten this year amid a weaker global economy and softer commodity prices capping revenues and inflows.
- The government seeks to raise as much as 240 trillion rupiah from bond sales in the first quarter.
- The nation began marketing three tranches of benchmark-sized dollar
  bonds.
- The government's first 2024 domestic bond auction in January though
  yielded less than the 25 trillion rupiah the finance ministry had targeted.

<u>Increasing FDI</u>

- Indonesia recorded a total of 744 trillion rupiah ($47.34 billion) of foreign direct investment in 2023, up 13.7% on an annual basis.
- The base metal industry received the biggest FDI last year at $11.8 billion, while mining was in fourth place at $4.7 billion.
- Other sectors that benefited from FDI included warehousing, telecommunications, pharmaceutical, pulp and paper.
- Singapore, China and Hong Kong were the biggest FDI sources in 2023.

<u>Falling Commodity Prices</u>

- In 2023, prices of Indonesia's main commodities like palm oil, coal and
  nickel dropped, while demand from major trade partners also softened amid weakening global growth.

<u>Success of Indonesia's "Downstreaming" Policy</u>

- Indonesia's "downstreaming" policy mandates that all the raw nickel extracted in the country must be processed domestically, enabling higher value-added export revenues and spurring the growth of the mineral smelting industry.
- Nickel-related annual export proceeds have now jumped to US$33.8 billion (S$45.4 billion) from a mere US$2.1 billion before the downstreaming policy.
- In Central Sulawesi, one of several nickel-producing regions in Indonesia, nickel-related jobs have skyrocketed to 71,500 now, from 1,800, because of the downstreaming policy.
- This downstreaming policy have spurred more investment in Indonesia's nickel mining and smelting industries. Recent

announcements include a US$2.6 billion refinery in North Maluku by German chemical maker BASF and French miner Eramet, which will produce a nickel compound used in EV batteries.

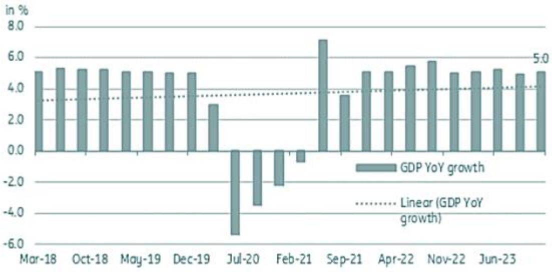
Slow Economic Growth in Q4

- Indonesia’s annual economic growth fell slightly but remained solid at
  5.05% last year as falling commodity prices hit exports and tight monetary policy dampened demand.
- However, the government expects the growth rate to pick up to 5.2% in 2024, hoping that spending for general elections and a return of private investment once the political uncertainty eases will boost GDP.
- Household consumption, the country’s main growth driver making up over half of Indonesia’s GDP, slowed to 4.82% in 2023 from 4.94% the previous year.
- Demand would improve if BI cut rates in 2024.
- Export growth slowed sharply to 1.32%, compared with 2022’s expansion of more than 16%.
- Shipments in 2023 shrank by about 11%.
- Export growth slowed sharply to 1.32%, compared with 2022’s expansion of more than 16%.

New Capital City

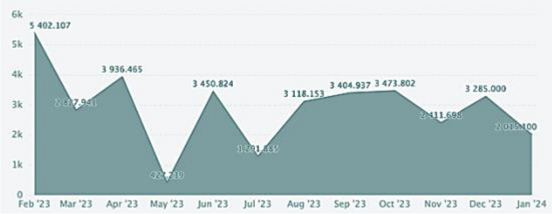
- Investment expanded 4.40% faster than the 3.87% recorded in the previous year, due to investment for government projects for a planned new capital city.
- A new capital for Indonesia, Nusantara, have been planned to be the upcoming capital – nearly four times the size of the congested and gradually sinking capital of Jakarta.
- The $32 billion mega-project has been planned in five phases until 2045.
- Construction of the first phase started in 2022 and is expected to complete by 2024.

Figure 9: Nominal GDP Growth (YoY)



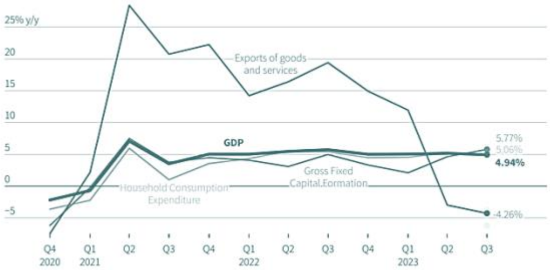
Source: ING

Figure 10: Indonesia's Trade Balance (USD mn)



Source: CEIC

Figure 11: Economic Growth



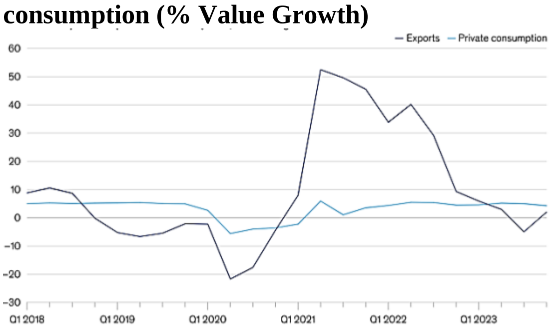
Source: Statistics Indonesia

Figure 12: Real GDP Growth in India, China and ASEAN (2021-2024)

	2021	2022	2023	2024
ASEAN-5				
Indonesia	3.7	5.3	4.7	5.1
Malaysia	3.1	8.7	4.0	4.2
Philippines	5.7	7.6	5.7	6.1
Thailand	1.5	2.6	3.8	3.9
Viet Nam	2.6	8.0	6.4	6.6
Brunei Darussalam and Singapore				
Brunei Darussalam	-1.6	-1.5	3.2	3.2
Singapore	8.9	3.6	2.2	2.5
CLM countries				
Cambodia	3.1	5.1	5.4	5.9
Lao PDR	3.5	3.1	3.5	3.8
Myanmar	-17.9	2.0	2.0	
China and India				
China	8.1	3.0	5.3	4.9
India	8.7	6.9	5.9	7.1
Average of ASEAN-10	3.2	5.6	4.6	4.8
Average of Emerging Asia	7.3	4.4	5.3	5.4

Source: Trading View

Figure 13: Indonesia Exports vs Private consumption (% Value Growth)



Source: McKinsey

Figure 14: Commodity Prices

Macro Trend 1 – Declining Economic Growth

Indonesia's 4Q23 GDP growth settled at 5.04% YoY, in line with market expectations. This brought 2023 GDP growth to 5.05% for 2023 – a decline from 5.3% in 2022 – as the economy reeled from the effects of falling commodity prices and export contraction for most of 2023.

The fourth quarter saw exports grow, reversing a contraction from the previous quarter as demand from key trading partners such as China, India and the United States rebounded. The rupiah strengthened while inflation trended downwards. Other core indicators, including consumption and industrial production, did not perform as well as in the third quarter while the unemployment rate closed higher at 5.5% in the fourth quarter 2023.

Household spending was a key support for growth, up 4.5% YoY, mirroring robust retail sales. Government outlays posted growth but were more modest. Meanwhile, the economy received a boost from fixed capital formation, which expanded 5.0% YoY in 4Q23, managing to post decent growth despite seeing borrowing costs at elevated levels.

However, GDP growth is projected to ease slightly to an average of 2.9% over 2024-2026 from 5% in 2023 as the commodity boom looses steam. Private consumption is anticipated to be the primary driver of growth in 2024. Business investment and public spending are also expected to pick up as a result of reforms and new government projects.

Indonesia's trade surplus shrank by almost a third in 2023 from a year earlier, as exports and imports dropped along with falling commodity prices and weakening global trade. The 2023 trade surplus fell to US$36.9 billion from US$54.46 in 2022, which was a record high fuelled by the global commodity boom. Prices of Indonesia's main commodities, including coal, palm oil and nickel, fell sharply in 2023. Some economists predict a further drop this year, though at a slower rate than in 2023.

A surprise rate hike from Bank Indonesia last month, aimed at defending the falling rupiah currency, has taken total rate increases since last year to 250 basis points, weighing down domestic demand.

The overall economic outlook is subject to downside risks, primarily ones that could emanate from outside Indonesia: higher for longer interest rates in major economies could weigh on global demand, raise borrowing costs and make it harder to borrow on world markets. Global geopolitical uncertainty could also disrupt value chains.

