



Economic Outlook H2-2022

# Near the tipping point

August 2022

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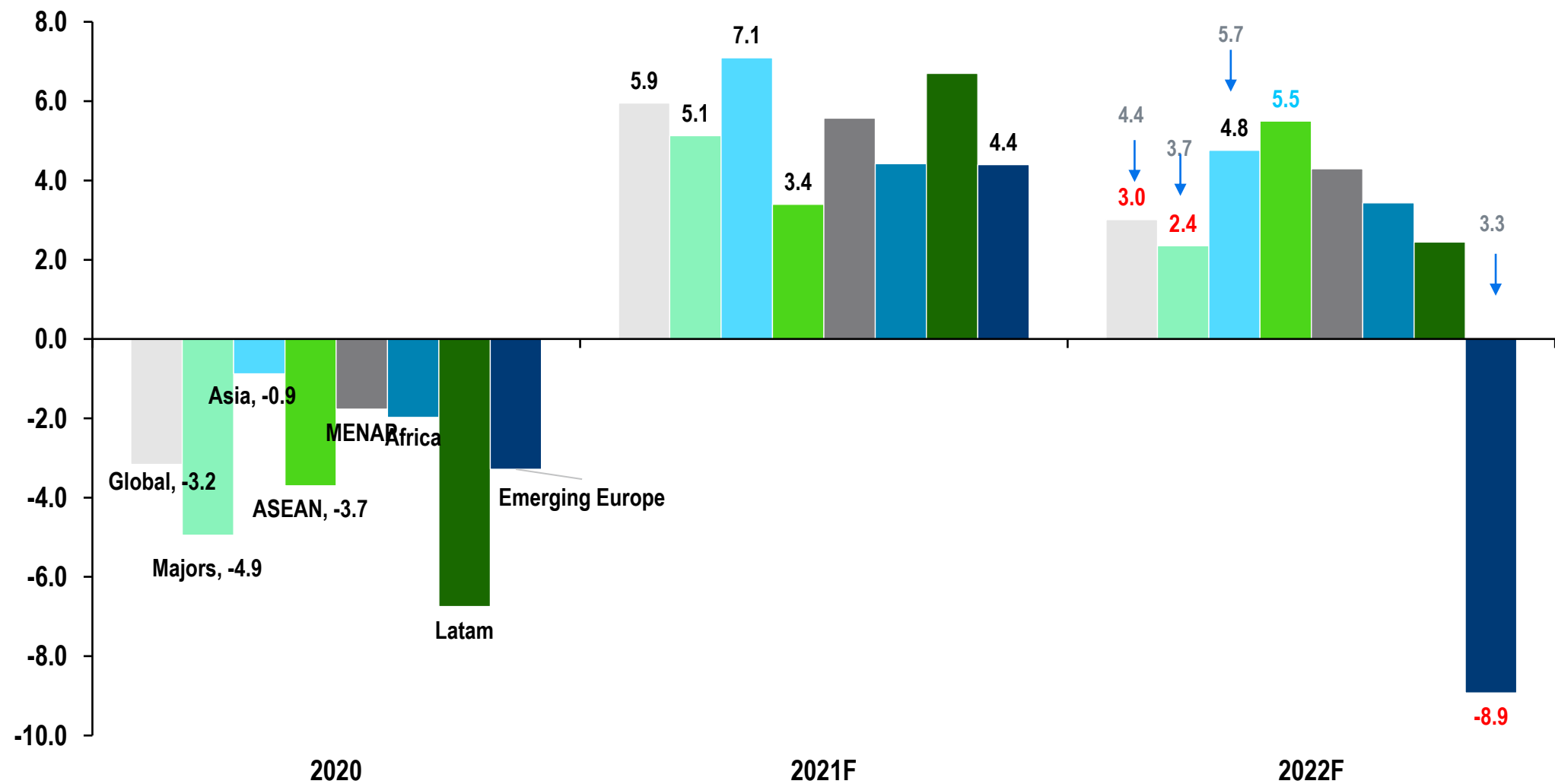
Standard Chartered Bank (Singapore) Limited



standard  
chartered

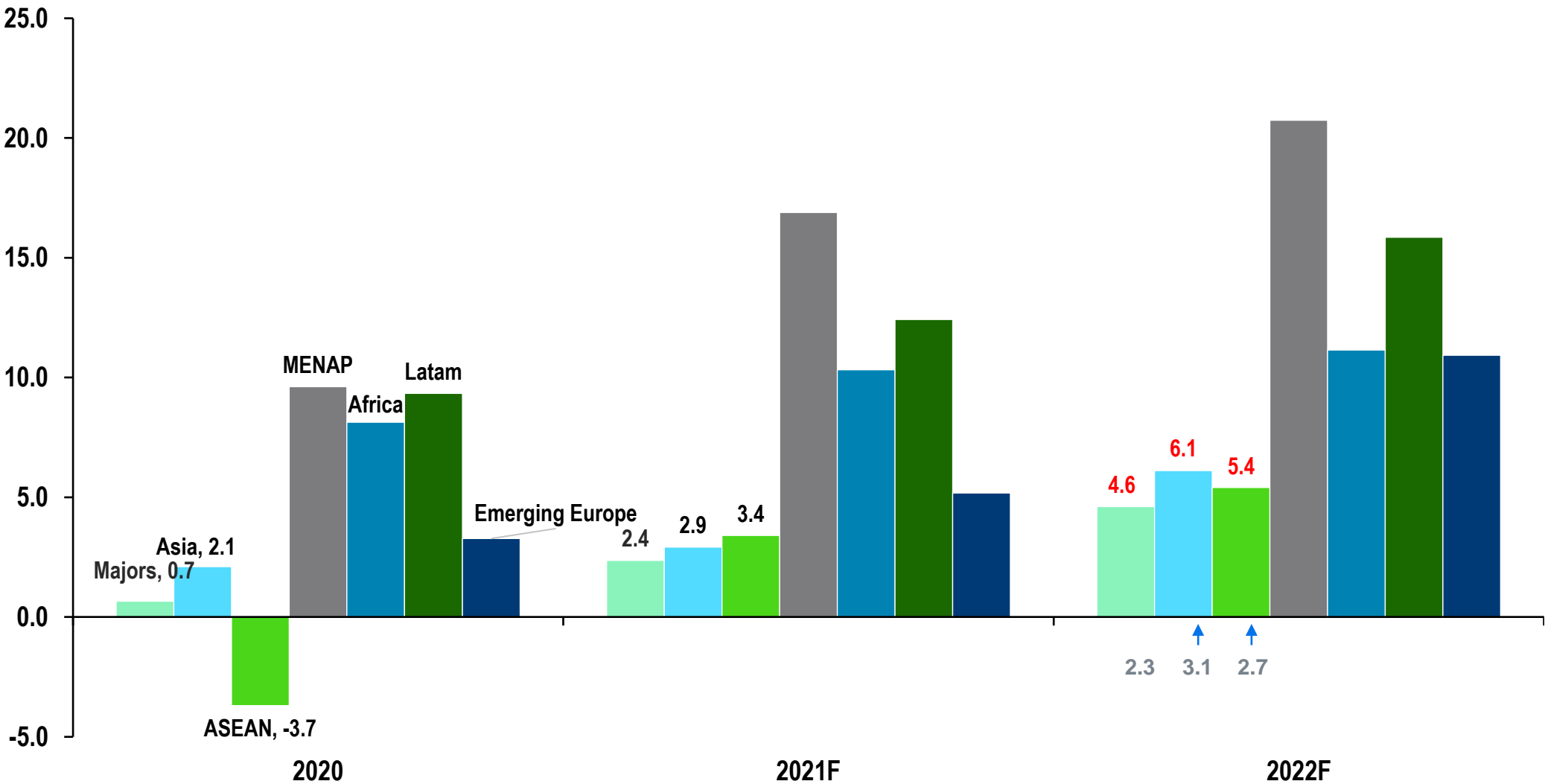
# The global growth recovery has been disrupted

The global economy faces an inflation shock, a geopolitical shock and a monetary tightening shock, all at the same time (*GDP, annual %*)



# Inflation has returned with a vengeance

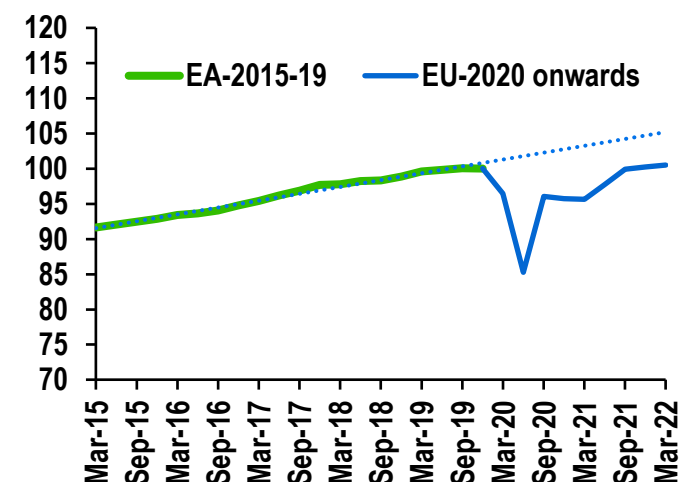
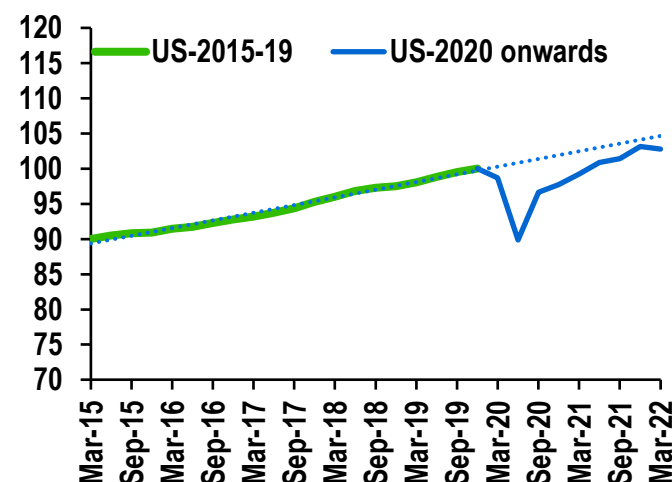
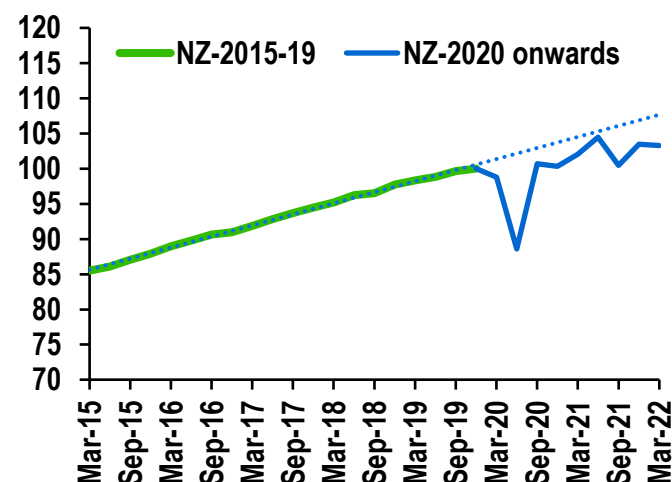
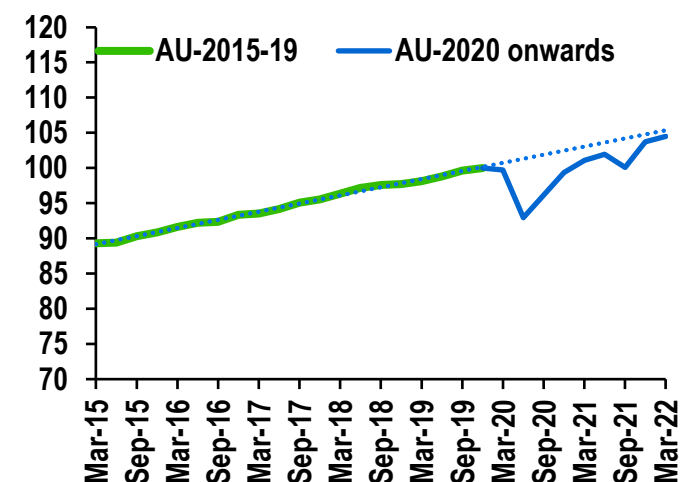
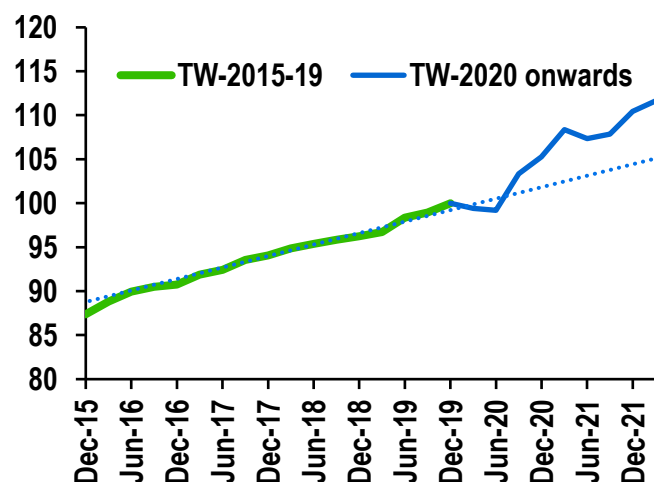
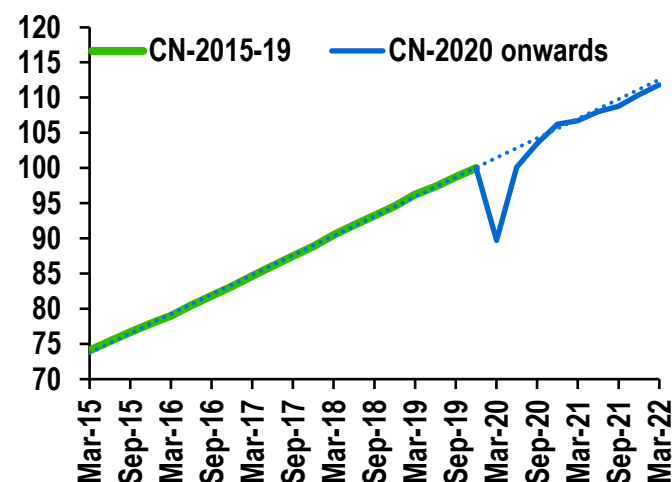
Central banks now may have to sacrifice some growth to return inflation to medium-term target  
*CPI, annual %*



# Inflation more prominent in DM economies due to a strong recovery

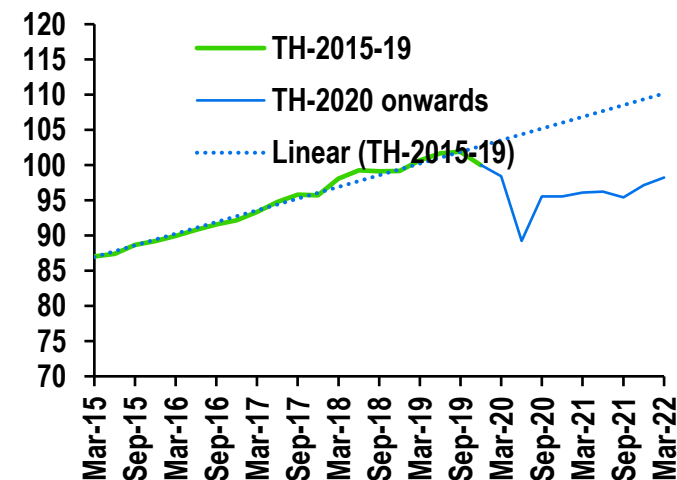
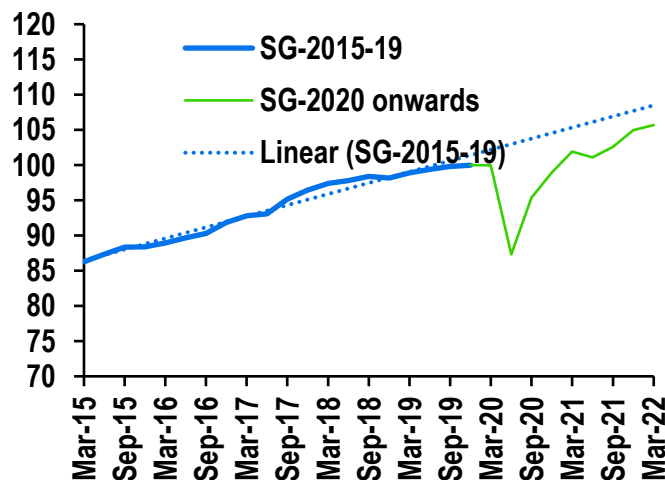
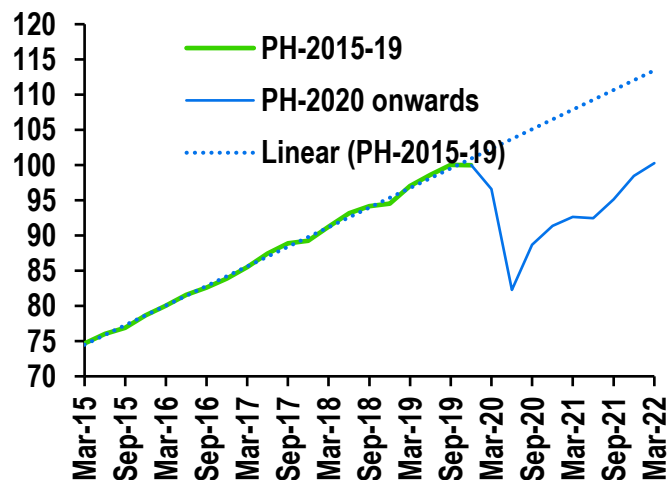
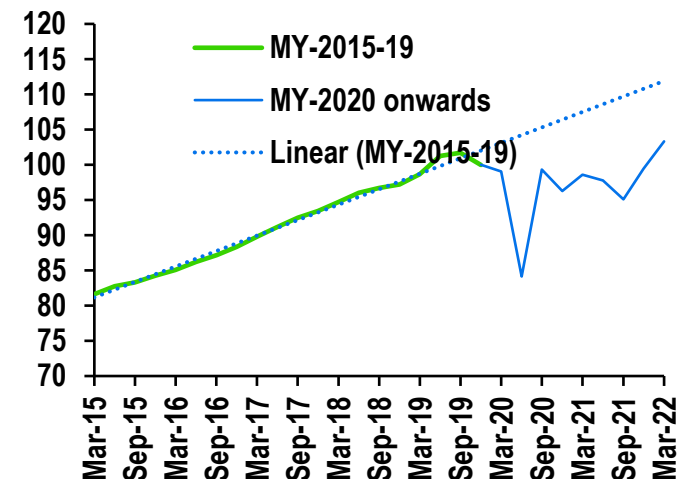
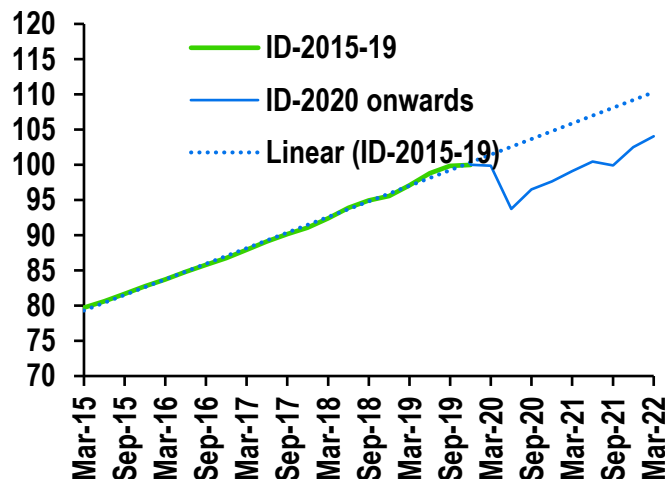
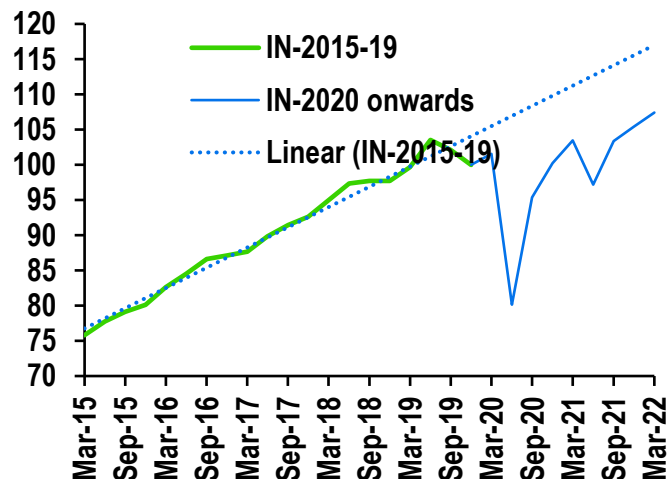
**GDP levels in DM economies are 0-4% below trend growth levels as of Q1-2022**

*GDP levels versus index to Q4-2019*



# Inflation less prominent in ASEAN due to weaker growth recovery

**India and ASEAN economies (ex-Singapore) range from 2-12% below trend growth as of Q1-2022**  
*GDP levels versus index to Q4-2019*



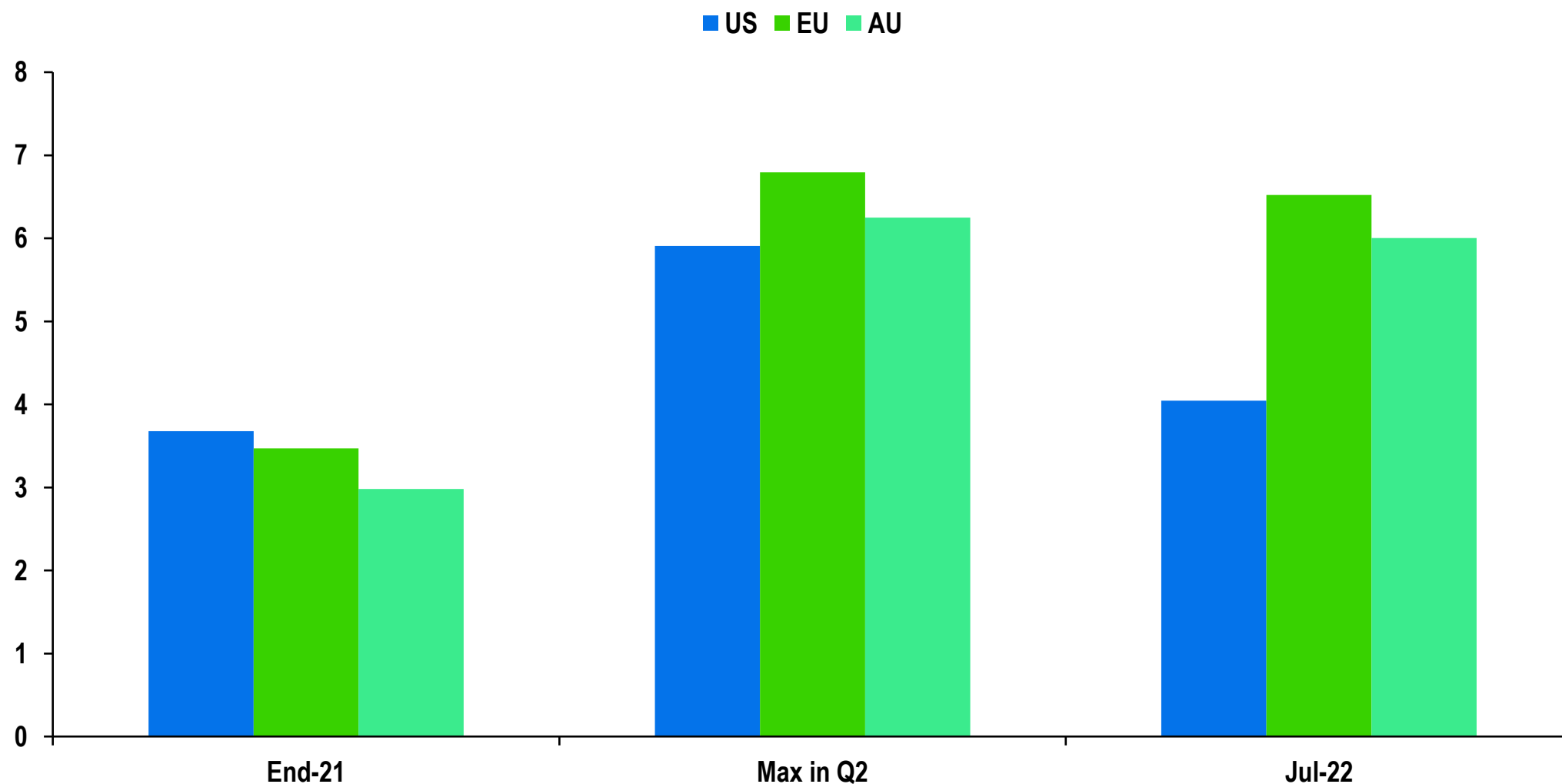
# Three shocks



# Inflation remains a key focus for central banks

## Near-term inflation expectations remain elevated

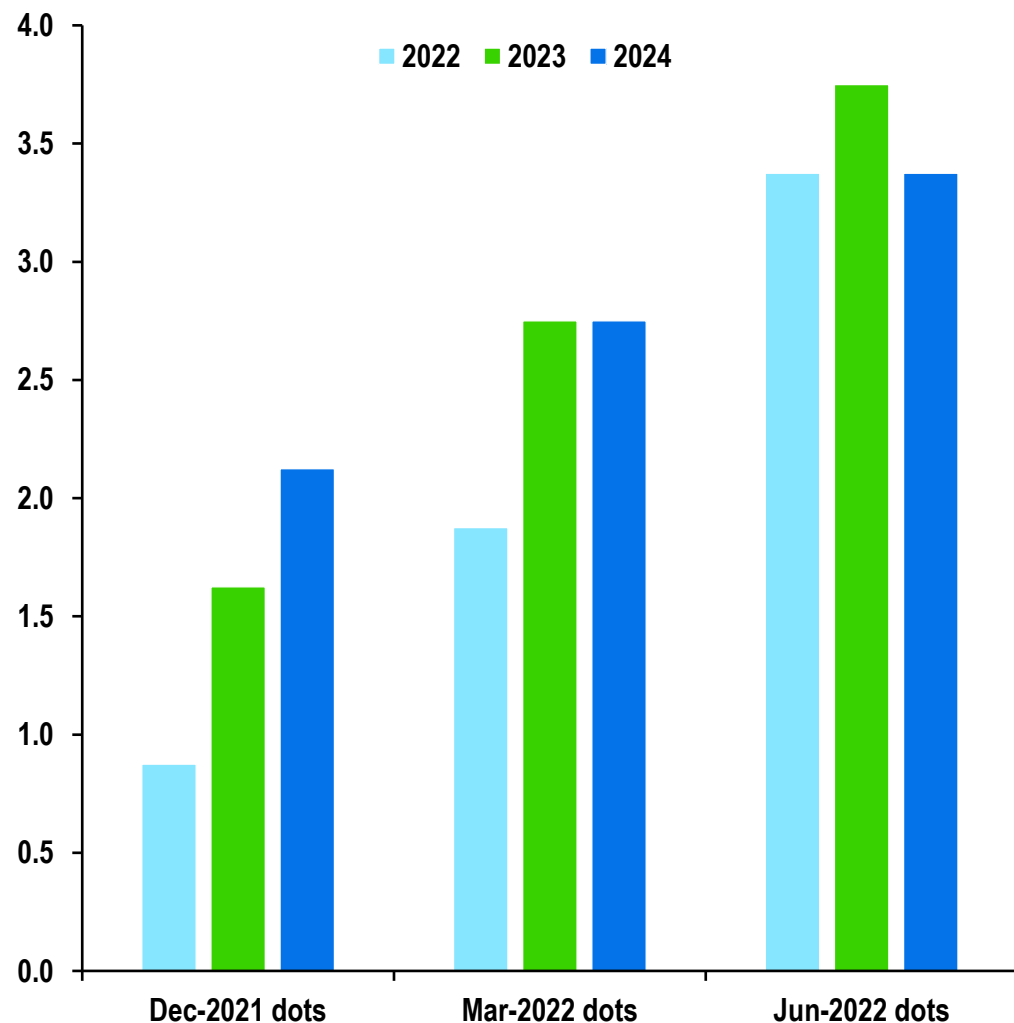
*1Y inflation expectations; proxied by inflation swaps, %*



