GLOBAL MACRO OUTLOOK – 2023 IS LIKELY TO BE A BUMPY RIDE

MNI APAC, March 2023

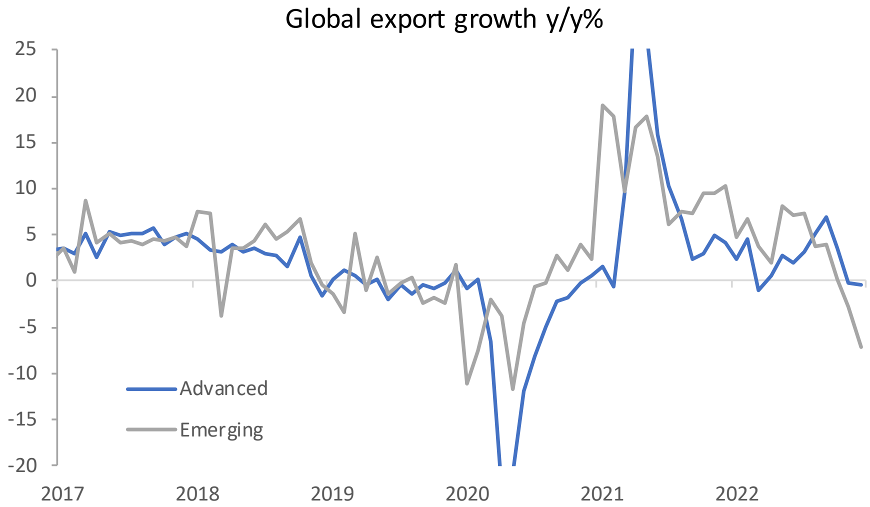
GLOBAL MACRO OUTLOOK

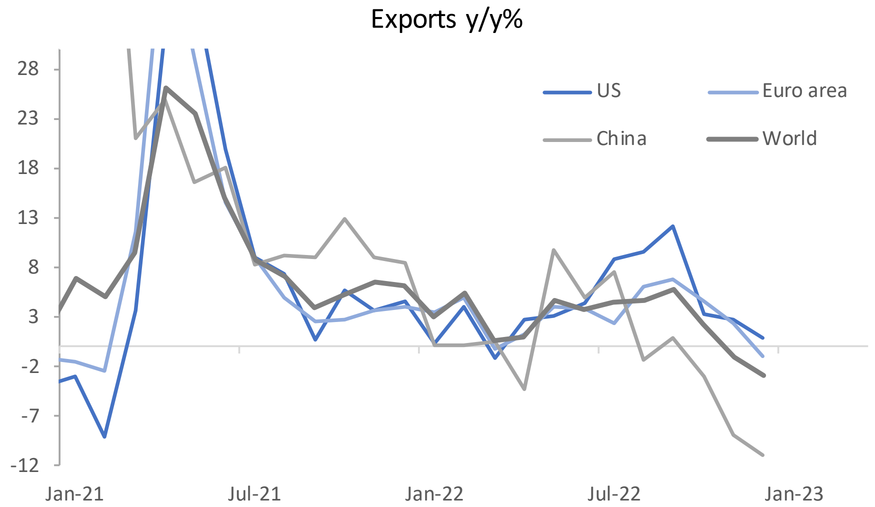
- 2022 finished on a soft note for global trade/growth indicators (Slide 4). Early indications are that 2023 has started on a better footing, with key PMIs proving resilient (Slide 5), while consensus forecasts are generally nudging higher for key economies/regions (Slide 6).
- In Asia, trade bellwethers suggest some improvement as well (Slide 7), while the China re-opening is seen as positive, although there was some disappointment that the official 2023 growth target, ‘around 5%’, was not more ambitious. Tech headwinds also persist (Slide 8).
- Official projections suggest 2023 will be a challenging year (Slide 9).
- How global growth expectations unfold will be important for the USD, particularly in the EM FX space (Slide 10), notwithstanding Fed outcomes and outlook.

GLOBAL MACRO OUTLOOK

- Inflation is the other key watch point. 2023 could see more diverges in inflation outcomes, which is already playing out in Asia (Slide 11). This in turn is driving divergences in policy outcomes (Slide 12).
- How inflation evolves will feed back into broader risk appetite in the equity space and can also influence growth expectations via the tightening/money supply channel (Slides 13-14).
- Housing will also be in focus, given the degree of tightening that has taken place over the past 12-18 months globally (Slides 15-16).
- Central banks will monitor housing markets closely, but are unlikely to be too concerned so long as the correction process remains orderly.

