BNY
iFlow
MACRO MORNING BRIEFING

October 3, 2024

Slowing PMI Calls for More Easing in APAC

APAC equities markets had a spectacular September boosted by the Chinese government's shock and awe easing measures. The Shanghai Composite posted a 12.8%w/w increase last week, the best weekly gain since November 2008, while the Hang Seng recorded its best trading week since October 1998 at the end of September, up 13%w/w. Market optimism is likely to continue in the near term as investors anticipate a positive impact from government policies and a reacceleration of growth in Q4 to meet the 2024 GDP growth target of "around 5%."

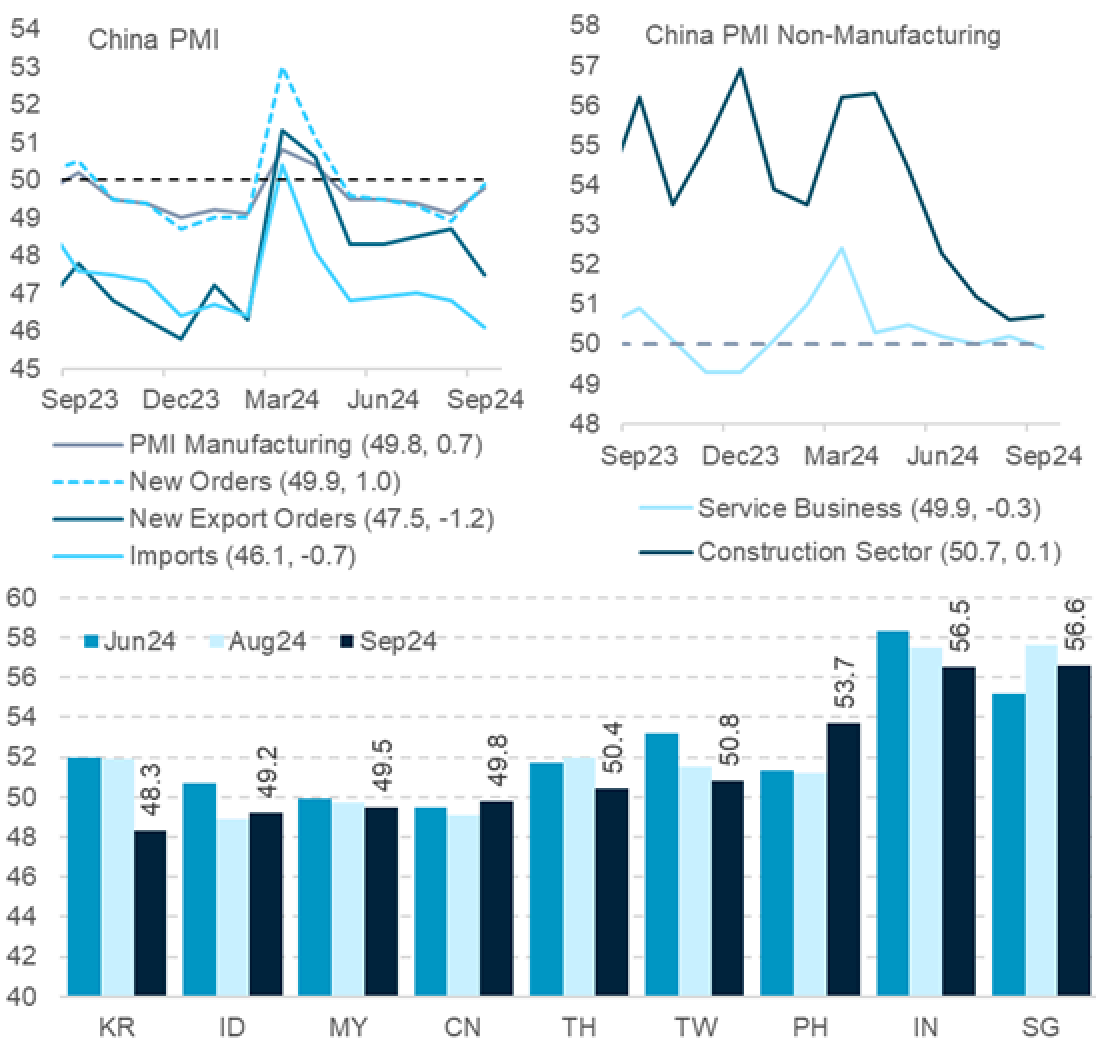
The market's reaction to the latest deterioration of September manufacturing PMI has been relatively muted. China's September PMI manufacturing headline rate rose from 49.1 to 49.8, helped by the gain in the output subcomponent. We are encouraged by the improvement in new orders to 49.9 (August: 48.9), a sign of domestic recovery, but the other key subcomponents deteriorated further into contraction territory, with new export orders and imports at 47.5 (48.7) and 46.1 (46.8), respectively. The other positive development is the recovery of price indices, with input prices and the producer price PMI at 45.1 (43.2) and 44 (42), respectively.