# Monetary conditions to tighten significantly in the US and other DM

## The Fed continues to stay hawkish

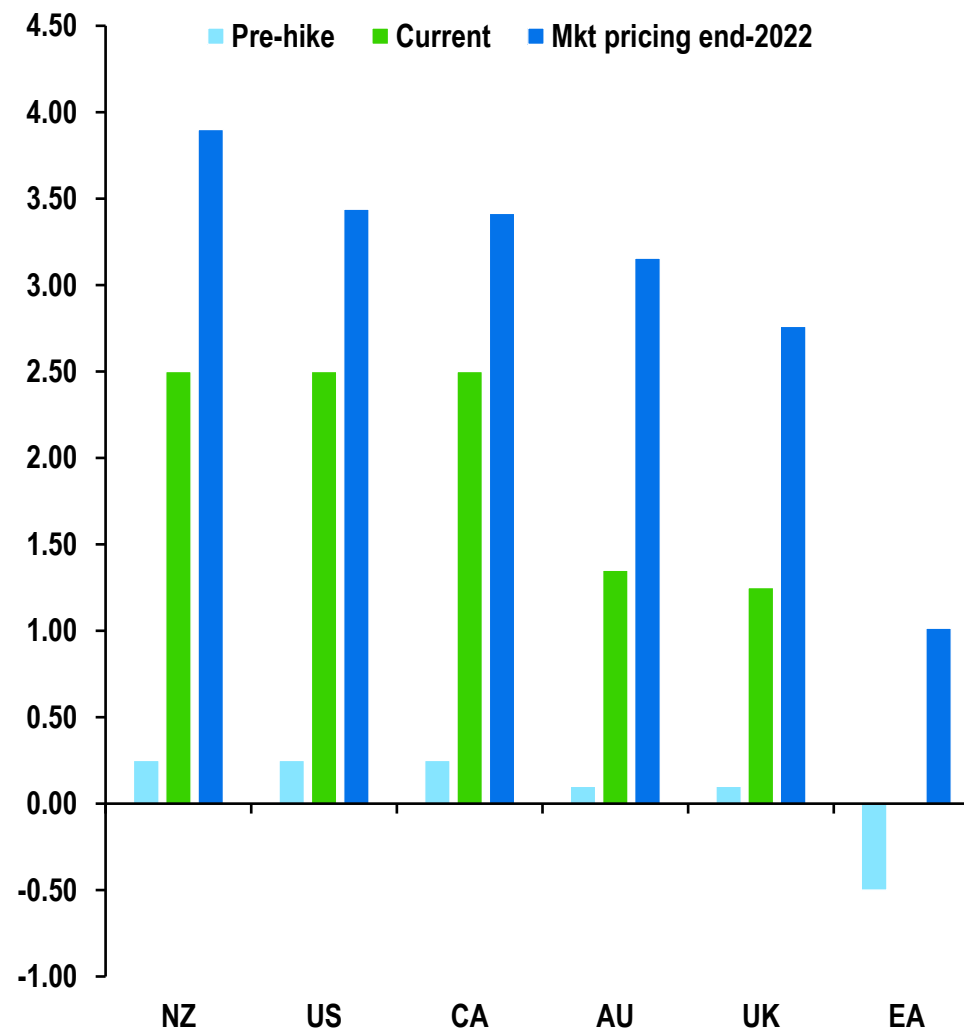
FOMC dot plot, %



Source: FOMC, Standard Chartered Research

## Other DM central banks adopt a similar stance

bps



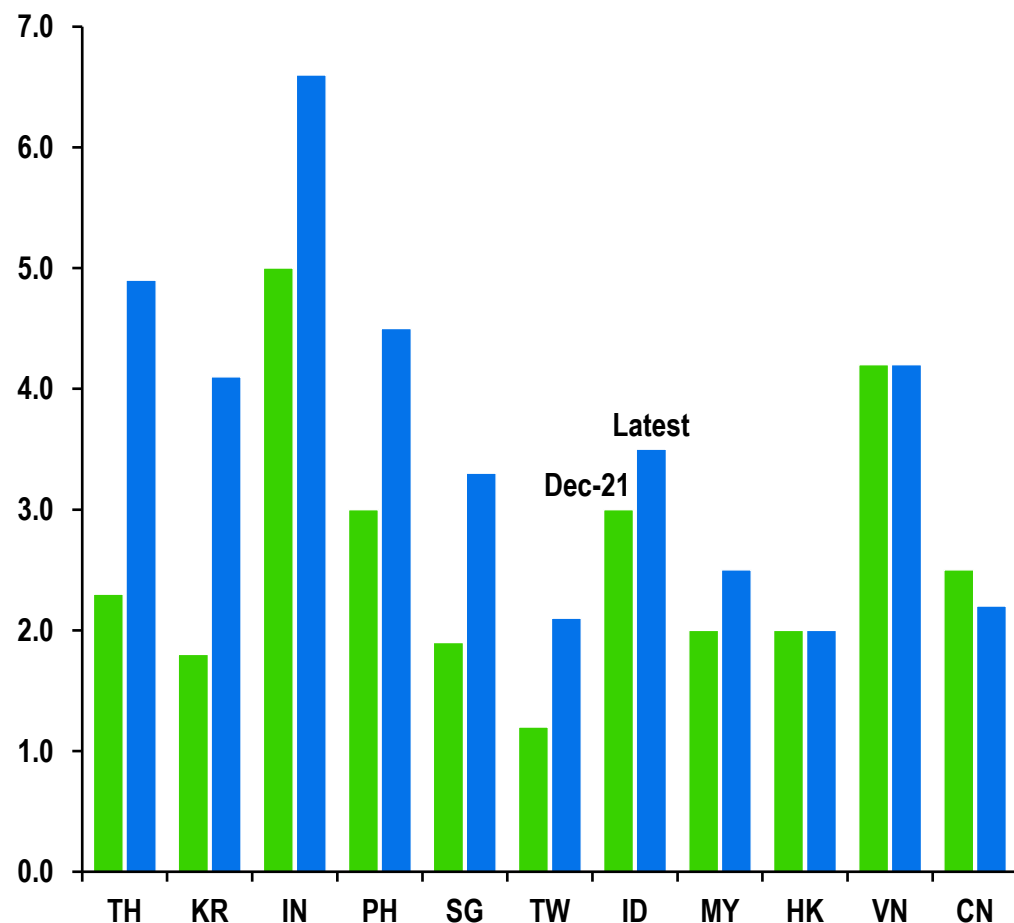
Source: Bloomberg, Standard Chartered Research





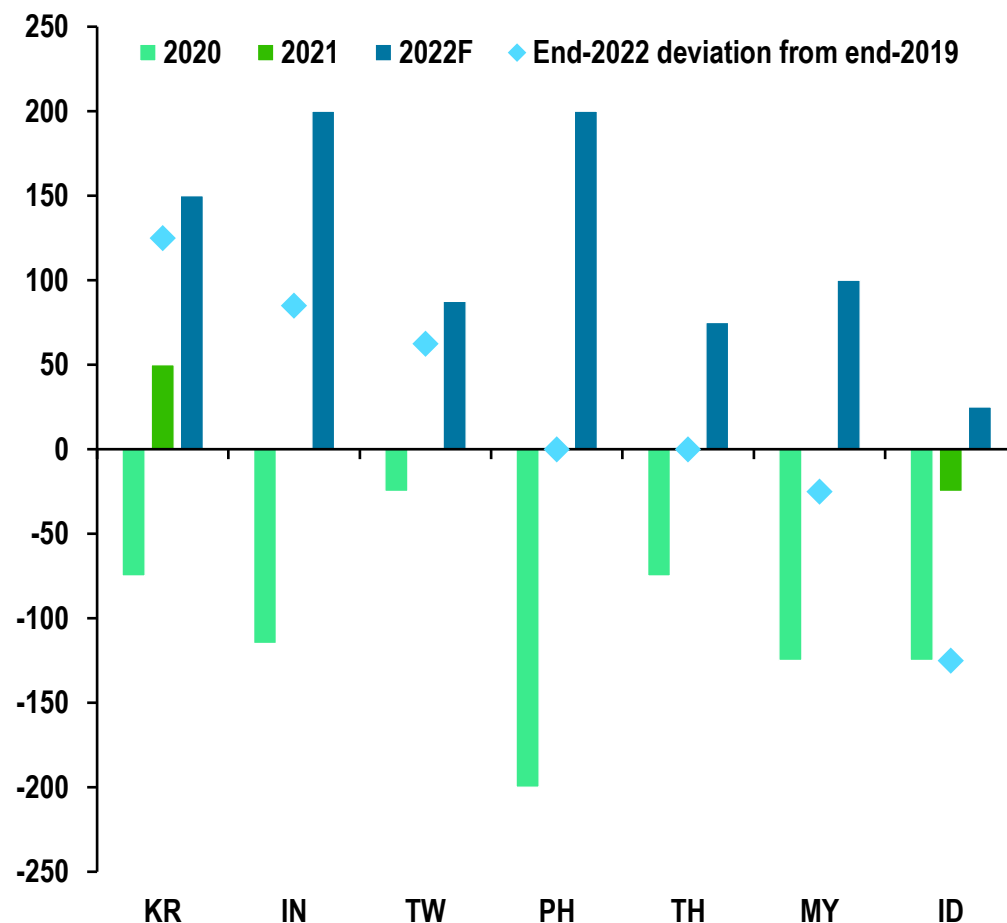
# Monetary policy tightening expected across Asia as well given higher inflation, albeit not as sharp a surge as in the west

**Inflation forecasts generally revised higher across Asia; 2022 inflation forecasts (Dec-2021 versus latest), sorted by degree of change**



Source: Standard Chartered Research

**Most economies are expected to normalise monetary policy in 2022**  
*Policy rate changes, bps*

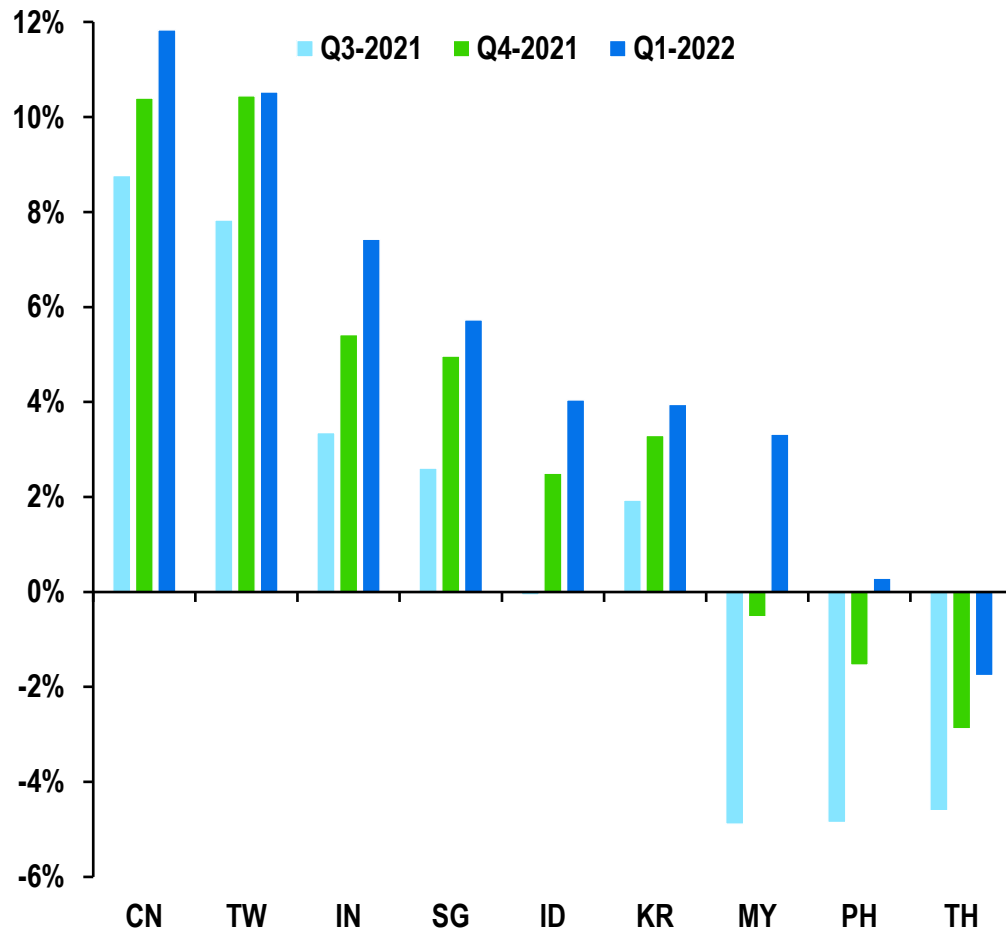


Source: Standard Chartered Research



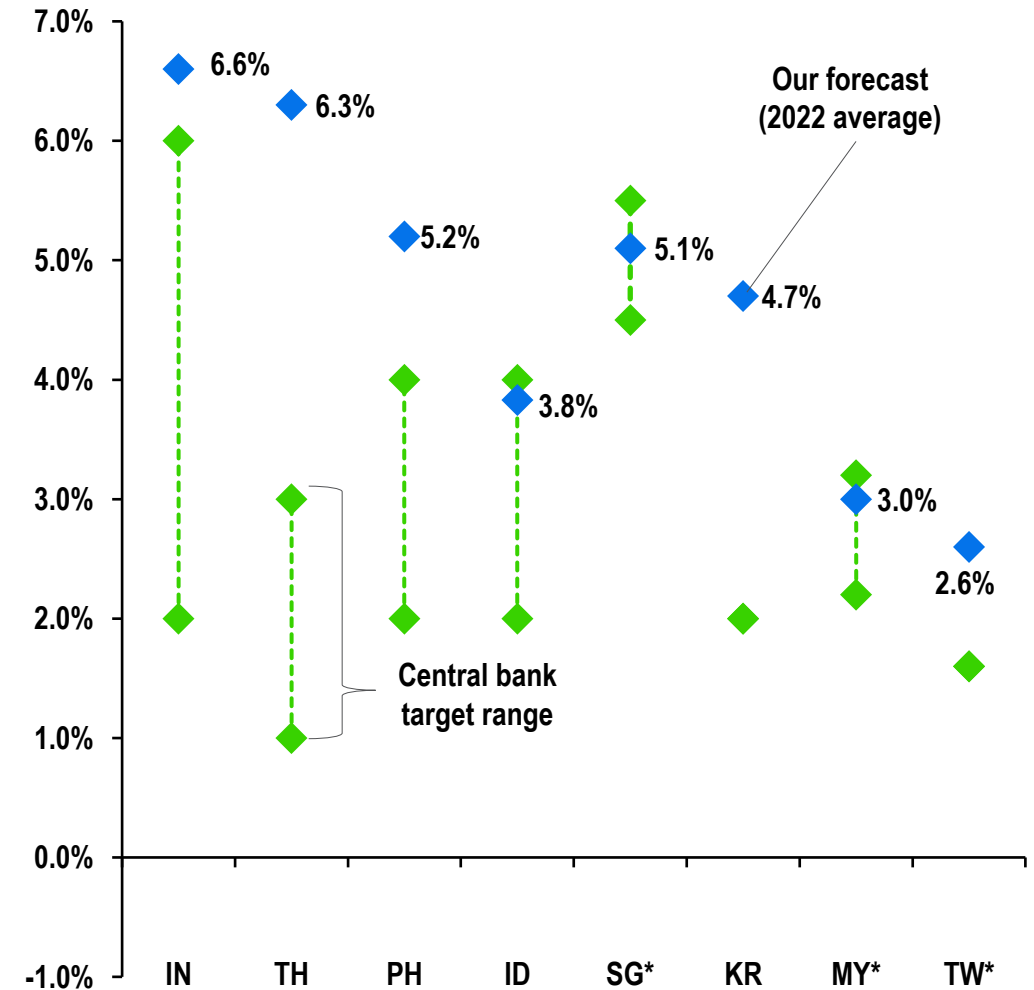
# Asian inflation are also exceeding targets and forecasts

Most Asian economies were back above pre-COVID levels as of Q1 (deviation from Q4-2019 GDP levels)



Source: Bloomberg, CEIC, Standard Chartered Research

2022 inflation to be at – or exceed – upper end of inflation target bands (% y/y)



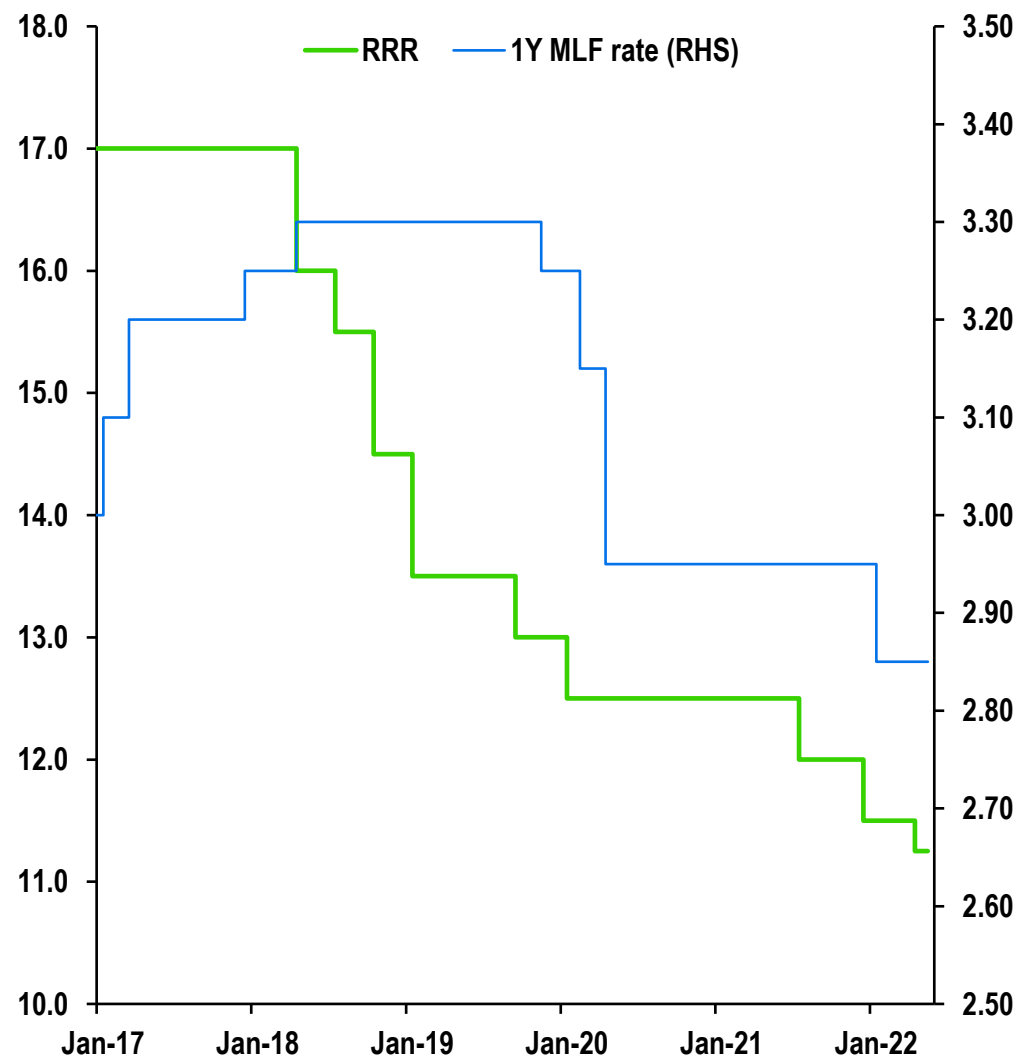
\*SG, MY and TW central banks are not inflation-targeting;  
Source: National sources, Standard Chartered Research



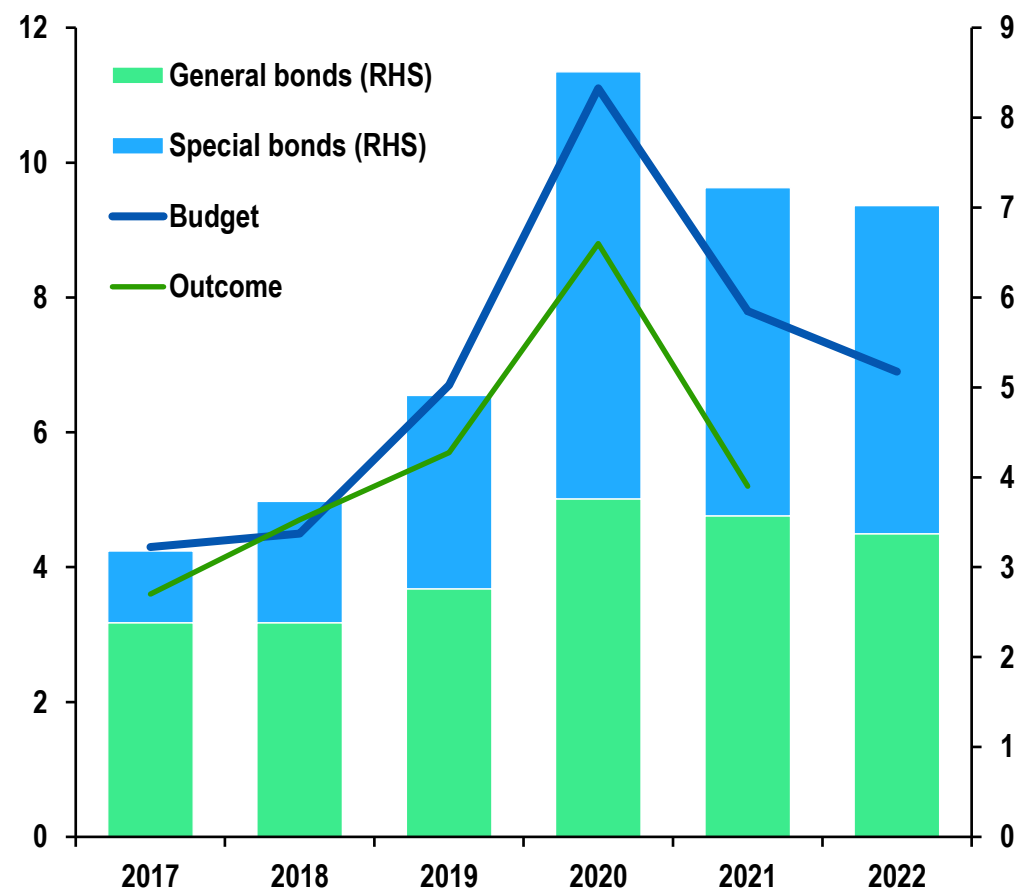
# China is an exception to global monetary policy tightening, with frontloaded stimulus

## China has cut policy rates and RRR

%



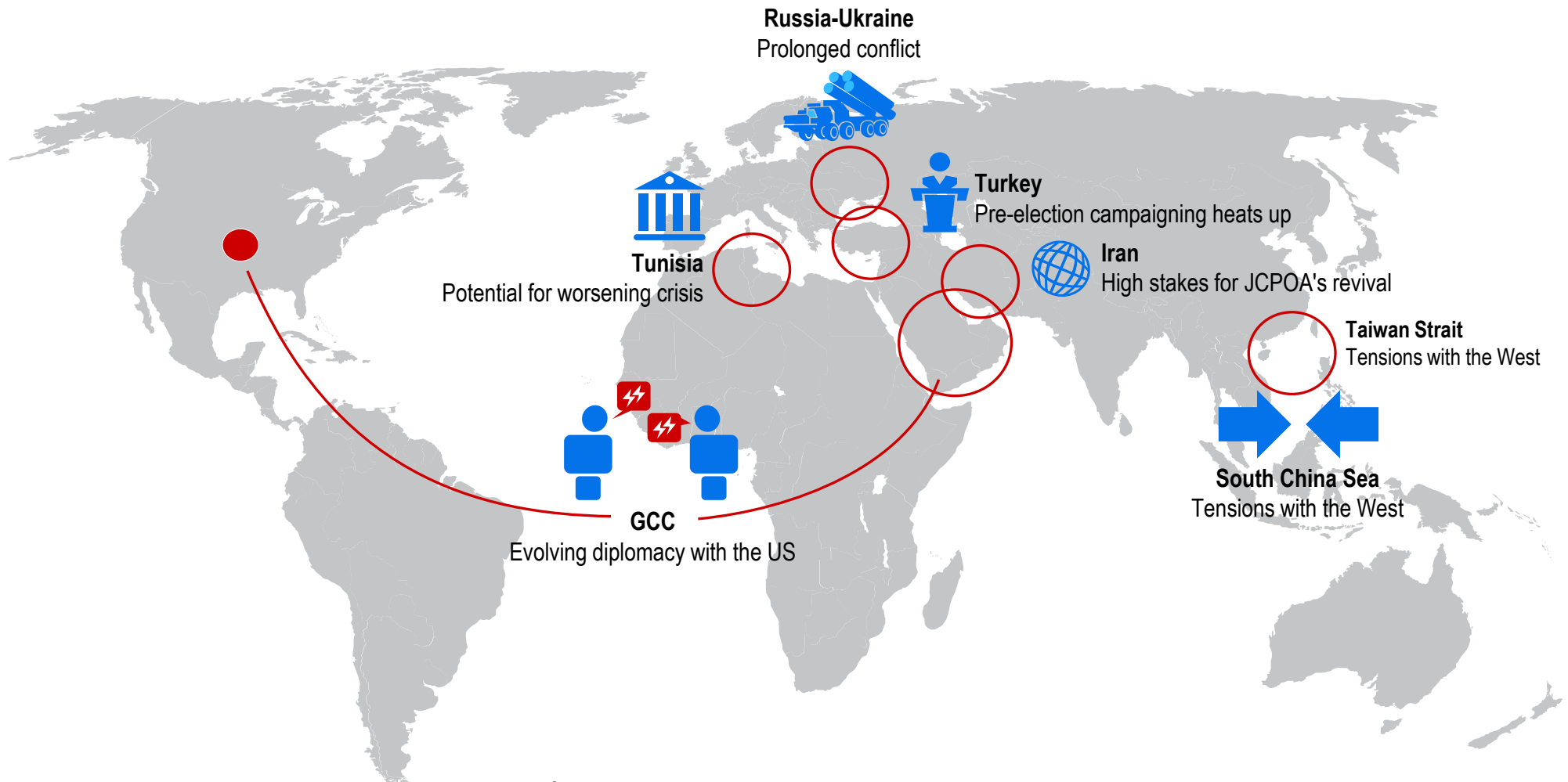
## China to fully implement 2022 budget deficit; fiscal deficit, % of GDP (LHS); government bond issuance quota, CNY tn (RHS)



# Geopolitical economics

## Beyond the war

### *Simmering geopolitical hotspots*



**EM countries are facing multiple simultaneous risks, compounded by the war**

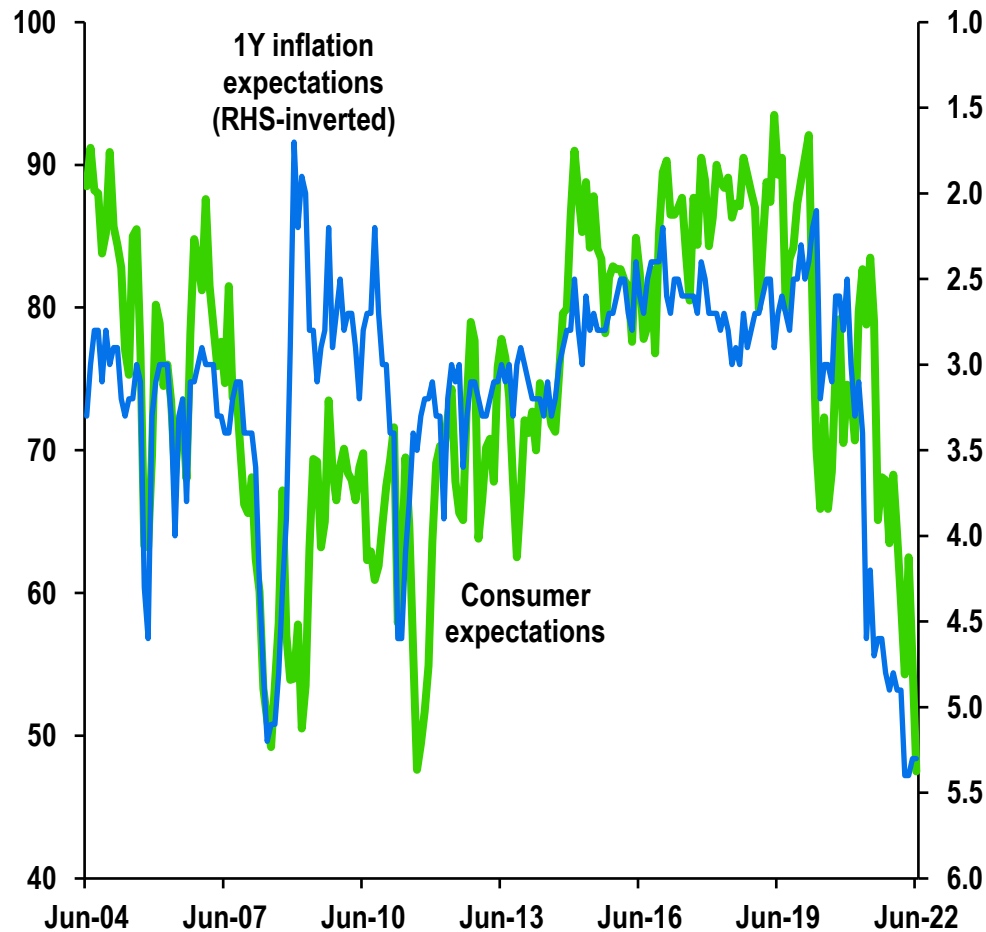
# Nearing the tipping point



# Sentiment is taking a big hit

## US consumer sentiment weakest since 1980

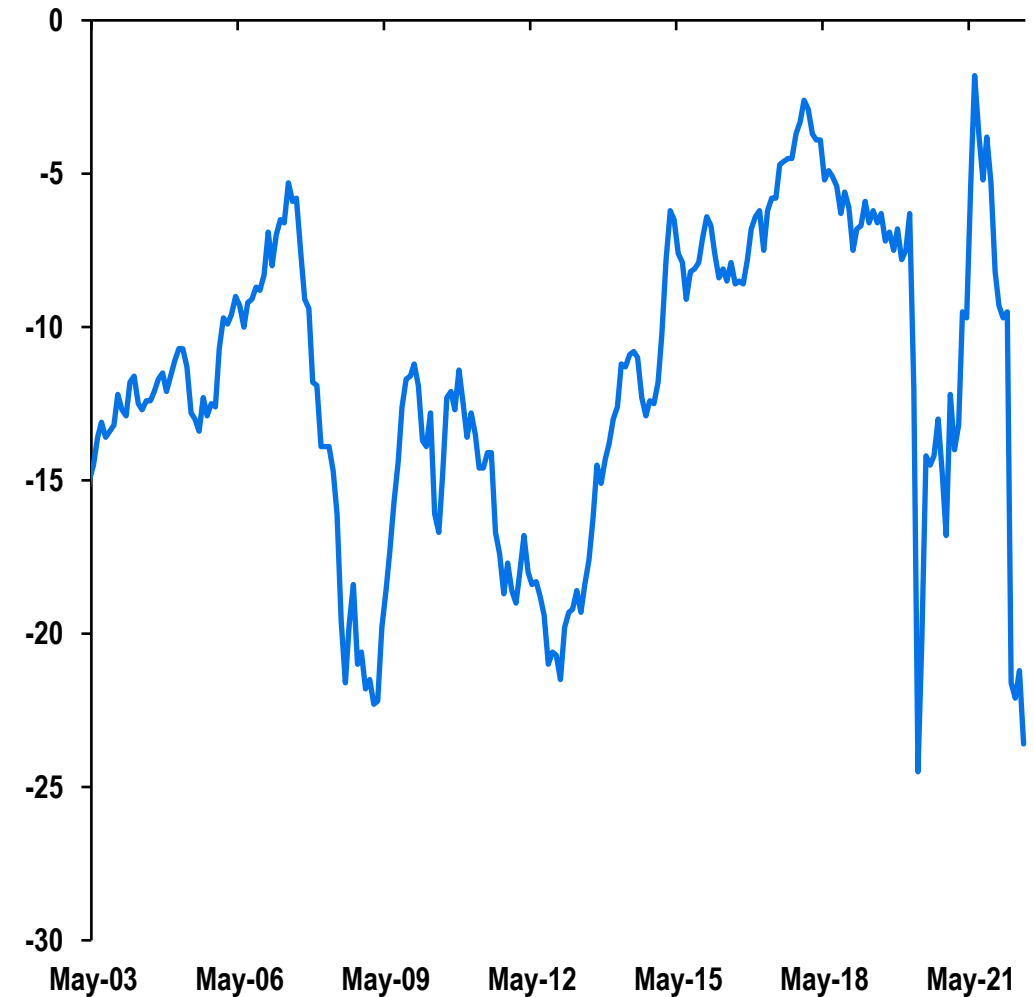
*University of Michigan consumer expectations, index; 1Y inflation outlook, %*