GLOBAL GROWTH & TRADE – FINISHED 2022 WEAKER…

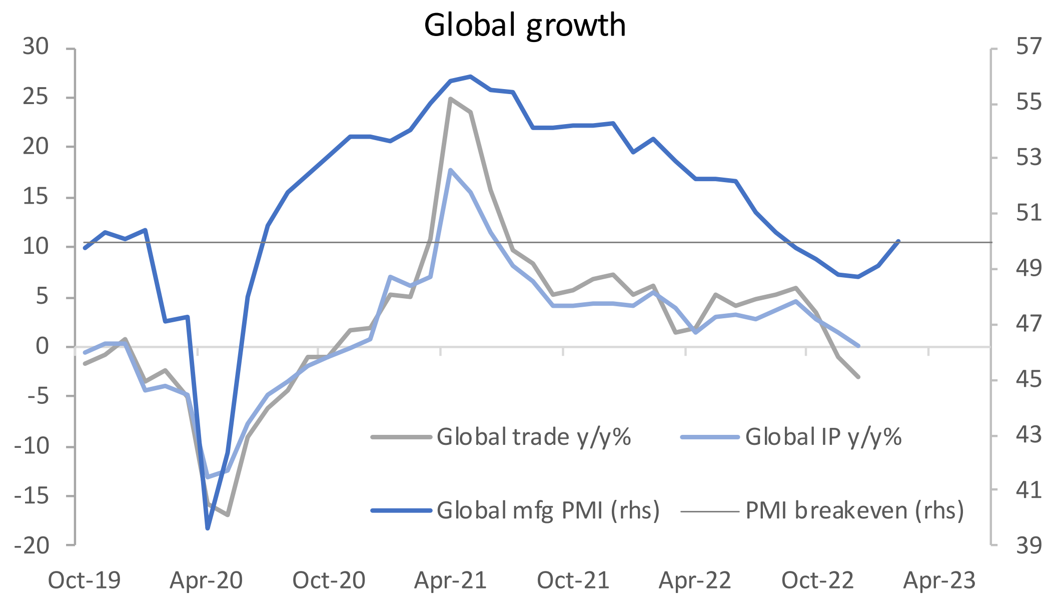


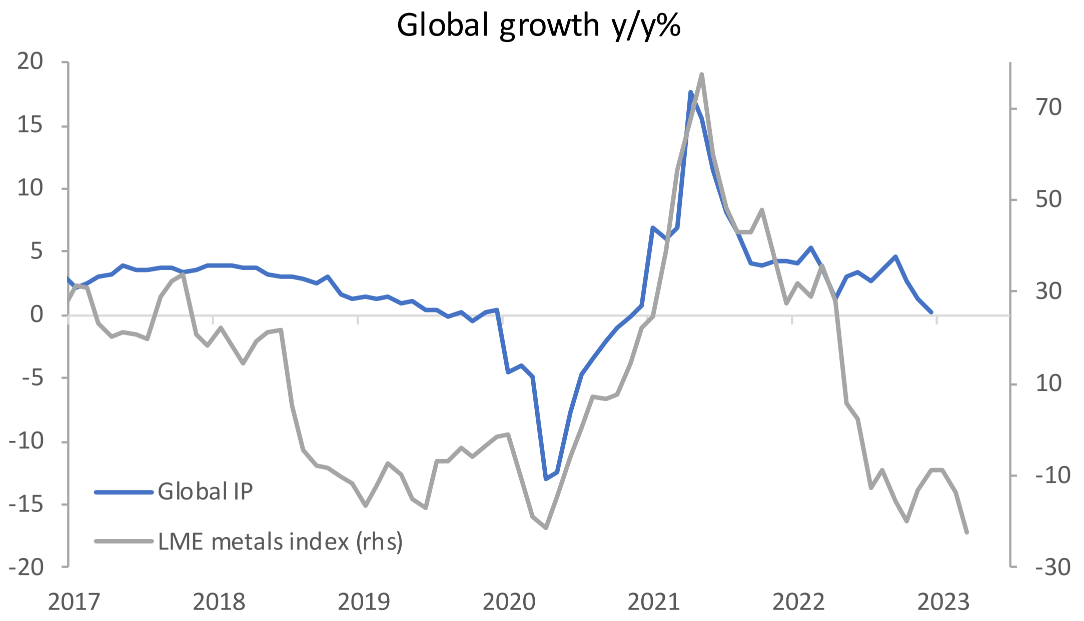


Source: MNI – Market News/Refinitiv/CPB

SOME SIGNS OF IMPROVEMENT SINCE 2023 BEGAN

- In December, the CPB’s global trade and IP series fell for their third consecutive month. Exports from emerging markets were particularly weak, which may improve with China’s reopening but will continue to face global headwinds.
- Global momentum continued to deteriorate, and metals prices and the Baltic Freight Index suggest that global trade and output will continue to slow in the coming months. But the PMI is signalling that the trough could be soon.

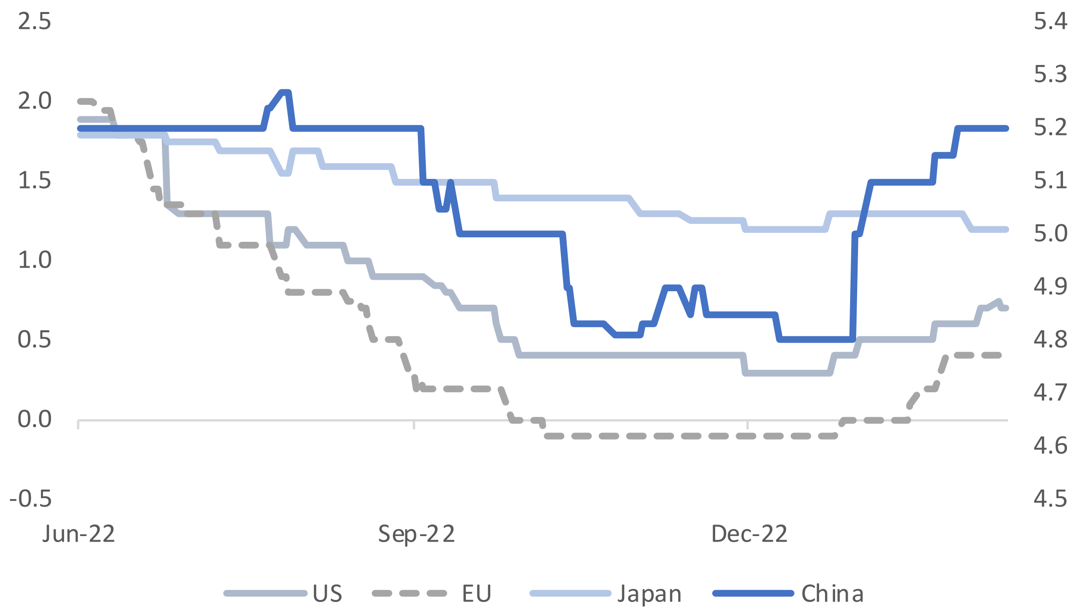




Source: MNI – Market News/Refinitiv/CPB/Bloomberg

CONSENSUS EXPECTATIONS FOR 2023 ARE NUDGING UP FOR KEY GLOBAL ECONOMIES

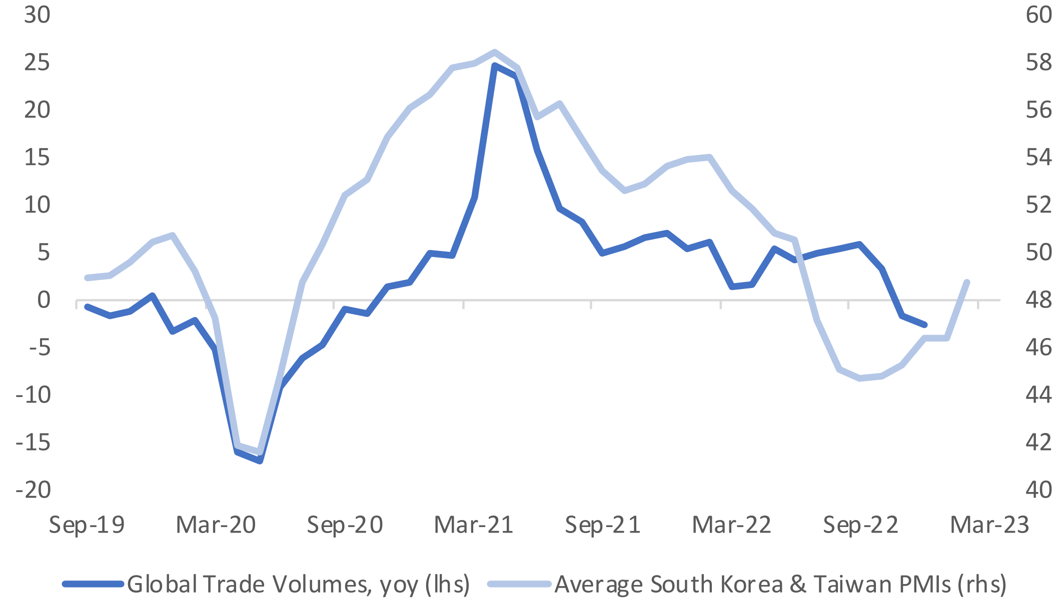
- Consensus Expectations for 2023 Global GDP pushing higher, led by China, but US and EU growth expectations have also firmed recently.