Deteriorating sentiment in the nonmanufacturing sector requires greater attention, in our view. China's nonmanufacturing PMI eased to 50, its lowest level since December 2022 (41.6), prior to the announcement of the Covid reopening. The services business activities index fell into contraction, at 49.9, the first time this index has been in contraction territory since December 2023. The construction business activities index ended its four-month decline at 50.7, hovering at the lower end of range.

To our surprise, APAC regional sentiment for September was mixed against overall risk-on sentiment supported by the continued tech- and tourism-related recovery. South Korea's September PMI abruptly plunged to 48.3, joining Indonesia (49.2), Malaysia (49.5) and China (49.8) in the contraction zone. Thailand (50.4), Taiwan (50.8), the Philippines (53.7) and India (56.5) are firmly in the expansion zone. The moderation of optimism in India is worth noting. India's manufacturing PMI eased in five of the last six months, declining to 56.5 from the high of 59.1 reached in March 2024.

With the sharp rebound of market sentiment in China, expectations are rising for a rebound in regional sentiment as soon as in October. The next biggest questions are if we will see positive feedback loops into the Chinese real economies and the positive uplift for the region. How far can sentiment and prices go in the absence of support macro data?

Exhibit #1: APAC PMI Sentiment Has Weakened



Source: BNY, Bloomberg L.P.

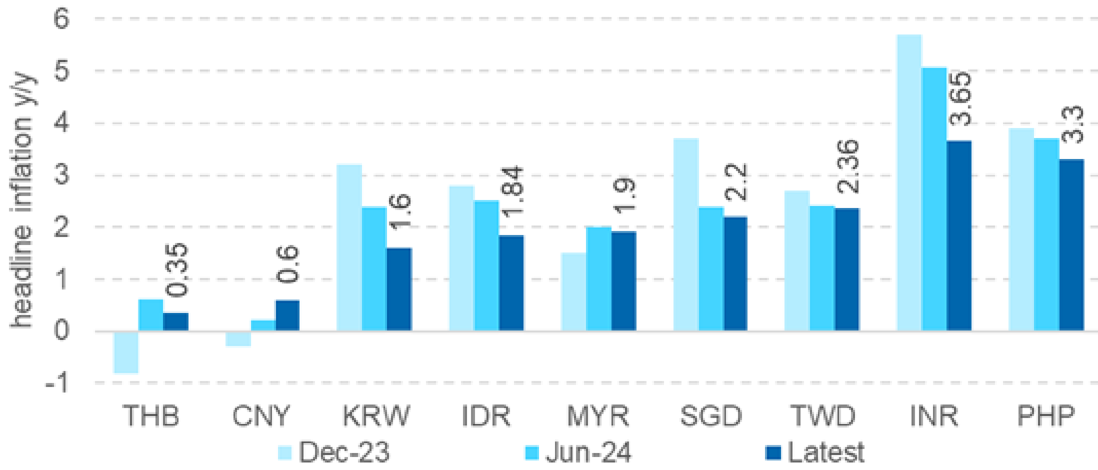
Year-to-date, regional APAC central banks had conducted policy easing motivated by different factors in our opinion. Bangko Sentral ng Pilipinas (BSP) has cut policy rates by 25bp, from 6.5% to 6.25%, and the reserve requirement ratio by 250bp, to 7%, to stimulate domestic economic momentum, while Bank Indonesia (BI) has started its policy-easing cycle to normalize overly restrictive positive real interest rates of 4% with the latest September inflation rate of 1.8%, below the central bank's lower bound of its 2%-4% inflation target range.

The downside surprise in inflation in Korea significantly raises the prospect of a rate cut by the Bank of Korea. South Korea's September headline CPI dropped more than expected, with the headline rate at 1.6%y/y from 2.0%, while the core was below 2% (1.98%) for the first time since November 2021.

