Markets are navigating the bifurcated risks of US growth slowdown and sticky inflation.

Selected Advanced Economies: Financial Conditions Index (FCI)
(Index: *positive is <u>easy financial conditions</u>*)

Legend: United States, Euro area, United Kingdom

Annotations:
- Russia-Ukraine war
- Fed's peak hawkishness
- Stress in US regional banks
- Dovish tilts of major AE central banks
- Market volatility triggered by US growth concerns
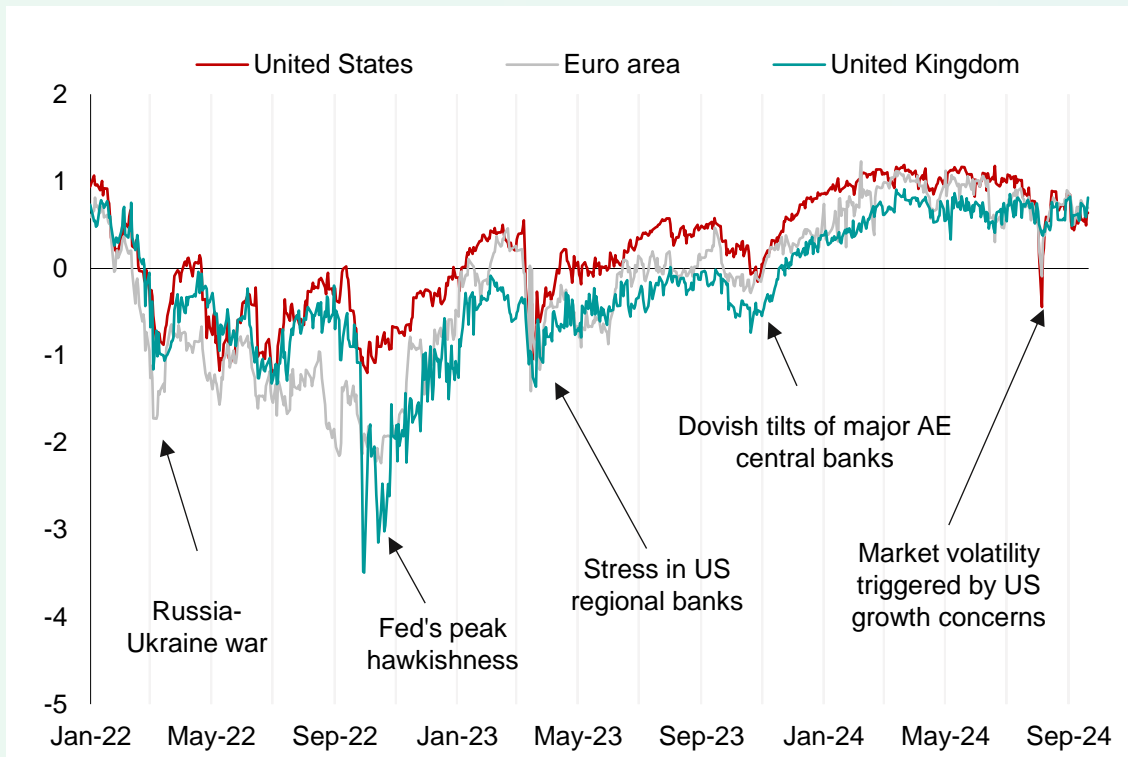
Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Data as of 20 September 2024.

US and Europe: Corporate Real Estate Price Indices
(Index, 2019 =100)