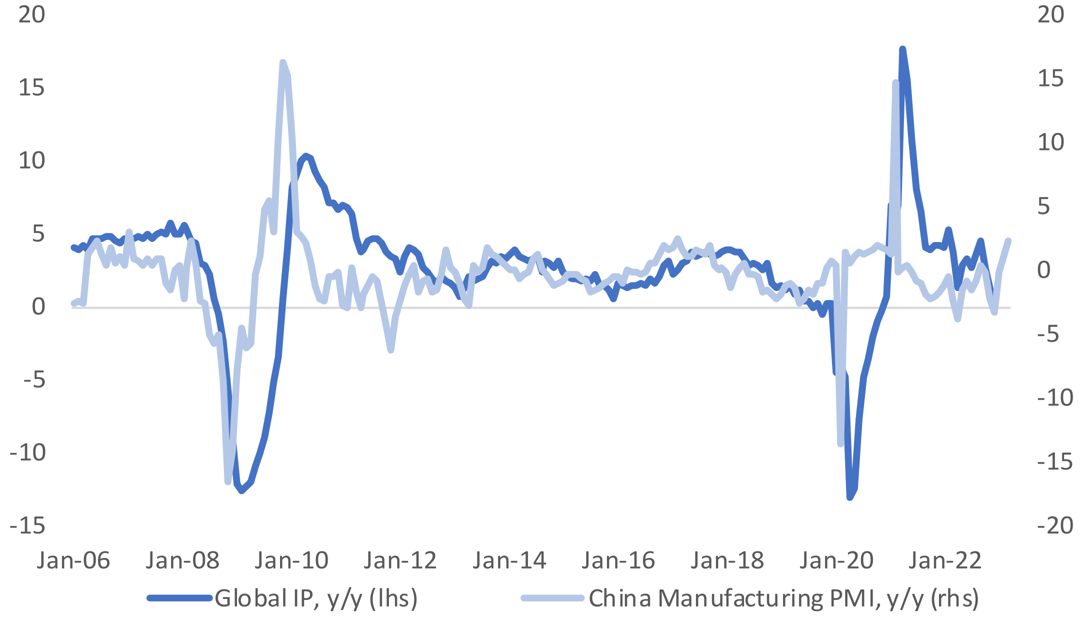


Source: MNI – Market News/Refinitiv

TRADE BELLWEATHERS SOUTH KOREA & TAIWAN SUGGEST SOME IMPROVEMENT

- Some more positive signs from recent PMI readings in South Korea and Taiwan, which have provided a lead on global trade volumes in recent years.
- The China recovery should also support broader activity, the second chart on the right below. There was some disappointment though that this year's official growth target ('around 5%') wasn't more ambitious.

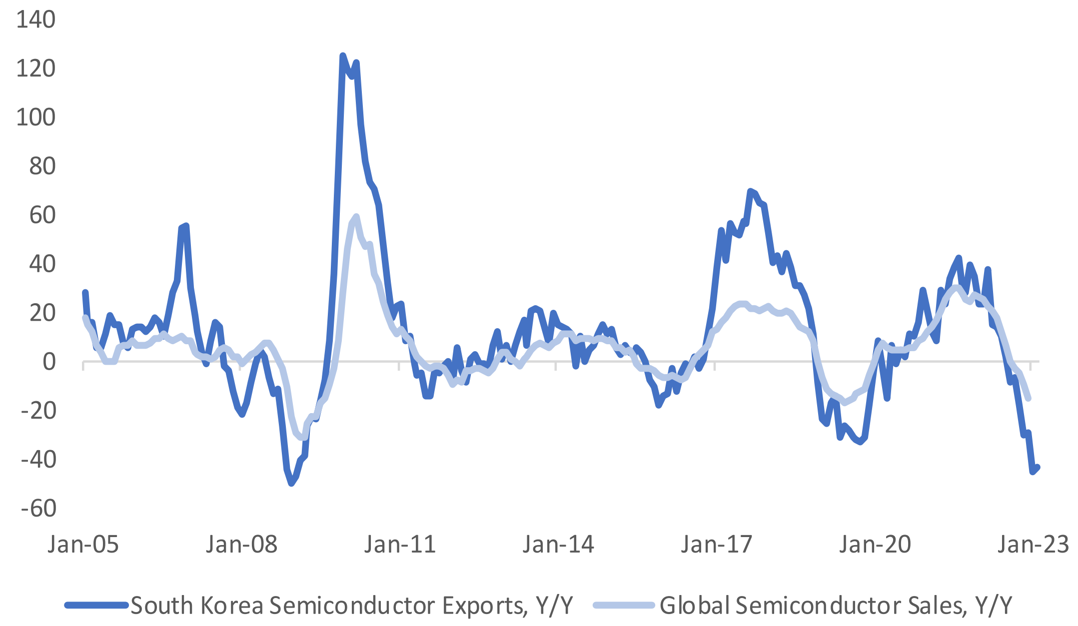


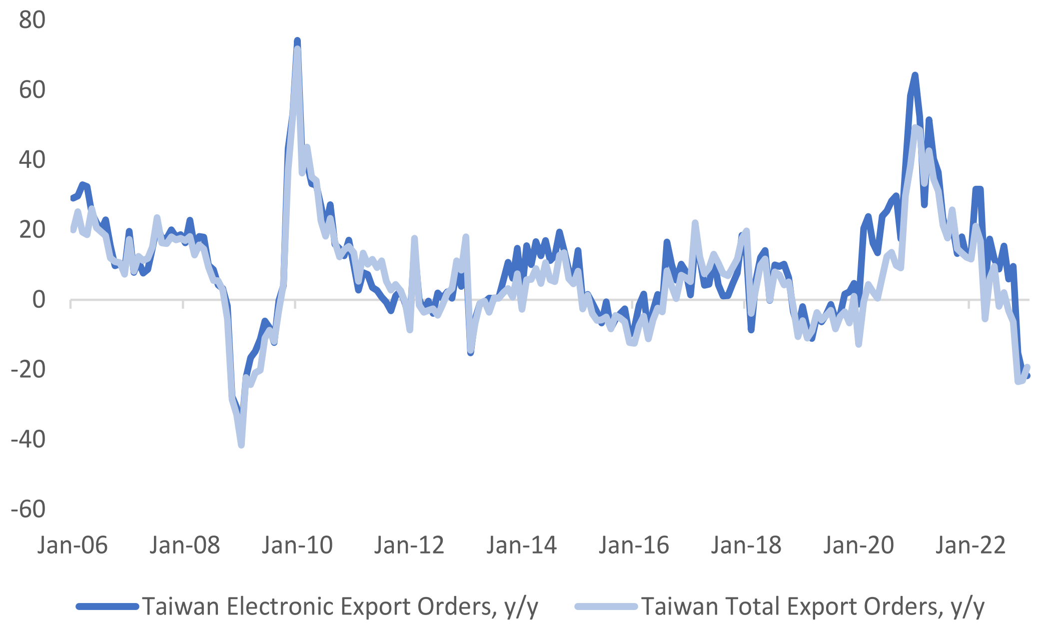


Source: MNI – Market News/Refinitiv/CPB/Bloomberg

TECH STILL A SOFT POINT THOUGH

- Tech headwinds persist though, with bellwethers South Korea and Taiwan continuing to suggest headwinds in the near term.
- Export growth from both countries to China also remains depressed but is expected to improve as we progress further into 2023.

