BNY
iFlow
MACRO MORNING BRIEFING

December 5, 2024

PMI Review / APAC Shifts Focus to Growth

Business sentiment in November as measured by purchasing manager indexes showed signs of bottoming out. Investors were generally upbeat, considering the volatile and downside evolution of asset prices and renewed uncertainty regarding trade and tariffs. Within APAC, Malaysia and Indonesia, with a manufacturing PMI of 49.2 and 49.6, respectively, are the only countries in contraction. Thailand and South Korea managed to drift into expansion after a brief contraction. Taiwan and the Philippines made strong gains at 51.5 and 53.8, respectively, while sentiment in Singapore and India eased from highs of 53.9 and 56.5, respectively (see Exhibit #1).

China's November PMI data were mixed, with an improving manufacturing PMI and a deteriorating nonmanufacturing PMI. The manufacturing PMI rose slightly, climbing from 50.1 to 50.3. We are encouraged by the continued improvement in new orders, which posted a third straight month of gains and was back in expansion territory for the first time since April 2024. The two other key subcomponents we track closely have shown signs of bottoming out, with new export orders at 48.1 and imports at 47.3.

We are hopeful that China's recent stimulus measures will revitalize domestic demand and boost the country's manufacturing sectors amid global downside pressure. Nonmanufacturing industries continue to be the weakest link.

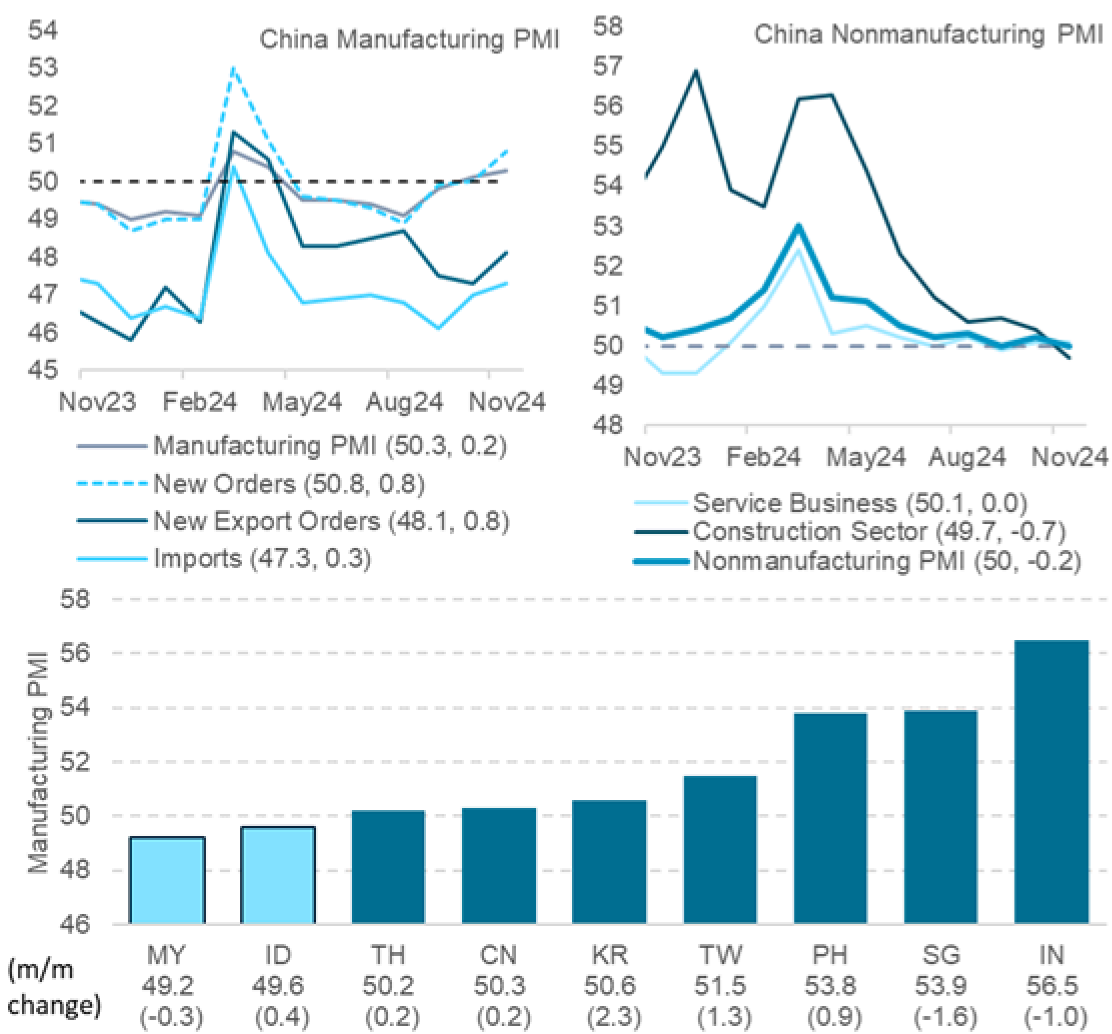
The nonmanufacturing PMI eased further, declining to a neutral level of 50, its lowest reading since December 2022, when it reached 41.6. While there is anecdotal evidence of improving home sales and a rebounding real estate sector, this has not been enough to shift sentiment.