Legend: US, Europe
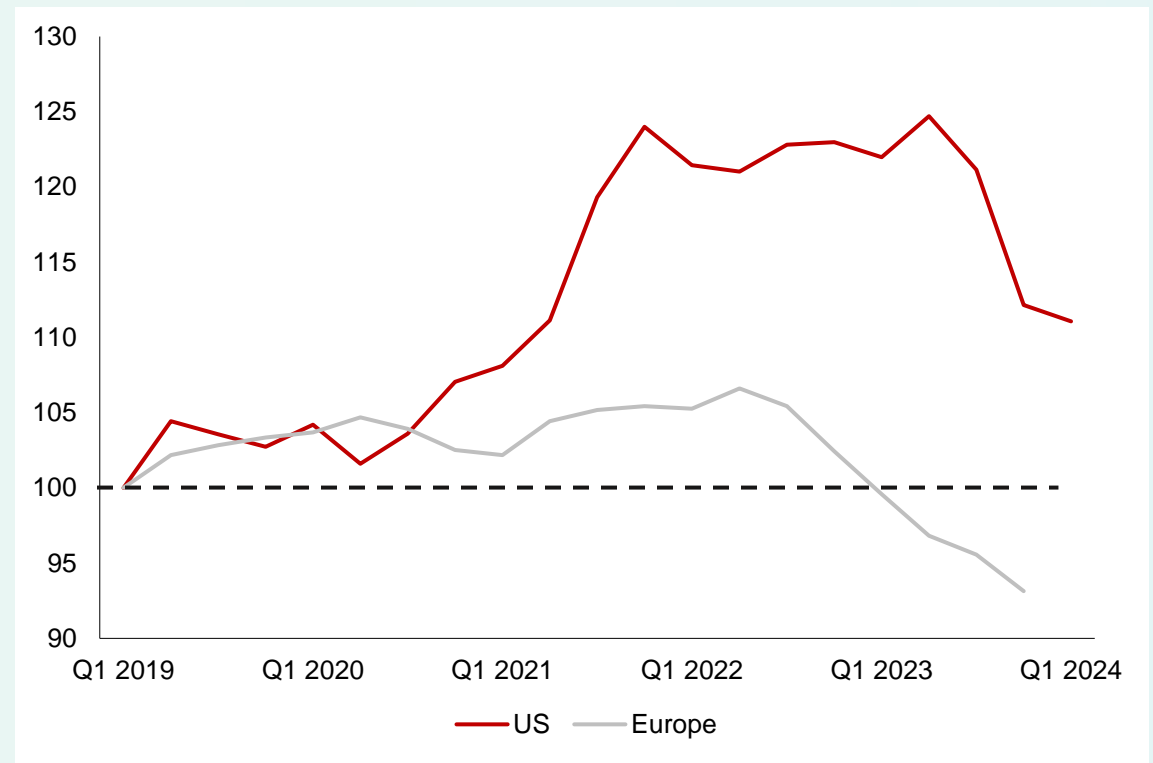
Source: Bank for International Settlements via Haver Analytics; AMRO staff calculations.
Note: Data as of Q1-2024 for the US and Q4-2023 for EU.

Turning to ASEAN+3, financial market stress declined broadly in ASEAN+3 but rose in early August.

Recent Developments

ASEAN+3: Market Stress indicator
(Index: *positive is <u>tightening</u> relative to the average between 1-Jan-2010 to 9-Sep-2024*)

Plus-3 — ASEAN

Selected ASEAN+3: Changes in Equity Markets
(Percent, log changes)