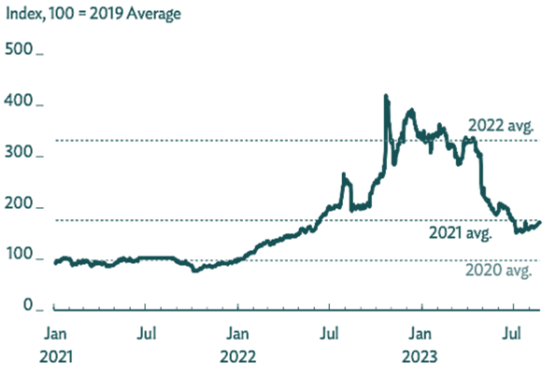
Nevertheless, Indonesia's real GDP growth outlook remains positive and relatively higher than most neighbouring ASEAN countries and and China.

<u>Domestic Demand</u>

Domestic demand is taking over from commodity exports as the driver of growth. Based on data from the Central Statistics Agency (BPS), household consumption contributed significantly to the economic growth in 2023, accounting for 58.83% of the expenditure components and growing at 4.82%. Similarly in 2024, private consumption is anticipated to be the primary driver of growth. Purchasing power appears stable, consumer confidence improved and in Q423, private consumption was supported by a rise in domestic travel during the Christmas and New Year festive periods. Consumption by non-profit organisations serving households (NPISH) recorded strong 18.11 % YoY growth as activity ramped up ahead of the general election. Accommodation and food service activities, as well as wholesale and retail trade, also contributed to consumption expenditure growth.

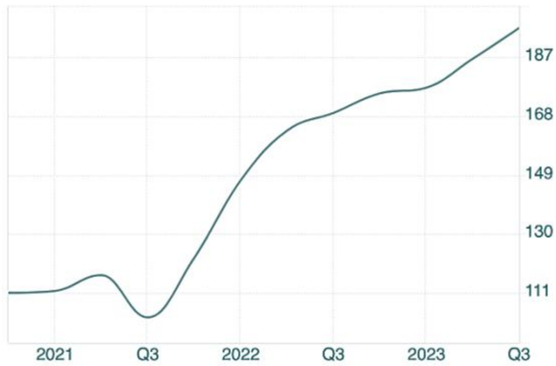
<u>Foreign Direct Investment</u>

Foreign direct investment (FDI) inflows slowed sharply to 5.3 percent y-o-y in the fourth quarter 2023 versus 16.2 percent growth in the third quarter. It



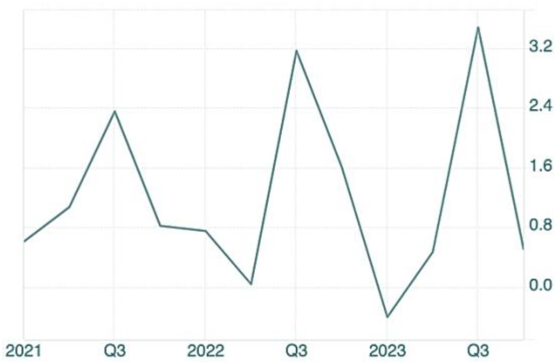
Source: Statistics Indonesia

Figure 15: Indonesia FDI (IDR Trillion)



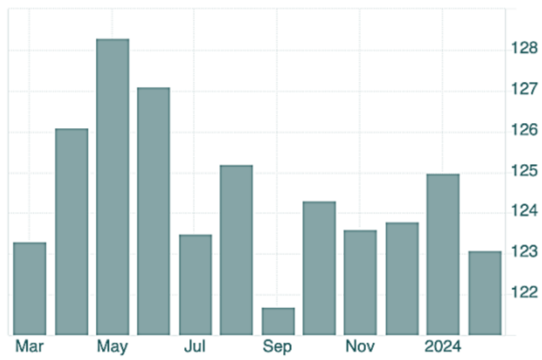
Source: Statistics Indonesia

Figure 16: Contributions to Growth of Merchandise Exports



Source: Statistics Indonesia

Figure 17: Consumer Confidence



Source: Bank Indonesia

marked the softest growth since the third quarter 2020, with investors adopting a wait and see approach ahead of the general elections in February 2024. The biggest FDI recipients were the basic metal and electronics industries, which received $3.1 billion, followed by transport, storage, communication, and mining. China, Malaysia, and Singapore were Indonesia's biggest sources of FDI in this quarter. Similarly in 2024, business investment and public spending are also expected to increase in 2024 as a result of reforms, new government projects and a smooth political handover from Jokowi to Prabowo. Prabowo promised a smooth transition from the current government of Joko Widodo and said his administration would build on the economic foundations laid by his predecessor.

Net Exports

In the fourth quarter 2023, exports increased by 1.6 percent y-o-y, reversing the 4.3 percent y-o-y decrease in the preceding quarter. The impact from falling prices on key commodities, such as coal, palm oil, and nickel, was mitigated by overall strong exports demand from Indonesia's main trading partners, including China, India, and the United States, along with recovery in service exports such as tourism. Concurrently, imports contracted by 0.2 percent y-o-y compared to 11 percent contraction in the third quarter.

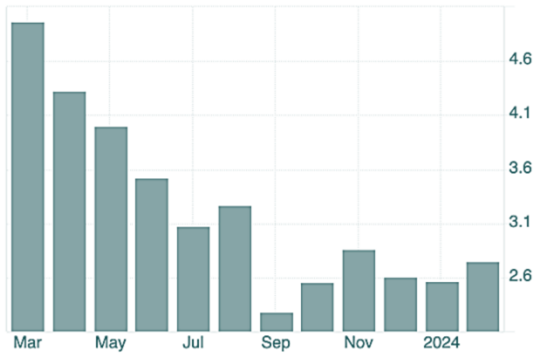
Industrial Production

Industrial production growth slowed in the fourth quarter to 0.51 percent, compared to 3.48 percent in the previous quarter. This is mainly due to a slowdown in non-oil and gas industrial production, which grew at 4.5 percent y-o-y, lower than the 5.0 percent y-o-y in the previous quarter. There are, however, outliers such as the basic metal industry that grew more in the fourth quarter at 18.8 percent y-o-y, a significant increase from 10.9 percent y-o-y in the third quarter. Further, the tobacco and electronics industries also showed notable growth in this quarter. Meanwhile, Indonesia's PMI reached 52.2 in December 2023—the highest in this quarter, an increase from 51.7 in November. Overall, Indonesia's PMI has been in the expansionary zone for the past 28 months and this is attributed to a large increase in new domestic and global orders.

Consumer Confidence

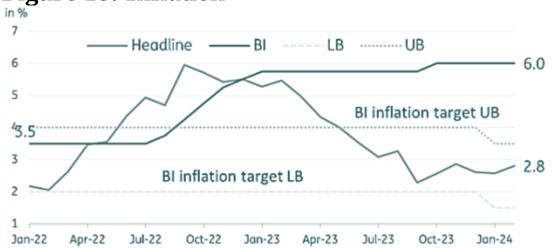
Indonesia's consumer confidence declined to 123.1 in February 2024 from January's five-month high of 125.0 amid rising inflation. It was the lowest reading since last September, as three out of six sub-indices deteriorated, namely expectations about the country's current economic, income expectations for current income, and job availability compared to six months ago.

Figure 17: Inflation Rate



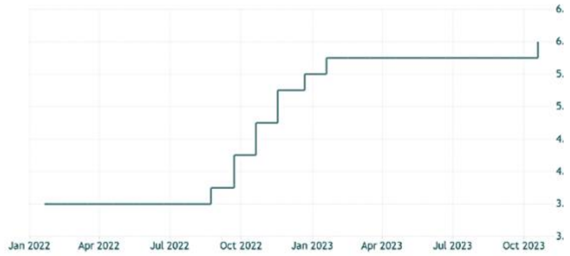
Source: Statista

Figure 18: Inflation



Source: Statistics Indonesia

Figure 19: Indonesia Interest Rate Hikes



Source: Trading Economics

Figure 20: USD/IDR Daily Chart

Source: Trading View

Macro Trend 2 – Cooling Inflation

Indonesia's February inflation picked up by 2.8% year-on-year, up 0.4% from the previous month, however, well within BI's target range of 1.5% to 3.5%. Inflation was higher than anticipated as food inflation accelerated by 6.4% YoY, up from the 5.8% YoY rise in the previous month.

In particular, rice inflation remained elevated, surging by 19.3% YoY, enough to push inflation for the entire food subcomponent higher. A staple for most of Indonesia's 270 million people, rice prices have climbed more than 24% since last year as the El Nino weather phenomenon has cut rainfall across large parts of the region in 2023.

In addition, healthcare, transport and personal care also saw slightly faster inflation than in the previous month. Meanwhile, all other CPI subsectors posted slower inflation, notably in clothing and footwear and household equipment.

In 2023, the steady decrease in inflation occurred as a result of Bank Indonesia's tight monetary policy. The central bank hiked the benchmark 7-day reverse repurchase rate by 25 basis points to 6.00%, its second hike this year and its seventh since starting its tightening cycle in 2022 (Figure 19). The decision came as the rupiah faced renewed pressure, hitting its lowest since 2020 (Figure 20) as risk-averse investors prefer safe haven assets amid monetary tightening in advanced economies and tensions in the Middle East. The currency pared back some of its losses after the hike.