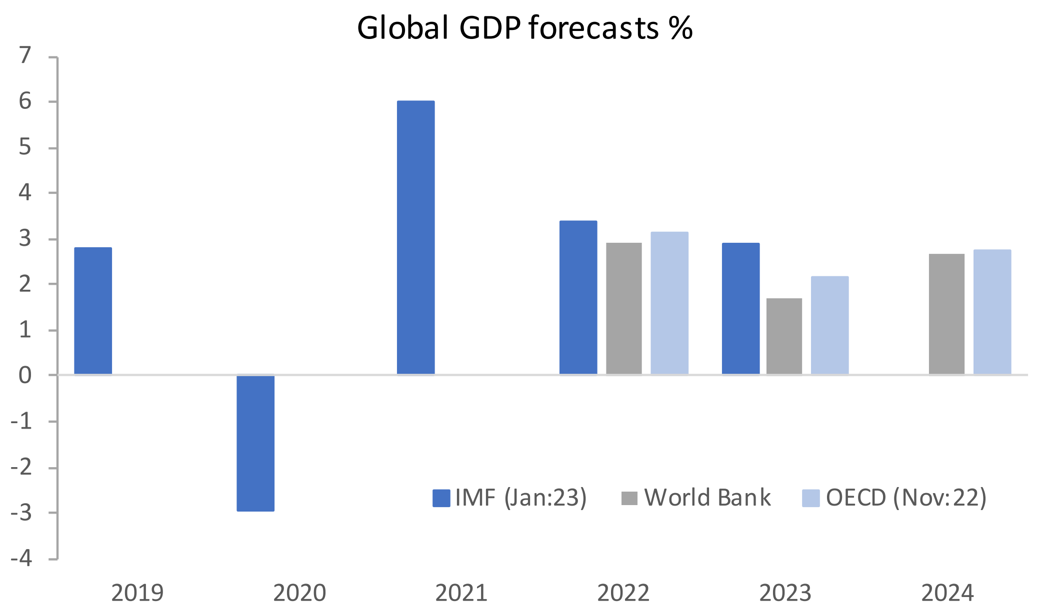


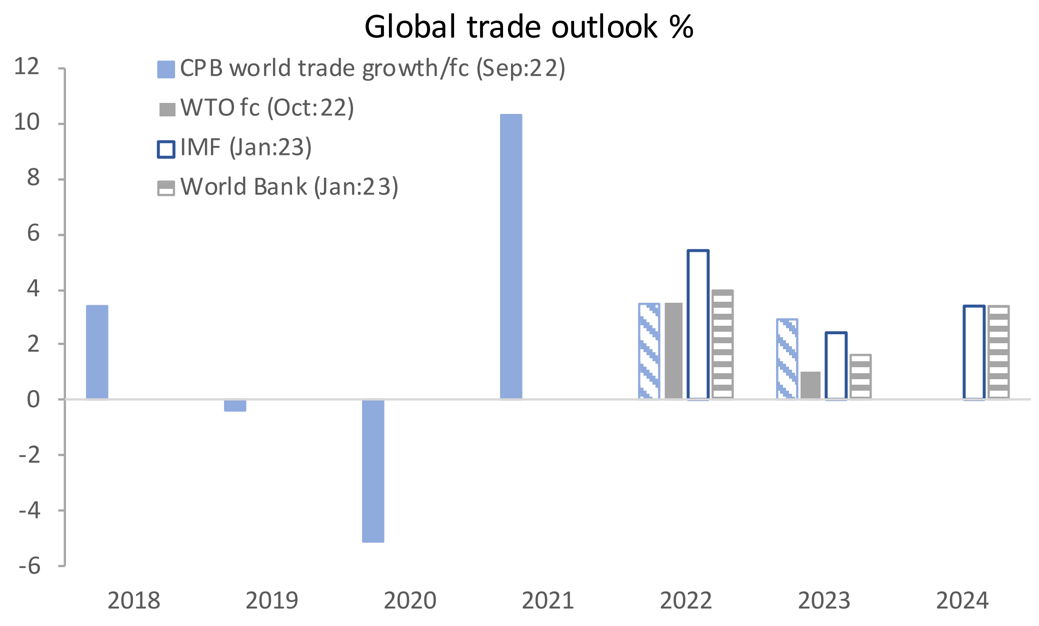


Source: MNI – Market News/Refinitiv/CPB/Bloomberg

WHILE OFFICIAL FORECASTS STILL EXPECT 2023 TO BE A CHALLENGING YEAR

- 2021 saw a strong rebound in global growth after Covid depressed demand and output in 2020.
- Growth normalised in 2022 to around the historical average but is expected to slow further in 2023 due to higher rates and inflation. 2024 should see some recovery as central banks may begin to ease.

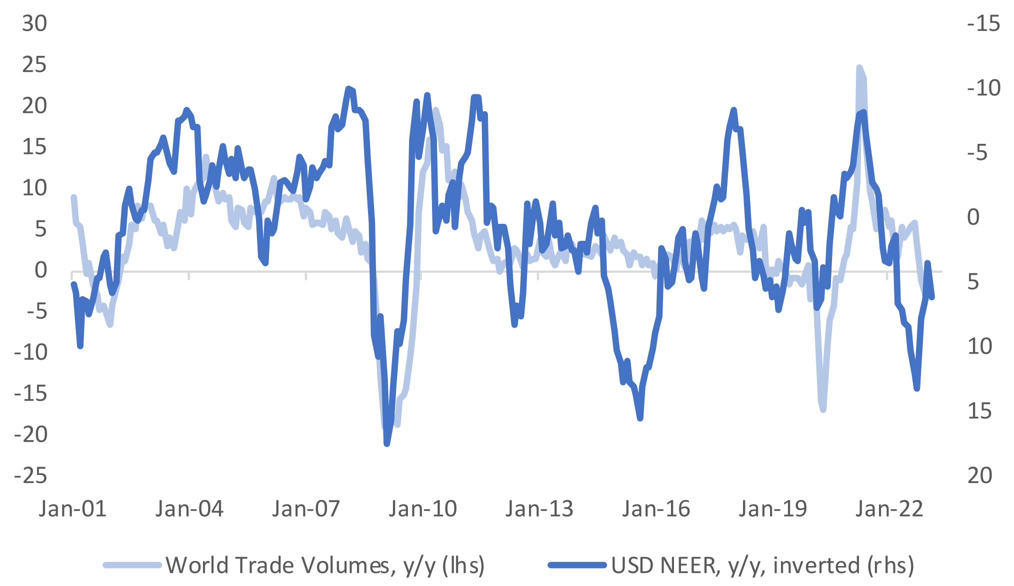


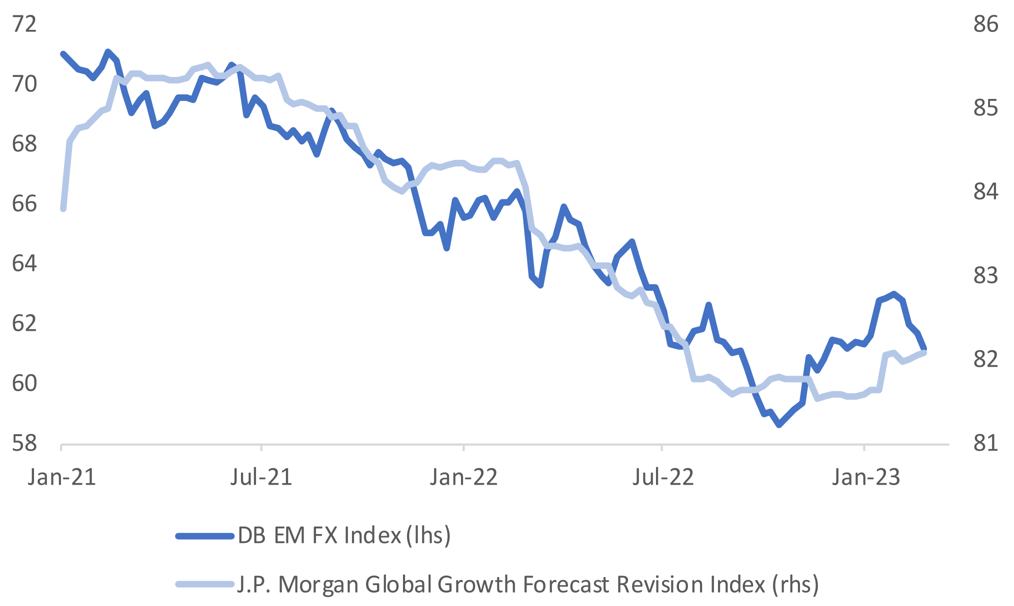


Source: MNI – Market News/IMF/World Bank/OECD/CPB/WTO

USD AND EM FX

- The USD has a strong inverse relationship with global trade/global growth trends. Any improvement on this front can offset the Fed's more hawkish 'higher for longer' outlook.
- This is particularly important for EM FX.