■ Change in 2024 (year-to-date)
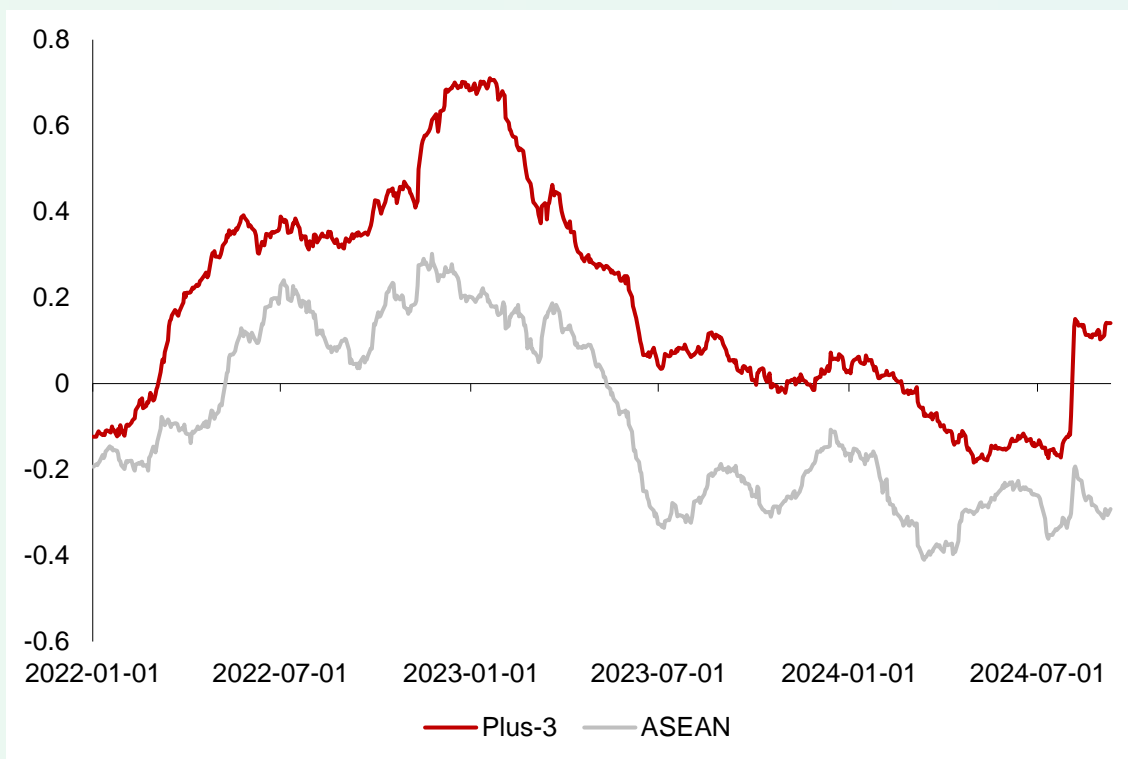
Source: Bloomberg Finance L.P.; Haver Analytics; AMRO staff calculations.
Note: The Market Stress Index is based on the Mispricing Risk (Refined) proposed in Hennig, Iossifov, and Varghese (2023) which attempts to capture the slack in financial conditions. Data as of 9 September 2024.
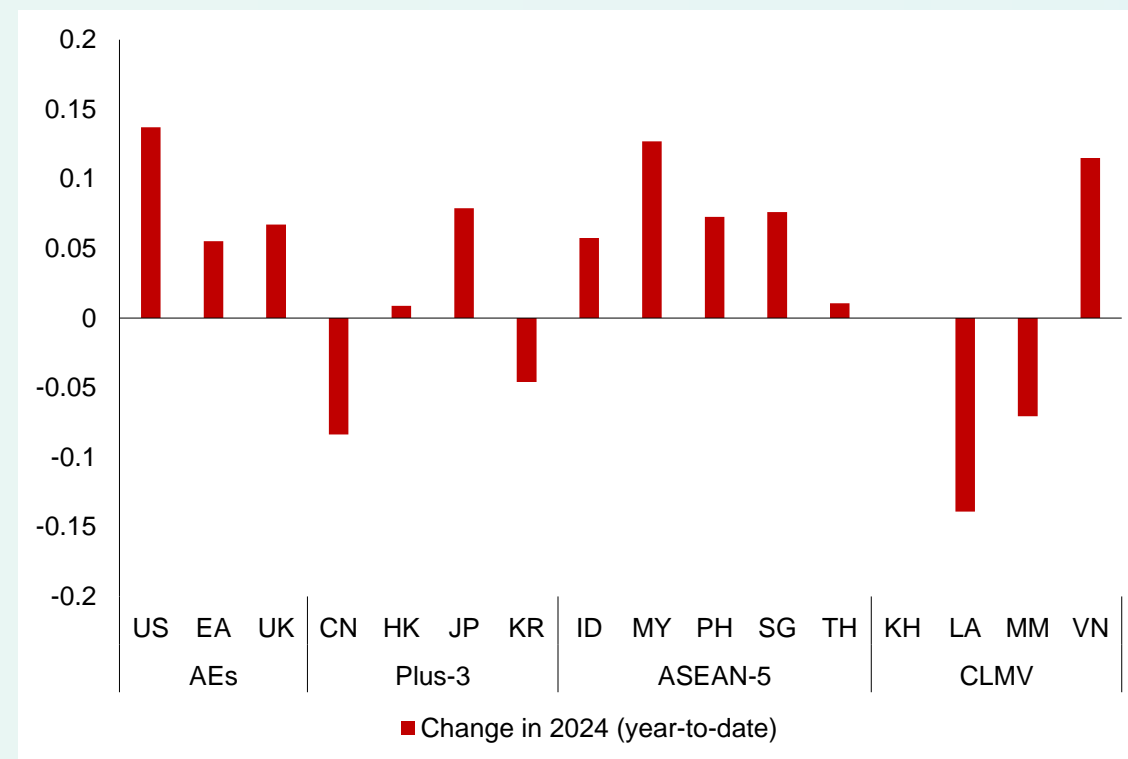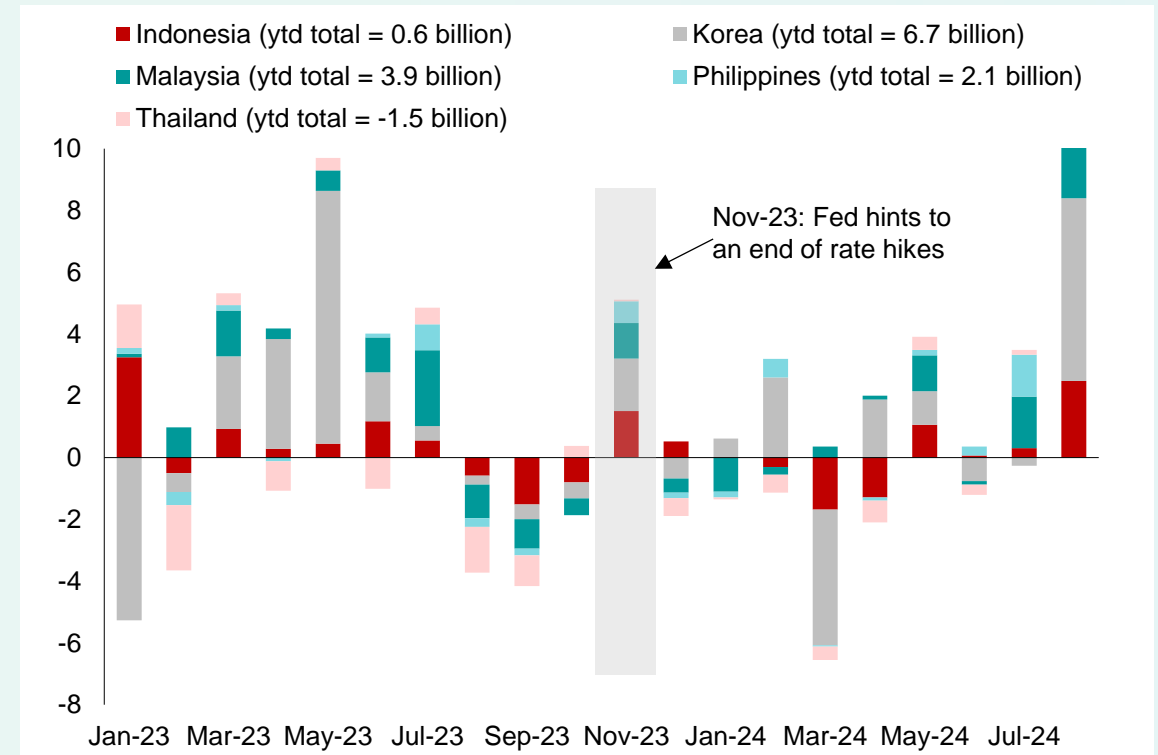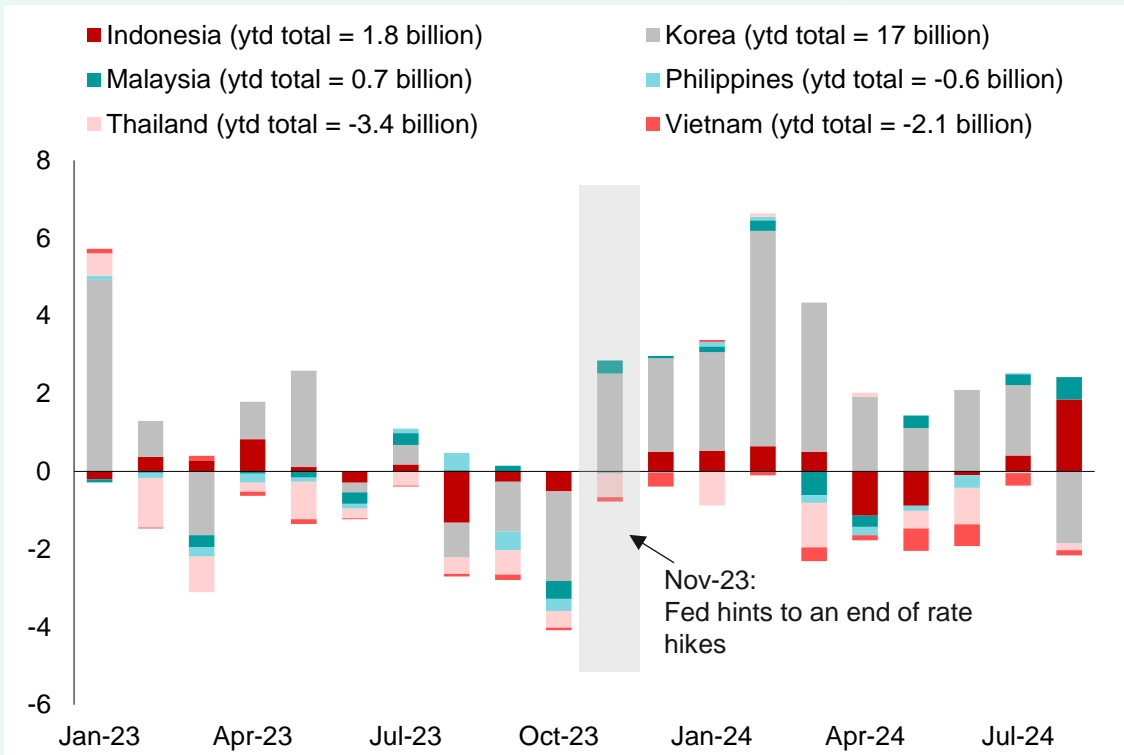
Source: National authorities via Bloomberg Finance L.P.; Bank for International Settlements; Haver Analytics; AMRO staff calculations.
Note: The DXY Index is used to determine the change in the US dollar. AEs = advanced economies; CN = China; EA = euro area; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MM = Myanmar; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; UK = United Kingdom; US = United States. VN = Vietnam. Data for 2024 (year-to-date) as of 9 September 2024.