Source: Bloomberg, Standard Chartered Research

## Confidence near COVID-low

*Euro-area consumer confidence*



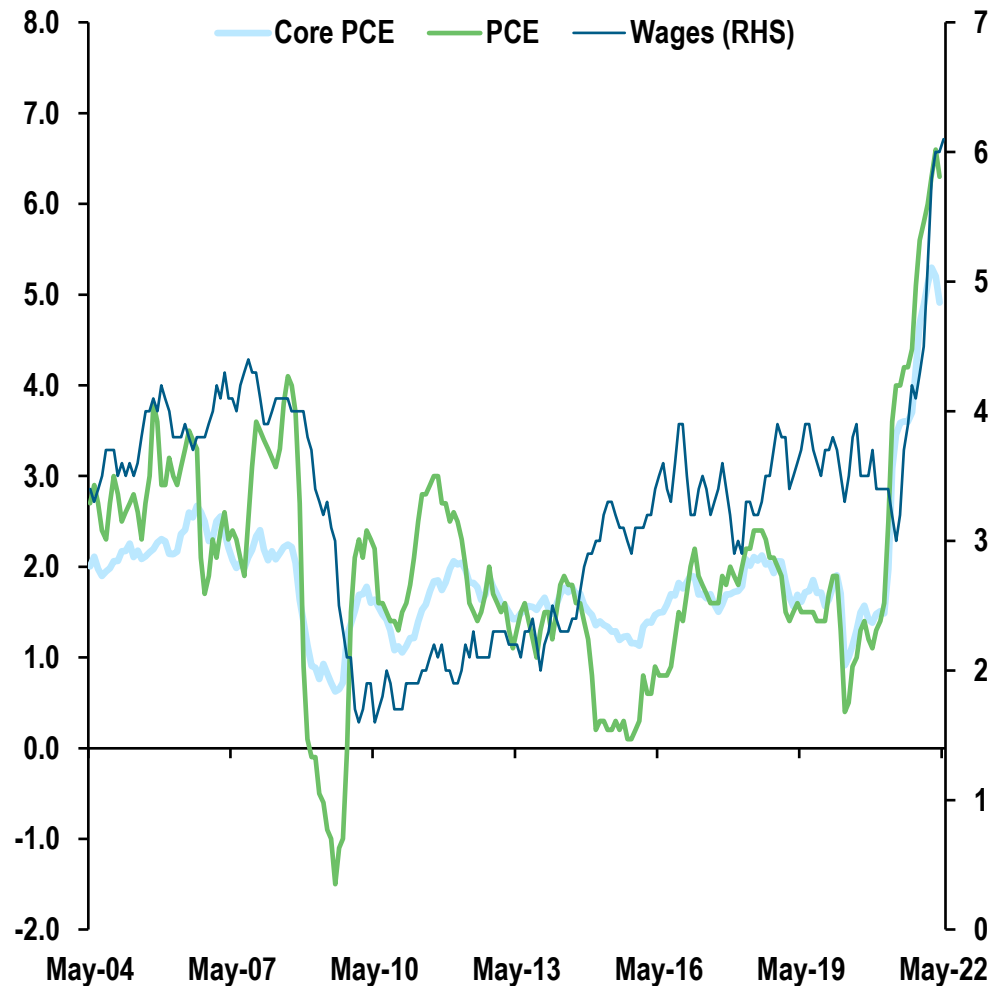
Source: Bloomberg, Standard Chartered Research



# Inflation is hurting real incomes

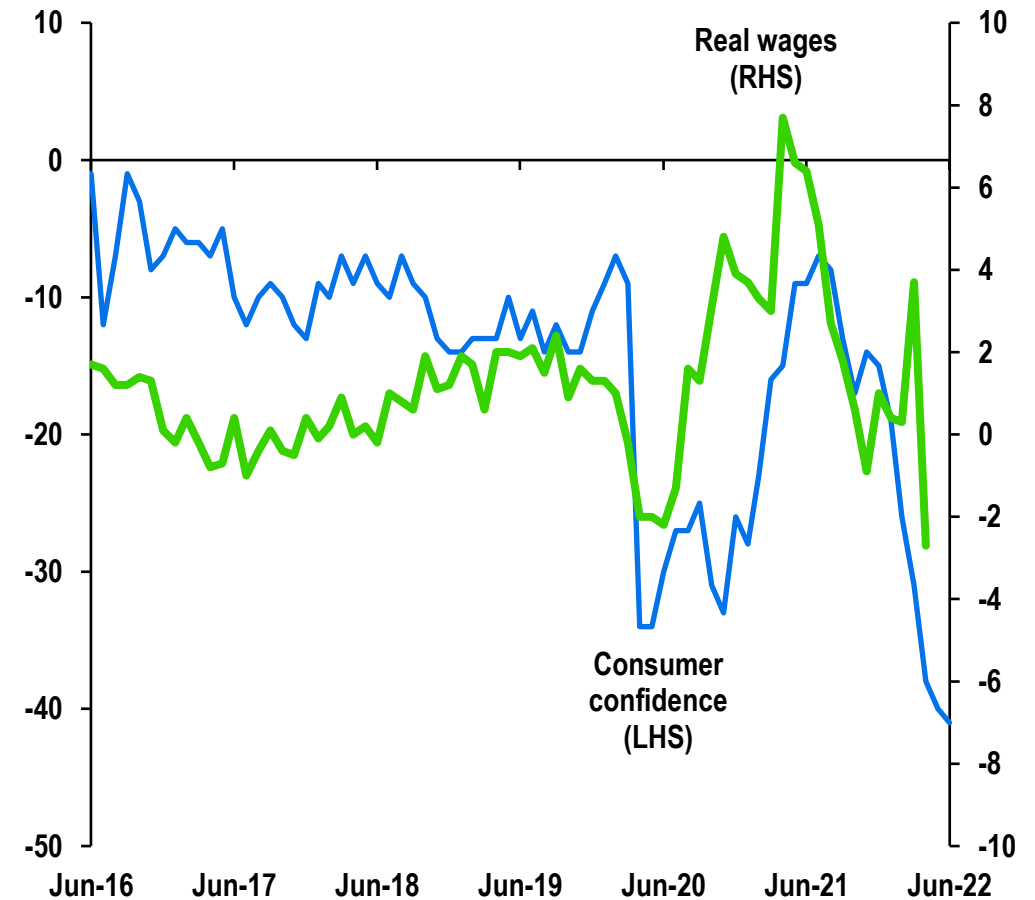
## US real incomes are being squeezed

*Atlanta Fed median wages, PCE deflator, CPI, % y/y*



## UK confidence falls, along with real income

*Consumer confidence (LHS); average real wages, % y/y (RHS)*

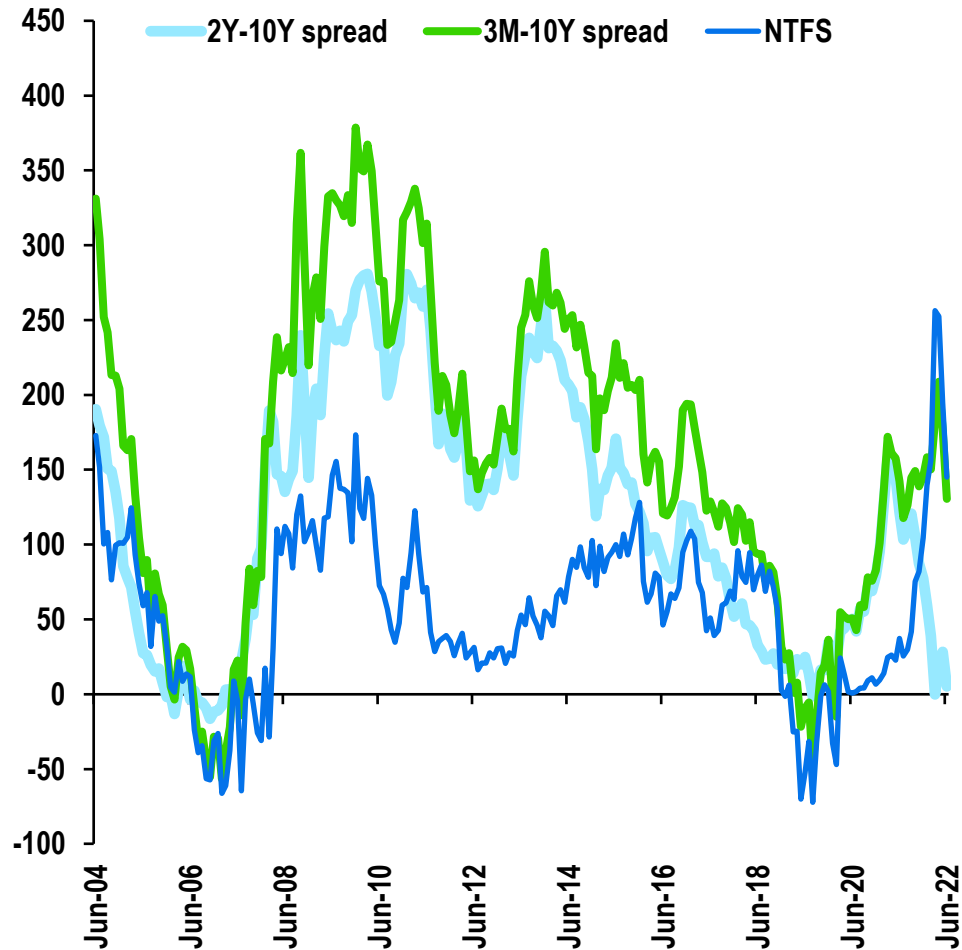


Source: Bloomberg, ONS, Standard Chartered Research



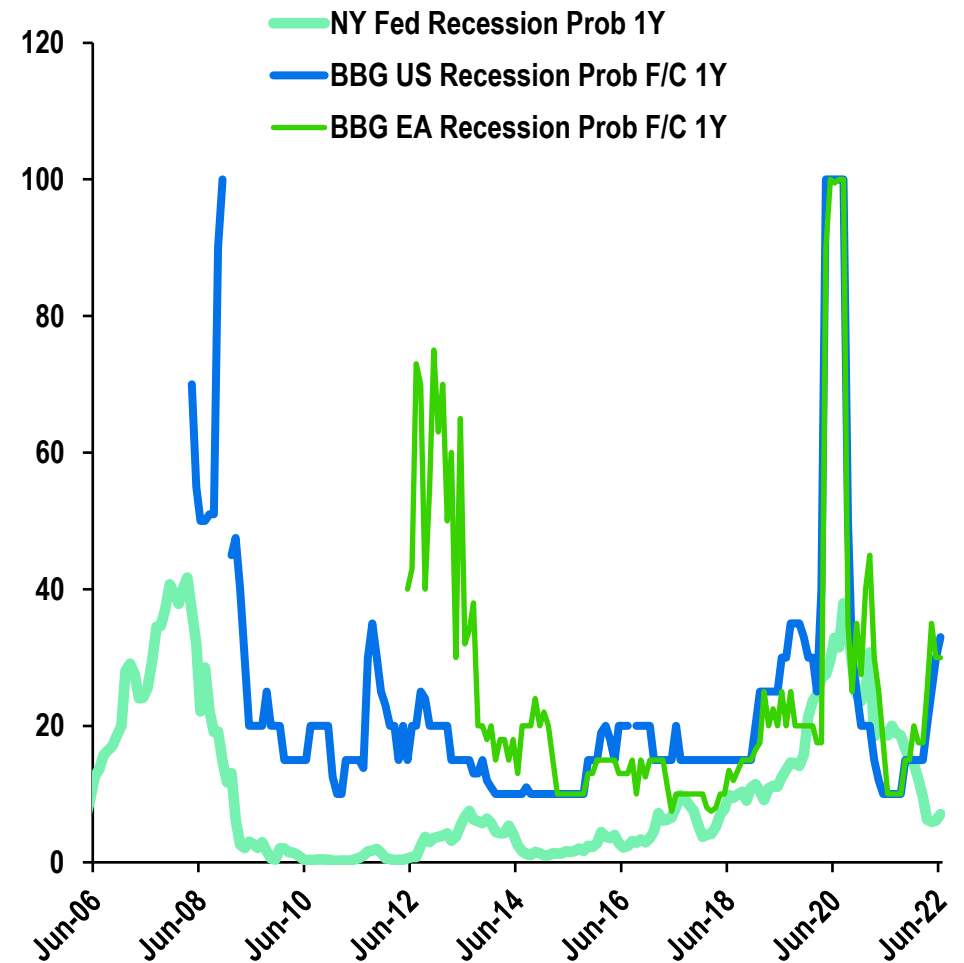
# War of attrition against inflation to take priority over economic growth and asset prices

## Recession concerns in the US as we start the tightening cycle? (bps)



Source: Bloomberg, Standard Chartered Research

## Recession concerns in the US and Eurozone %



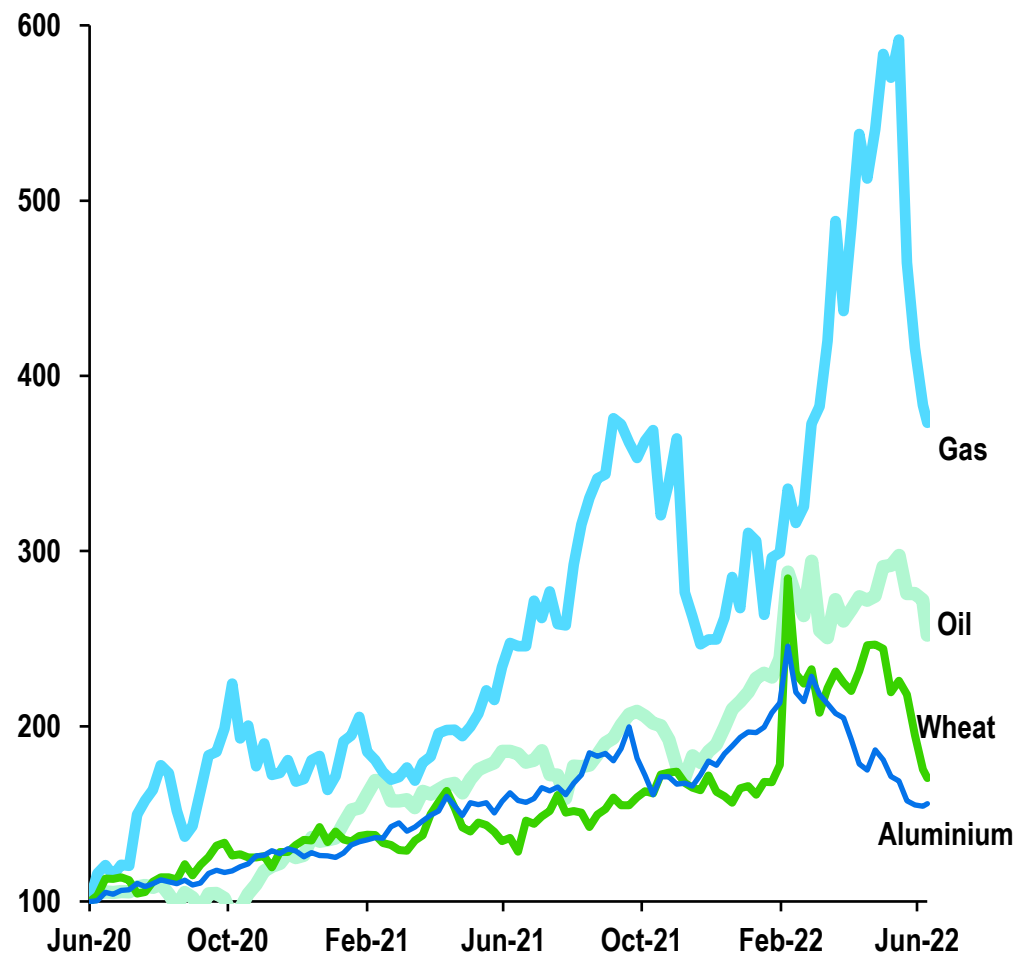
Source: Bloomberg, Standard Chartered Research



# Slight relief on supply-side pressures

## Commodity prices past peaks as demand eases

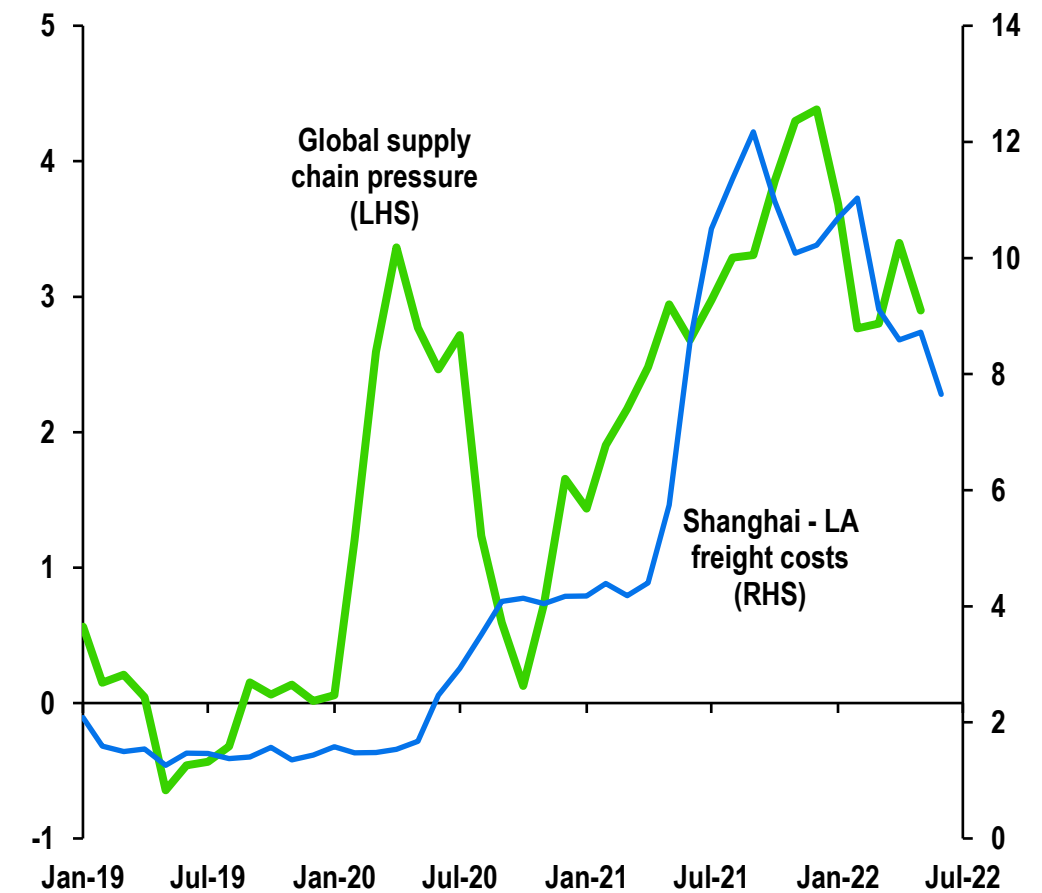
Commodity prices, end-June 2020 = 100



Source: Bloomberg, Standard Chartered Research

## Supply-chain pressures are elevated but easing

New York Fed global supply chain pressure index,  
Shanghai-LA container freight, USD '000s per 40ft box

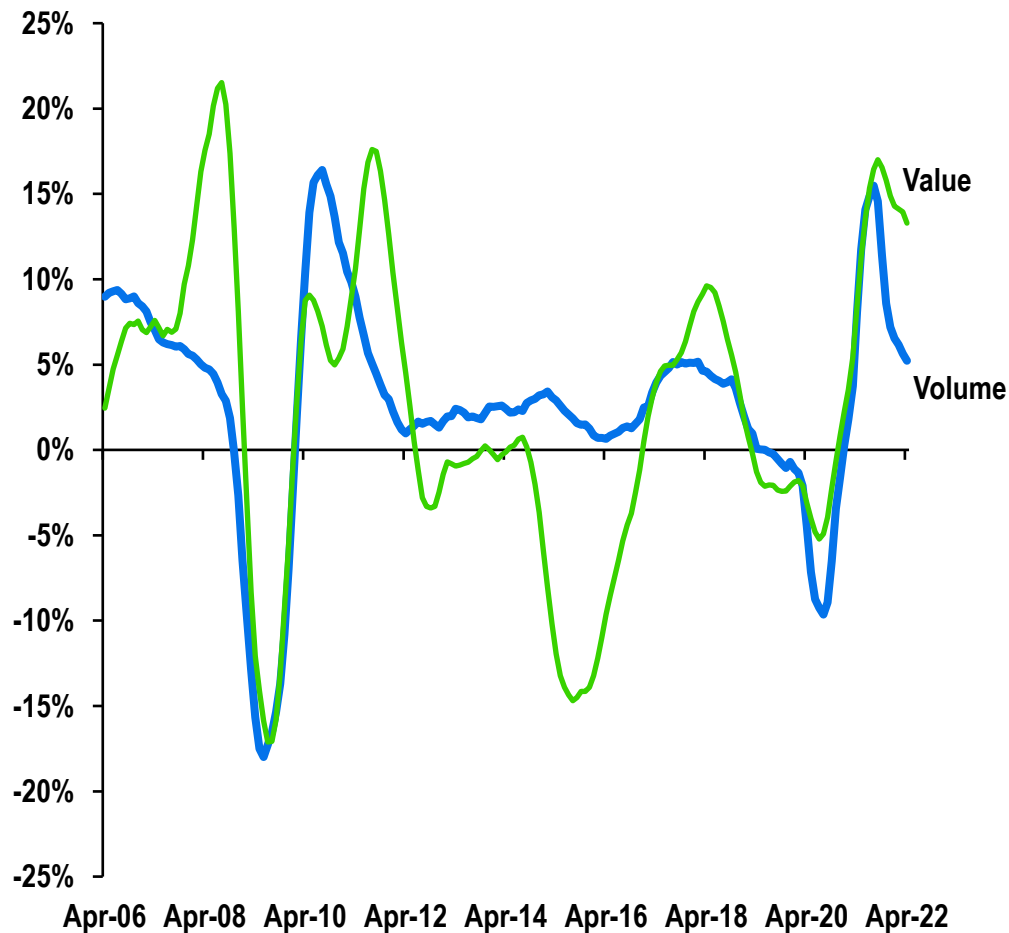


Source: Bloomberg, Standard Chartered Research



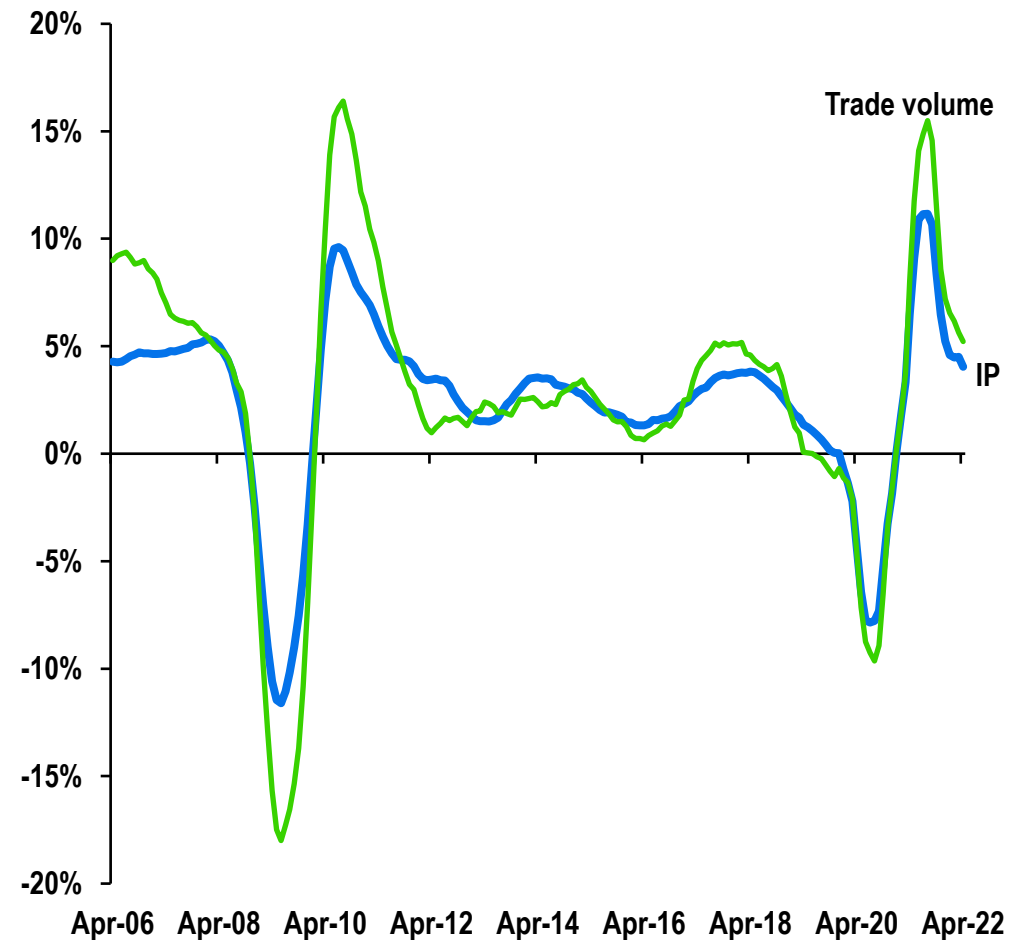
# Global trade is weakening again

Global trade value has been supported by prices  
% y/y, 6mma



Source: CPB, Standard Chartered Research

Trade volume growth has matched moderation in  
global IP; % y/y 6mma

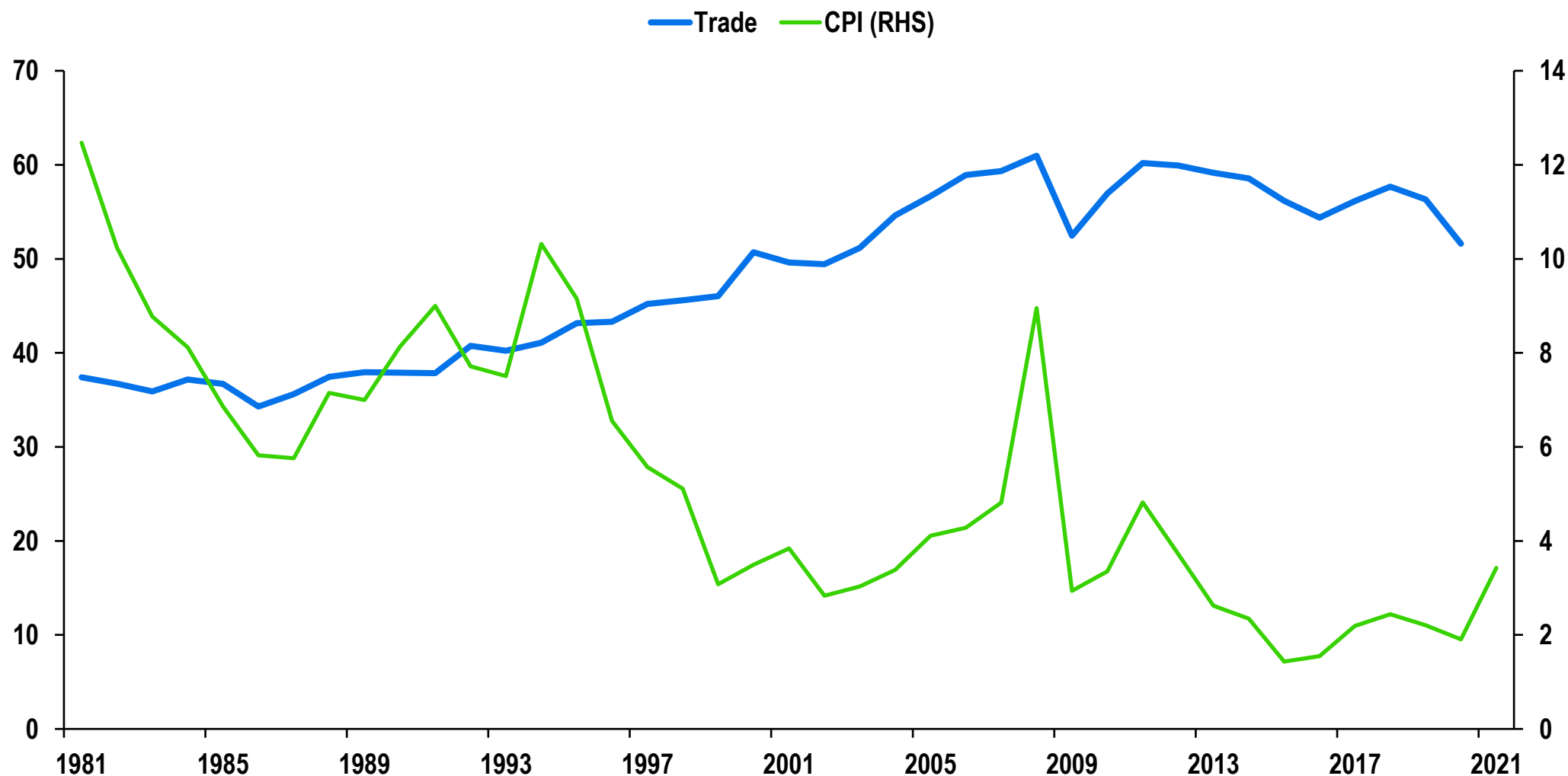


Source: CPB, Standard Chartered Research

# A longer-term thought - has inflation bottomed structurally?

## Global winds are changing

*Trade as % of GDP, CPI, annual %*



# US – On a knife edge

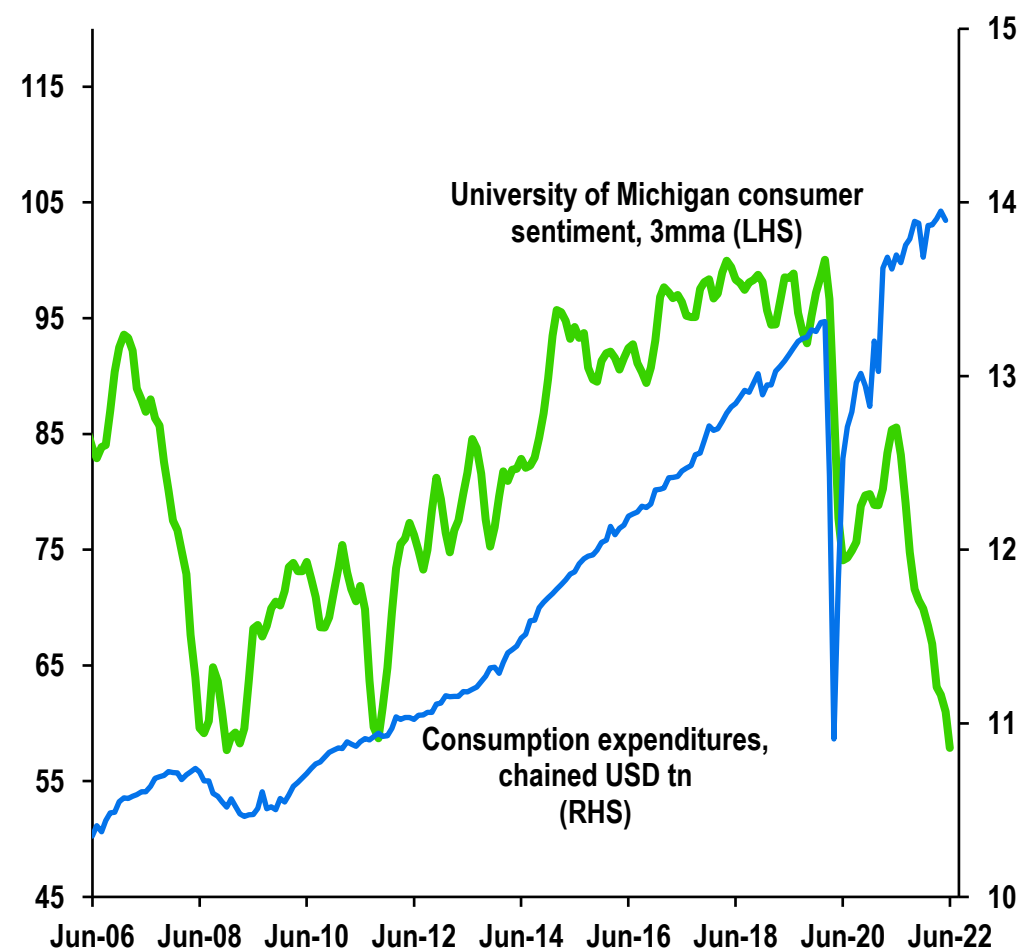
## US macroeconomic forecasts

	2022	2023	2024
GDP growth (real % y/y)	2.1	0.3	2.2
Core PCE (% annual average)	4.7	2.6	2.0
Fed funds target rate (%)*	3.00	3.00	3.00
10Y UST yield (%)**	2.90	3.40	3.00
Current account balance (% GDP)	-4.0	-3.0	-2.8
Fiscal balance (% GDP)	-4.0	-5.0	-4.0