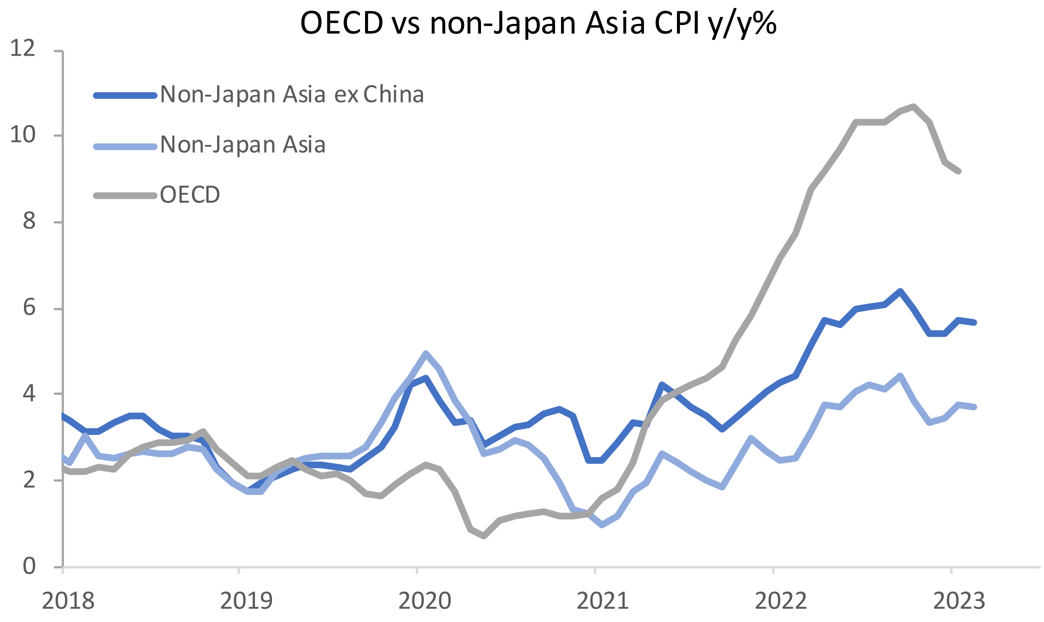


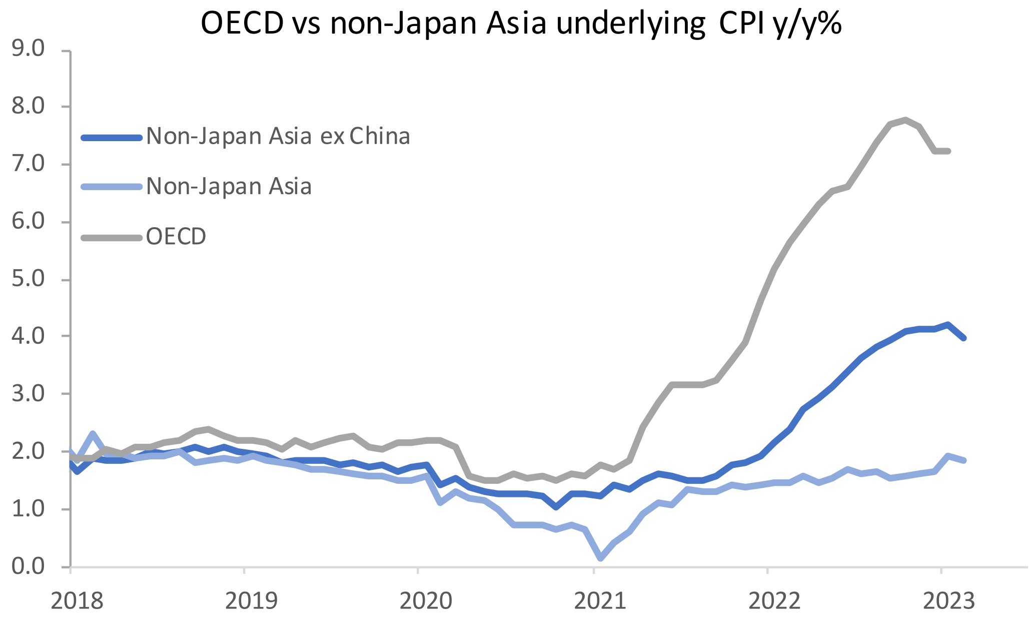


Source: MNI – Market News/Refinitiv

INFLATION – THE OTHER KEY WATCH POINT

- Inflation in Asia is significantly lower than in developed countries, even if China is excluded. OECD underlying inflation is looking sticky.
- While it hasn't turned down as clearly as in the OECD, its more moderate rate has meant that some Asian central banks have been able to pause rate rises.