BI recently pushed back on expectations that the central bank would be cutting policy rates in the near term. Governor Perri Warjiyo noted that although there was space to ease policy rates in 2024, he remained wary over a potential pickup in inflation in the first half of the year. On top of waiting for inflation to cool, BI will also likely base its decision to ease on the stability of the Indonesian rupiah.

<u>Rupiah Stability and Rate Cuts</u>

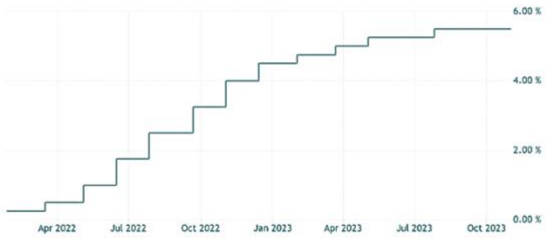
Due to the higher for longer rates in the US, there has been a lot of capital inflow into the US from Indonesia. Despite Indonesia hiking interest rates to 6% in hopes of increasing capital inflow, this interest rate is still too low and unattractive for foreign investors who would much rather put their money in the US.

To stabillise the rupiah amid a narrowing trade surplus and widening current account deficit, BI held the key interest rate at 6 per cent during its monthly meeting in March. Indonesia'a trade surplus has gradually decreased due to declining exports, which have been affected by weak demand and significantly lower prices for crucial commodities such as palm oil and coal. After reaching a peak of around US$7.6 billion in 2022, the trade surplus of South-east Asia's largest economy narrowed to US$870 million last month. Analysts say this raises the probability of Indonesia's current account slipping into deficit this quarter.

Additionally, Indonesia has actually been trying to support the currency as shown when Bank Indonesia unexpectedly hiked rates to 6% and have been issuing SRBI securities to capture foreign inflow. However, despite all this, the currency is still seen to be on a path to further depreciation because there was a total net foreign outflow of 5.36 trillion rupiah. These capital outflows pushed the Indonesian rupiah nearly to IDR 16,000 per US dollar in November 2023, losing around 2.8% of its value against the dollar.

Governor Perry Warijiyo said that he remains hopeful about reducing policy rates later this year. He added that this will was only likely if the rupiah stabilises and inflation moderates, and also while BI awaits the US Federal Reserve's rate-cutting cycle this year. "We (expect) the Fed will maintain patience until the second half of this year. In the meantime, our primary

Figure 21: US Fed Funds Rate



Source: Trading Economics

Figure 22: Brent Prices

Source: Trading Economics

focus is on maintaining inflation at target levels and stabilising the rupiah" Warjiyo said during the March meeting.

Middle East Conflicts

The outbreak of military conflict in the Middle East may leave central bankers battling new inflationary trends as well as deal a blow to economic confidence at a time when they had expressed growing hope about containing the price surge sparked by the pandemic and Russia's 2022 invasion of Ukraine.

The stunning violence in Israel, with hundreds killed as fighters from the Hamas movement invaded from their Gaza enclave and Israel responded in force, added the possibility of a broader Middle East conflict to the sense of global instability sparked by Russian military actions almost 20 months ago.

Oil prices have been relatively rangebound and trading in a narrow range. However, extensions of supply cuts by OPEC+ countries and escalation of conflicts in the Middle East, Russia and Ukraine would put an upward pressure on prices, increasing cost-push imported inflation and negatively affect Indonesia's economy.

Indonesia, only produces around 600,000 barrels of petroleum per day whereas the consumption volume is between 1.2 million and 1.5 million barrels per day.

Given the high volume of imports for fuel and Indonesia's status as a net oil importer, a global hike in oil prices will automatically disrupt industries in Indonesia, and automatically disrupt the government's financial health.

Figure 23: Nickel Futures Daily Chart

Source: Trading View

Trade Idea: Short Nickel Futures

The island nation is reaping the benefits of its 2020 ban on nickel ore exports, which kickstarted an investment cycle, particularly from China-based companies. Nickel prices reached a peak at $48,241 a metric ton in March 2022, mainly due to a surge in the demand for nickel in the production of EV batteries.

However, prices have dropped more than 40% since a year ago amid a growing global glut to trade at around $16800 a metric ton this month, close to its lowest level in 2021.

<u>Catalysts</u>

On the supply side, Indonesia will press on with plans to expand nickel output despite a supply glut that is forcing rivals to shut down mines, as the world's top producer aims to keep prices low and protect long-term demand for the metal crucial to electric car batteries, a senior government official has said.

Currently, Indonesia has nickel mining production quotas called the RKAB (Rincian Kerja Anggaran Biaya). Despite over supply in the Market, just this March, Indonesia's government has approved a total of 152.62mn t nickel mining production quotas, with more approvals coming these few coming months. An increase in supply will exert a downward pressure on prices.

On the demand side, China's slumping property market has undercut demand for nickel as China is nickel's largest importer. At the same time, there is a new generation of Chinese plants converting intermediate product (lower grade nickel) to refined metal (class 1 nickel), reducing their appetite to import class 1 nickel.

These coming months, the Indonesian government is going to speed up government approvals of work plans (Rincian Kerja Anggaran Biaya) which are needed for mining companies to conduct mining activities. They have previously promised to complete the process by March however, currently only around 120 out of the 700 mines in Indonesia have these approvals. Thus because of these slow approvals, the demand for nickel has risen slightly from Chinese smelters as Chinese inventories are running out and there is insufficient nickel being put out in the Indonesian market right now. However, a senior official at the Energy and Mineral Resources Ministry has said that they will be completing this approval process latest by April. When this happens, there will be a surge of nickel supply in the market, decreasing prices once again.

Trade

Entry: 16900

Take Profit: 15200

Stop Loss: 18000

Risk Reward Ratio: 1.55

Time Horizon: 3 months

Disclaimer

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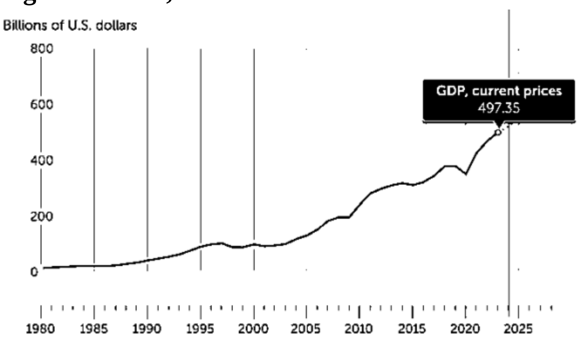
Basic Information

Real GDP (in 2023, USD)	497.35 B
M2 (Feb 2024, USD)	944.5 B
CPI (Feb 2024)	115.77
PPI (Feb 2024)	98.90
Business Optimism (Q2 2024)	+4.82
Currency	SGD

Chart info

Figure 1: GDP, in USD Billions

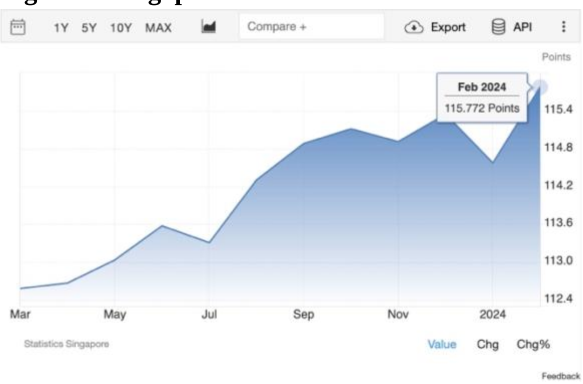


Source: International Monetary Fund

Figure 2: Money Supply M2 Trend

Source: CEIC Data

Figure 3: Singapore CPI Data



Source: TradingEconomics

Overview of the Singaporean Economy

As the world recovers from an unprecedented pandemic, geopolitical upheavals, and sluggish growth in China, Singapore's economy is projected to experience growth in the upcoming year, after showing resilience in its 2023 recovery journey.

Summary of Events

Economic Growth

- Economic activity in Singapore's major trading partners was resilient in Q4 of 2023.
- In the near term, global growth is expected to suffer from lagging effects of elevated interest rates in advanced economies, but should pick up later this year, as lower inflation and dovish monetary policies spur private consumption expenditure.
- However, this outlook is subject to risk stemming from ongoing geopolitical conflicts which could precipitate negative global supply and demand shocks.
- The manufacturing and financial sector are predicted to be supported by the turnaround in the electronics cycle and anticipated easing in global interest rates.