\*FFTR: upper-end of expected range; \*\*end-period; Source: Standard Chartered Research

## Weak sentiment threatens spending

*Consumer sentiment; personal consumption expenditures*



Source: Bloomberg, Standard Chartered Research

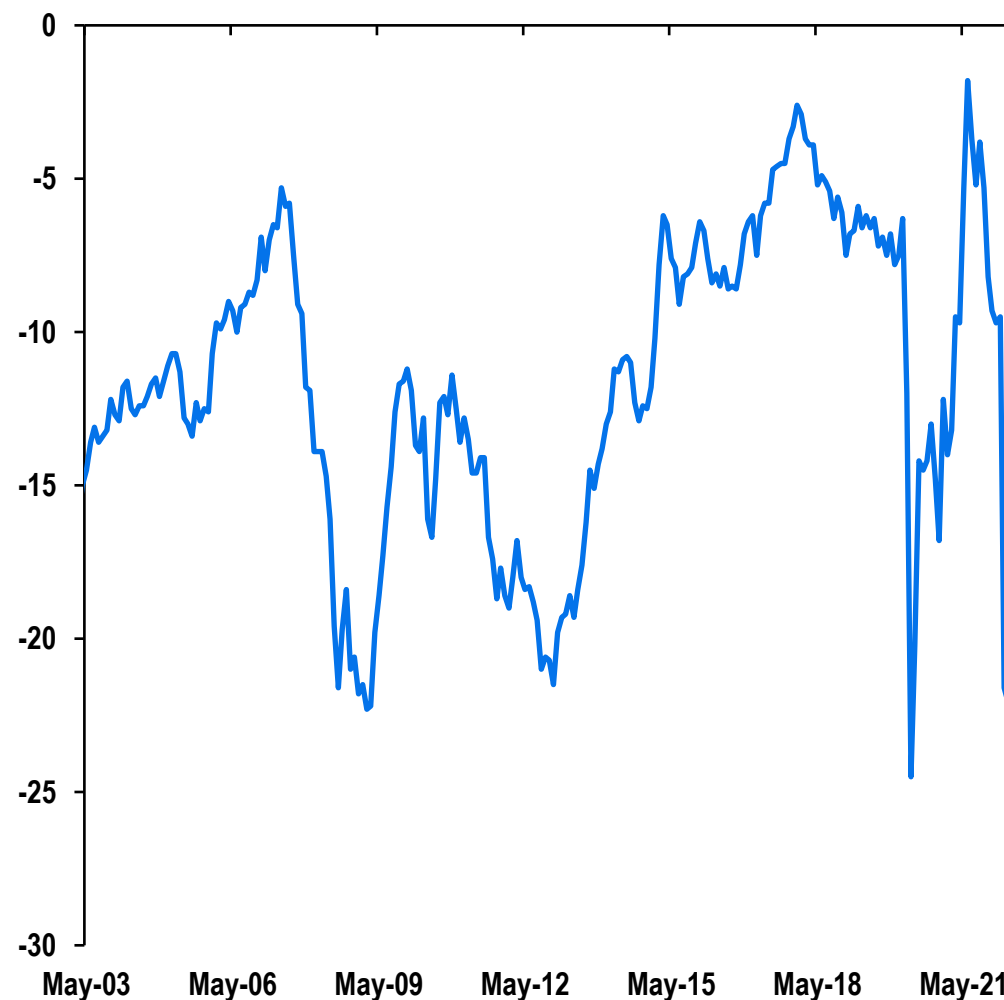
# Euro area – Recession likely

## Euro area macroeconomic forecasts

	2022	2023	2024
GDP growth (real % y/y)	2.3	0.4	1.5
CPI (% annual average)	7.0	3.0	1.8
Policy rate (%)*	1.25	2.00	2.00
EUR-USD*	0.97	1.08	1.08
Current account balance (% GDP)	1.5	1.8	2.0
Fiscal balance (% GDP)	-4.8	-3.3	-2.5

\*end-period; Source: Standard Chartered Research

## Confidence near COVID-low *Euro-area consumer confidence*



Source: Bloomberg, European Commission, Standard Chartered Research

# Regional outlook



# China – Gearing up for the 20th Party Congress

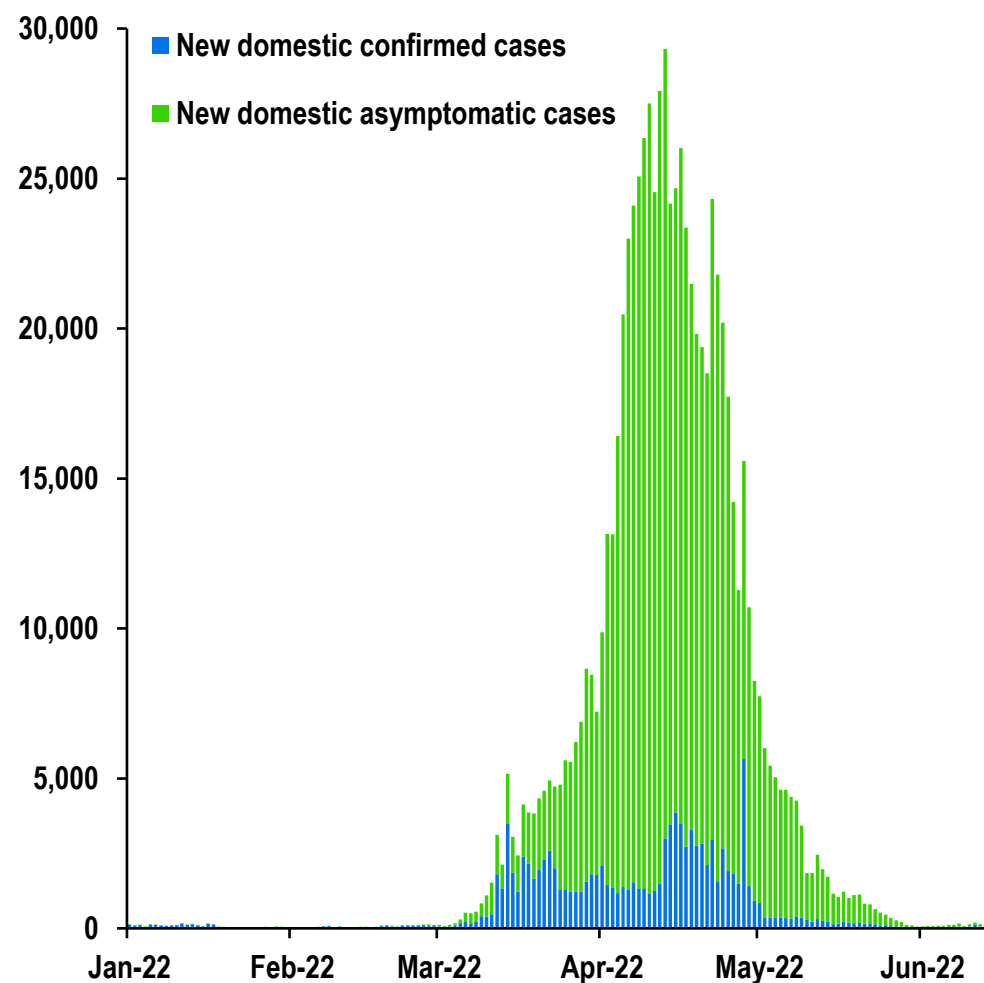
## China macroeconomic forecasts

	2022	2023	2024
GDP growth (real % y/y)	4.1	5.8	5.4
CPI (% annual average)	2.2	2.5	2.5
Policy rate (%)*	2.85	2.85	2.85
USD-CNY*	6.60	6.60	6.65
Current account balance (% GDP)	0.9	0.5	0.0
Fiscal balance (% GDP)	-6.9	-4.0	-4.0

\*end-period; Source: Standard Chartered Research

## A sharp COVID resurgence in Q2

*New domestic COVID infections, number of cases*

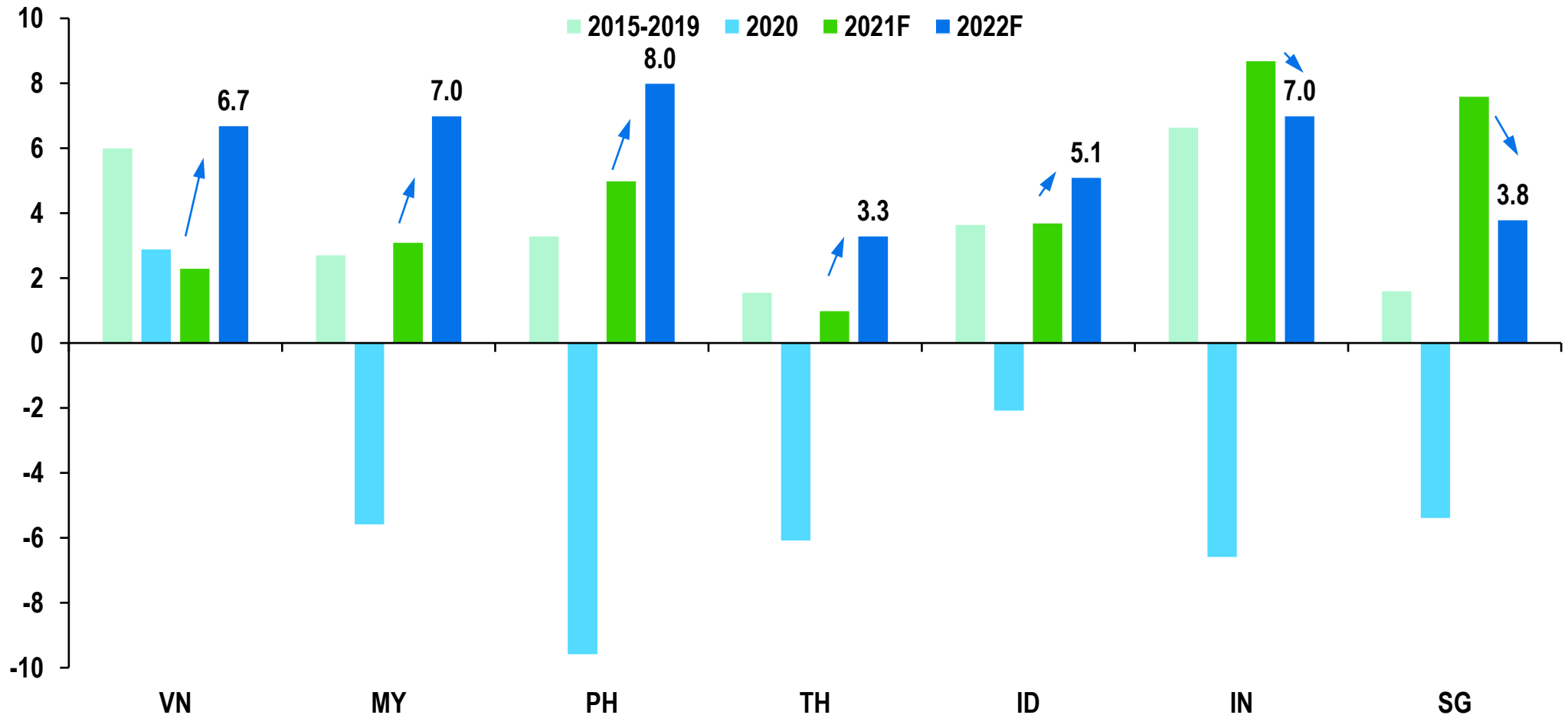


Source: CEIC, Standard Chartered Research

# ASEAN plays catch up in 2022

Economies which recovered faster from the pandemic in 2021 to see moderation in growth momentum in 2022

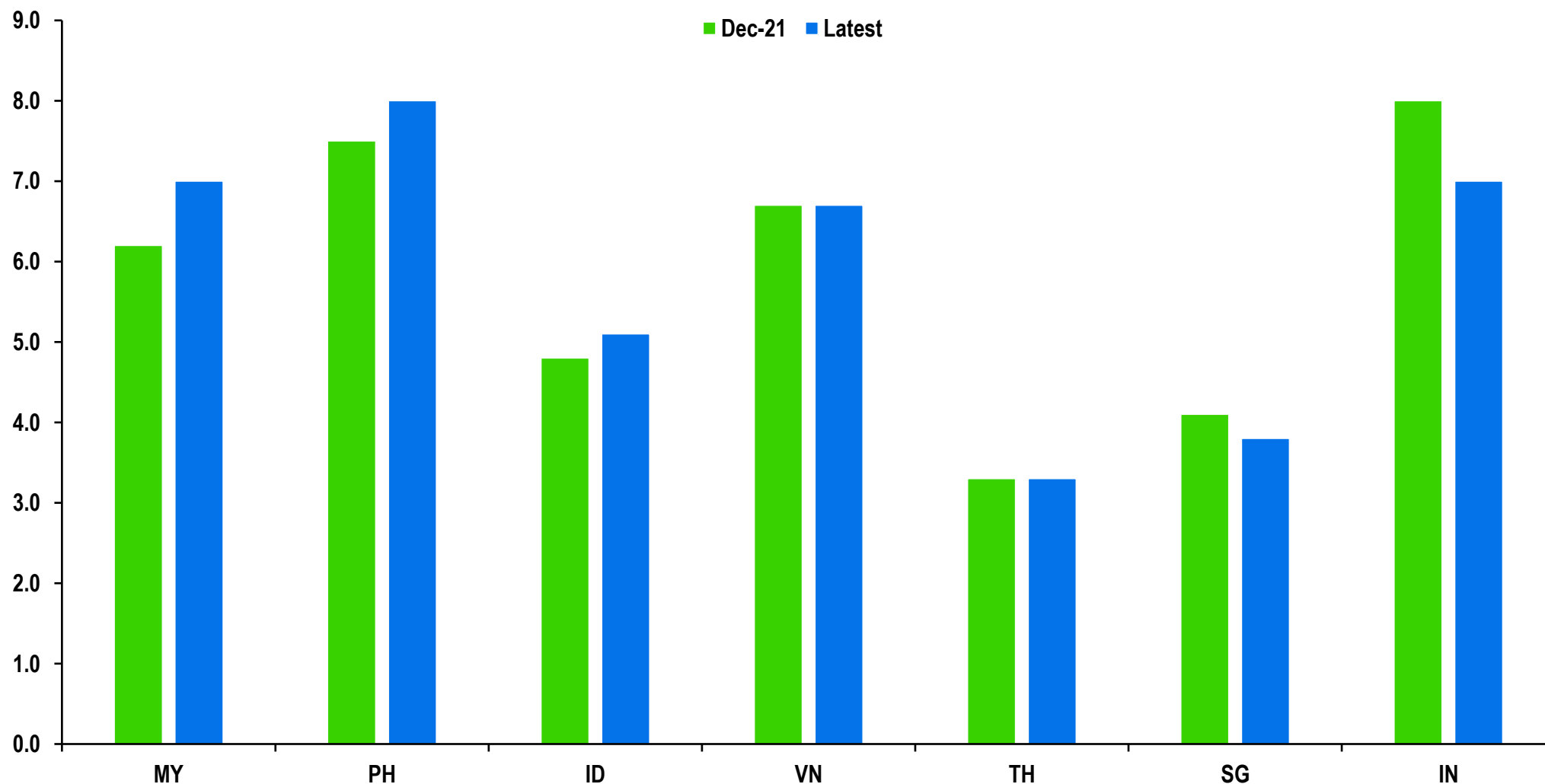
*GDP, annual average growth, %; sorted according to 2022 vs 2021 growth*





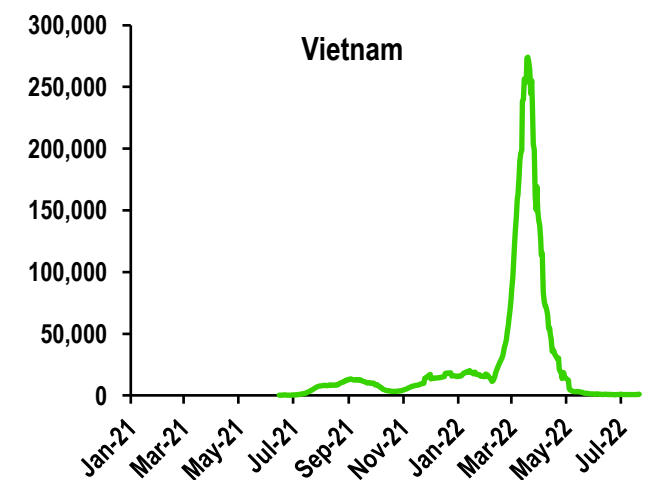
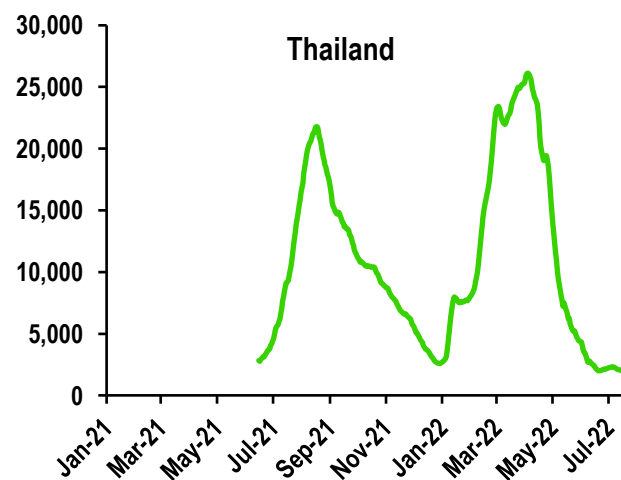
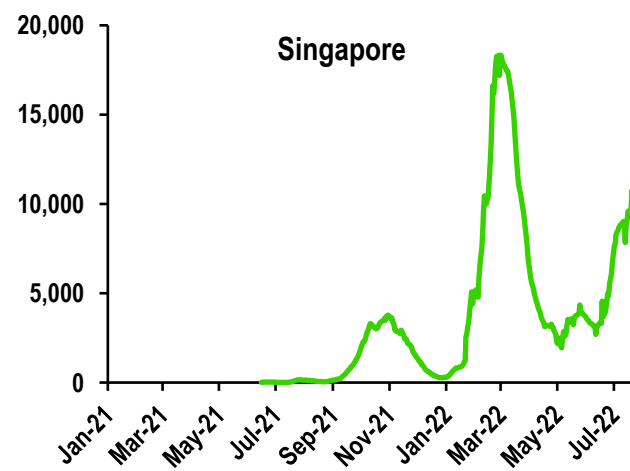
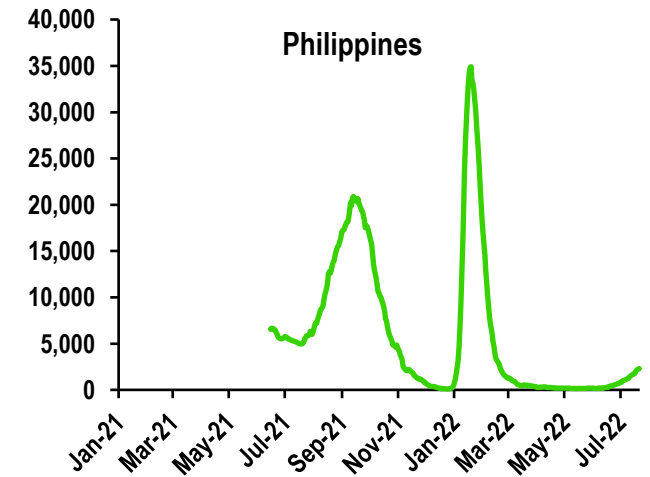
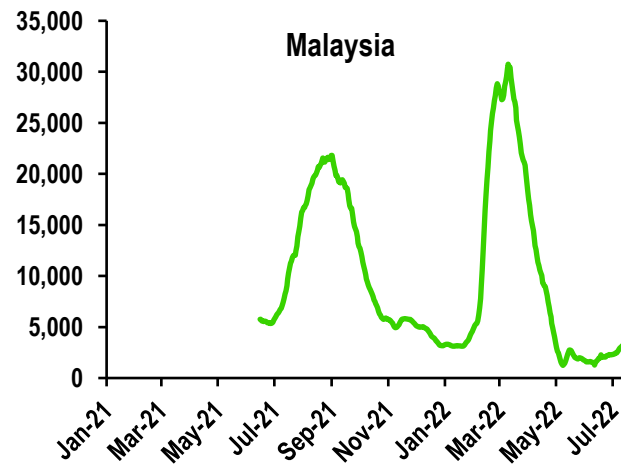
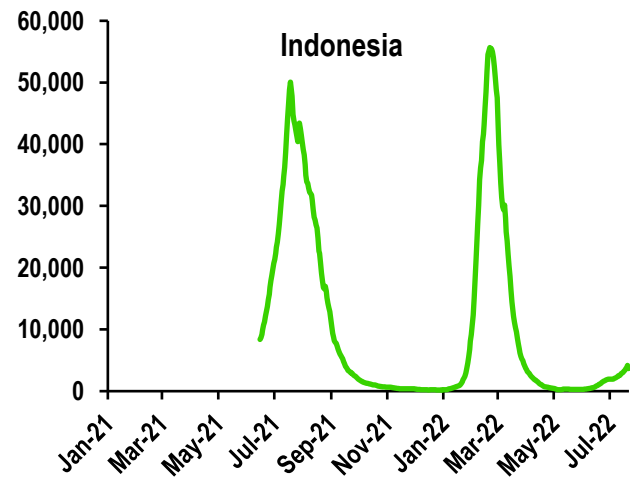
# The ASEAN region had a better-than-expected Q1

**Upside surprise in Q1 GDP in MY, PH and ID; SG growth downgraded due to softer external demand, IN due to high inflation**  
*% y/y (ranked by change in forecasts since Dec-2021)*



# Moving to endemic phase

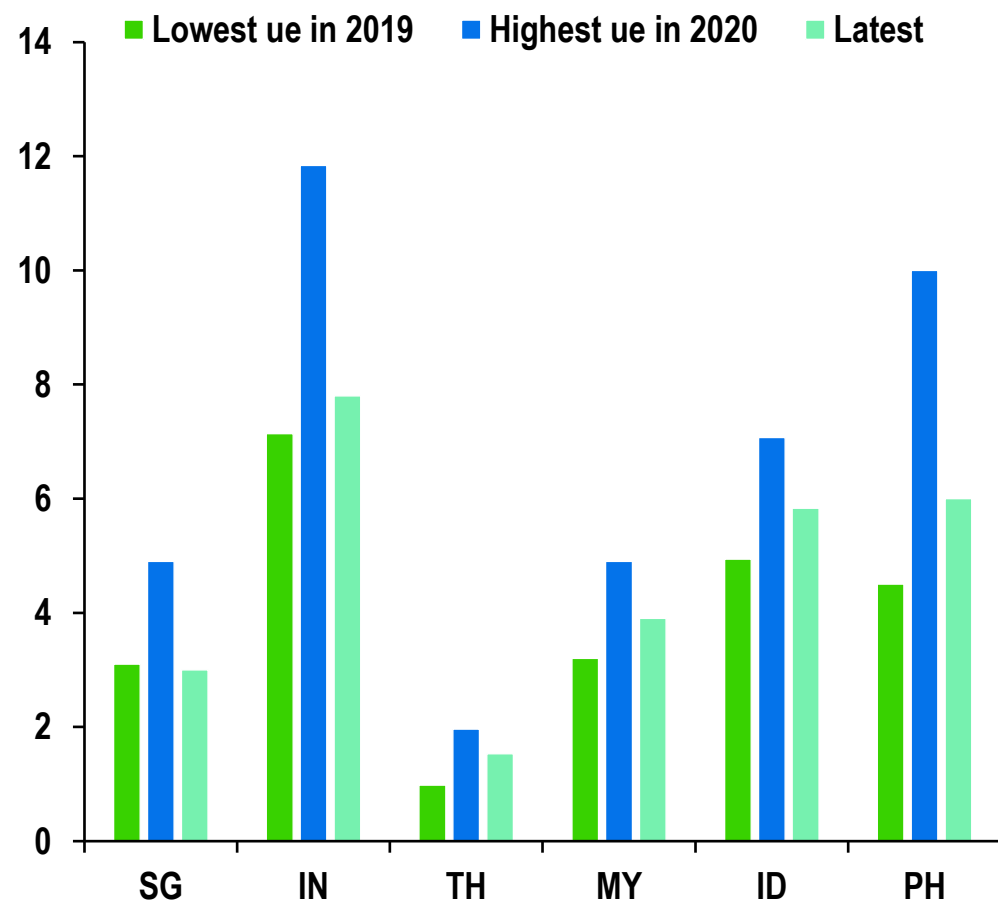
**Latest Omicron wave is easing**  
*Newly confirmed cases 7dma*



# Labour markets are back to pre-COVID conditions

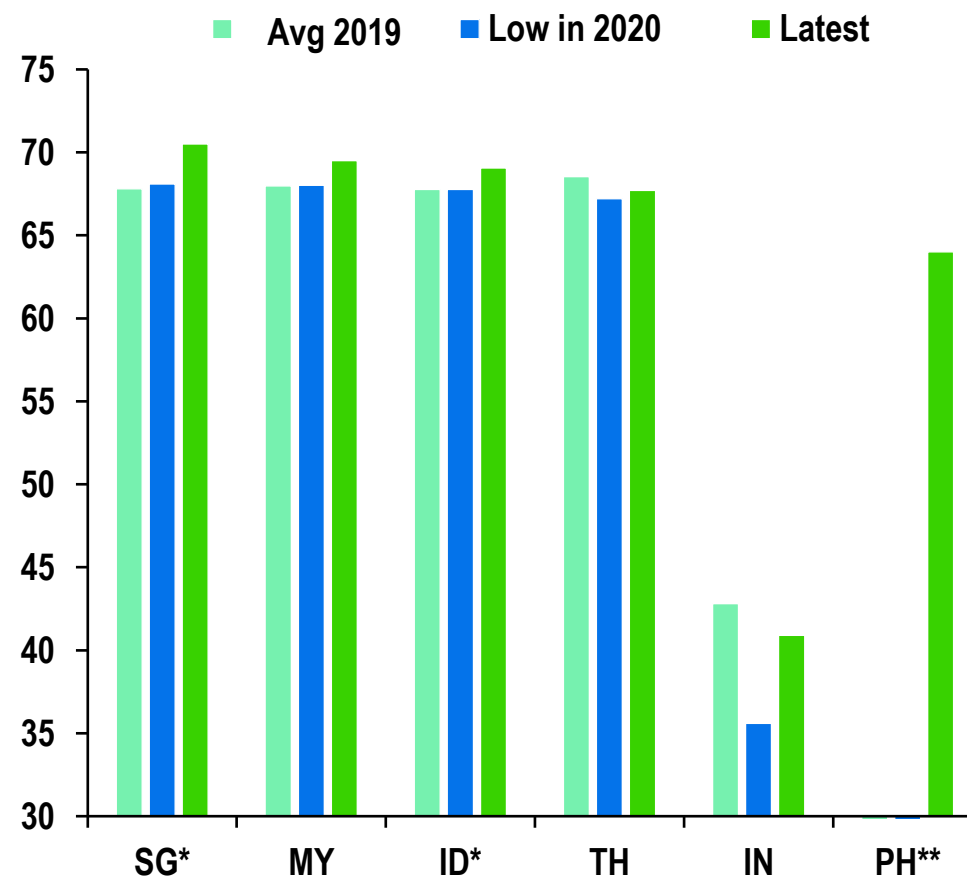
## Unemployment rates have fallen and are near pre-COVID levels

Unemployment rate, % (sorted according to deviation from lowest rates in 2019)



## Participation rates have remained high

Participation rate, % (sorted according to deviation from avg 2019 levels)