The business activity index for the construction industry fell into contraction at 49.7. This is the second month of contraction on record, after February 2020, when the index plummeted to 26.6. We will continue to monitor developments in this sector closely.

Meanwhile, the business activity index for the services industry stood at 50.1, reflecting the continued sluggish mood in retail. Since peaking at 52.4 in March 2024, the services business activity index has moved in a tight range between 49.9 and 50.5.

China's Central Economic Work Conference, scheduled for December 11–12, will be watched closely, especially the fiscal deficit target the conference identifies.

Exhibit #1: APAC PMI Sentiment Shows Signs of Bottoming Out



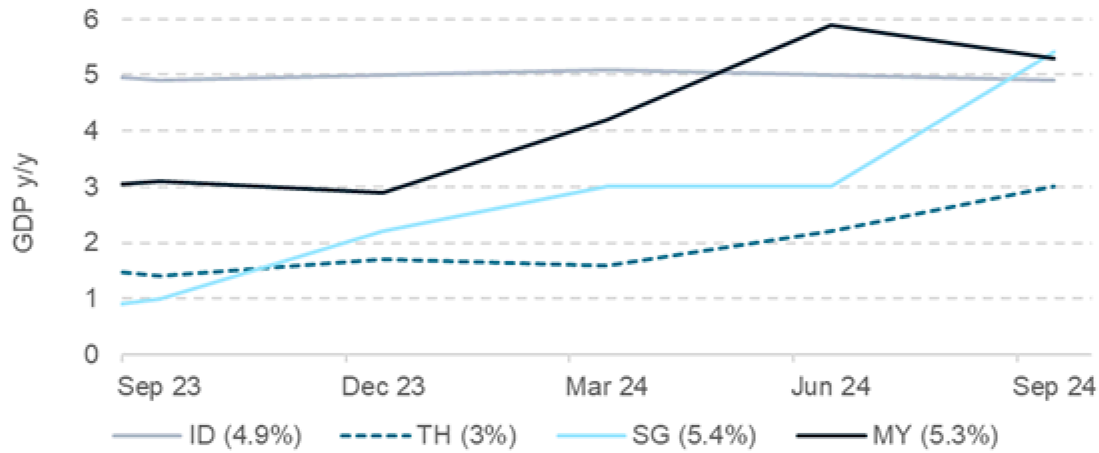
Source: BNY, Bloomberg L.P.

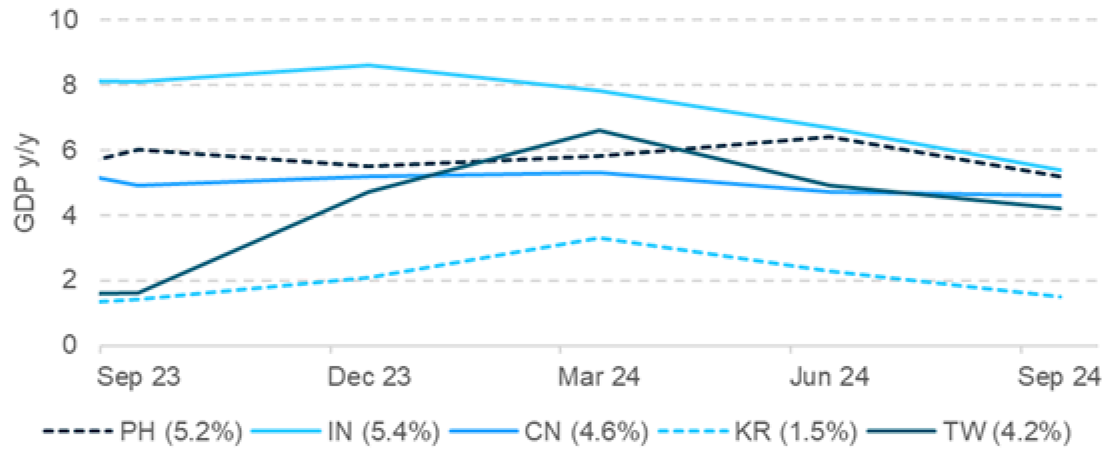
We have previously discussed APAC responses to currency depreciation pressure, and recent Bank of Korea (BoK) policy actions indicate a likely shift to focusing on downside growth risks. The BoK delivered a surprise 25 bp rate cut at its November policy meeting, the second cut of this magnitude in as many meetings. The last time the BoK made back-to-back monthly rate cuts was in 2008, when it made two cuts in October, including an emergency cut, and then cut at each subsequent monthly meeting through February 2009, bringing the rate to 2.0%, down from 5.25% in September 2008.