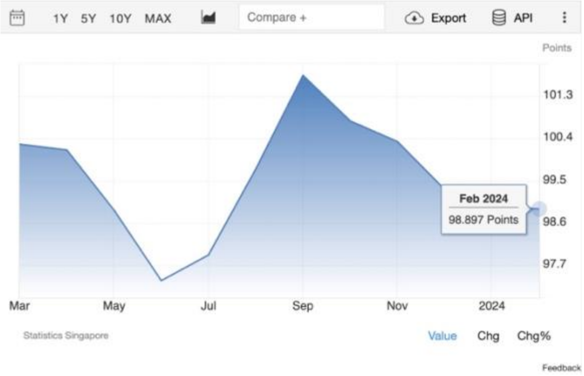
Headline Inflation

- MAS Core Inflation continued to decline YoY in Q4 2023, while CPI spiked back upwards in the first 2 months of 2024 (Figure 2).
- Inflation for food and retailed goods moderated, offsetting firmer electricity and gas inflation.
- Travel-related services inflation was stronger in 2023 due to steeper hotel and tour prices.
- Although MAS Core inflation came in at 4.2% for 2023, slightly higher than the predicted 4.1%, if we set aside the transitory effects of the 1% GST hike, core inflation would have fell by 0.6%-point.
- The Singaporean economy is forecasted to strengthen in 2024, with MAS Core Inflation likely remaining elevated in the earlier part of the year, but should decline gradually and step down by Q4.
- MAS Core Inflation is projected to slow to an average of 2.5–3.5% for 2024, unchanged from the October 2023 MPS. Excluding the impact of the increase in the GST rate this year, core inflation is forecast at 1.5–2.5%.

Monetary Policies & S$NEER

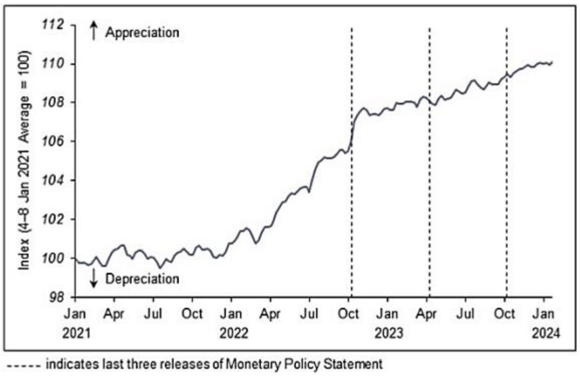
- The S$NEER is a combined index made up of bilateral exchange rates between Singapore and its major trading partners, whereby the index is a trade-weighted exchange rate.

Figure 4: Singapore PPI Data



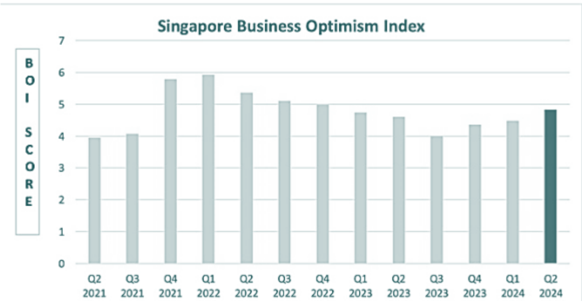
Source: TradingEconomics

Figure 5: Appreciation of S$NEER



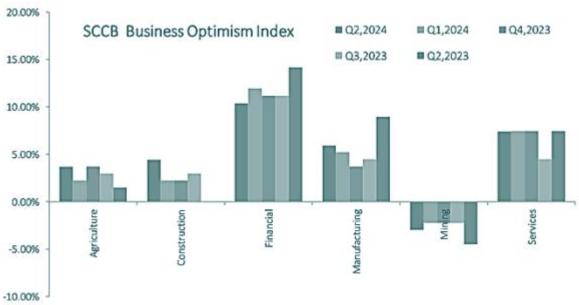
Source: Monetary Authority of Singapore (MAS)

Figure 6: Singapore Business Optimism Index



Source: Singapore Commercial Credit Bureau

Figure 7: BOI by Sector



Source: Singapore Commercial Credit Bureau

- MAS does not set the precise level of exchange rate, but rather allows the S$NEER to move up and down within a policy band. If it breaks out of the band, MAS intervenes by buying or selling SGD.
- Due to expectations of sustained inflationary heights, a gradual appreciation of the policy band will continue to dampen imported inflation and curb domestic cost pressures.
- Currently, MAS will maintain the prevailing rate of appreciation of the S$NEER band.

Ongoing Business Sentiment

- According to the Singapore Commercial Credit Bureau (SCCB), business sentiment has hit a 1-year high for Q2 2024, rising moderately for the 3rd consecutive month (Figure 6).
- There seems to be sustained growth in the construction and transportation sectors, and a rebound in both the manufacturing and financial sector (Figure 7).
- Subdued growth amongst the wholesale trade sector is likely to persist amidst ongoing geopolitical tensions and downside risks in global supply chains.

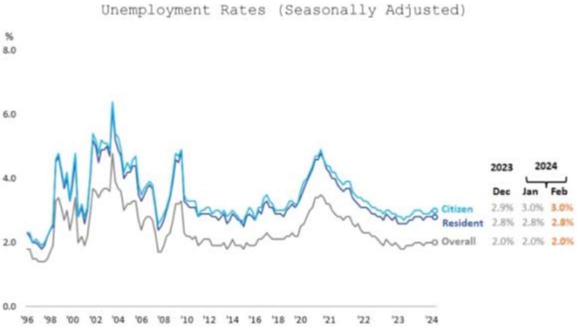
Labor Market

- Singapore's labor market remained tight in 2023 as indicators related to labor underutilization continued to improve.
- While unemployment fell in 2023, the underlying cause was cyclical factors, pushed down by sluggish global demand.

Interest Rate

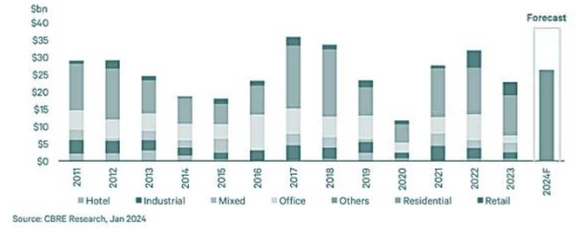
- Due to the nature of Singapore's small and open economy, MAS values control over the exchange rate more than interest rates.
- Therefore, the prevailing interest rates in Singapore are generally affected by global interest rates in advanced economies, particularly the US Federal Rates.

Figure 8: Unemployment Rate Singapore



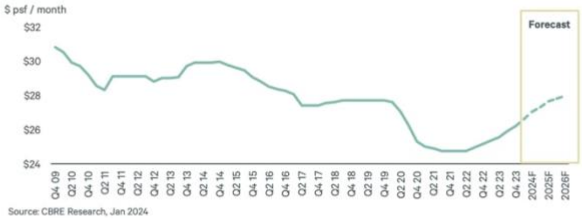
Source: Ministry of Manpower Singapore

Figure 9: Singapore Total Transaction Volume by Real Estate Sector



Source: Coldwell Banker Richard Ellis (CBRE Group)

Figure 10: Singapore's Prime Rental forecast – Island wide Retail



Source: Coldwell Banker Richard Ellis (CBRE Group)

Macro Trend 1 – Implications of a Possible Rate Cut

A more significant recovery in real estate investment activity could play out when interest rates taper off to reignite investor's interest in asset acquisition. Leveraging on Singapore's macroeconomic stability, pro-business environment and political neutral stance, real estate investors can remain confident and interested in utilizing Singapore real estate for portfolio diversification and wealth accumulation.

In 2023, real estate suffered a tremendous hit amidst a protracted rate hike cycle and uncertain macroeconomic conditions. Rising financing costs diminished yield spreads for investors, resulting in negative carry and impacting the ability of institutional investors.

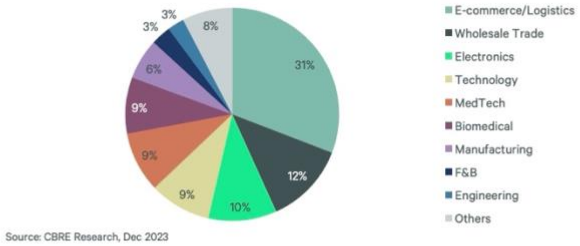
Despite repricing pressures, sellers with strong holding power held firm on asking prices, and valuations remained resilient. Consequently, the mismatch between buyer and seller price expectations led to a stalemate between buyers and sellers and a slowdown in the transaction of big-ticket institutional grade assets. While it is likely that uncertainty towards the end of the rate hike cycle could prove detrimental to real estate in the remaining H1 of 2024, a more significant recovery could play out in H2.

As interest rates taper off towards the beginning of H2 2024, institutional investors have greater purchasing power, and hence investor sentiment towards real estate is expected to experience a more optimistic outlook.

Furthermore, according to PWC's global outlook for real estate in 2024, the narrative suggests the past 2 years of high interest rates have allowed for a period of adjustment, suggesting that properties buyers and sellers are starting to accept the higher-for-longer interest rate environment and hence find the middle ground on pricing that has been so elusive for the past 2 years.