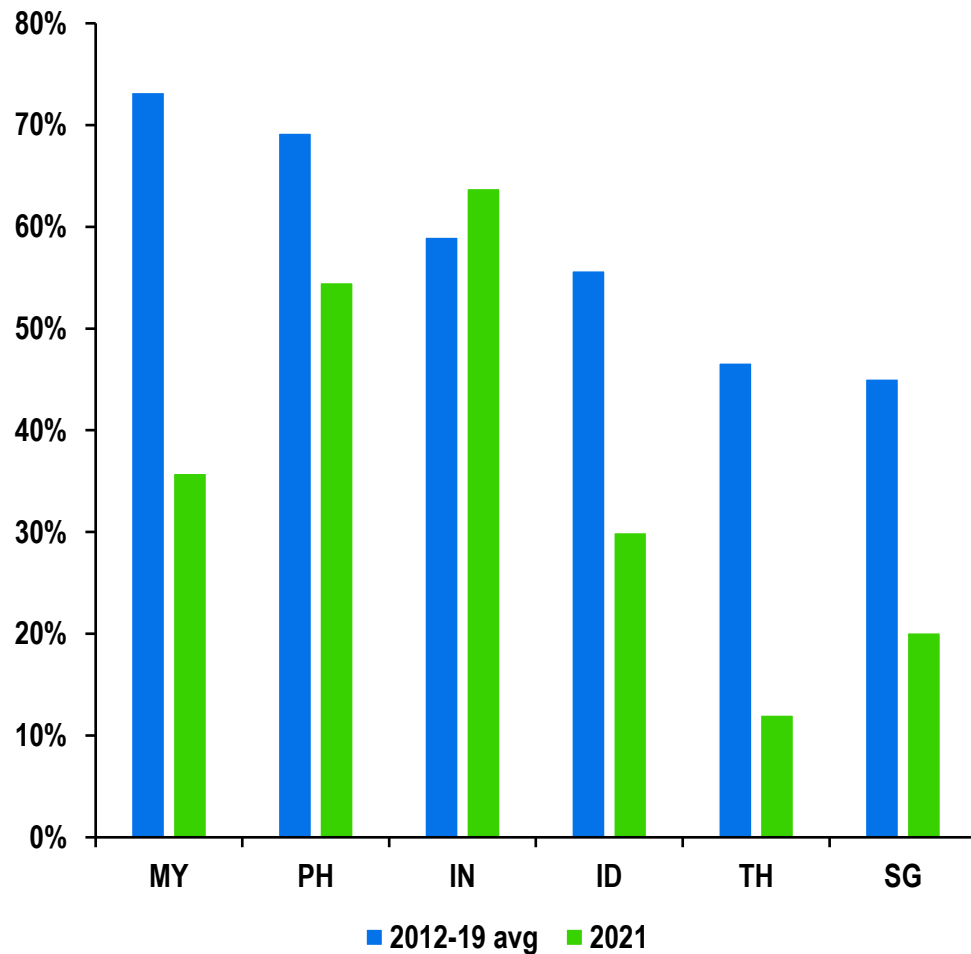


\*SG – annual data, ID – semi-annual data; \*\* PH – data only available from 2021; Source: Bloomberg, CEIC, Standard Chartered Research

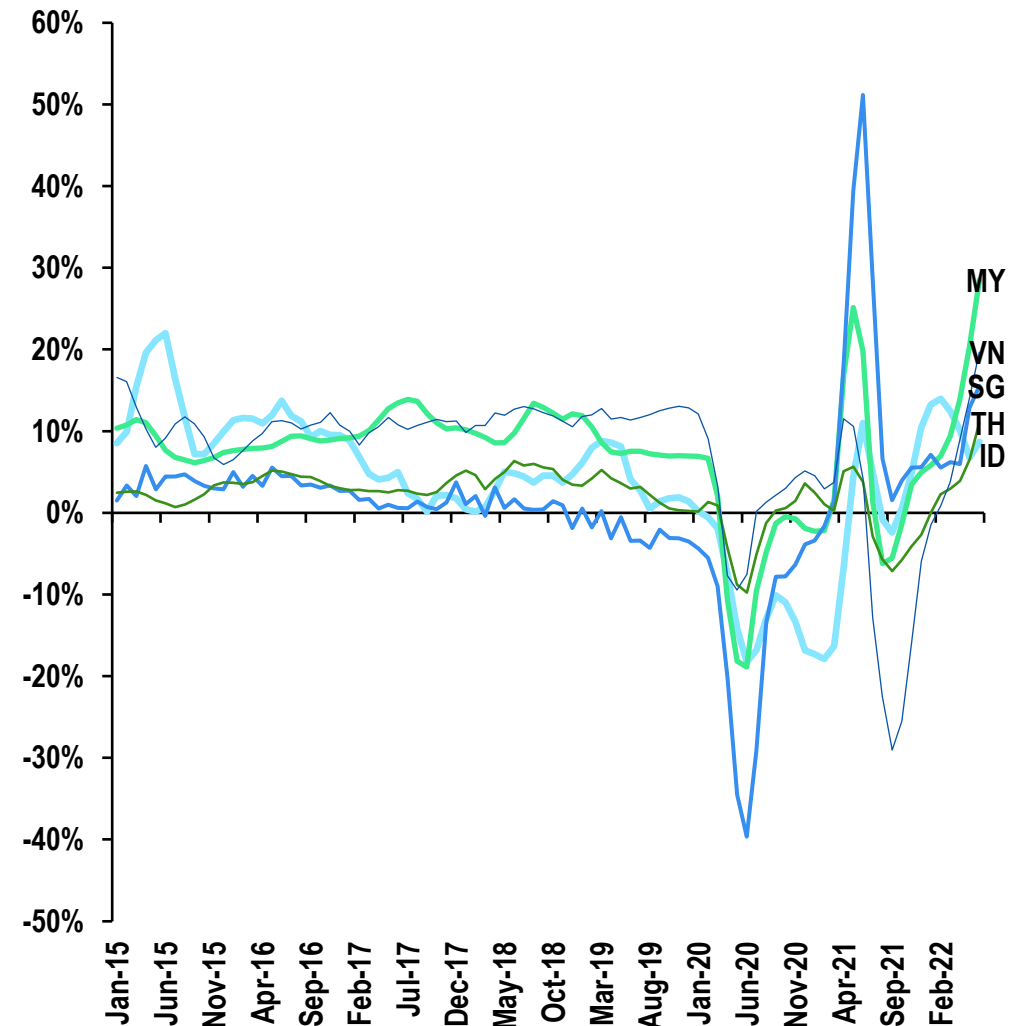


# Revenge spending to help boost growth

**Room for household consumption to boost growth, % of household expenditure to annual GDP growth**



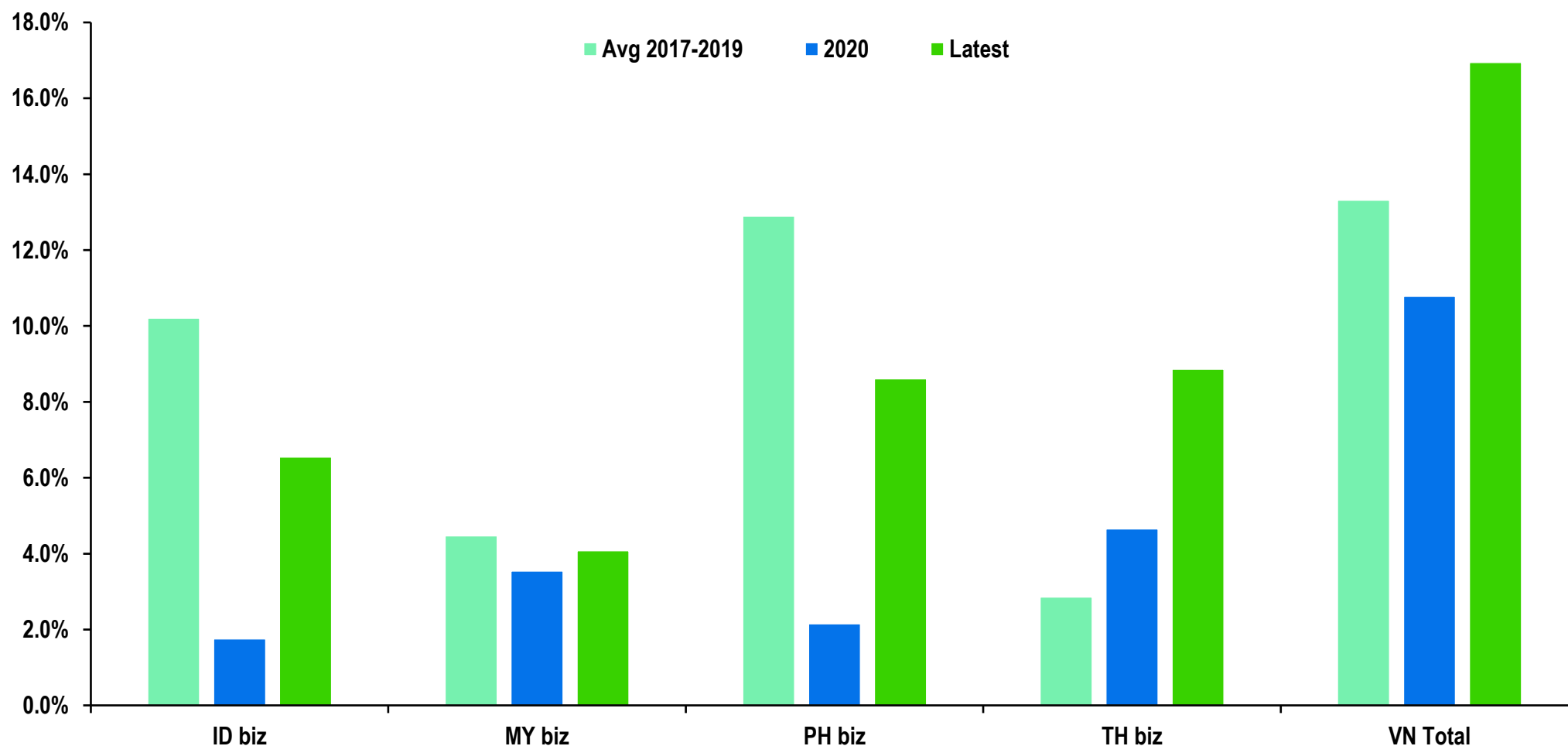
**Retail sales reflecting normalization of consumption activity, % y/y 3mma**



# Pick-up in loan growth bodes well for investment outlook

**Loan growth has started to pick up as business sentiment improves amid the transition to endemic COVID strategy**

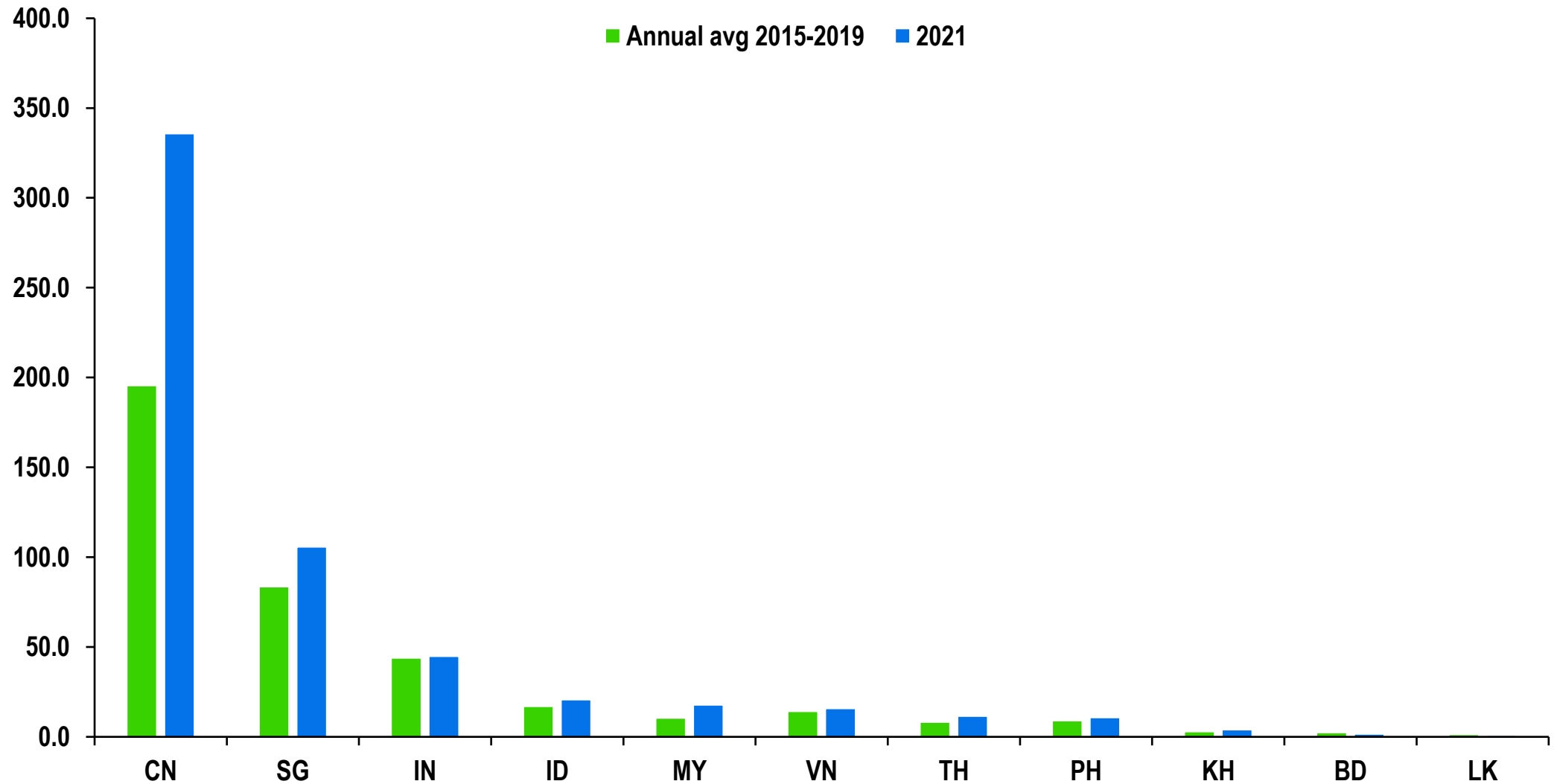
*Loan growth, % y/y; sorted according to deviation of latest value from avg 2017-19 levels*



# Strong FDI interest despite another COVID year in 2021

## ASEAN is benefiting from diversification strategy

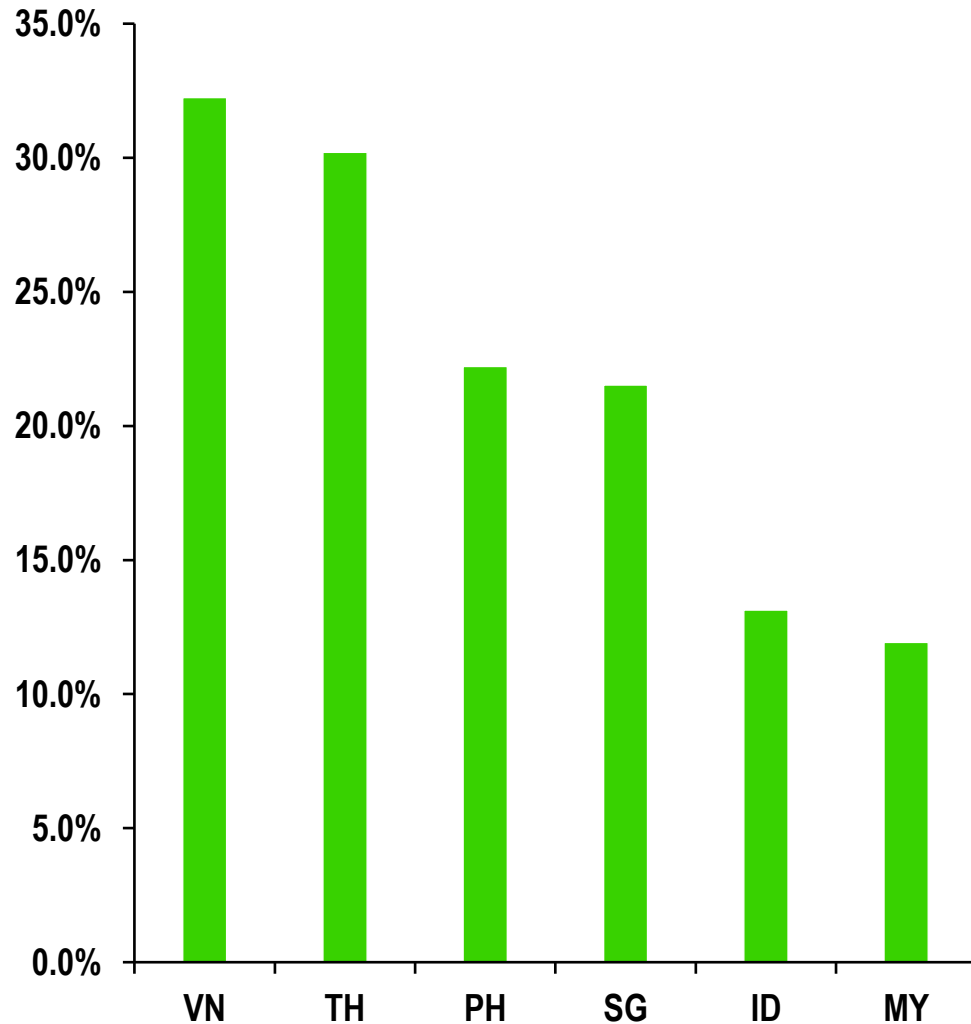
USD bn (4Q Sum)



# Borders are reopening

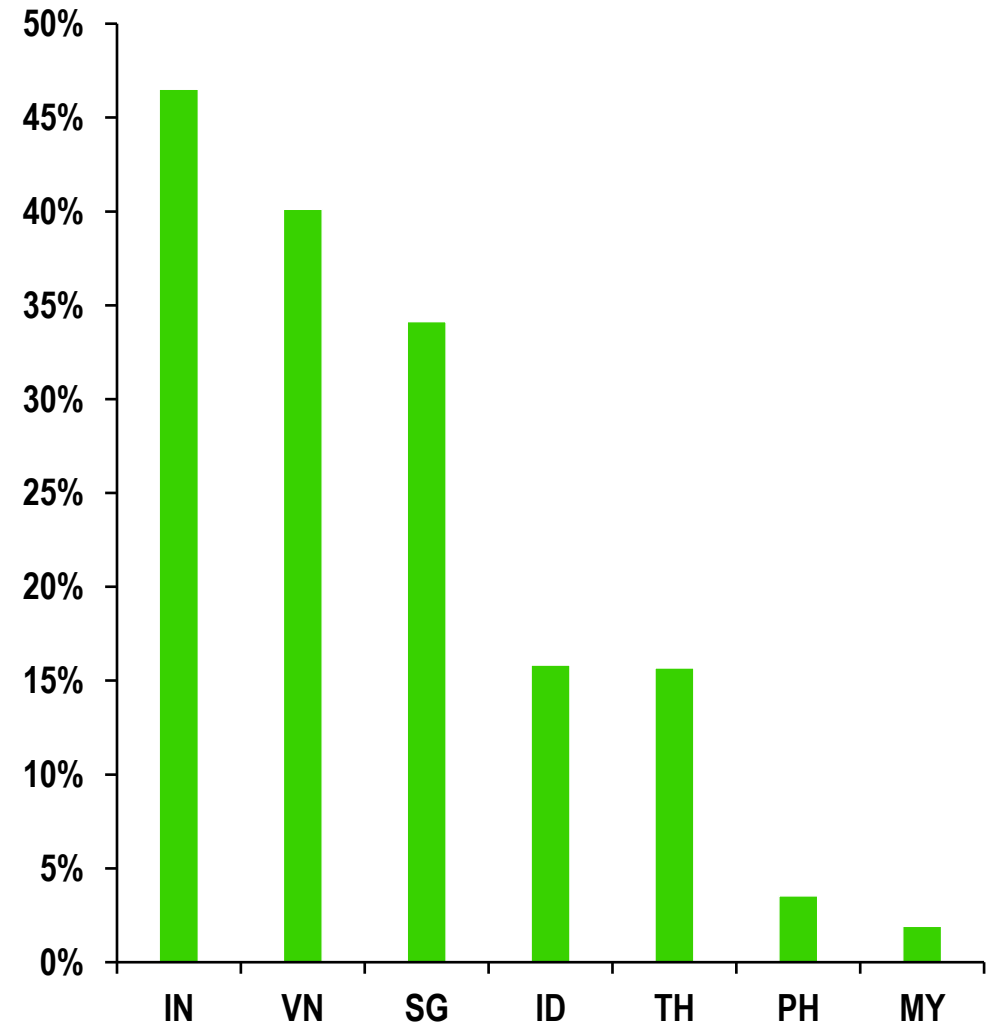
## Chinese tourists may take some time to return

*% Chinese tourist, % of total, 2019*



## Coming back

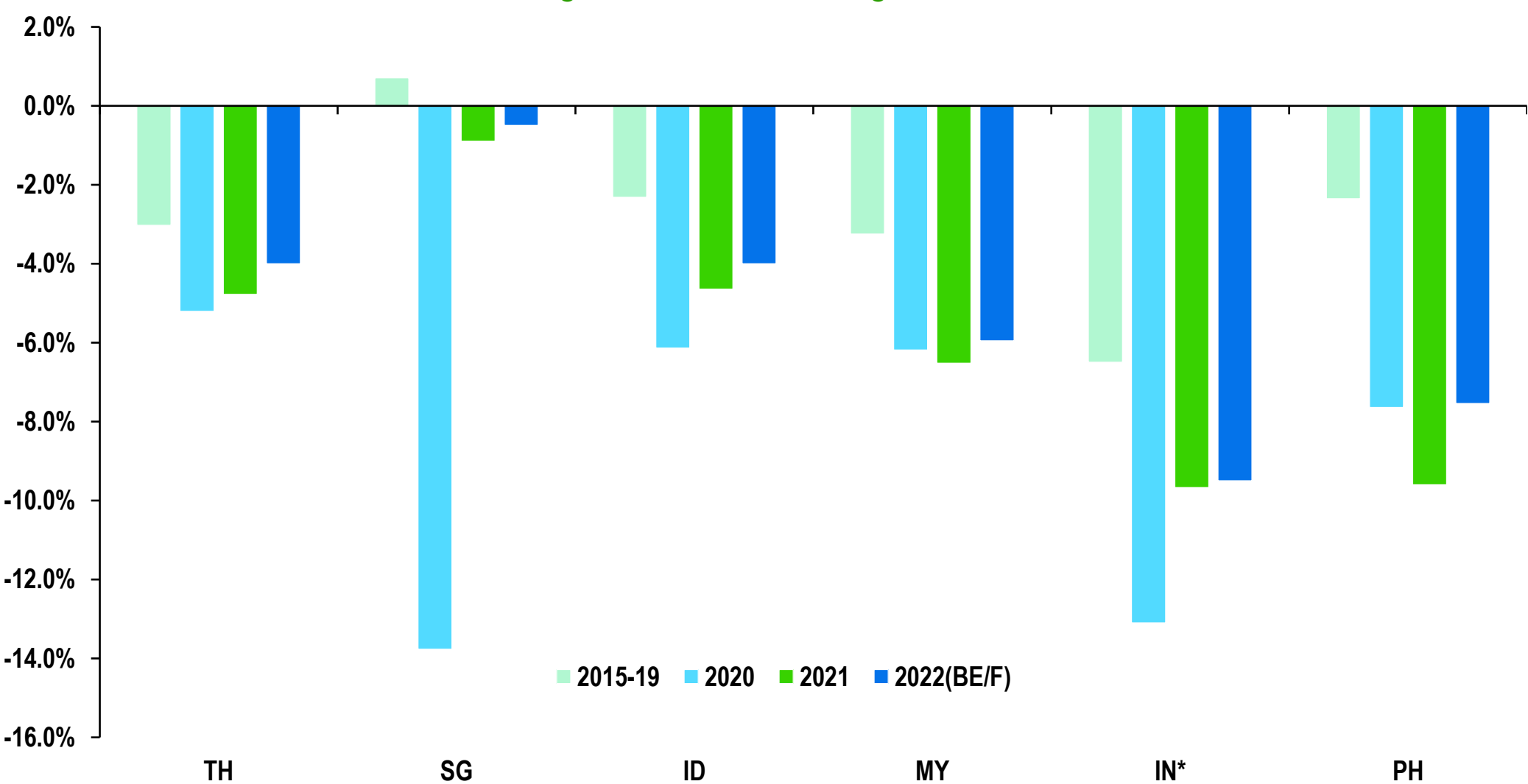
*Latest arrivals, % of monthly average 2019*



# Who is almost back to pre-COVID fiscal levels?

## Regional consolidation versus 2020 and 2021

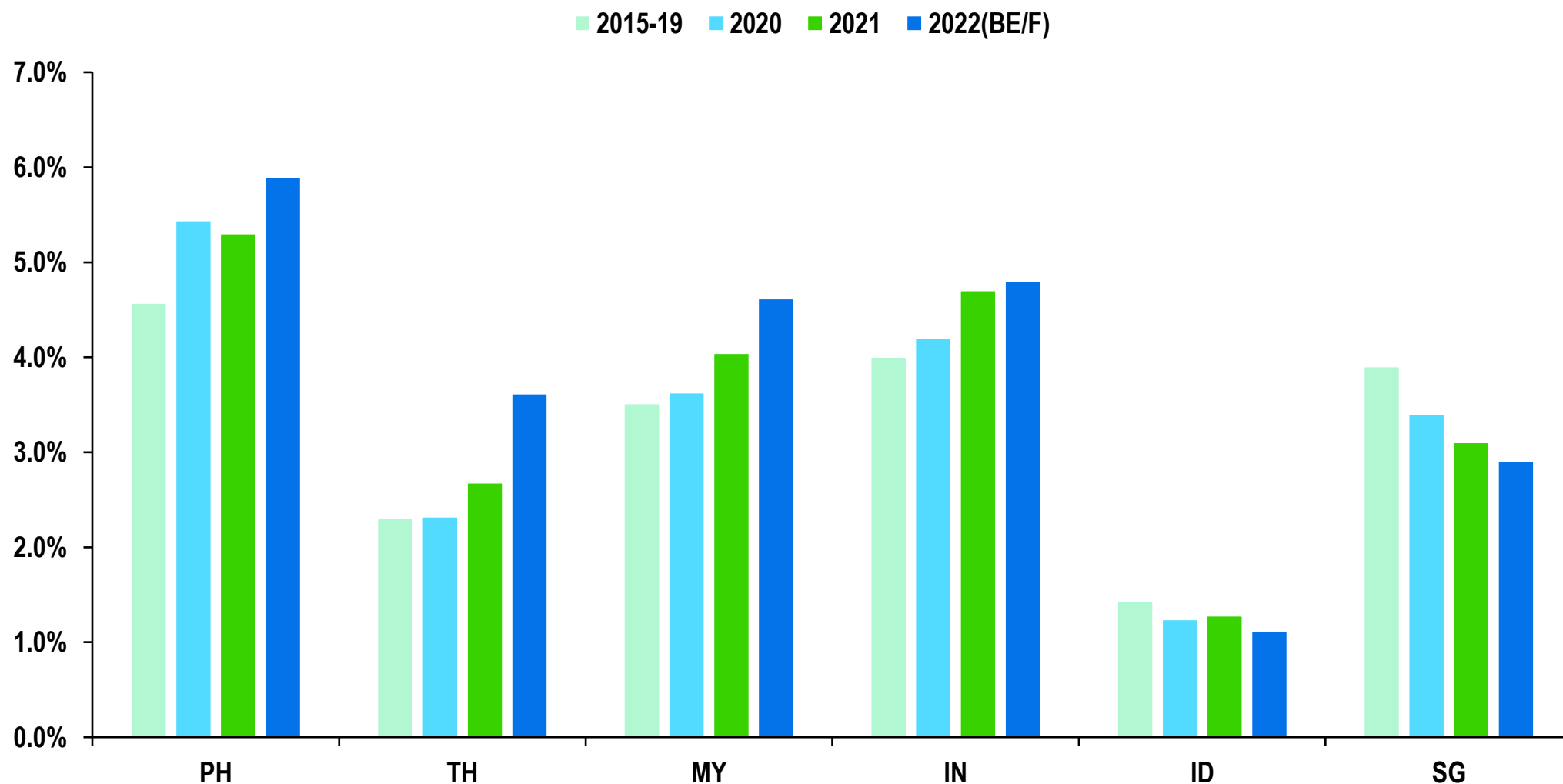
*Fiscal deficit, % of GDP, sorted according to 2022 minus average of 2015-2019*





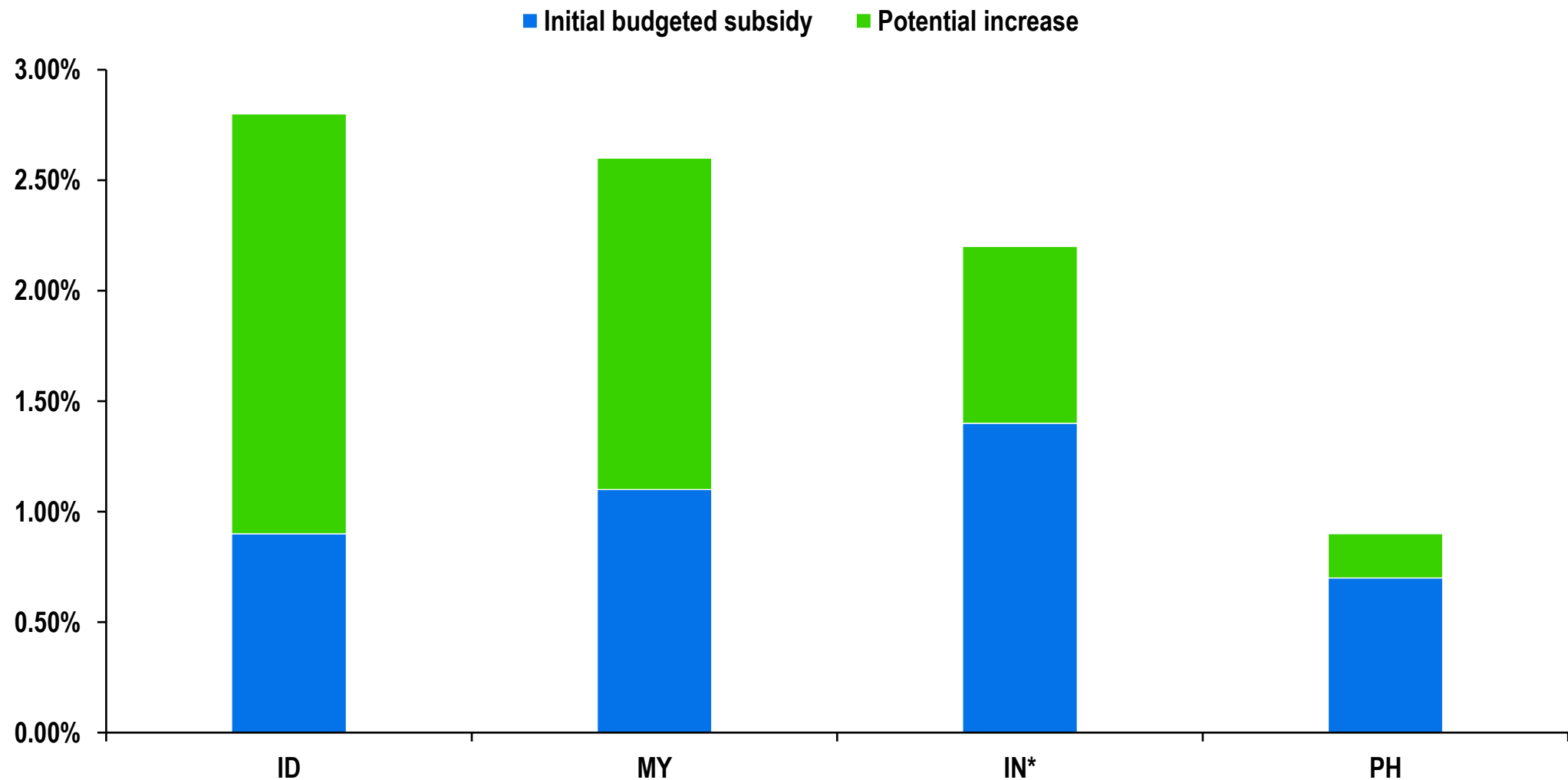
# Governments move back to invest in infrastructure