The timing and urgency of rate reductions will be guided by downside growth risks, with GDP in 2024 and 2025 GDP revised lower to 2.2% y/y (2.4%) and 1.9% (2.1%), respectively, and expected to slow further to 1.8% in 2026. The CPI is forecast to rebound to 2.3% in 2025 before dipping back to 1.9% in 2026.

Is this an isolated policy decision, or does it mark a shift in central bank focus to take account of the increasingly difficult global trade environment? The Reserve Bank of India will be closely watched this week following a weaker-than-expected Q3 GDP of 5.4% y/y. As shown in Exhibit #2, regional growth has been on two tracks, with upward growth momentum observed in Indonesia, Thailand, Singapore and Malaysia, while the Philippines, India, South Korea, Taiwan and China are on a decelerating trend. Will India and Taiwan join the dovish track and kick off an easing cycle, inflation permitting?

Exhibit #2: APAC GDP Trend





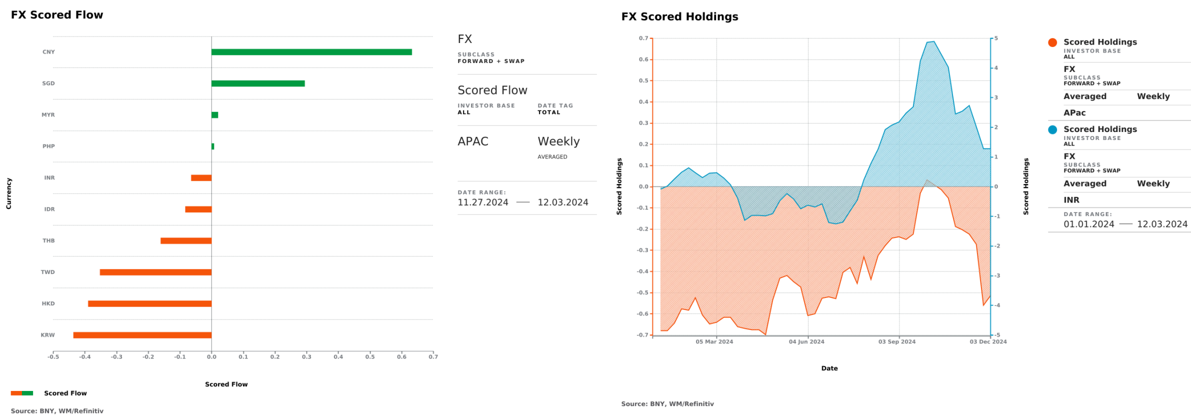
Source: BNY, Bloomberg L.P.

Of late, investor flows have been biased to the sell side, according to iFlow data. Aside from CNY and SGD inflows, the rest of APAC has seen light outflows of FX. CNY inflows are encouraging, especially when viewed against the mixed flows for the fixed income complex, suggesting that CNY buying was not solely driven by an unwinding of hedges on asset selling. Over the past week, iFlow data show investor demand for sovereign bonds but selling in the corporate bond complex.

A notable observation over the past week is the fast pace of APAC FX short positioning. The scored holdings of APAC currencies saw another week of declines, leading to the most underheld condition since July 2024, a turnaround from the overheld state at the beginning of October. The move was bolstered by a drop in INR's holdings, which are near +1, down from as high as +5. Elsewhere, TWD (weekly average scored holdings of 2.38), HKD (-1.95) and PHP (-1.52) are the three most underheld currencies within the iFlow universe.
APAC equities were broadly sold, led by China, Thailand and Singapore. One piece of positive news is that investors halted five weeks of selling and turned net buying in

Indonesian equities. In bonds, the Chinese bond selling trend is in its 17th week, while Indian sovereign bonds saw renewed demand after two weeks of selling.

Exhibit #3: APAC FX Scored Holdings Back to Lows



Source: BNY, Bloomberg L.P.

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

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