The acceptance of a higher-for-longer environment bleeds into the rental aspect of the real estate industry, with rental prices forecasted to rise in 2024. Islandwide prime rents continued to recover by 4.2% y-o-y in 2023, following the full-year growth of 1.6% in 2022 (Figure 10). This was boosted by the Orchard Road and City Hall/ Marina Centre areas which outperformed the other submarkets on the back of tourism recovery and an increase in the back-to-office momentum. These areas are likely to register higher rental increase in 2024 as well, as tourism is expected to recover to pre-pandemic levels. Meanwhile, the suburban market will continue to register more modest rental increases at 1% - 2% per annum amid resilient demand due to its local catchment and limited availability.

Figure 11: 2023's leasing demand among top 10 sectors



Source: Coldwell Banker Richard Ellis (CBRE Group)

Figure 12: Major Manufacturing Facility Opening in H2 2023

Opening Date	Company (Sector)	Location	GFA (sq. ft.)	Investment Amount	Details
Dec-2023	Biotronik (MedTech)	Kallang Way	211,000	n/a	R&D and manufacturing of Cardiac Rhythm Management (CRM) devices
Nov-2023	Hyundai Motor Group (Automobile)	Bulim Link	936,000	US$298 mil or S$400 mil	Electric vehicle production (up to 30,000 per year), R&D, rooftop test circuit
Nov-2023	Hilleman Laboratories (Biomedical)	Depot Road	30,000	US$20 mil or S$27 mil	Production of vaccines and biologics to boost future pandemic resilience
Sep-2023	GlobalFoundries (Semiconductor)	Woodlands Wafer Fab Park	592,300	US$4.0 bn or S$5.4 bn	Expansion facility to produce a further 450,000 wafers per year
Jul-2023	Silicon Box (Semiconductor)	Tampines Wafer Fab Park	761,000	US$2.0 bn or S$2.7 bn	Production of semiconductor chiplet interconnections to support AI and EVs

Source: EDB, CBRE Research, Dec 2023

Source: Coldwell Banker Richard Ellis (CBRE Group)

Macro Trend 2 – Uptick in Manufacturing

Despite the economic challenges of 2023, leasing activity remained resilient and outperformed expectations. Demand was anchored by the e-commerce and logistics sector, as it accounted for 31% of leasing demand among the top 10 sectors in 2023 (Figure 11). This reflects an ongoing trend by occupiers to outsource their logistics operations to Third-Party Logistics (3PL) companies to achieve cost savings, along with retailers embracing omnichannel strategies.

With manufacturing projected to recover in 2024, improved demand from electronics, general manufacturing and engineering occupiers should be expected in the second half of the year.

Singapore's allure for global manufacturers remains vibrant due to its strategic location, stable regulatory environment and easy access to a skilled workforce. This attractiveness is further amplified by Southeast Asia's ongoing supply chain diversification, where companies often establish their regional headquarters in Singapore before venturing further.

As shown in Figure 12, manufacturers across various sectors unveiled their facilities in 2023. The semiconductor segment spearheaded this influx, seeking to expand their production capacities within the country. The opening of Hyundai Motor Group Innovation Centre Singapore (HMGICS) marks a new chapter in innovation as it is the first EV production plant in Singapore harnessing robotics.

With the influx of global manufacturing appearing to set up shop in Singapore, a positive ripple effect is forecasted to price in in the real estate market. Suppliers, contractors and service providers that cater to these established manufacturers is expected to bolster industrial property demand across real estate sectors.

Figure 13: i-Edge S-REIT Index (MACD & 200EMA)

Source: Trading View

Trade Idea: Long i-Edge S-REIT Index

Technicals

The real estate index took a major hit in Q1 2024, falling to one-year lows at a support level of 959.37.

In the previous year, we see a gradual downwards channel forming since 2022, forming resistance levels that determined the upper bound of the channel at 1234.82.

While price levels do appear to be below the 200EMA, indicating that the market is still in a downward trend, it is likely that the severe downturn in 2024 was due to a prolonged rate hike cycle that dampened investor sentiment because of the direct relationship between a high interest rate environment and the profitability of real estate.

On a positive front, the MACD indicates a crossing over of its line over the signal line below zero, signalling a possible uptick in momentum towards the upper bound of the channel.

Analysis

Ultimately, while it seems that the real estate market is heading towards a period of consolidation, a strong rebound is certainly on the horizon due to the close relationship between interest rates and big-ticket purchases such as real estate.

As the end of the rate hike encroaches, investor sentiment will once again view real estate as a lucrative alternative, boosted by underlying demand for retail spaces due to the business friendly environment that attracts foreign establishment in Singapore.

Trade

Entry: 1046.82
Take profit: 1234.82
Stop Loss: 959.37
Risk-reward ratio: 2.15

Disclaimer

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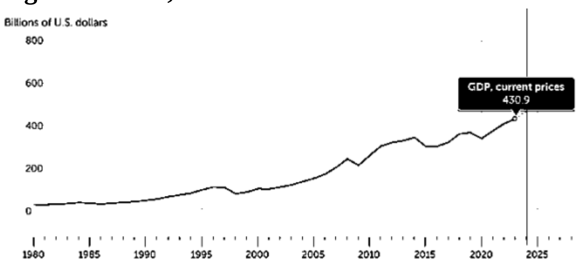
Basic Information

Real GDP (in 2023, USD)	430.9 B
M2 (Jan 2024, USD)	507.4 B
CPI (Feb 2024)	132.1
PPI (Feb 2024)	118.7
Consumer Con. (Q4 2023)	89.40
Currency	MYR

Chart info

Figure 1: GDP, in USD Billions

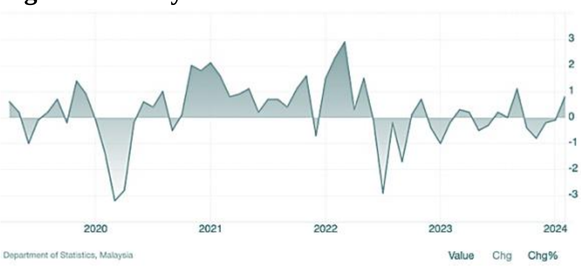


Source: International Monetary Fund

Figure 2: Money Supply M2 Trend

Source: CEIC Data

Figure 3: Malaysia PPI Data



Source: TradingEconomics

Overview of the Malaysian Economy

Malaysia's domestic demand in 2023 continues to be buoyed by expansion in consumption and investment spending. This is further supported by favorable labor market conditions and easing inflationary pressures, coupled with vibrant tourism activities.

Summary of Events

Economic Growth

- In 2024, private sector expenditure remains as the main contributor in driving economic activities owing to strong domestic demand.
- Government initiatives to support households through cash transfers to targeted groups and the growing social commerce trend are expected to boost private consumption.
- The services sector, the largest contributor to the economy, continued to lead growth in 2023 following higher tourist activities and improved consumer spending.
- The construction sector, another contributor to Malaysia's economy, continued to expand in tandem with accelerated infrastructure projects and realization of investment in residential and non-residential developments.

Performance of the Ringgit

- MYR movement in the first 8 months was mainly driven by global factors, particularly US development and weaker-than-expected recovery in China.
- In the beginning of 2023, MYR appreciated due to looming expectations that the US Federal Reserve will reach its terminal interest rate soon coupled with optimism surrounding China's opening.
- Between February and August, the ringgit experienced bouts of depreciation due to increasingly hawkish tones by the Fed, compounded by the slowdown of China's economic recovery.
- MYR depreciated by 4.9% against the greenback by end-August.