**Capital expenditure is targeted to be higher than pre-pandemic period except for SG and ID**  
*% of GDP, sorted according to 2022 minus average 2015-2019*



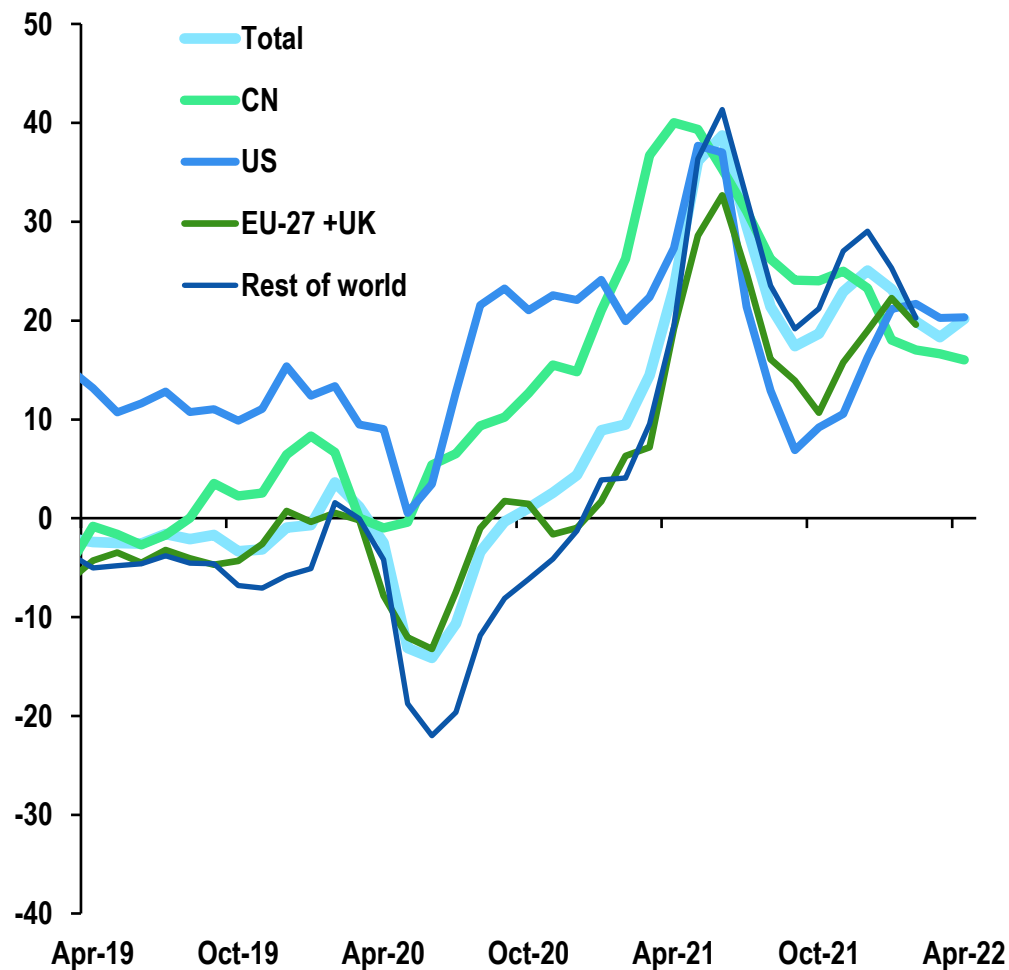
# Commodity-related revenue providing ID and MY room to increase subsidies

**Subsidy burden may rise even further if food and energy prices continue to rise**  
*Subsidies, % of GDP, sorted according to increase*

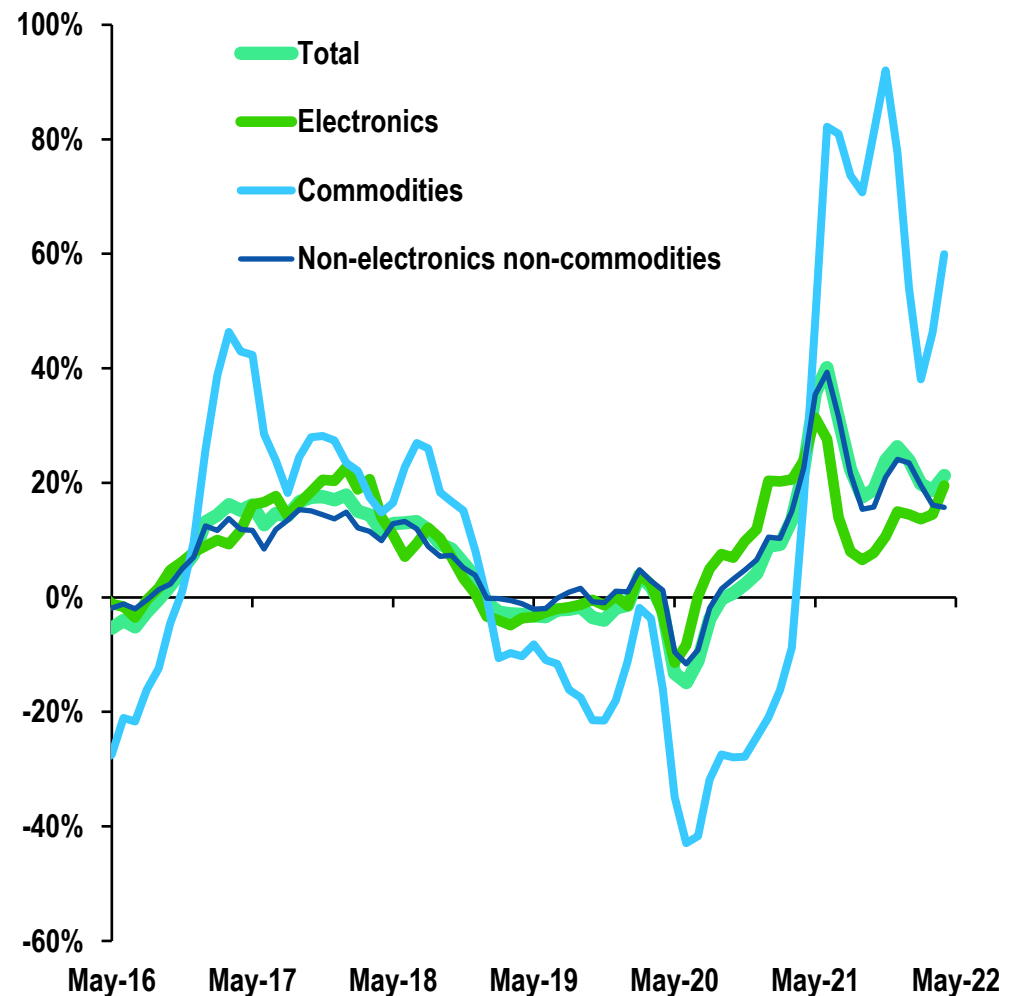


# External demand to continue providing support

**Exports have been holding up despite high base**  
*ASEAN-6 exports by destination, % y/y 3mma*

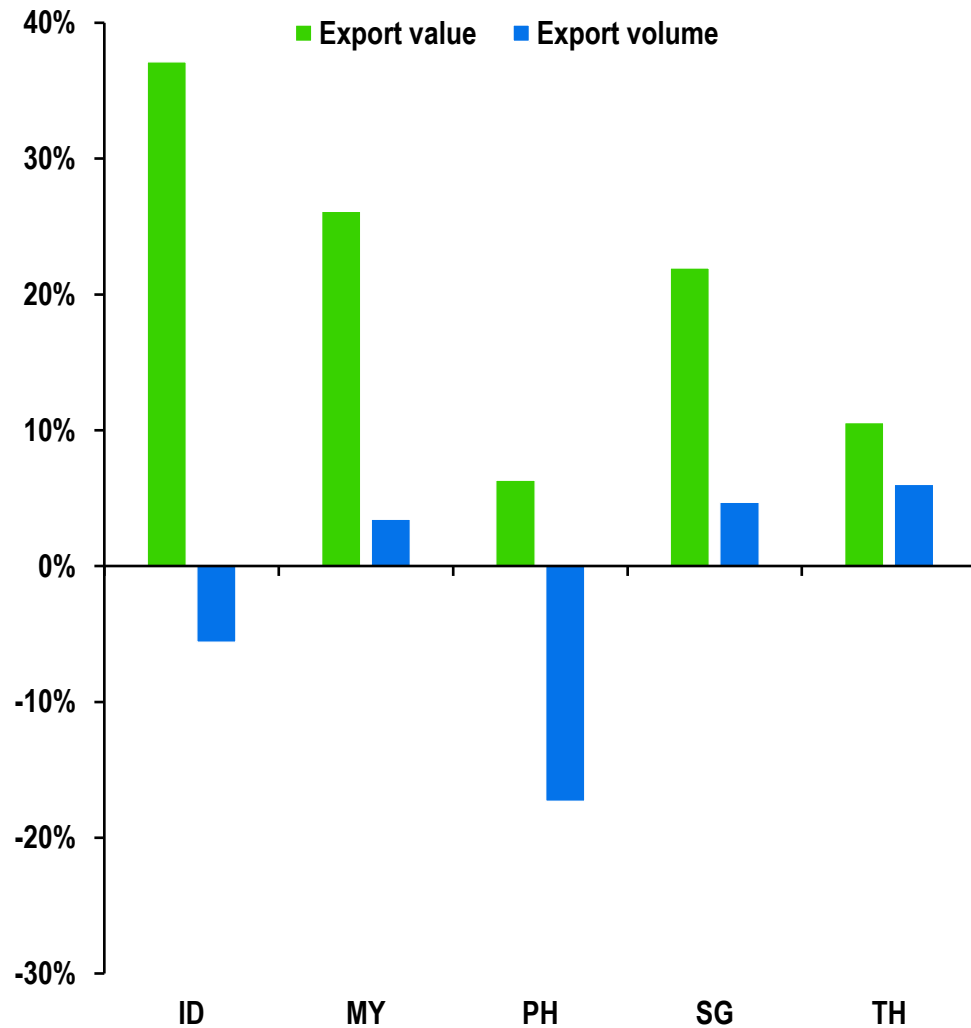


**Commodity exports have been outperforming**  
*ASEAN-6 exports, % y/y 3mma*

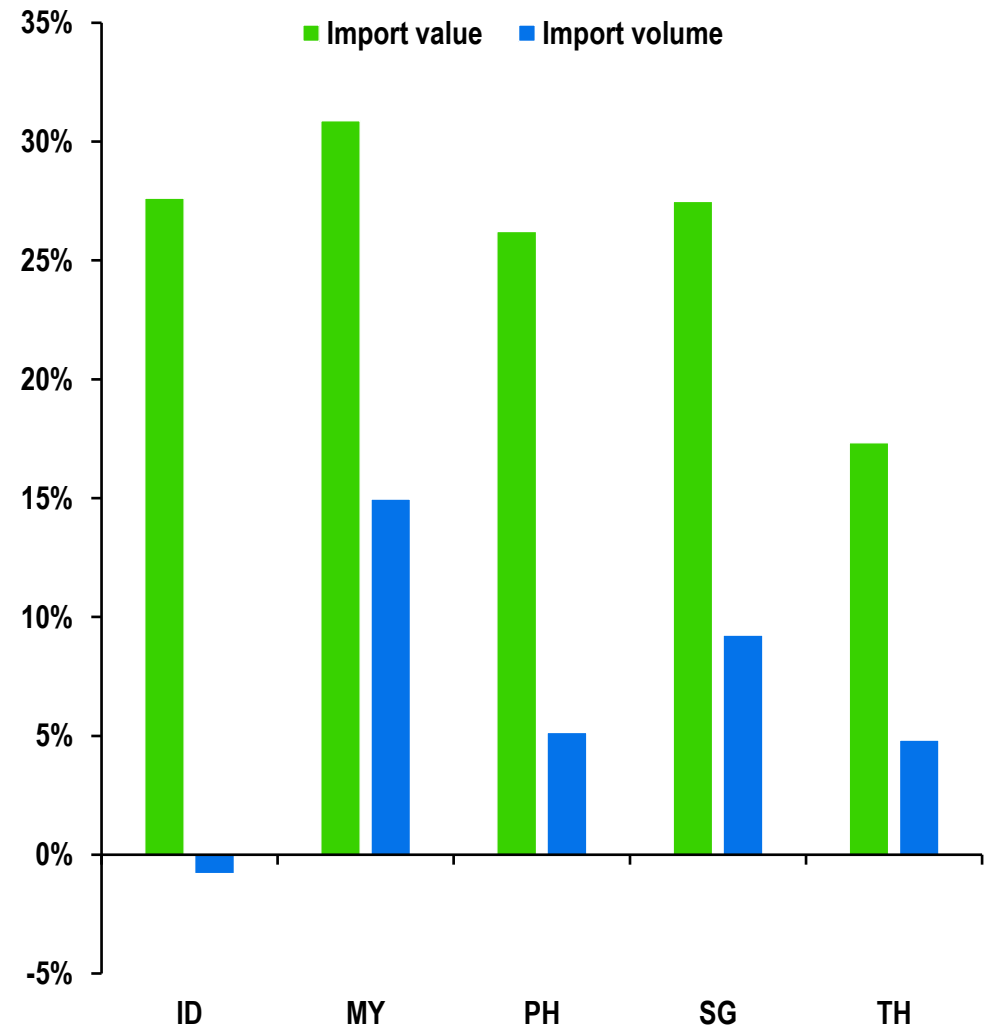


## But trade values driven by higher prices

Export volumes in ID and PH have contracted  
% y/y YTD

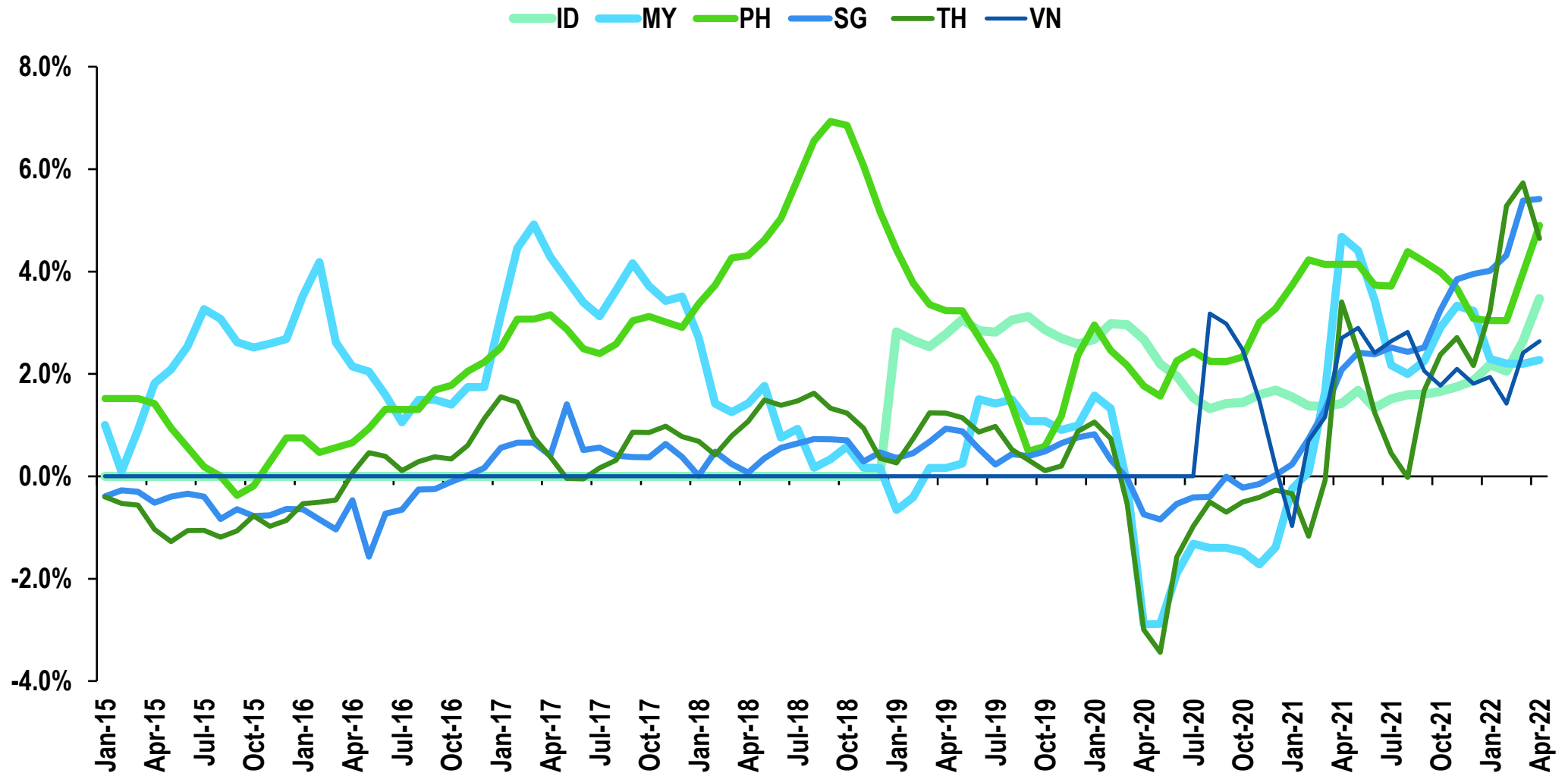


Decline in prices will improve trade balances of commodity  
importers, % y/y YTD



# ASEAN inflation is now picking up

Transport prices are the common inflation driver; food prices are now also rising threateningly  
% y/y



# High global food and energy prices feeding through to regional inflation

## Food, transport and utilities the key drivers of inflation

*Ppt contributions to y/y inflation (latest month)*

*Shades of red (green) represent the largest (smallest) contributions to y/y inflation*

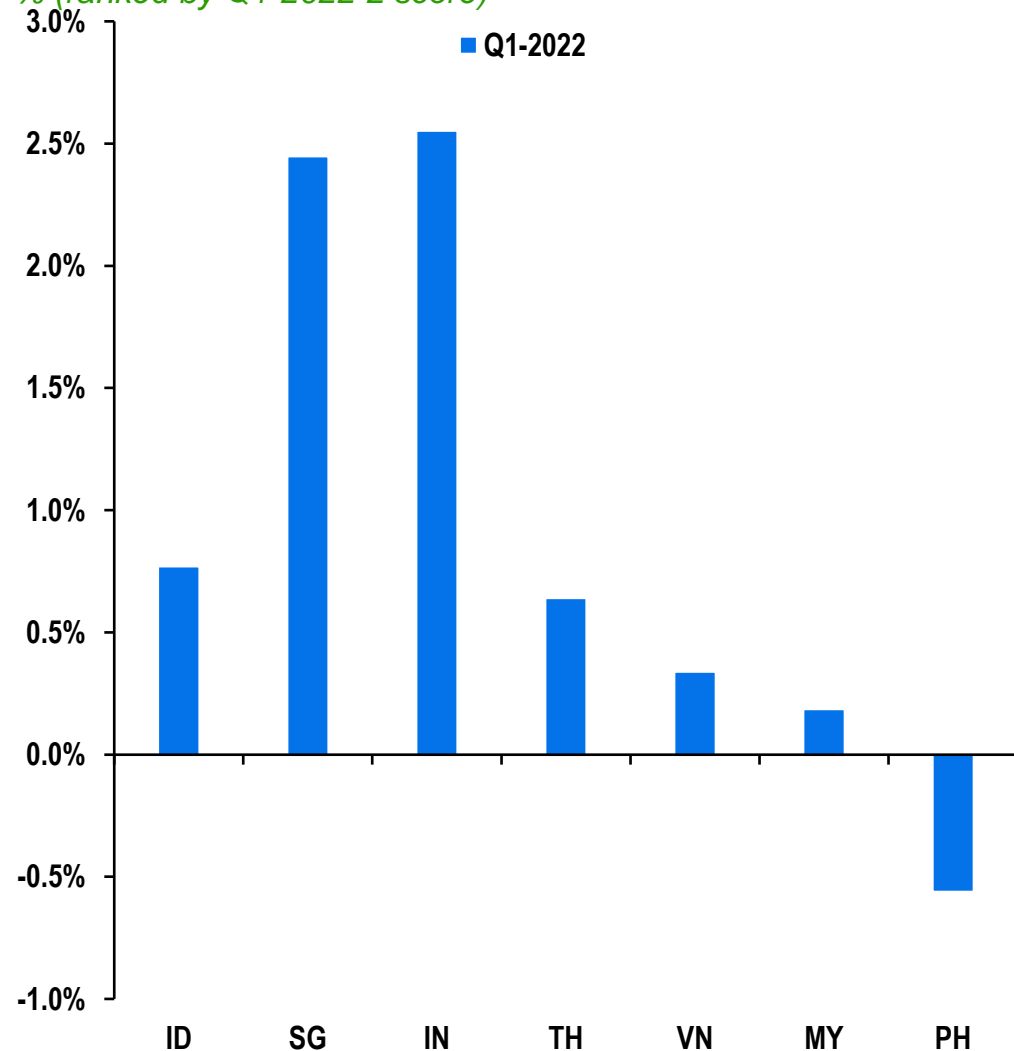
	Headline	Food	Alcohol and Tobacco	Clothing	Housing and utilities	Household content and services	Transport	Communication	Financial services	Recreation	Education	Health	Personal care and effects	Restaurants
AU	5.1	0.4	0.2	0.2	1.1	0.6	1.1	0.0	0.9	0.2	0.2	0.3		
NZ	6.9	1.2	0.2	0.1	2.5	0.2	1.7	0.0	0.1	0.4	0.0	0.1	0.1	
IN	7.0	3.6	0.0	0.6	0.4	0.3	0.5	0.1		0.1	0.2	0.3	0.2	
ID	4.3	0.9		0.1	0.4	0.3	0.7	0.0		0.0	0.1	0.1	0.3	0.3
MY	2.8	1.7	0.0	0.0	0.3	0.1	0.5	0.0	0.0	0.1	0.0	0.0	0.1	0.1
PH	6.1	2.3	0.2	0.1	1.4	0.1	1.6	0.0	0.0	0.0	0.0	0.1	0.1	0.3
TH	7.1	2.5	0.0	0.0	1.5	0.0	3.1	0.0		0.0		0.0	0.1	
SG	5.6	1.0	0.0	0.0	1.2	0.1	2.8	0.0		0.3	0.2	0.1	0.0	
VN	3.4	0.4	0.1	0.1	0.3	0.1	2.1	0.0		0.2	-0.1	0.0		0.4
US	9.1	1.4	0.2	0.1	3.0	0.2	3.4	0.0		0.1	0.1	0.7	0.1	



# Demand inflation is picking up; second-round effects are being observed

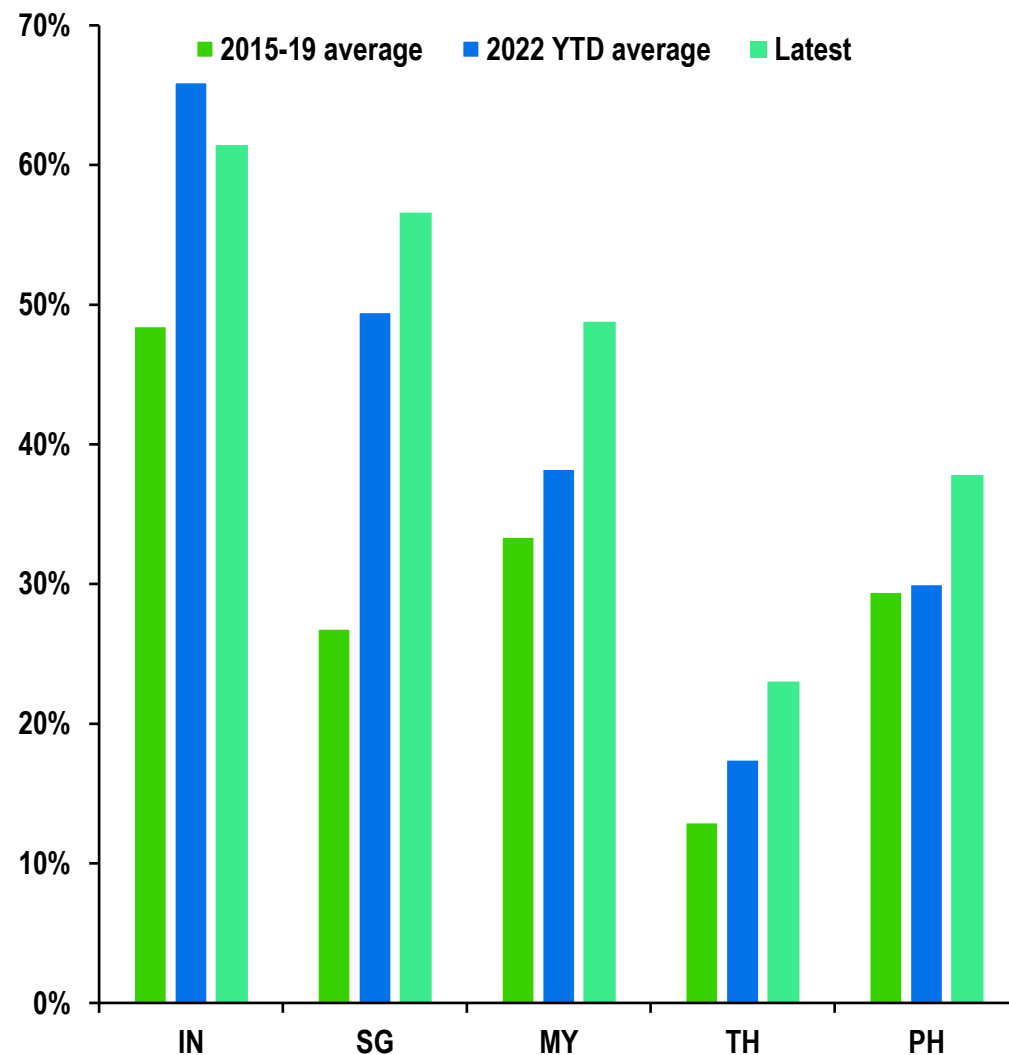
## Output gap (Q1-2022) – Output gap has turned positive as of Q1 for most economies except the Philippines

% (ranked by Q1-2022 z-score)



## Breadth of inflation – Inflation is broadening

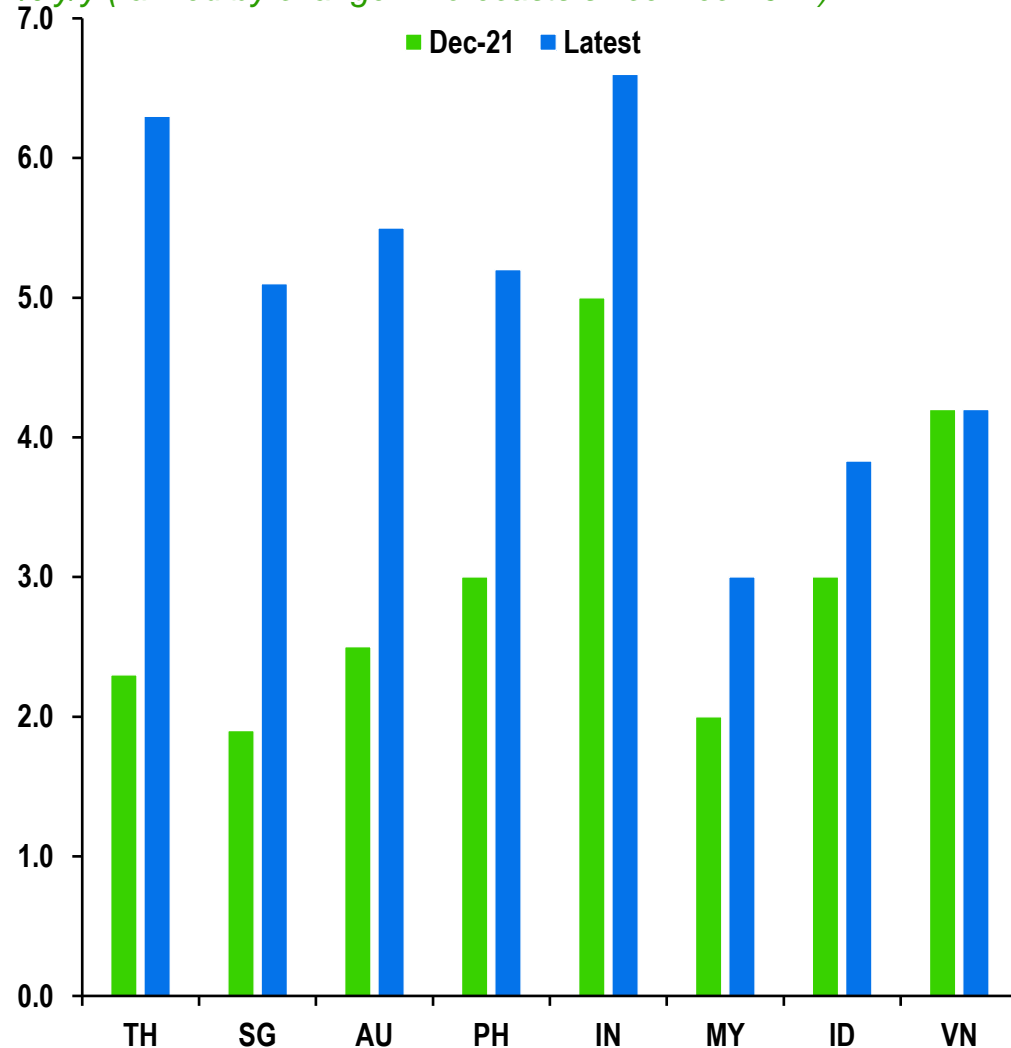
% (ranked by latest print versus 2015-19 average)