Portfolio inflows into ASEAN+3 markets have not been as strong as other EM, except Korea.

Selected ASEAN+3: Monthly Equity Flows
(Billions of US dollars)

- Indonesia (ytd total = 1.8 billion)
- Korea (ytd total = 17 billion)
- Malaysia (ytd total = 0.7 billion)
- Philippines (ytd total = -0.6 billion)
- Thailand (ytd total = -3.4 billion)
- Vietnam (ytd total = -2.1 billion)

Nov-23: Fed hints to an end of rate hikes

Selected ASEAN+3: Monthly Debt Flows
(Billions of US dollars)

- Indonesia (ytd total = 0.6 billion)
- Korea (ytd total = 6.7 billion)
- Malaysia (ytd total = 3.9 billion)
- Philippines (ytd total = 2.1 billion)
- Thailand (ytd total = -1.5 billion)
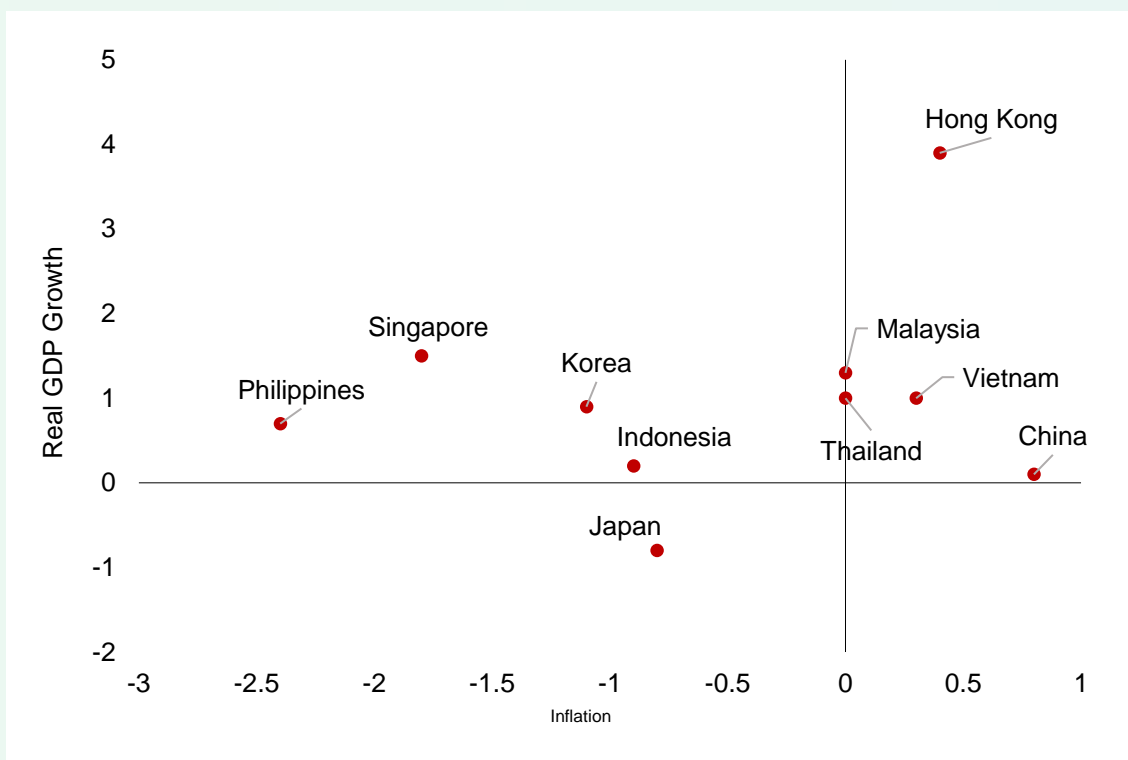
Nov-23: Fed hints to an end of rate hikes