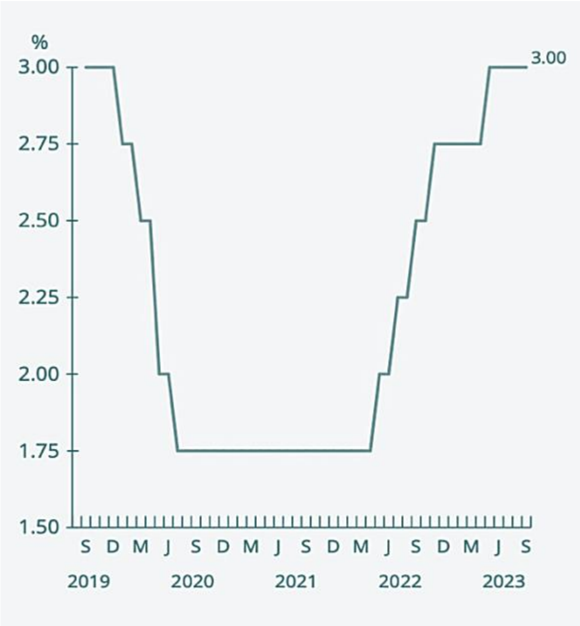
Monetary and Financial Developments

- At the Overnight Policy Rate (OPR) of 3.00%, monetary policies have remained supportive of sustainable economic growth.
- The last OPR adjustment in May 2023, an increment of 25 basis points, brought the OPR to pre-pandemic levels.
- Comparing to major and regional economies, Malaysia had increased the OPR by 125bps between Jan 2022 and Sep 2023, which is relatively low. (US -525bps, UK – 500bps, Philippines – 425bps)

Figure 4: Malaysia Cons. Confidence Data

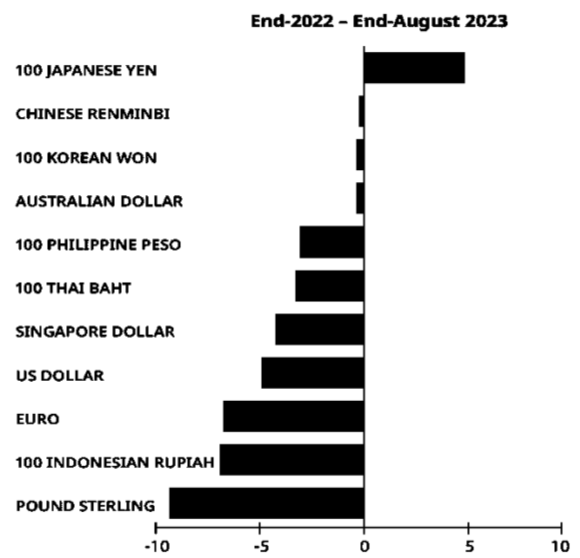
Source: CEIC Data

Figure 5: Overnight Policy Rate



Source: Bank Negara Malaysia

Figure 6: Performance of Ringgit against Selected Currencies (% change)



Source: Bank Negara Malaysia

Figure 7: YoY Export Growth Trend 2024

<u>Trade Performance</u>

- Malaysia's main export components, particularly agriculture, manufacturing and mining goods floated near the zero line, indicating a rather weak demand for Malaysian goods.
- Although Malaysia's exports account for a smaller portion of their growth, the weaker demand for Malaysian goods would undoubtedly translate to lower demand for domestic currency of the ringgit.

<u>Headline Inflation Further Eases</u>

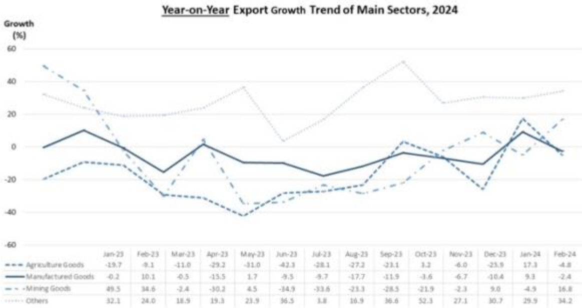
- According to the Department of Statistics, Malaysia, the annual inflation rate for 2023 clocked in at 2.5%, lower than 3.3% in 2022.
- Core inflation increased more slowly to 1.9% in Dec 2023.
- Generally, the level of inflation in Malaysia is considered less aggressive than other economies due to the government's adherence in ensuring price stability.

<u>Labor Market</u>

- The unemployment rate continues on a downward trend, hitting its lowest ever since pre-pandemic levels (Figure 8).

<u>Policy Recommendations</u>

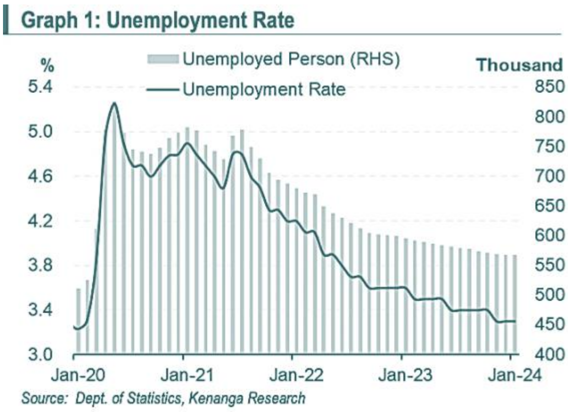
- Currently, the government is focused on digitalization, economic sustainability, and corruption-free governance.
- Ongoing challenges include high government debt, insufficient tax revenue and subsidy burdens.
- While the zero-rating of Malaysia GST has proved to be an economic growth booster, the sustainability of no-GST comes into question as the fiscal position of the Malaysian government continues to be in deficit.



	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Agriculture Goods	-19.7	-9.1	-11.0	-29.2	-31.0	-42.3	-28.1	-27.2	-23.1	3.2	-6.0	-25.9	17.3	-4.8
Manufactured Goods	-0.2	10.1	-0.5	-15.5	1.7	-9.5	-9.7	-17.7	-11.9	-3.6	-6.7	-10.4	9.3	-2.4
Mining Goods	49.5	34.6	-2.4	-30.2	4.5	-34.9	-33.6	-23.3	-28.5	-21.9	-2.3	9.0	-4.9	16.8
Others	32.1	24.0	18.9	19.3	23.9	36.5	3.8	16.9	36.6	52.3	27.1	30.7	29.9	34.2

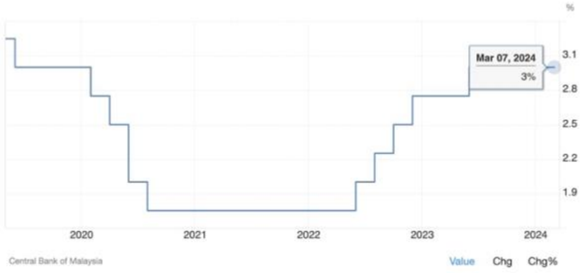
Source: Department of Statistics, Malaysia

Figure 8: Malaysian UN Rate Trend



Source: Kenanga Research

Figure 9: Malaysian Overnight Policy Rate



Source: TradingEconomics

Macro Trend 1 – Interest Rate Differentials

One of the underlying factors of depreciation is the difference in interest rates offered between the Malaysian Overnight Policy Rate (OPR) – currently 3.00% and the Federal Fund Rates – currently 5.33%.

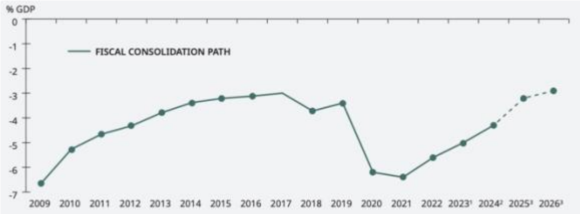
To begin with, interest rates are typically a reflection of the cost of borrowing money. When Bank Negara Malaysia (BNM) had implemented its rate hike to 3.00%, it could signal to investors that Malaysia's central bank intended to increase borrowing costs so as to curb economic growth. Since BNM persisted on maintaining a 3.00% Overnight Policy Rate, it is likely that the ringgit is experiencing a transitory effect of weaker investor sentiment, and hence a lower demand for MYR.

More importantly, a large factor that drives currency strength is the attractiveness of a country's interest rates. Malaysia's OPR still remains around 233bps below the Federal Fund Rates, and hence is seen as less attractive as an investment alternative to foreign investors.

According to a Reuter's poll of economists, Bank Negara Malaysia is likely to leave its Overnight Policy Rate (OPR) unchanged at 3.00% until end-2025 as price pressures are expected to increase and growth remains steady. However, without shortening the gap in interest rates between the US and Malaysia, either via a hike in the OPR or a cut to Fed Fund Rates, it is unlikely that investor sentiment shifts towards the Malaysian Ringgit being seen as the more attractive investment opportunity. Coupled with irresolute decision-making regarding rate cuts by the Federal Reserve, with expectations of rate cuts being pushed back to June 2024, it is improbable that the sentiment towards the ringgit, particularly in Q2 2024, becomes any stronger than it currently is.

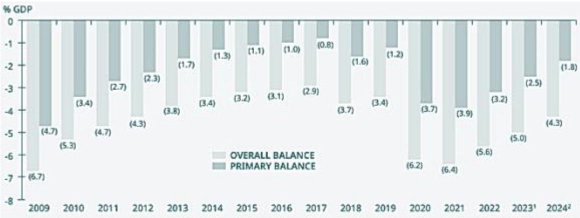
The lack of competitive interest rates could be further worsened by structural weaknesses in the Malaysian economy. Although certainly a more intangible component, the looming issues of corruption within Malaysia's political sphere does play a role in eroding investor confidence. The recent 1MDB corruption scandal involving former Prime Minister Najib Razak has etched a worrying sentiment amongst global investors. Additionally, other scandals such as an alleged power abuse among Customs personnel in Kuala Lumpur International Airport, which had reportedly engendered RM2billion in losses to the government, give rise to persistent concerns regarding the Malaysian's government efficacy in dealing with corruption. These cases negatively impact Malaysia's political outlook and further solidifies investor wariness towards the ringgit.