# Inflation has surprised to the upside in ASEAN as well

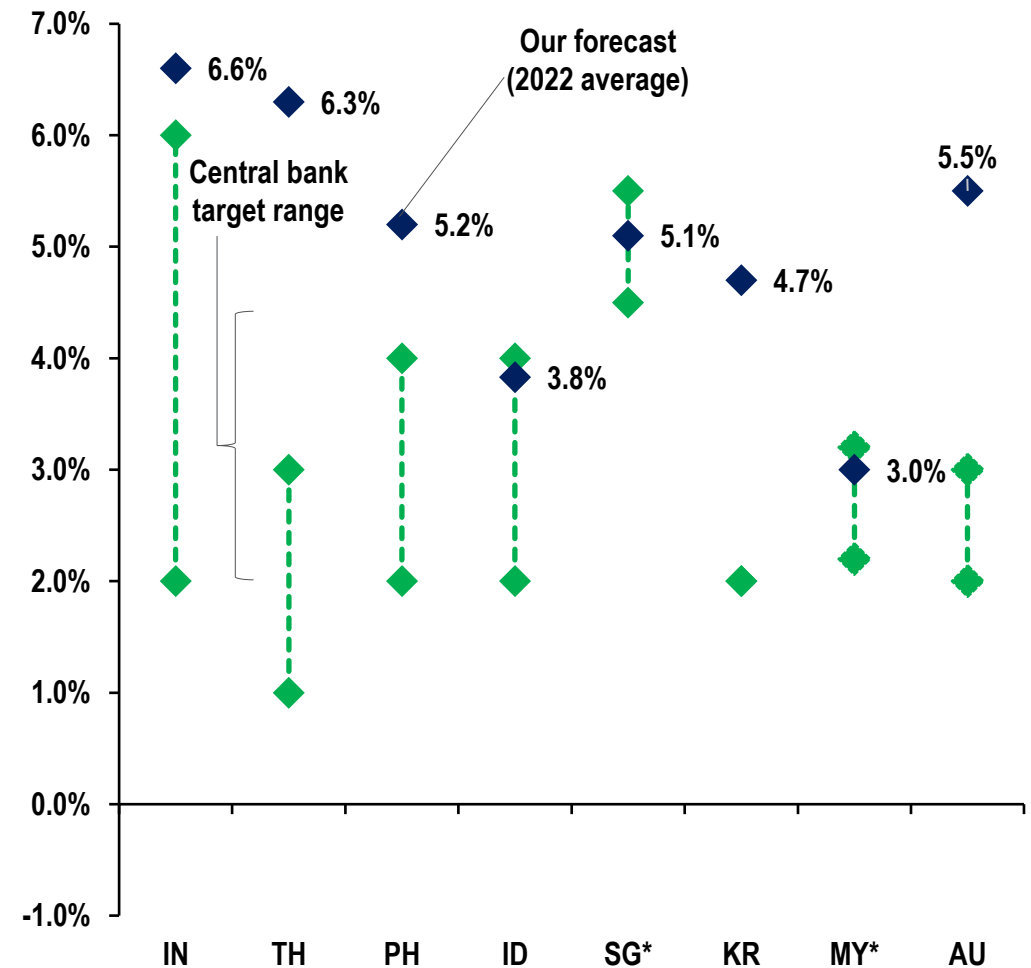
## Upward revisions to inflation forecasts across most economies

% y/y (ranked by change in forecasts since Dec-2021)



## 2022 inflation coming in above or near the upper bound of central bank target range

% y/y (ranked by change in forecasts since Dec-2021)



\*SG and MY central banks are not inflation targeting, ranges given are the official central bank inflation forecasts for 2022, Source: National sources, Standard Chartered Research

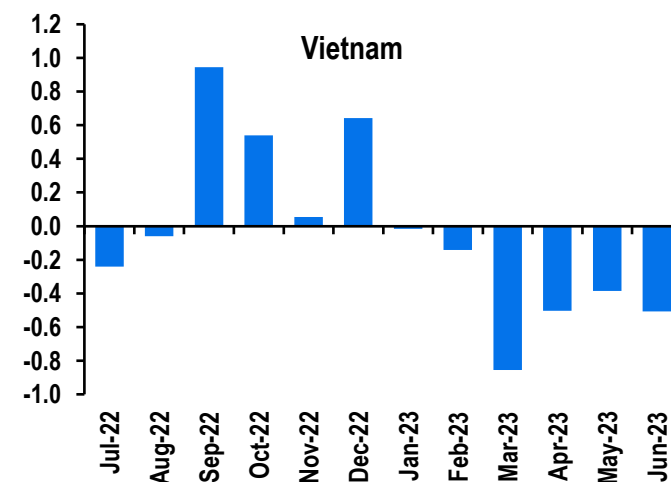
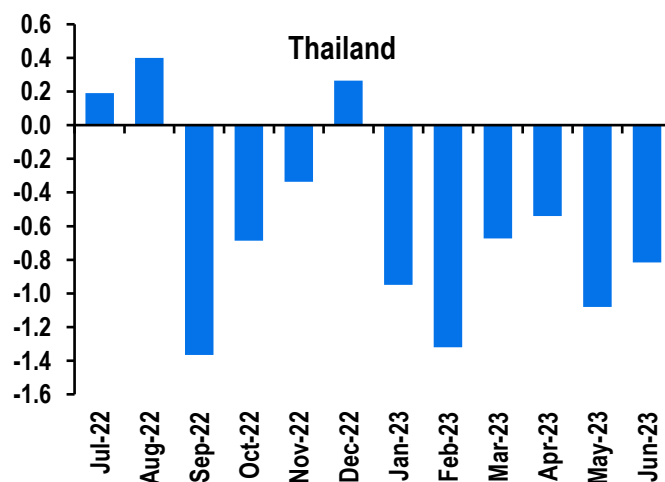
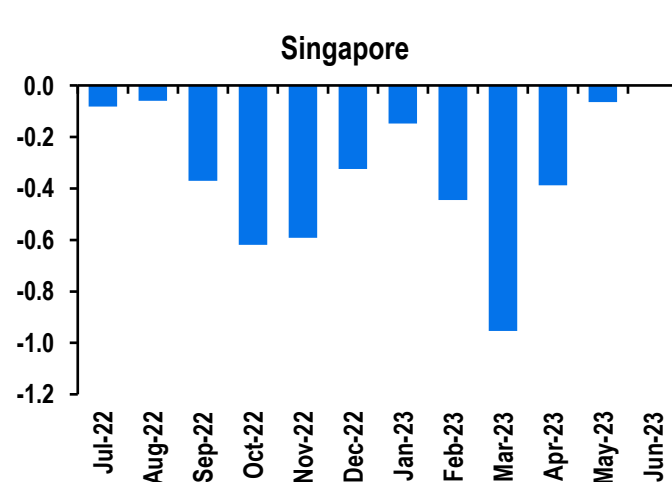
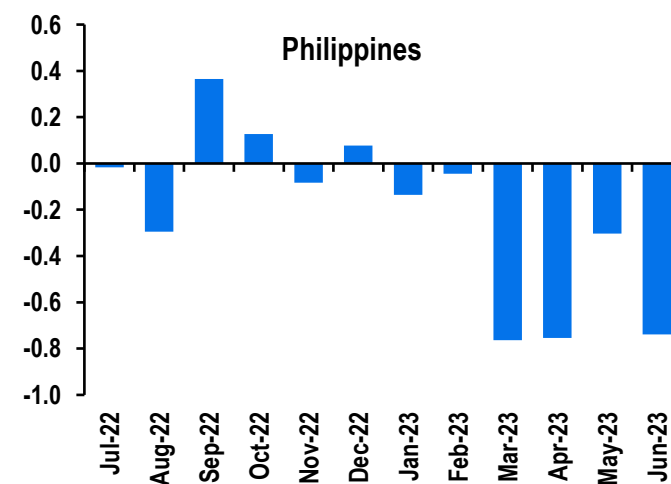
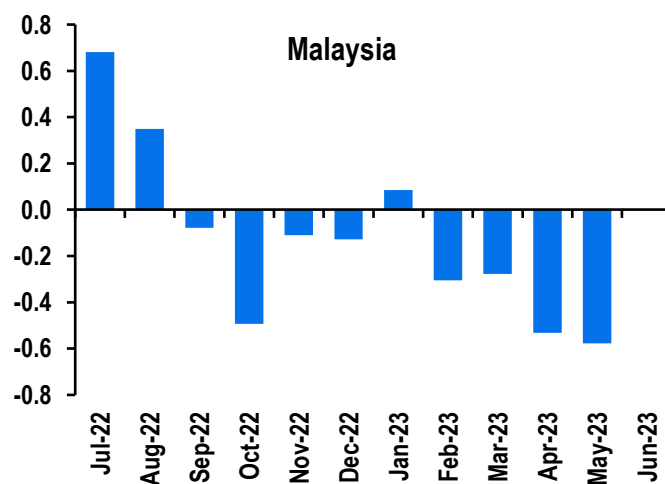
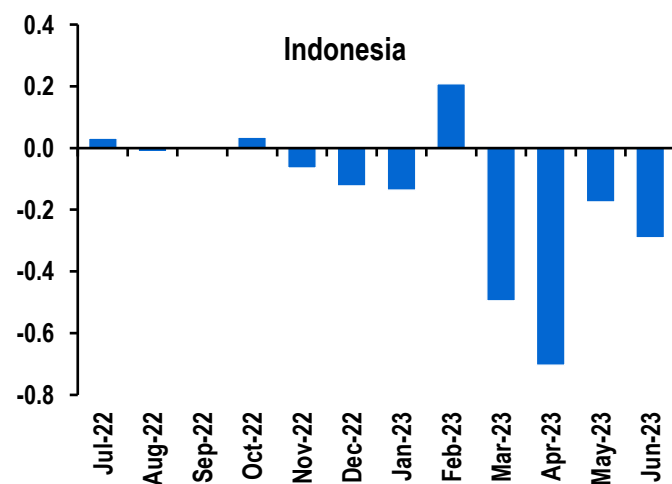




# Is inflation peaking? What do base effects say?

## Base effects to subtract from inflation in H1-2023

*Ppt, base effects over the next 12 months*



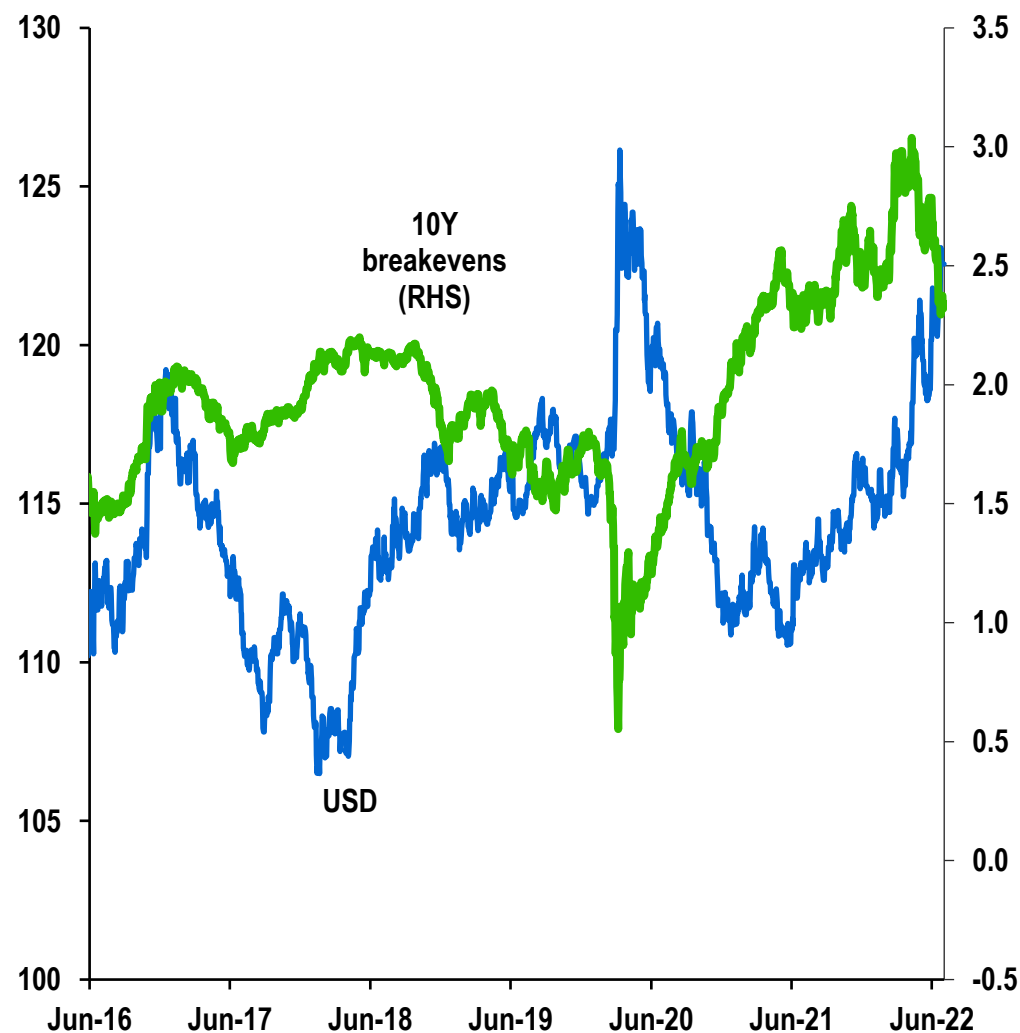
# FX outlook



# USD strength may not peak until weakness in US activity indicators is indisputable

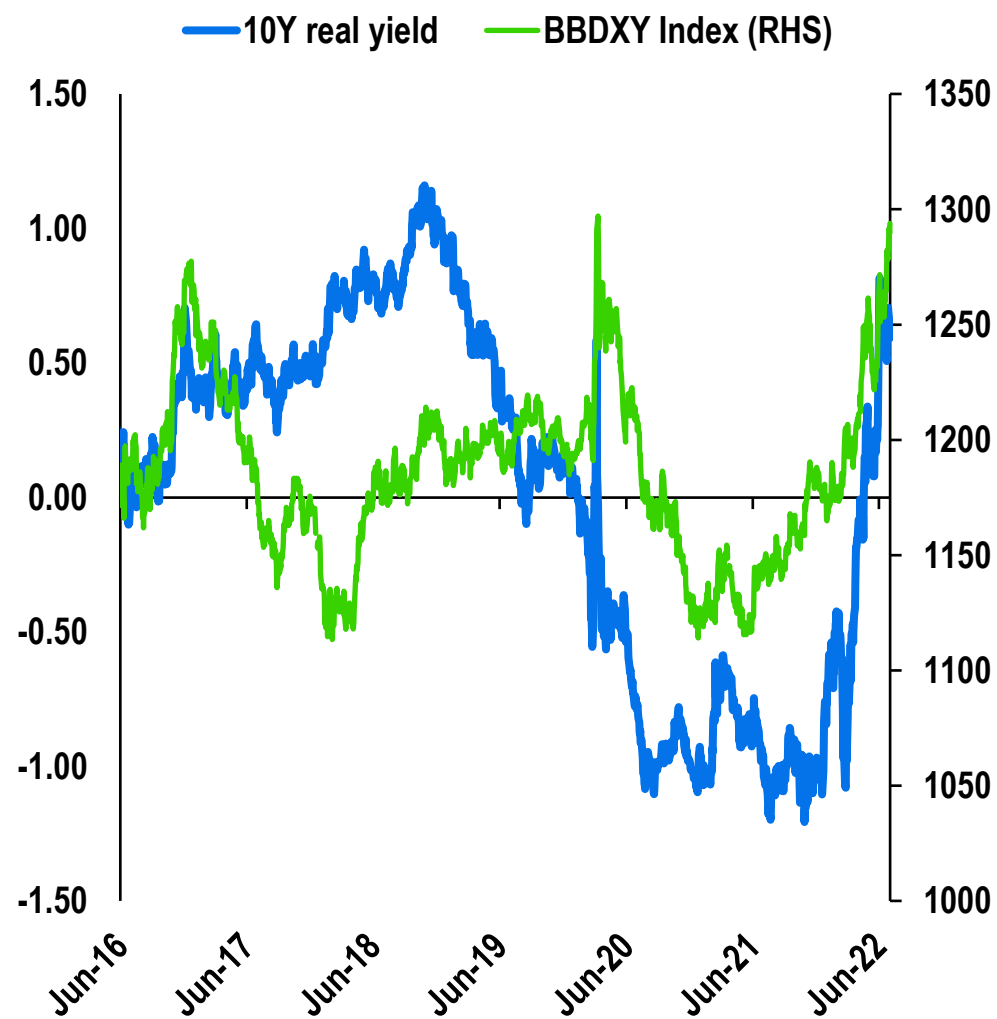
## Elevated US inflation keeps Fed hawkish

USD broad TWI (LHS) vs 10Y breakevens, % (RHS)



## USD surges on rising real yields

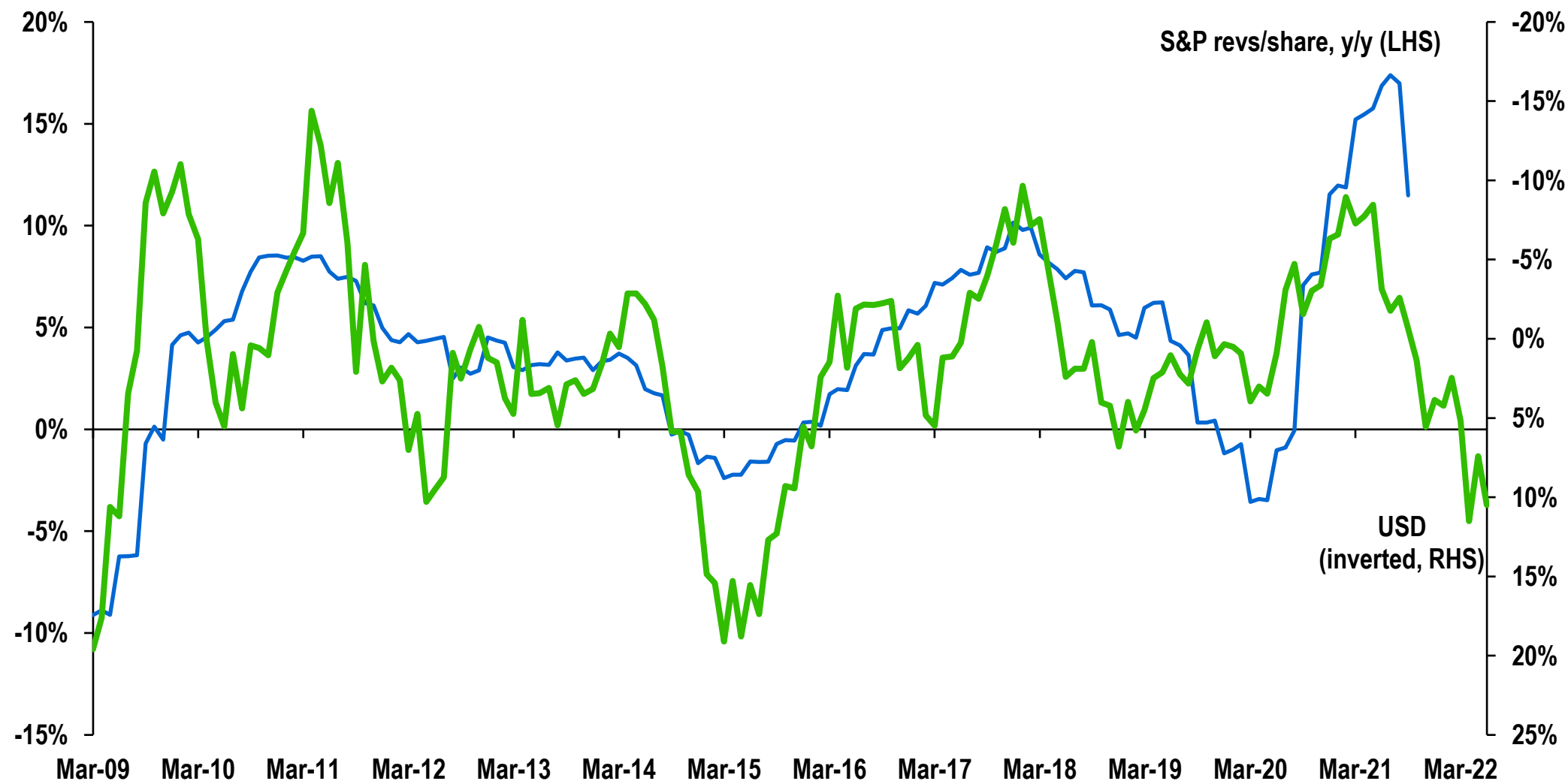
USD index (LHS) vs 10Y UST real yield, % (RHS)



# The link between the USD and S&P revenues

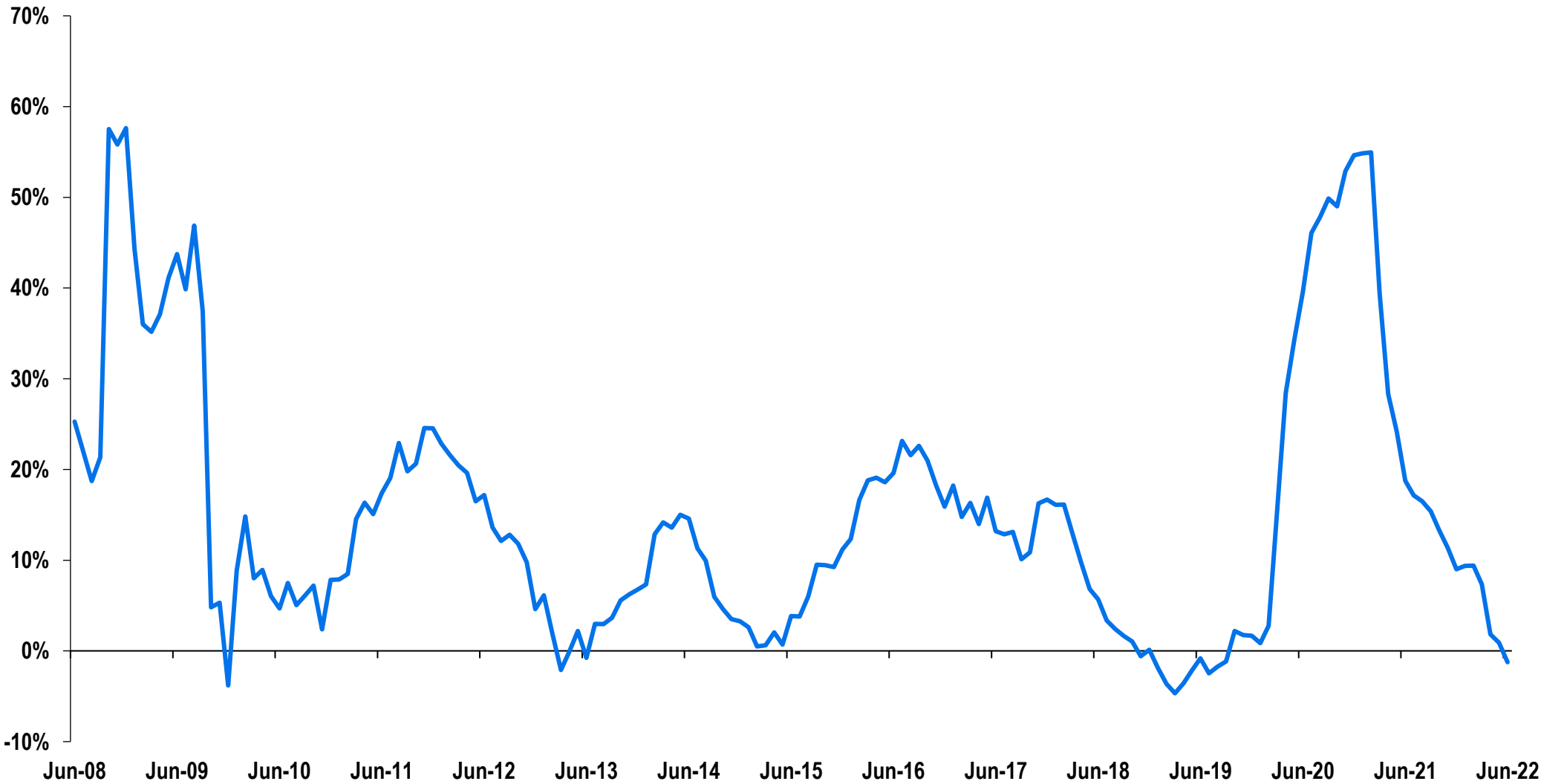
## Sustained USD strength is a threat to S&P revenues

*S&P 500 revenues/share, 9M lag, y/y (LHS) vs broad USD, y/y (RHS)*



# Central bank balance sheets start to shrink

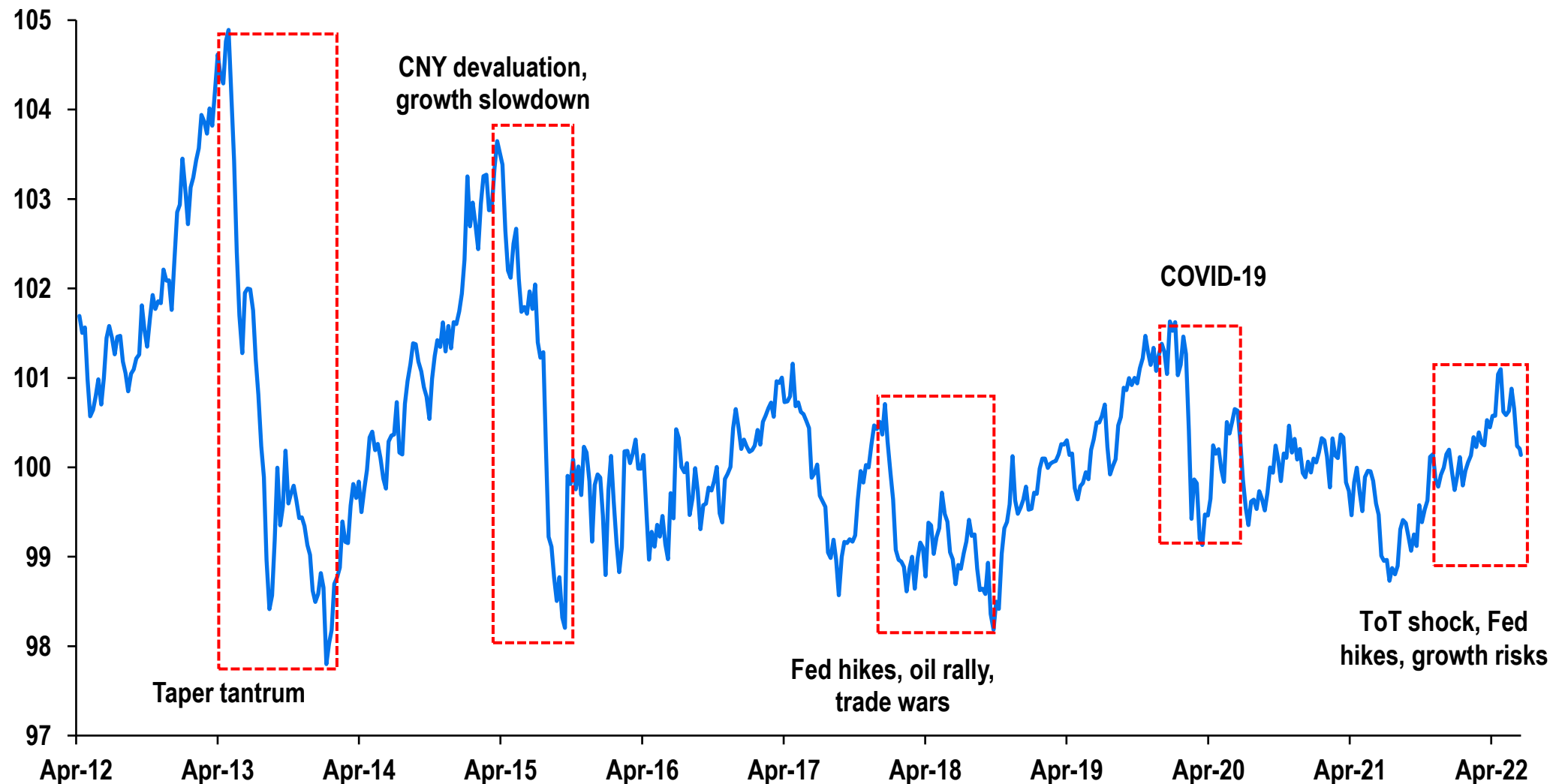
Now the real tightening begins  
*Fed, ECB, BoJ balance sheet growth, % y/y change*