Source: National authorities; Bloomberg Finance L.P; Haver Analytics; AMRO staff calculations

Source: National authorities; Bloomberg Finance L.P; Haver Analytics; AMRO staff calculations.
Note: The debt flows data includes foreign investments in local currency debt only. The data consists only of government bonds for Indonesia and the Philippines; and government and corporate bonds for other markets.

Similar to the Fed, most regional central banks have either started or are expected to start policy easing.

Selected ASEAN+3: Expected Changes in Real GDP Growth and Inflation from 2023 to 2024
(Percentage points)

Selected ASEAN+3: Market-implied Changes in Policy Rates
(Basis points)

Legend: ■ 3 months ■ 6 months ■ 12 months

Source: AMRO ASEAN+3 Regional Economic Outlook 2024 July.
Note: The difference is calculated as 2024 forecasts minus 2023 actual data.
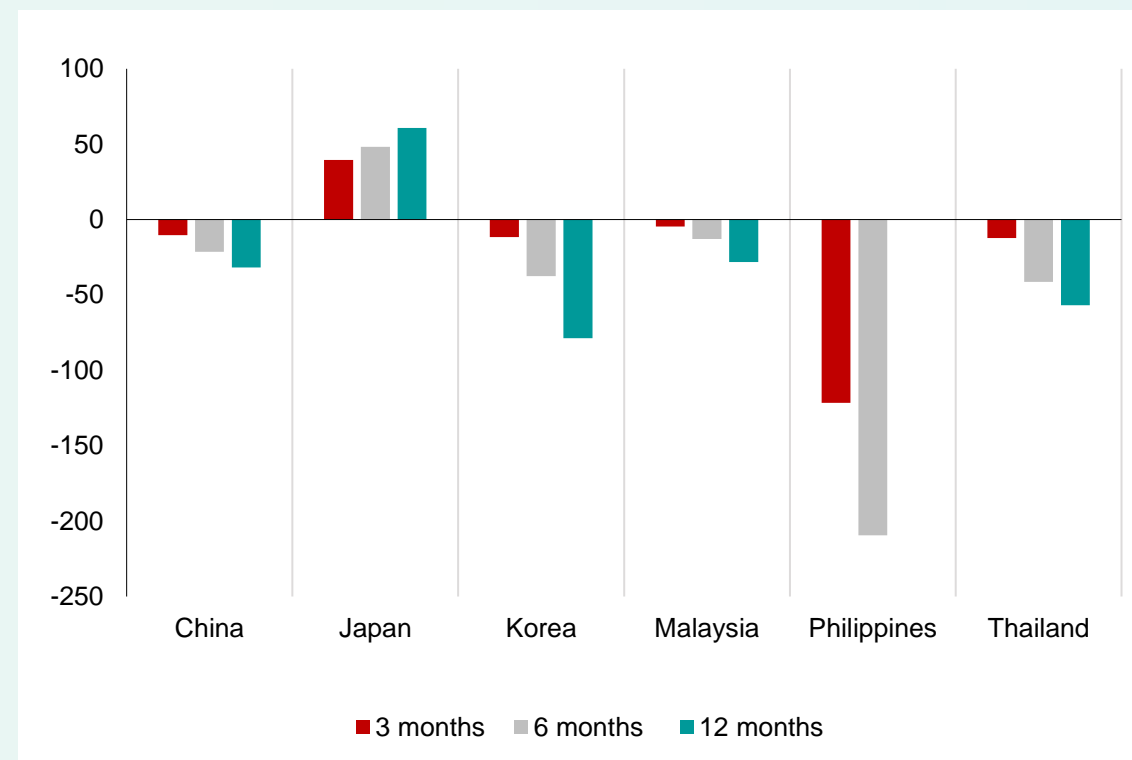
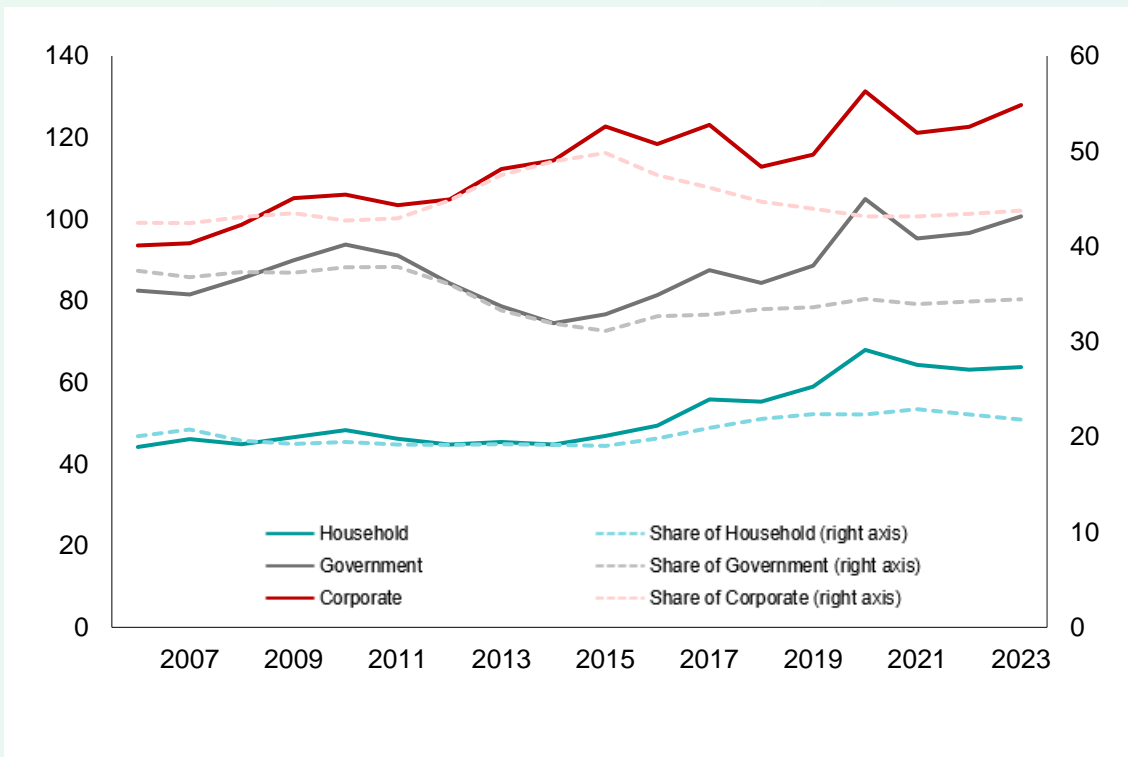Source: Bloomberg Finance L.P.; AMRO staff calculation
Note: Bars denote the cumulative changes in market-implied policy rates in a respective time horizon. We do not use the 12-month data point for the Philippines due to its pricing irregularities. Data as of 9 September 2024
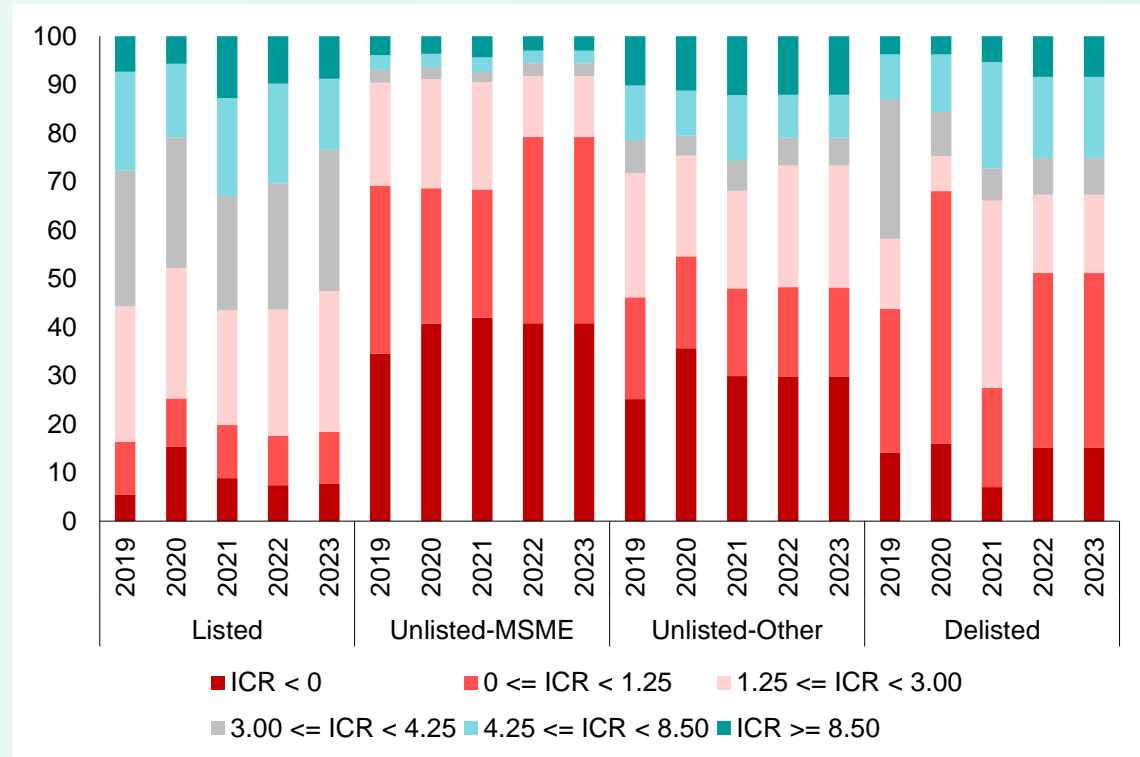
Meanwhile, the debt-to-GDP ratio continues to rise in ASEAN+3 and vulnerability in high corporate debt arises from certain firm types and sectors.