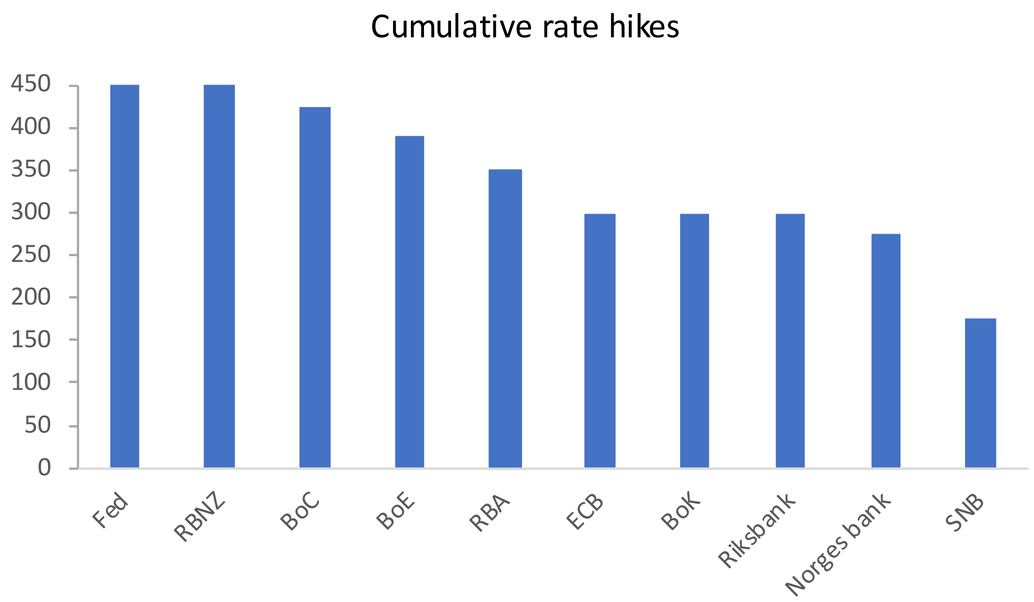


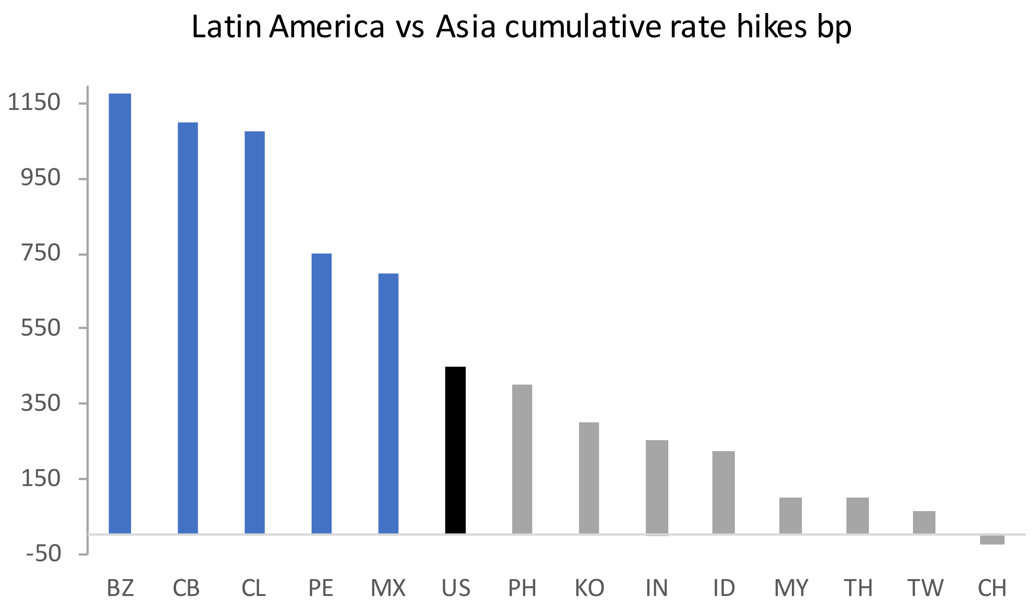


Source: MNI – Market News/Refinitiv

MONETARY POLICY

- Some of the early tightners have paused, such as the central banks of Brazil, Norway and Korea, but NZ was one of the first and it has indicated that there is another 75bp in the pipeline.
- We have seen a lot less tightening in Asia than in the OECD, EMEA and Latin America. A number of Asian central banks have already paused.





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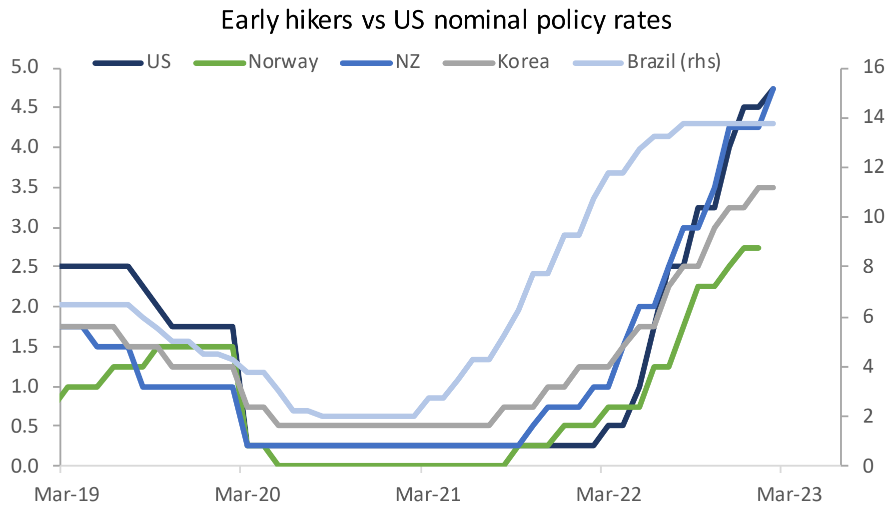
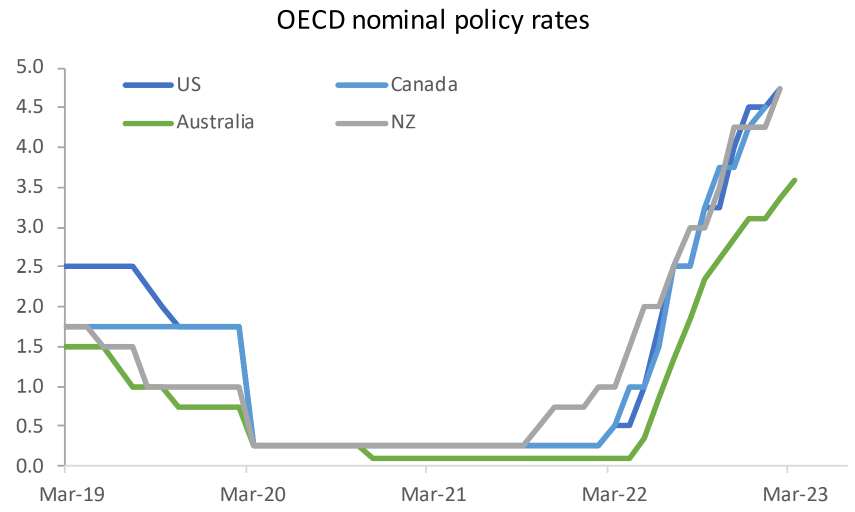
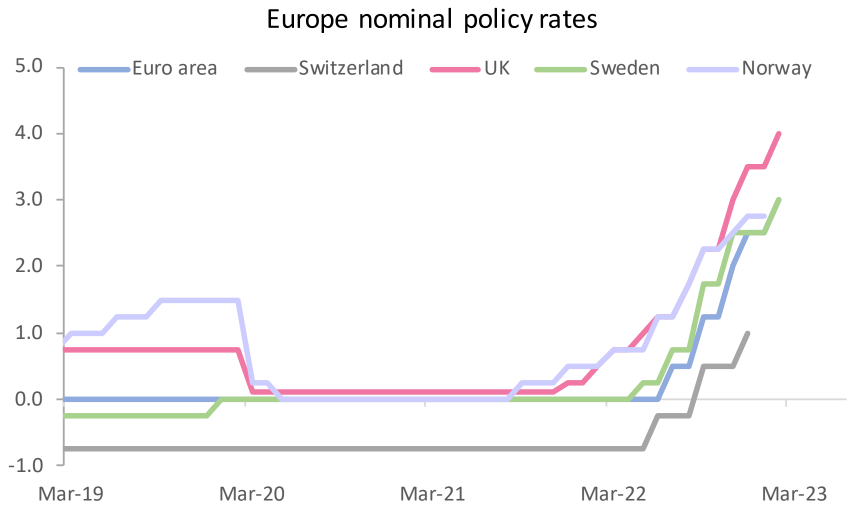
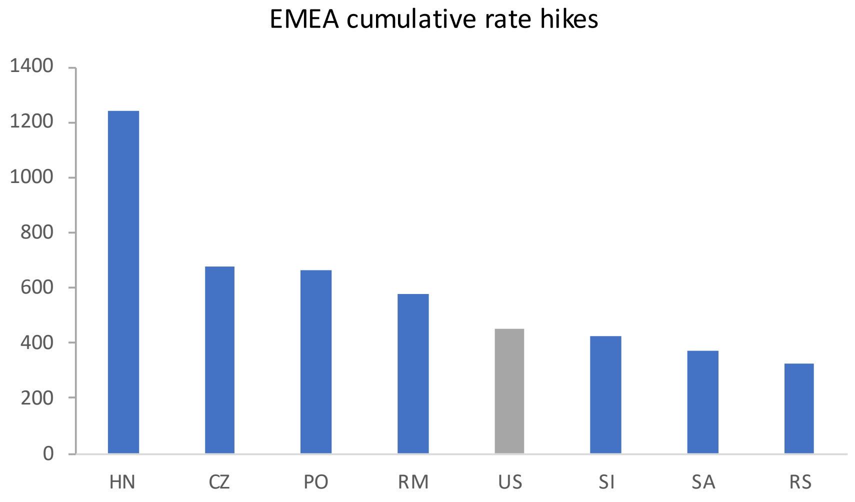
MONETARY POLICY