# Asia FX – Trade-weighted appreciation is likely to reverse

**Asia FX has appreciated in trade-weighted terms, despite USD rally**

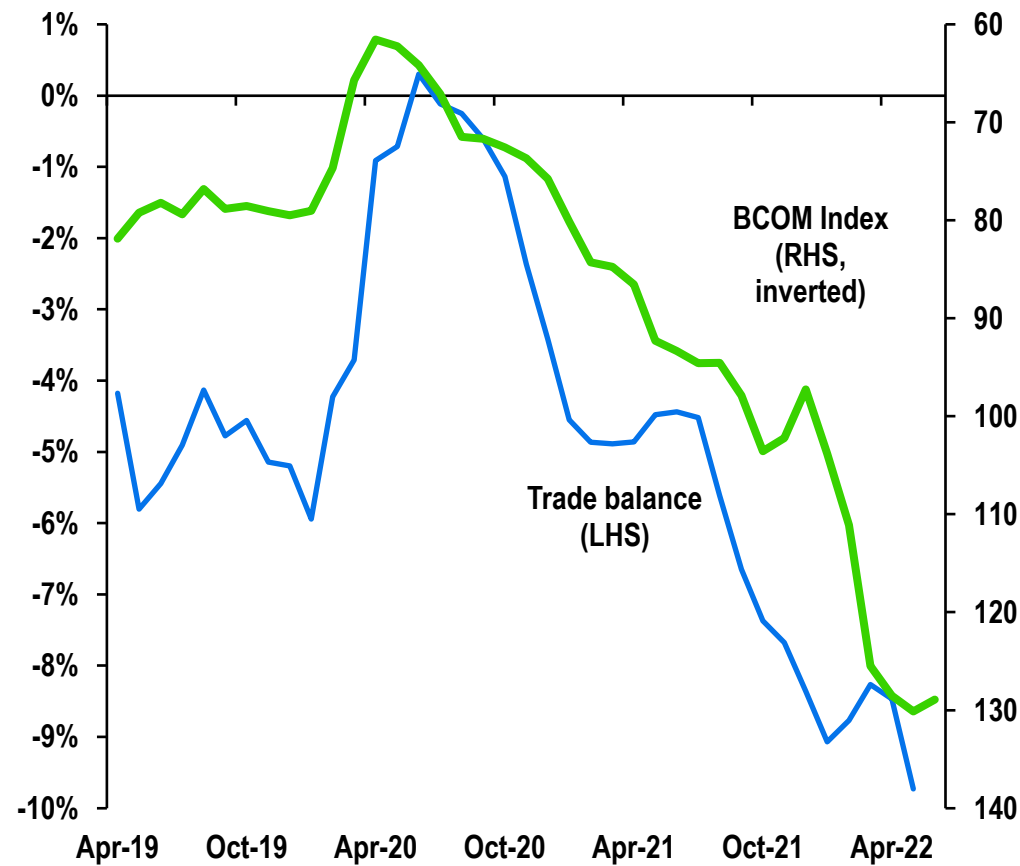
*Nominal effective exchange rate of EM Asia (equally weighted index for 9 regional currencies)*



## Asia FX – Triple trouble

**Commodity importers have seen a significant deterioration in their trade balances**

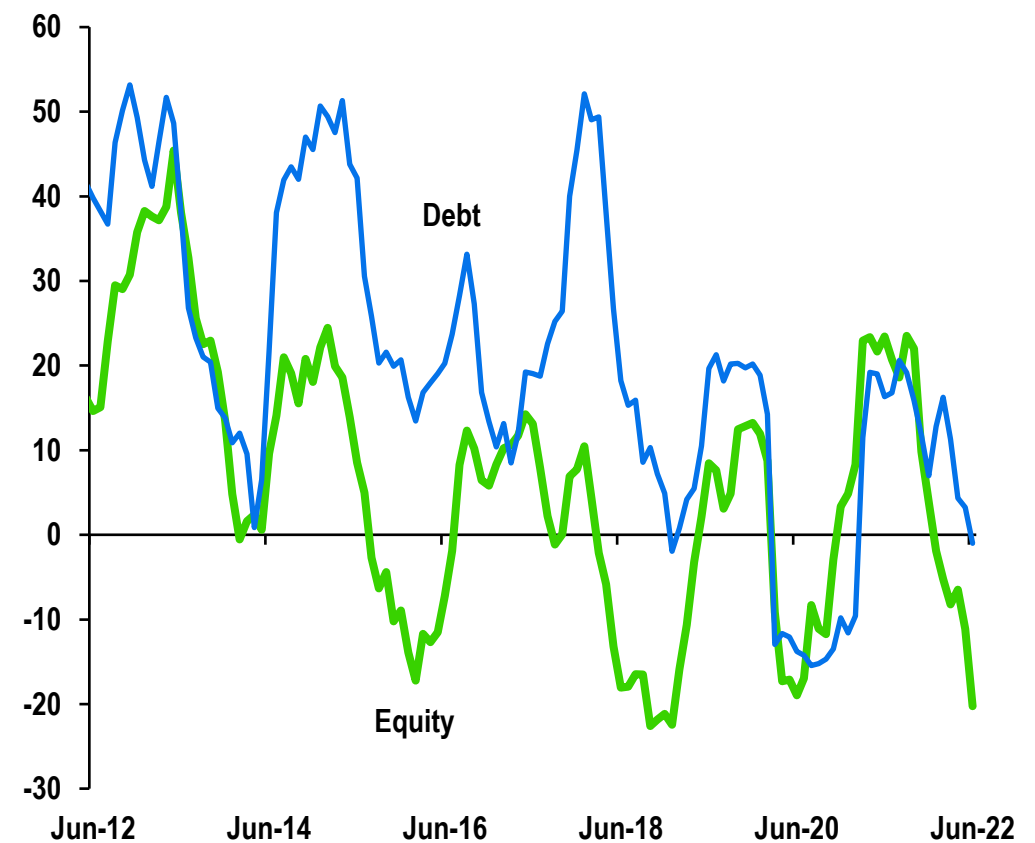
*Trade balance (% of GDP), Bloomberg commodity index*



Note: Trade balance (as a % of GDP) is an average for Thailand, Philippines and India  
Source: Bloomberg, Standard Chartered Research

**De-risking by foreign investors continues amid tightening global financial conditions**

*Foreign portfolio flows in ASA (USD bn, rolling 12M sum)*

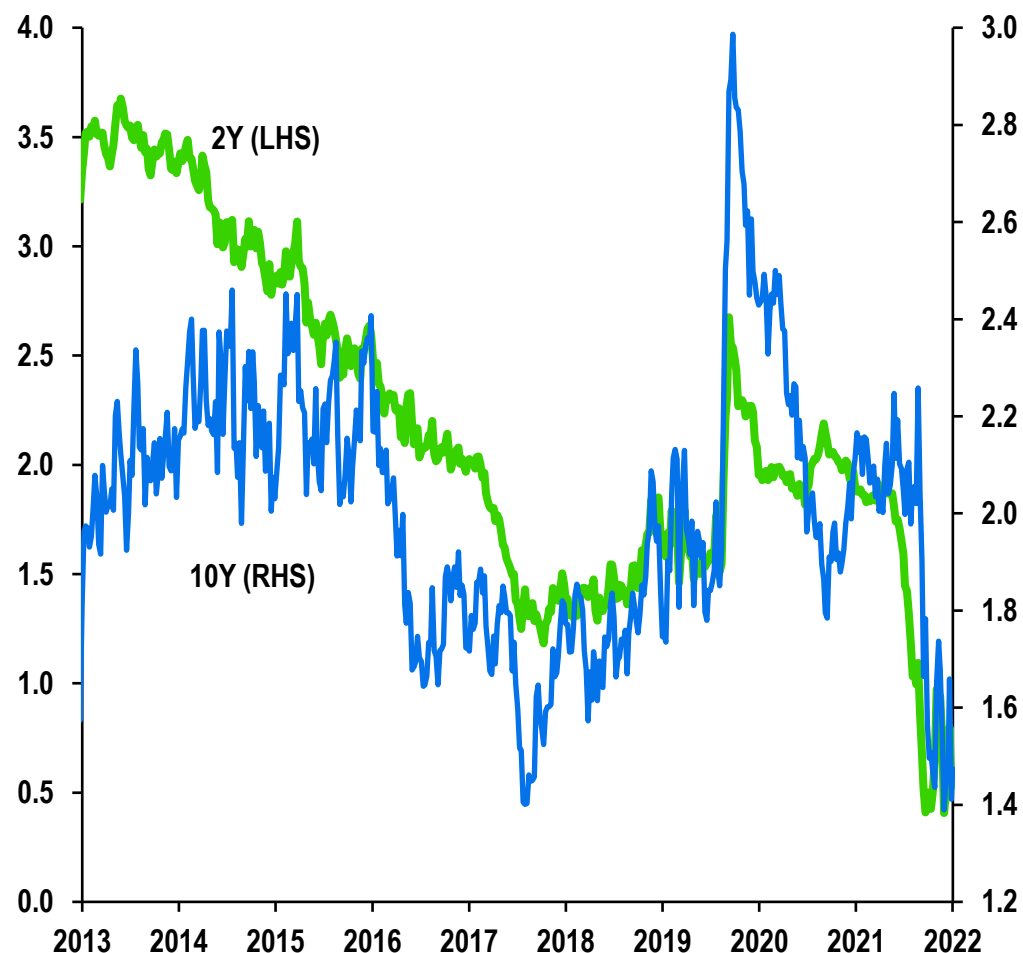


Note: This includes flows into India, Indonesia, Thailand, Malaysia and the Philippines  
Source: Bloomberg, Standard Chartered Research

# Asia FX – Commodities, flows and growth challenges

**Nominal interest rate differentials versus the US  
have compressed to multi-year lows**

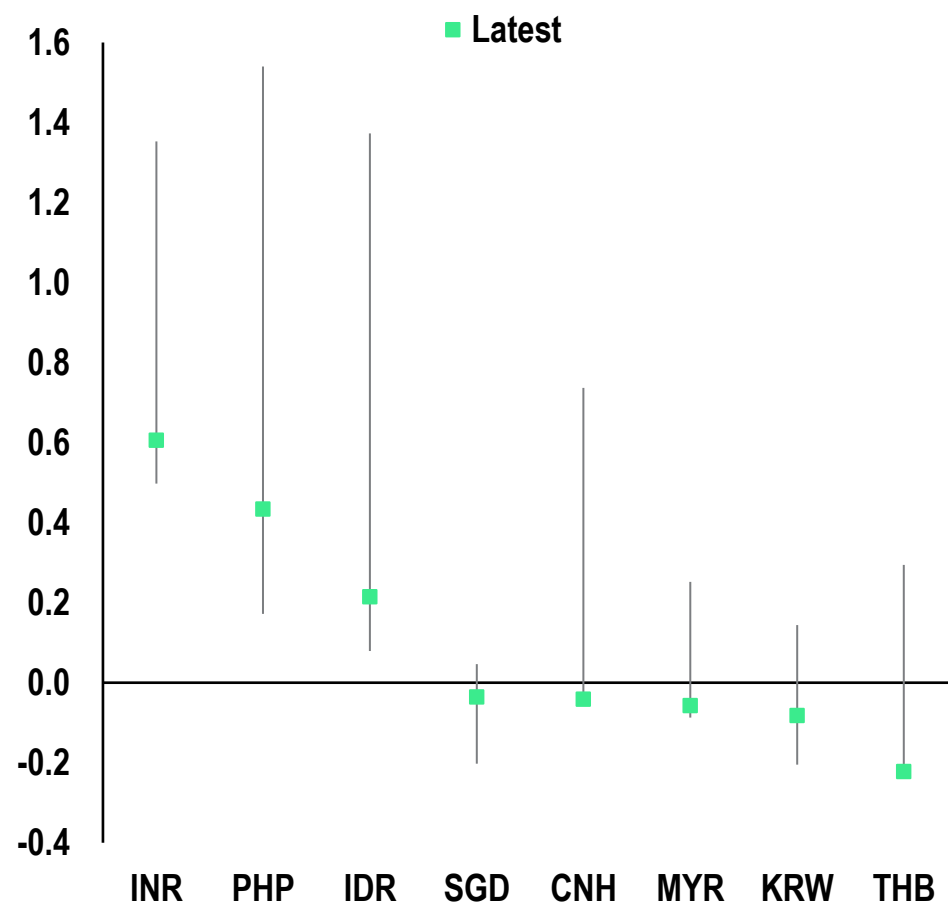
*EM Asia (average) 2Y and 10Y rate differentials vs US*



Source: Bloomberg, Standard Chartered Research

**Sharp carry compression has reduced FX risk  
 premia across EM Asia**

*Carry-vol ratio (3M; range is for past 3 years)*



Source: Bloomberg, Standard Chartered Research

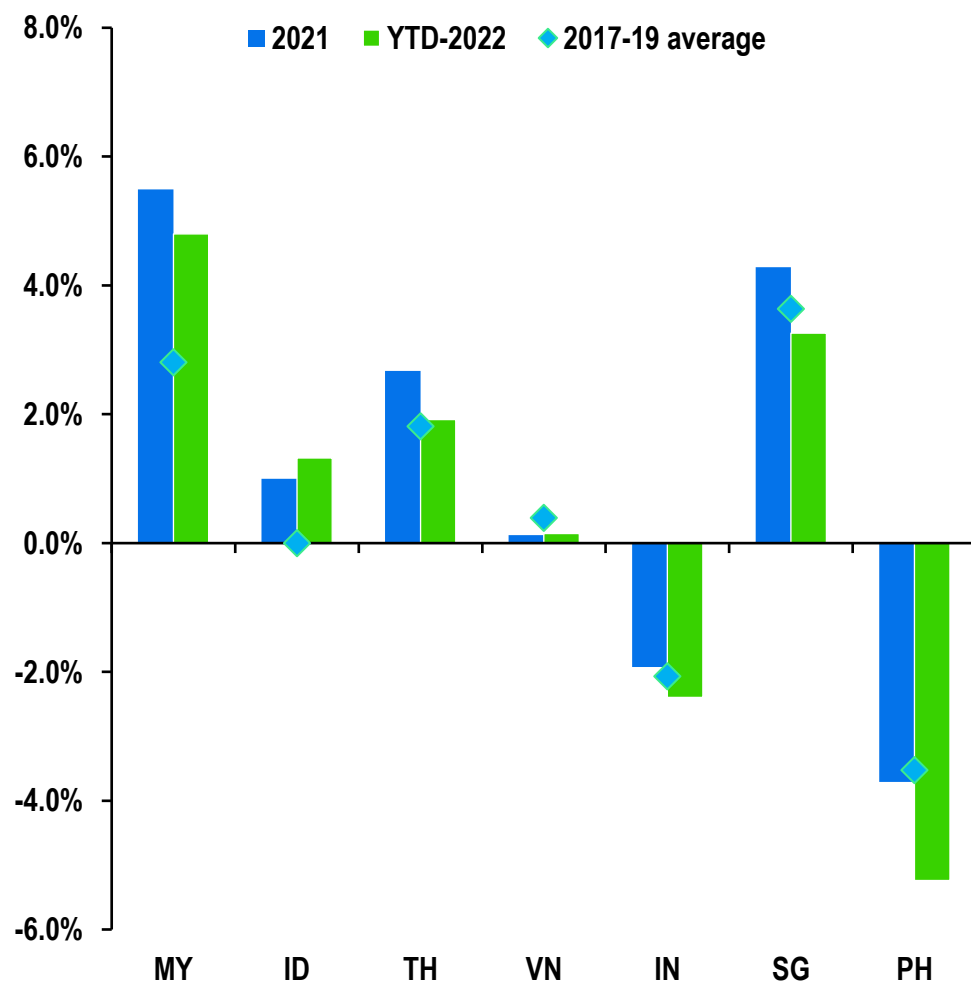




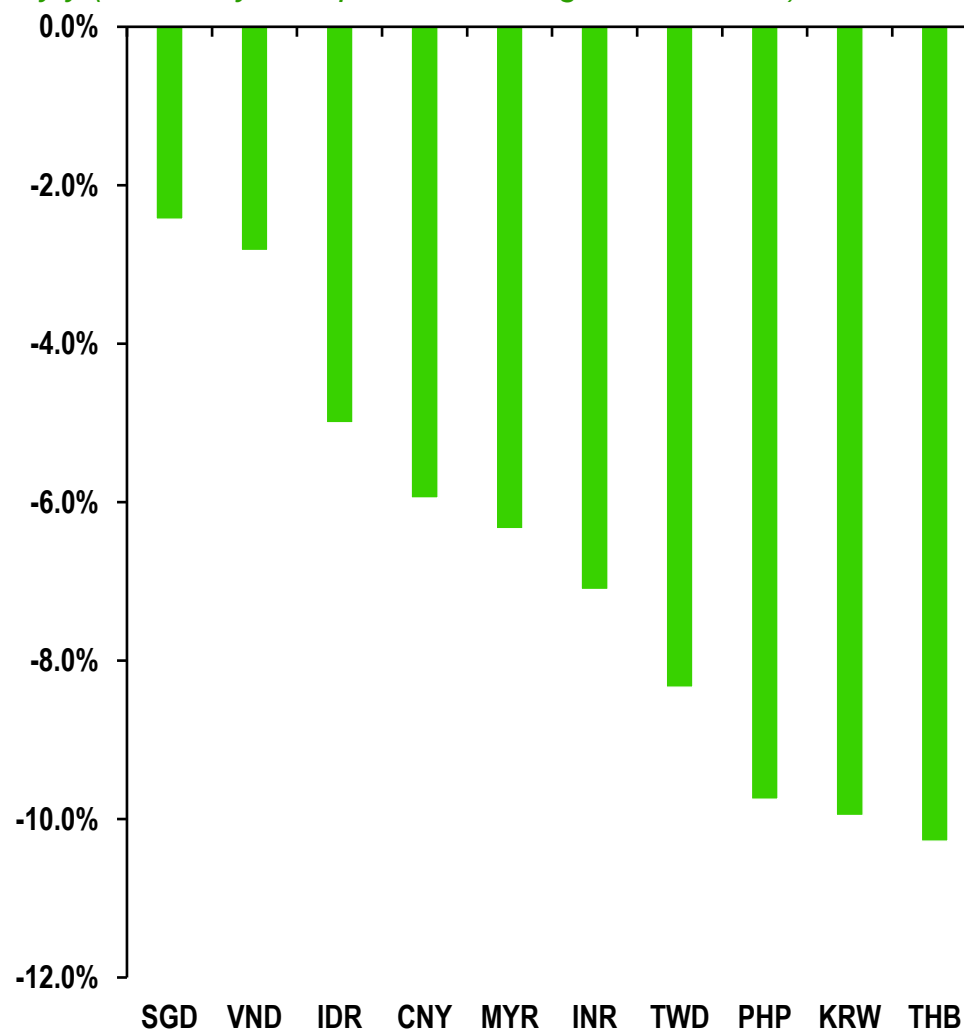
## ‘Haves’ versus ‘Have-nots’

**Net commodity exporters (ID, MY) trade balances benefited from higher commodity prices while the net commodity importers (IN, PH, TH) have seen a deterioration in their trade balances, helping explain the FX performance divergence**

*Trade balance (% of GDP, ranked by YTD-2022 deviation from avg)*



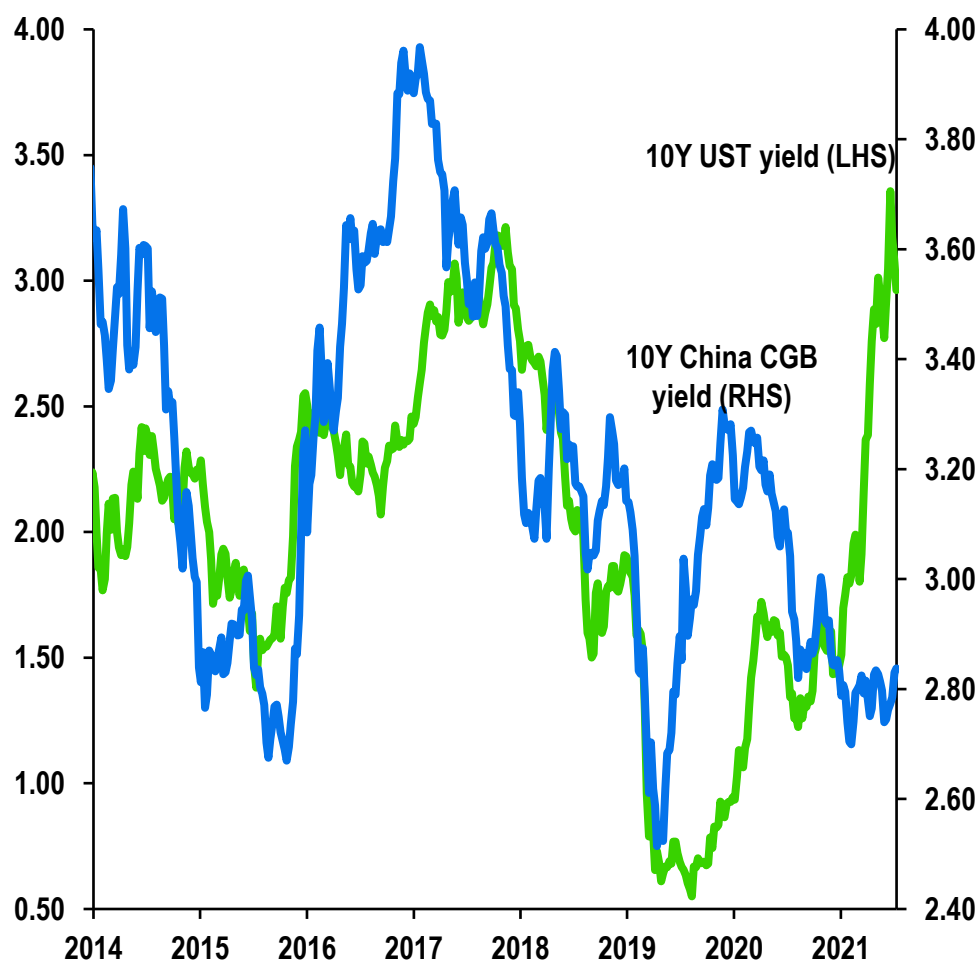
*% y/y (ranked by YTD performance against the USD)*



# China – USD-CNY may face near-term pressure but fundamentals remain strong

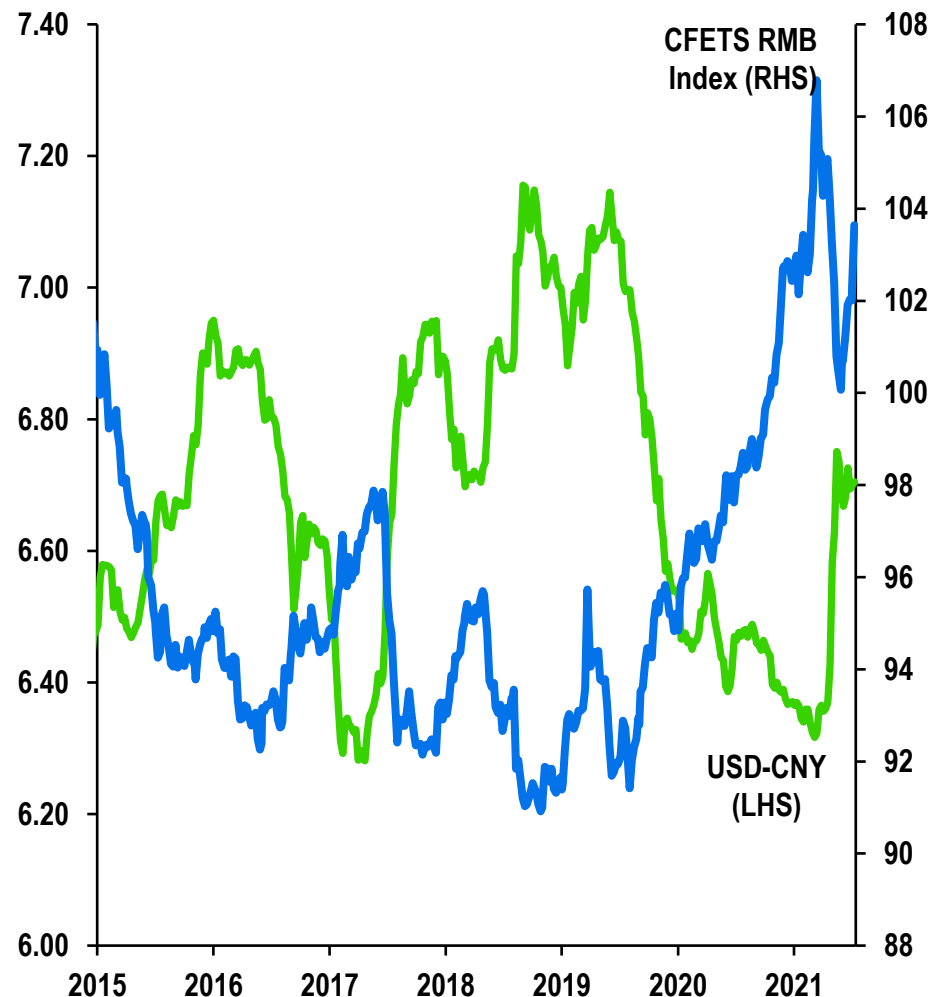
## A widening US-China rate differential with China rates lower

10Y UST yield (LHS) vs 10Y China CGB yield (RHS)



## A modestly weaker yuan is likely welcomed by the authorities

USD-CNY (LHS) vs CNY CFETS basket level (RHS)\*



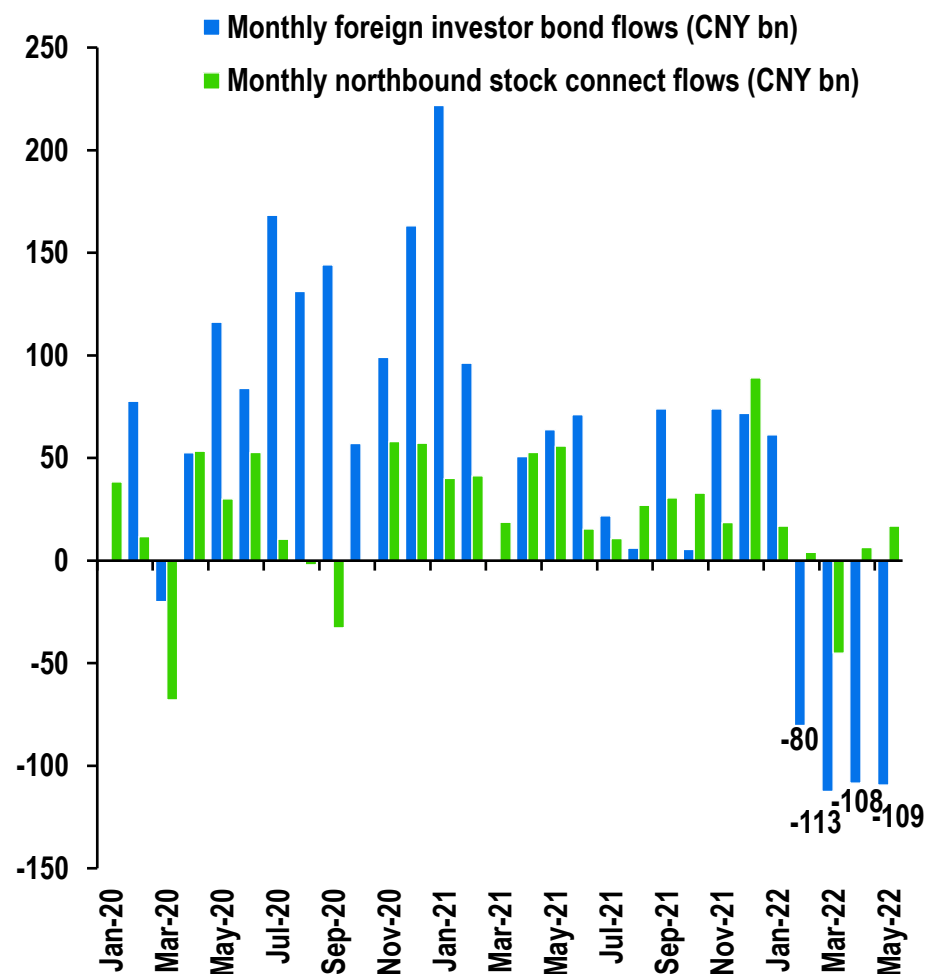
\*CFETS RMB Index measures the value of RMB against a basket of 24 major currencies and a higher reading indicates a stronger CNY vs the CFETS basket;  
Source: Bloomberg, Standard Chartered Research



# China – Solid current account surplus to offset capital outflows

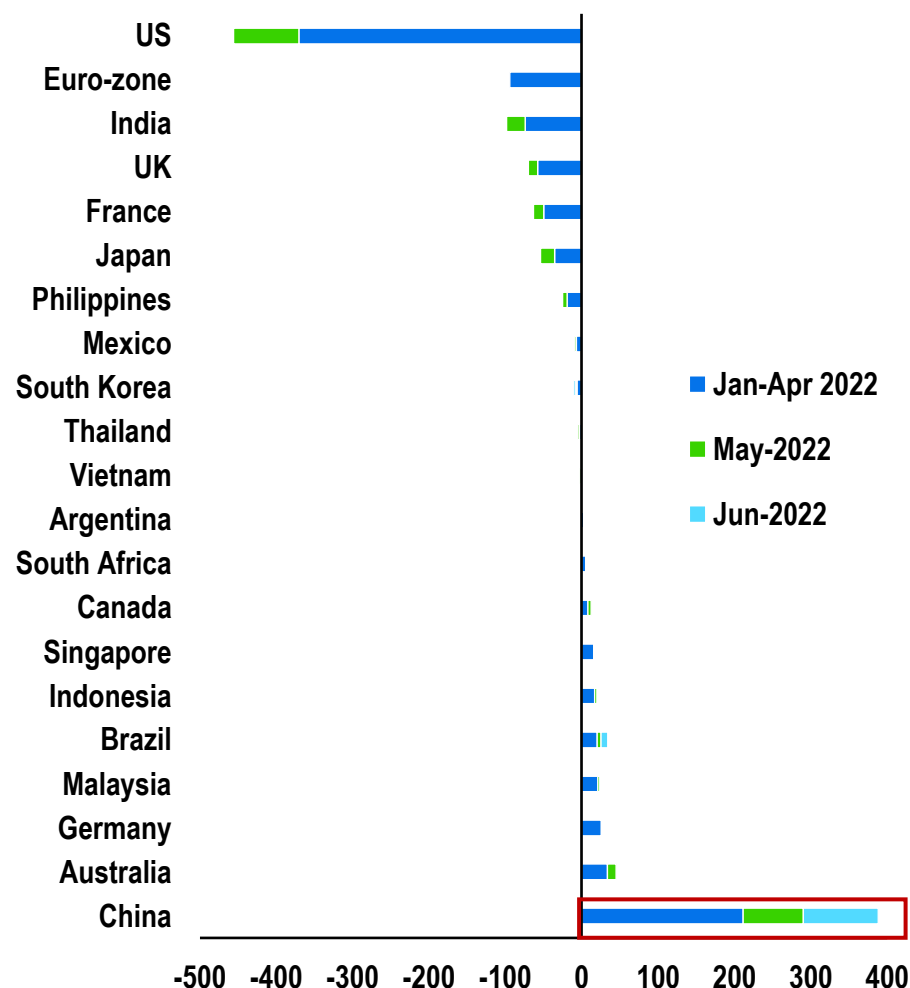
## Portfolio investment outflows may persist

*Estimated foreign flows to China onshore bonds & equities (CNY bn)*



## But goods trade surplus reaching a record high

*YTD trade balance, selected economies (USD bn)*



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