Without being overly complacent about the impact of geopolitical events on crude oil prices, the recent trend of falling crude oil and commodities prices is likely to continue to exert downside pressure on headline inflation, with the risk of inflation undershooting targets. We believe that in addition to South Korea, there is a high chance that the Monetary Authority of Singapore (MAS) will ease its monetary policy by reducing its SGD NEER policy slope, with potential back-to-back easing by BSP and BI at their respective policy meetings in October. Finally, the recent strength of MYR has opened the possibility of easing by Bank Negara Malaysia, with inflation steadily at or below 2% for the past 12 months.

Overall, the policy easing cycle is unlikely to be detrimental to domestic currencies as the interest rate differential as the US dollar will remain attractive in relative terms. We believe the stabilization of growth dynamics in the region, including in China, is constructive to APAC risks in equities, fixed income and currencies.

Exhibit #2: Lower APAC Inflation Trend Supportive of Policy-easing



Source: BNY, Bloomberg L.P.

Over the past week, lower US dollar and USD outflows continue to provide primary support for APAC and LatAm currencies, while investors continue to unwind long positions in CEE currencies, especially ISL and the ZAR. Within APAC, THB, INR and CNY posted the most inflows with weekly average flows, while TWD posted the most outflows.

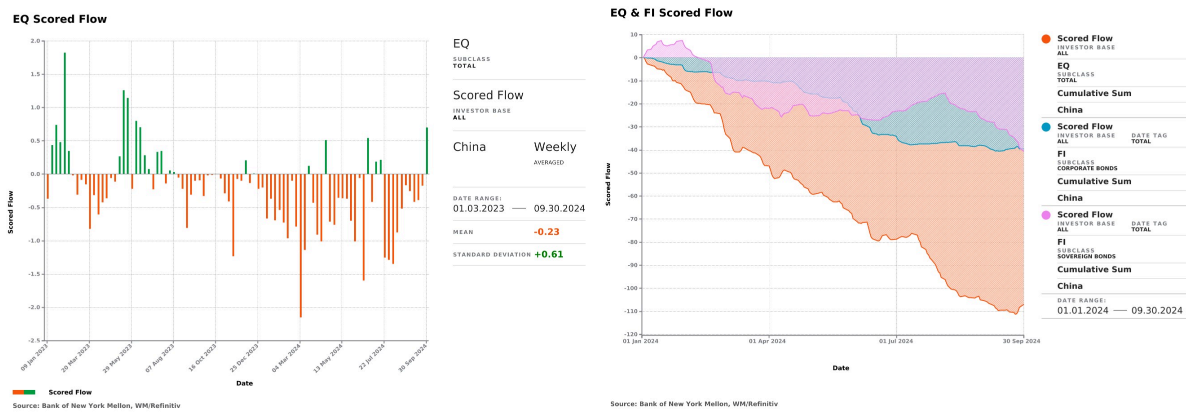
The broad inflows had pushed aggregate scored holdings into the overheld zone for the first time since August 2022. INR and IDR, with weekly average scored holdings of 4.8 and 1.7, respectively, are the top two most overheld currencies within the iFlow universe.

The most notable development over the past week is the resurgence of demand in EM APAC amid broad outflow pressure in developed markets. Weekly average scored flows for EM APAC were 1.47 compared with -1.8 for DM. India, South Korea and the Philippines continue to enjoy strong inflows but the most notable shift in sentiment was in China.

Chinese equity flows turned significantly positive with three straight days of daily scored flows of >1 into month-end and the week-long National Day holiday. Indeed, it was the first net weekly flows since mid-July. Given the persistent Chinese equity outflows for most of the year, it is likely that there will be further catchup buying in the near term. Overall, the industrials sector led the spree of inflows in the EM APAC region, with weekly average scored flows of 2.7, followed by significant demand (weekly average scored flows >1) in the consumer discretionary, communication services, materials and utilities sectors.

For bonds, Chinese sovereign bond outflow momentum continues into the eighth straight week, while Indonesian and Indian sovereign bonds sustained good demand.

Exhibit #3: iFlow Showed Demand for Chinese Equities, Continuing Pressure on Bonds



Source: BNY, Bloomberg L.P.

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Please direct questions or comments to: iFlow@BNY.com

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