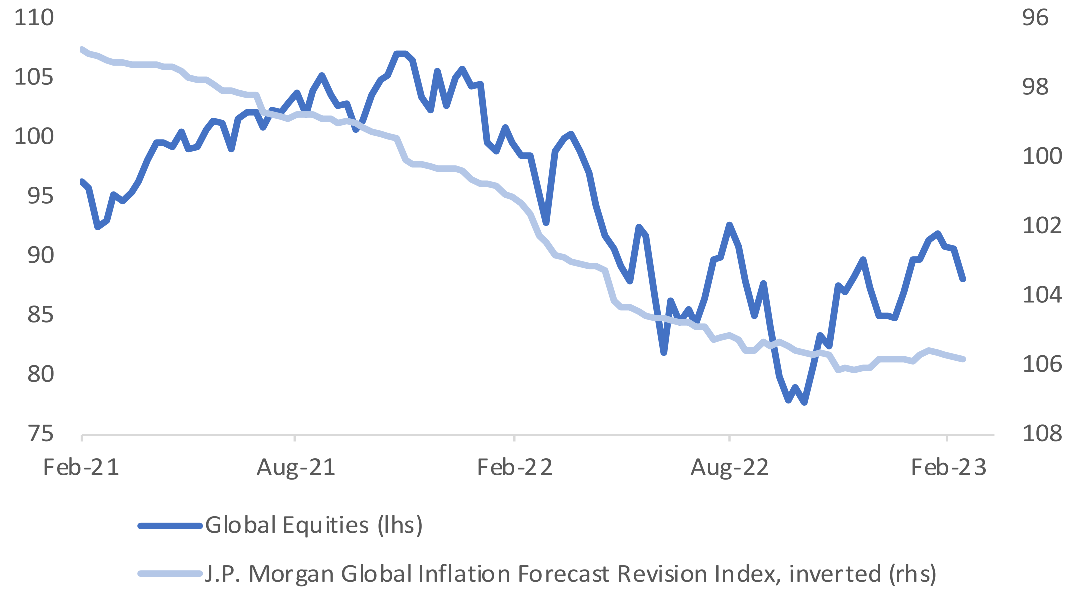


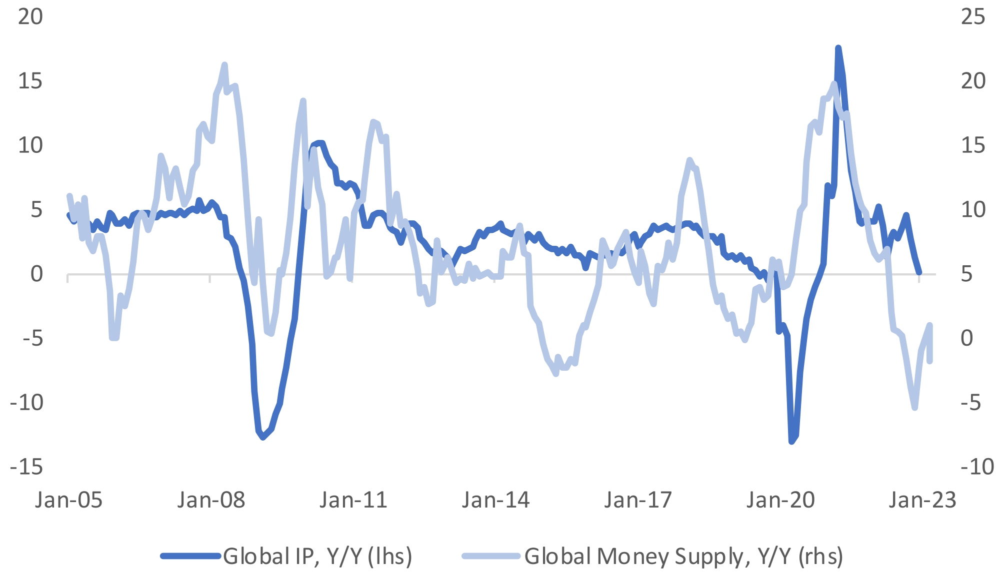


Source: MNI – Market News/Refinitiv

INFLATION EXPECTATIONS & GLOBAL EQUITIES

- Stronger-than-expected inflation will weigh on broader equity market sentiment all else equal.
- It can also feedback into weaker growth expectations via the tightening of the money supply channel.

