

Asia Morning Bites

The PBoC announced a larger-than-expected required reserve rate (RRR) reduction late Wednesday. South Korea reported stronger-than-expected GDP numbers today



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Global Macro and Markets

- **Global markets:** The upcoming cut in China's reserve requirement ratio (RRR) gave Chinese markets some much-needed support. USDCNY has dropped back to 7.1580 and the Hang Seng index rose 3.56% while the CSI 300 gained 1.4%. US stocks were more muted, and the S&P 500 was virtually unchanged despite opening higher - flagging in the latter part of the session. The NASDAQ eked out a 0.36% gain. US Treasury yields rose yesterday, despite the lack of much macro news as the 5Y auction tailed badly. 2Y yields rose 5bp to 4.38% and the 10Y rose a similar amount to 4.176% as the March rate cut hypothesis got priced out further. There is still a bit more room for this to run, according to our rates strategists, though the March cut is now only 36.4% priced in. A US refunding announcement on Monday could also push yields up a bit more. EURUSD rose back up to 1.0883 despite the moves in bond yields. The AUD rose strongly yesterday, pushing above 0.6620 but couldn't hold on to its gains and dropped back to 0.6577. Cable did better and is up to 1.2719 now, and the JPY has also held on to most of yesterday's gains and is down to 147.55. In the rest of Asia, the SGD and KRW were both boosted by the CNY moves, though the IDR lost almost half a per cent, rising to 15710. Moves elsewhere were modest.

- **G-7 macro:** The G-7 calendar is a lot more exciting today after a very quiet day yesterday. The ECB is meeting, and while they will not cut rates today, the press conference will as ever be scrutinised for hints as to the timing of the first cut. Later on, the US releases its advance estimate for 4Q23 GDP, which, on an annualized basis is expected to slow from 4.9% in 3Q23 to 2.0%. Weekly jobless claims round off the day's macro releases.
- **China:** The PBOC announced that it will cut the Required Reserve rate (RRR) by 50bp from Feb 5, after which the RRR for large institutions will drop from 10.5% to 10%, and the weighted average RRR will drop from 7.4% to around 7%. The 50bp RRR cut was larger than the 25bp cuts that the PBOC elected for in 2022-2023, and was the largest RRR cut since Dec 2021. The RRR cut will in theory provide around RMB 1tn of liquidity to markets. Furthermore, the PBOC also broadened access for property developers to commercial loans by allowing for bank loans pledged against developers' commercial properties to be used to repay other loans and bonds until the end of the year. It also cut the refinancing and rediscount rates for rural and micro-loans by 0.25 ppt to 1.75%.

We expect a relatively limited positive impact on the economy from the RRR cut and supplementary measures. There remains a question of whether there is sufficient high-quality loan demand to fully benefit from this theoretical liquidity injection; we saw that new RMB loans were down -10.6%YoY in 4Q23 despite the previous RRR cut in September 2023. With that said the size and timing of the RRR cut will contribute toward market stabilisation efforts.

Overall, the announced RRR cut was mostly in line with our expectations, although the size of the cut surprised on the upside, and the timing of the announcement was a little unexpected given the PBOC left interest rates unchanged in January. Moving forward, we see room for an interest rate cut to come in the next few months as well. The base case is for a conservative 10bp rate cut, but the larger-than-expected RRR cut does flag a possibility for a slightly larger rate cut as well.

South Korea: Korea's GDP expanded 0.6% QoQ sa in 4Q23 (vs 0.6% in 3Q23, market consensus). 4Q23 GDP was somewhat higher than the monthly activity data had suggested. The difference mainly came from a gain in private consumption (0.2%). According to the BoK, residents overseas spending increased, more than offsetting the decline in domestic goods consumption. Other expenditure items mostly met expectations. Exports (2.6%) grew solidly thanks to strong global demand for semiconductors, while construction – both residential and civil engineering- plunged (-4.2%), dragging down overall growth.

We expect the trend of improving exports vs softening domestic demand to continue at least for the first half of the year. In a separate report, BoK's business survey outcomes support our view. Manufacturing outlook improved for a third month (71 in January vs 69 in December) while non-manufacturing stayed flat at 68.

The GDP path will vary depending on how well global semiconductor demand will be maintained and how well Korea's construction soft-landing will go. We expect exports to improve further at least for the first half of the year. Yet, GDP in the first and second quarters is expected to decelerate (0.4% and 0.3% QoQ sa respectively) from last quarter as sluggish domestic demand weighs more on overall growth.

Today's outcomes will give the Bank of Korea some breathing room to maintain its current hawkish stance. We pencilled in one rate cut in May, under the assumption of a slowdown

of GDP and inflation in 1Q24, but if the construction sector restructuring carries out more smoothly, then the BoK's first rate cut may come in early 3Q24.

What to look out for: South Korea GDP

- South Korea GDP (25 January)
- Japan department store sales (25 January)
- ECB policy meeting (25 January)
- US GDP, durable goods orders, initial jobless claims, new home sales (25 January)
- Japan Tokyo CPI inflation (26 January)
- Philippines trade (26 January)
- Singapore industrial production (26 January)
- US PCE deflator, pending home sales and personal spending (26 January)

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