Figure 10: Medium-Term Fiscal Position



Source: Ministry of Finance, Malaysia

Figure 11: Overall & Primary Balance



Source: Ministry of Finance, Malaysia

Macro Trend 2 – Persistent Fiscal Deficit

Budget 2024 Highlights

Following the unveiling of Malaysia's ambitious 2024 budget, marked as the largest in the nation's history with an allocated budget of 303 billion ringgit (US6.47Billion), there have been significant changes regarding the tax and business landscape of Malaysia.

Having zero-rated its GST, the Malaysian government earns revenue from its national oil company, Petronas. However, in FY2023, Petronas claimed that their revenue was moderated down 7.7% compared to FY2022. The national oil company stated that performance was mainly impacted by lower average realised prices for all products in line with declining benchmark prices.

That said, in the recent quarter of 2024, oil prices have skyrocketed and experienced a remarkable boost in global price levels. This would have undoubtedly aided Malaysia in its current fiscal deficit, producing greater oil revenue for Petronas, allowing the Malaysian government to finance the historically high levels of expenditure for Budget 2024.

While Malaysia's fiscal position would certainly have improved in Q1 of 2024, it still may not directly translate to a more optimistic investor outlook for the country. Since the Covid-19 pandemic, Malaysia's budget position has reached decade-long lows such as -6.4% of GDP in 2021, and has been continuously in a fiscal deficit for more than a decade. The persistent fiscal deficit is pertinent in predicting investor rationale towards the Malaysian ringgit, as although the hike in oil prices may yield temporary improvement in government revenue, challenges such as political instability and policy efficacy could serve as a stronger opponent to resist a positive sentiment towards Malaysia's growth. Overall, structural deficiencies in Malaysia's economy act as a daunting hurdle for investors to get over in order to view the Malaysian Ringgit as a more attractive currency than the greenback.

Figure 12: USD/MYR Chart with MACD & 200EMA

Source: Trading View

Trade Idea: Long USD/MYR

Technicals

We notice a an upwards channel forming since February 2023, and a slight period of consolidation from August 2023. Additionally, a notable level of resistance at 4.7964 has been breached twice during the channel, and once before the channel.

Moreover, price levels above the 200EMA signal that the market remains in an uptrend, albeit not a rather strong one. The key indicator here would be the MACD, which displays the MACD line crossing the signal line below zero, implying a possible uptick in price movement of USDMYR.

Analysis

Although the market seems to be slowing down, and it appears as if the USD appreciation is coming to an end, it is likely that the cause of consolidation arises from expectations of future Federal rate cuts. These rate cuts would in turn cause Malaysian domestic rates to become more competitive amongst global rates, specifically US rates, and hence result in the appreciation of MYR against USD. However, the Fed persists in their original hawkish stance and has not released any indication that a rate cut is approaching within Q2 of 2024. Therefore, if US inflation data remains resilient, this period of "false consolidation" will come to an end, followed by the depreciation of MYR against USD.

Trade

Entry: 4.7450
Take profit: 4.8497
Stop Loss: 4.6752
Risk-reward ratio: 1.5

Disclaimer

Analysts

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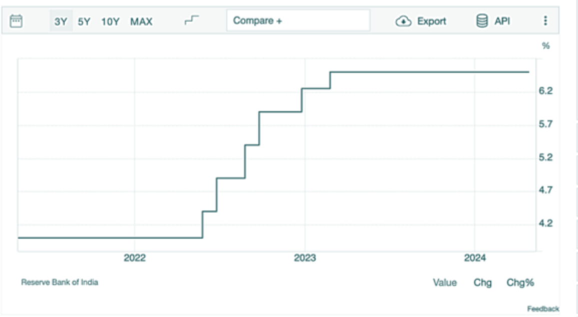
Basic Information

GDP (2023)	US$3732 bn
Projected Inflation Rate (FY23/24)	5.4%
Projected Unemployment Rate (FY23/24)	7.34%
Trade Deficit (2022)	US$31.46 bn
Interest Rate (Repo)	6.50%

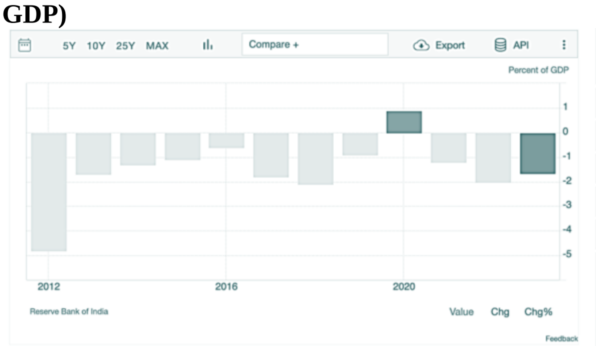
Chart info

Figure 1: RBI's Repo Rate



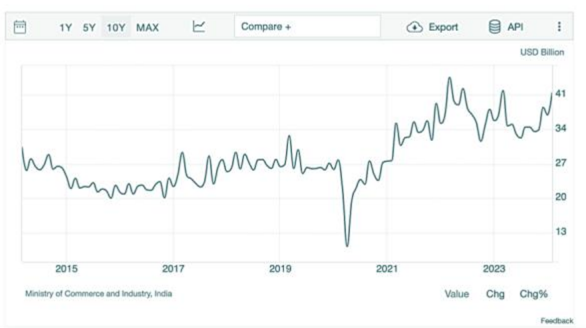
Source: CEIC

Figure 2: India's Current Account Balance (% of GDP)



Source: Trading Economics

Figure 3: India's exports



Source: Trading Economics

Overview of India

Economic growth

- Despite the global spectre of slow growth, India has bucked the trend and is projected to grow at a rate of 7.5% for FY24/25
- India is the 5th largest economy in the world, and 3rd largest in PPP terms. However, it ranks 127th in terms of GDP (PPP) per capita, indicating a still-developing economy with much potential headroom.

Composition of GDP

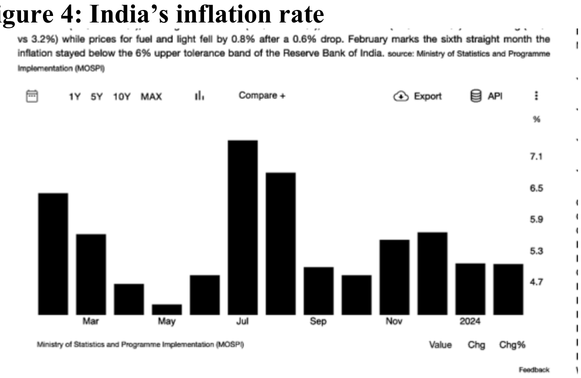
- India's private consumption accounted for 58.0% of its nominal GDP January 2024. Investment expenditure accounted for 34.9%, while government spending accounted for 10.5%. India ran a Current Account deficit of 1.2% in Q4 2023. India's top exports are: refined petroleum, diamonds, packaged medicaments, jewellery, and rice. India's top imports are: crude petroleum, gold, coal briquettes, diamonds, and petroleum gas.
- Government debt as a percentage of GDP in India has grown from 65.6% in 2010, to 81.6% in 2023.
- Services dominated India's 2022 GDP at 48.4%, followed by industry at 25.62%, and agriculture 16.61%. These relative proportions have barely changed over the past decade, though shifting slightly from industry to services since 2012, at 46.3%, 29.4% and 16.85% respectively.

Summary of events in the past 6 months

- The Reserve Bank of India (RBI) maintains its hawkish stance, and leaves its policy repo rate unchanged at 6.50% constant for the last year.
- Budget 2024: In the interim budget, the government played it safe by reducing CAPEX from 24.8% in 2023 to 16% in 2024 which along with other reductions in spending is reducing the fiscal deficit from 5.8% in 2023 to 5.1% in FY 2024/25
- India's manufacturing PMI hit 59.4 in March 2024 which is the highest since the pre GFC high in February 2008.
- The Indian conglomerate Tata announced its entry into semiconductor manufacturing with over US$14bn in investments in 2024.
- Upcoming are elections in April to June 2024. Prime Minster Modi's alliance is expected to win the elections, possibly even increasing its majority in Parliament.
- India sees a record retail boom with the number of stock trading accounts tripling between 2019 and 2023 to 140 million. As per the Economist, nearly 5% of household wealth was in equities in 2023 compared to just 2% in 2013. Following the investment boom, India's stock market became more valuable than Hong Kong's in January 2024.