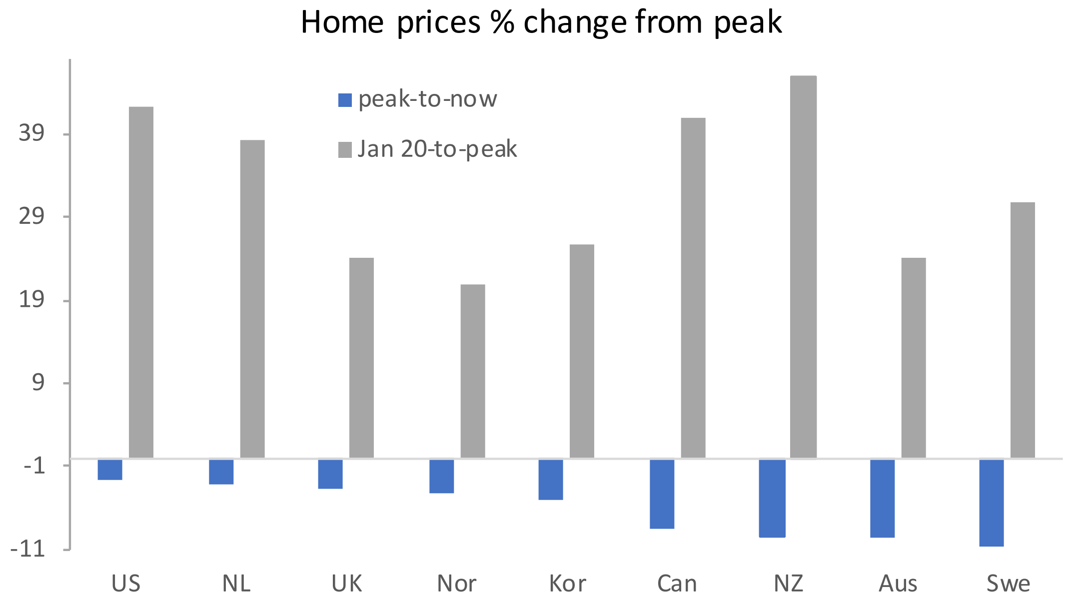


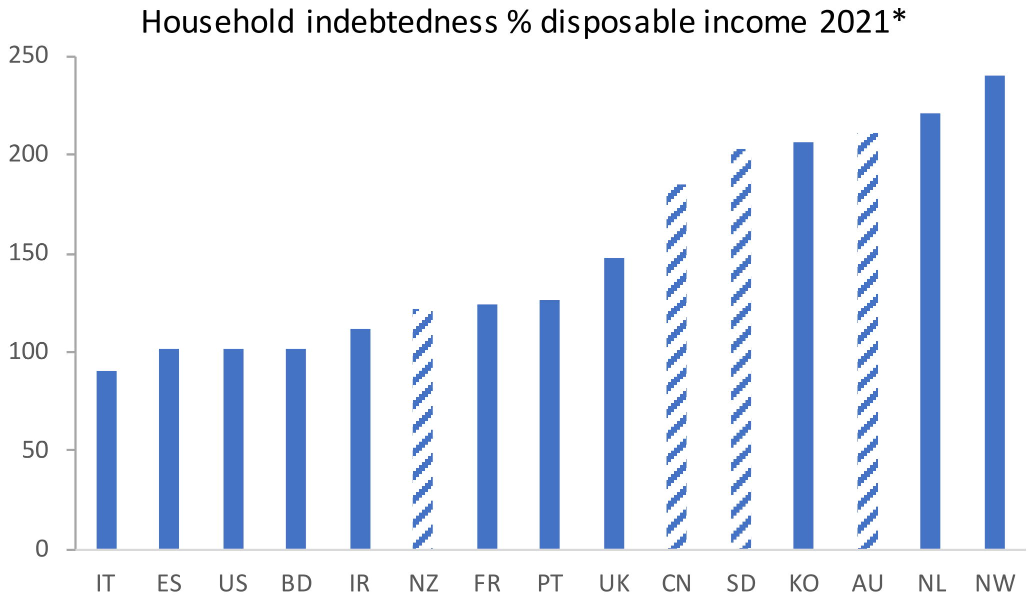


Source: MNI – Market News/Refinitiv

GLOBAL HOUSING

- Countries with high household indebtedness and a high share of variable rate mortgages have particularly vulnerable housing markets to monetary tightening. To date, they have seen the largest corrections.



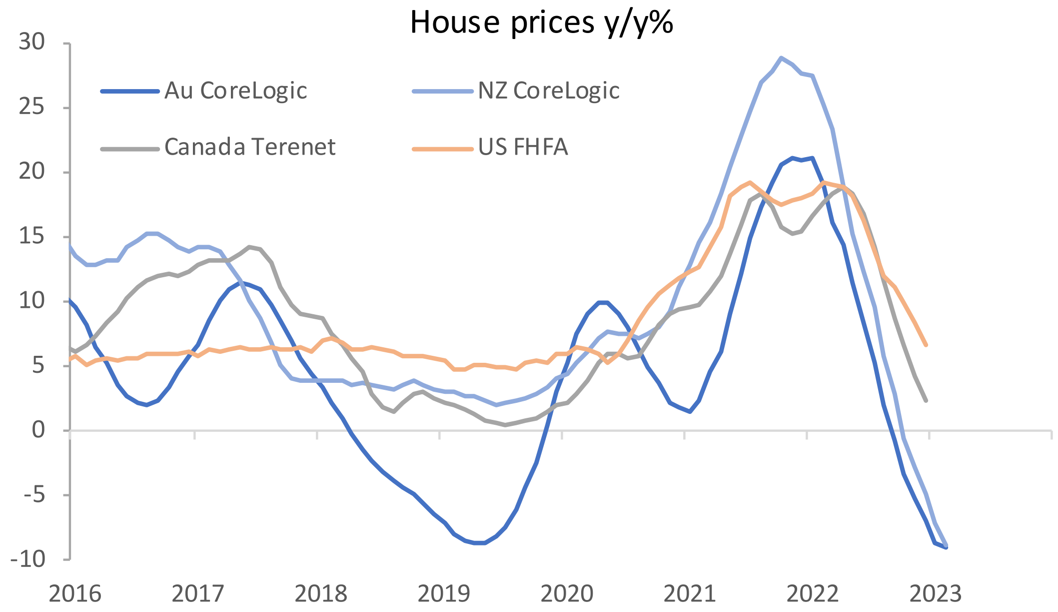


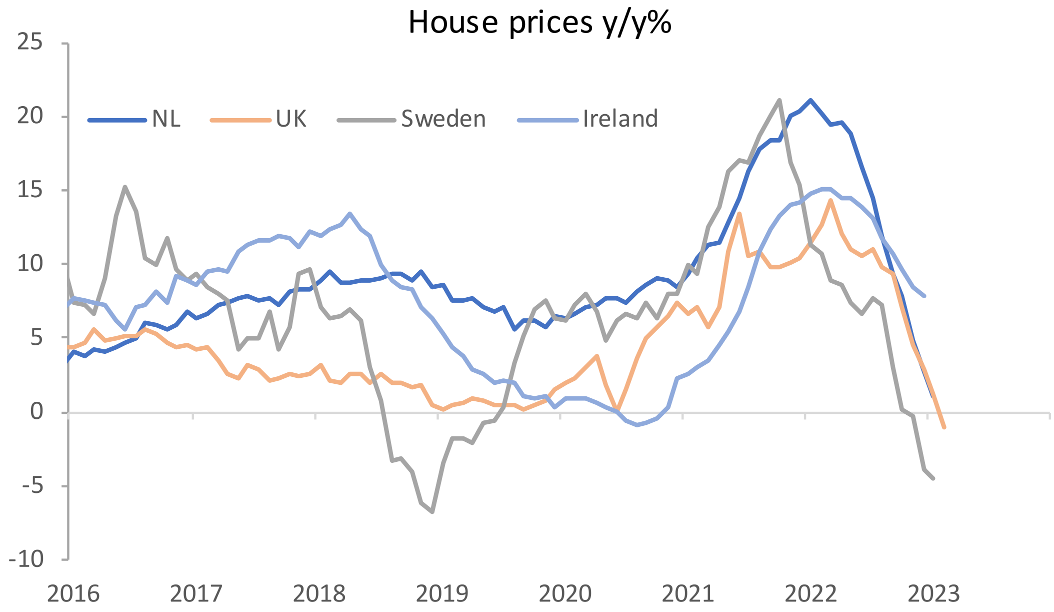
Source: MNI – Market News/Refinitiv/CoreLogic/OECD

*household debt data for NZ is 2020

GLOBAL HOUSING

- Different countries are at different stages of the housing correction process depending on how prevalent fixed rate mortgages are, the indebtedness of households and the extent of the pandemic era rally.
- Given slowing growth, poor affordability and higher rates, the correction likely has further to go. While it remains orderly, central banks are unlikely to be too concerned.





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