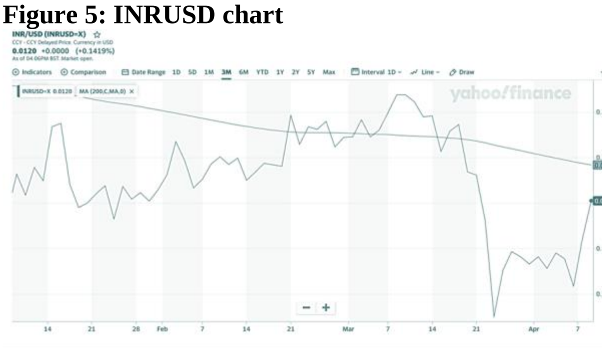
On the export front, India's exports hit 41.4 billion monthly in February 2024 comparing favourably to just 21.6 billion in December 2019.

Figure 4: India’s inflation rate



Source: Trading Economics

Figure 5: INRUSD chart



Source: XE.com

India’s inflation battle: RBI to hold rates

The Reserve Bank of India (RBI) maintains a Flexible Inflation Targeting Framework (FITF), which involves setting an inflation target every 5 years. Presently, the FITF has set an upper tolerance limit of 6%, and a lower tolerance limit of 2%, for retail inflation. India’s latest inflation rate was 5.09% which is well within the RBI’s range of 2 to 6

India’s inflation is fairly volatile. Food inflation in March 2024 was 7.6% with wide variation in subcomponents. Oils and fats inflation was -13% while vegetables were 30.25%. Non-food inflation was lower and less volatile, leading to an overall inflation rate of 5.09%. The RBI has indicated in its December report that the main risk to inflation is that there is an uptick in food inflation. Along with that heat waves during the upcoming summer season are likely to disrupt agricultural production.

Economists expect the RBI to hold steady through the inflation shock. The increase in food prices is temporary and caused by seasonal factors like heat waves and inflation is moderating. The

The Reserve Bank of India's Monetary Policy Committee (MPC), in its meeting on April 5, 2024, decided to keep the policy repo rate unchanged at 6.50 percent, with the standing deposit facility (SDF) rate at 6.25 percent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 percent. This decision comes amidst an assessment of the current and evolving macroeconomic conditions, with an explicit focus on withdrawal of accommodation to ensure that inflation aligns progressively with the target while also supporting growth.

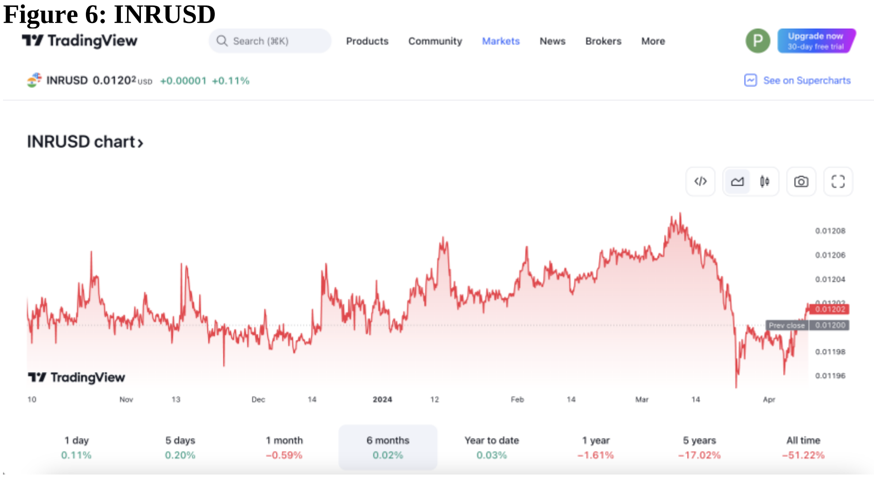
Persistent food price pressures and the unpredictability of supply-side shocks from adverse climate events pose significant challenges to the disinflationary process. The increasing incidence of climate shocks, low reservoir levels, and the recent firming up of international crude oil prices are key upside risks to food prices and overall inflation.

<u>India is having an economic boom</u>

India's economy is exhibiting strong and multifaceted growth across various sectors, buoyed by domestic consumption, policy reforms, and healthy corporate balance sheets. The dominant services industry has shown remarkable expansion in March, with the HSBC India Services Purchasing Managers' Index reaching 61.2, indicating robust demand, increased employment, and a record pace in export business expansion. This trend is complemented by the manufacturing industry, which is growing at its fastest pace in 16 years, pushing the composite PMI Index to an eight-month high of 61.8.

Corporate earnings are expected to reflect this positive economic trajectory, with a projected 15% EPS growth in FY2025. The growth is driven by strong domestic consumption, significant government spending, and steady credit growth. Sector-wise, banks are anticipated to report substantial EPS growth due to strong credit demand and declining NPAs, while IT companies may see a turnaround with double-digit earnings growth after facing downgrades. The automobile and FMCG sectors are also expected to report strong earnings growth, supported by recovery in economic activities and robust demand. Despite some sectors like IT facing challenges due to global economic moderation and cost pressures, overall, India's economic outlook remains optimistic. The economy is projected to grow at 6.5% in FY25, with India being recognized for maintaining a GDP growth higher than its long-term averages and an inflation rate lower than long-term averages in the upcoming years. This growth is further supported by a vibrant banking sector, promising developments in IT, automobiles, FMCG, and a positive outlook in sectors like energy, telecom, and materials. The country's economic resilience is underpinned by strong domestic demand, calibrated policy measures, and a healthy corporate sector, positioning India favourably on the global economic landscape.

Figure 6: INRUSD



Source: TradingView

Trade Idea: Long INR-USD

Wwe propose taking a long position on the Indian Rupee (INR) against the US Dollar (USD). Our thesis is underpinned by India's robust economic growth, stable inflation within the target range, and a favorable interest rate differential that positions the INR for appreciation against the USD in the second half of 2023.

India's economy is on a strong footing, with Moody's revising its GDP growth forecasts upward to 6.8%, the Indian Statistics Ministry projecting an impressive 7.6% growth, and recent data indicating a quarter-on-quarter growth of 8.4%. This robust economic performance is a testament to India's resilience and dynamic growth potential. Inflation has shown signs of stability, moderating to 5.1% from 5.9%, and remains well within the Reserve Bank of India's (RBI) target range of 4% to 6%. Such economic conditions suggest that the RBI is likely to maintain higher interest rates for an extended period, further supporting the INR's strength against the USD.

Contrary to market expectations of a slight depreciation of the INR, we anticipate the currency to appreciate due to several factors. Firstly, the Federal Reserve is expected to cut interest rates in 2024, with CME futures indicating a reduction of 75 to 100 basis points. This monetary easing in the US, contrasted with the RBI's stance on keeping rates constant and high, creates a favourable interest rate differential for the INR. Additionally, India's foreign exchange reserves are at an all-time high of $645 billion, providing a robust buffer to support the currency amidst global uncertainties.

<u>Risks</u>

Volatility in Oil Prices: India's economy is significantly impacted by fluctuations in oil prices, given its status as one of the largest importers of crude oil. Any geopolitical instability in the Middle East, which is a primary source of India's oil imports, could lead to a surge in oil prices. This scenario would widen India's trade deficit, exert pressure on inflation, and potentially weaken the INR. The RBI's capacity to intervene might be tested if oil price shocks are more severe than anticipated, necessitating the use of foreign exchange reserves to stabilize the INR, which could deplete these reserves.

Federal Reserve's Monetary Policy Shifts: The expectation that the Federal Reserve will cut interest rates in 2024 plays a pivotal role in our thesis. However, this outlook is subject to change based on US inflation dynamics. An unexpected uptick in inflation in the US could prompt the Federal Reserve to either pause or reverse its rate cuts, leading to a strengthening of the USD against major currencies, including the INR. Such a move would disrupt the interest rate differential favouring the INR, potentially reversing the anticipated appreciation of the INR against the USD.

Weak Consumption Data in India: Private consumption accounts for around 60% of India's GDP. If forthcoming consumption data indicate a slowdown, it could signal weakening domestic demand, impacting overall economic growth. A significant deceleration in consumption would affect corporate earnings and could lead to reduced investor confidence in Indian equities, including those making up the NIFTY 50. This scenario could deter foreign investment flows into India, exerting depreciative pressure on the INR.

Technical analysis

We are following a mean reversion strategy for the INRUSD as it has fallen below its 200 day MA. The Relative Strength Index (RSI) at 60.296 signals that, despite the recent downturn, the INR-USD pair is not overbought, hinting at potential room for appreciation. Similarly, the Stochastic Oscillator (STOCH) reading of 75.657 reflects strong buying momentum, indicating an uptick in buying interest that could lead to a rebound towards the mean.

Collectively these show that the INR/USD has underlying technical strength and should be considered for a buy position.

Entry: 0.01204 (83.35 USD / INR)

Take Profit: 0.01220 (83.05 USD/ INR)

Stop Loss: 0.01198 (83.47 USD/INR)

Risk Reward Ratio: 2.5

Disclaimer