Selected ASEAN+3: Corporate, Government and Household Debt
(Percent of GDP, percent)

Legend:
- Household
- Government
- Corporate
- Share of Household (right axis)
- Share of Government (right axis)
- Share of Corporate (right axis)

ASEAN: Interest Coverage Ratio, 2019-2023
(Percent of Debt)

Categories: Listed | Unlisted-MSME | Unlisted-Other | Delisted

Legend:
- ICR < 0
- 0 <= ICR < 1.25
- 1.25 <= ICR < 3.00
- 3.00 <= ICR < 4.25
- 4.25 <= ICR < 8.50
- ICR >= 8.50

Source: Bank for International Settlements (BIS); AMRO staff calculations.
Note: Data covers all economies reporting nonfinancial debt data to the BIS. Selected ASEAN+3 includes China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, and Thailand. Government debt data include all the above economies except Korea which reports market value instead of nominal by others.
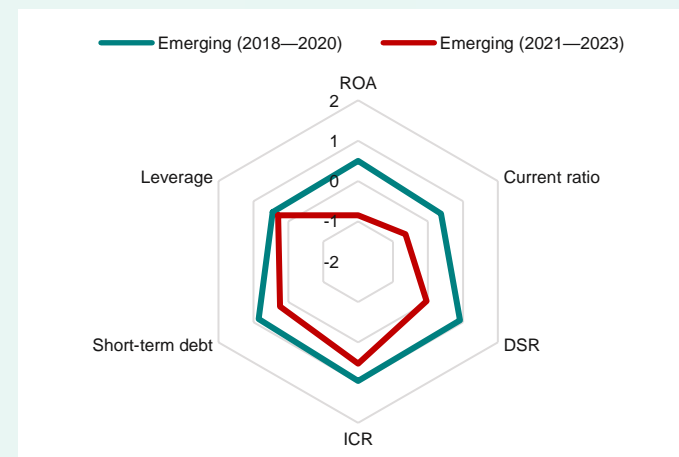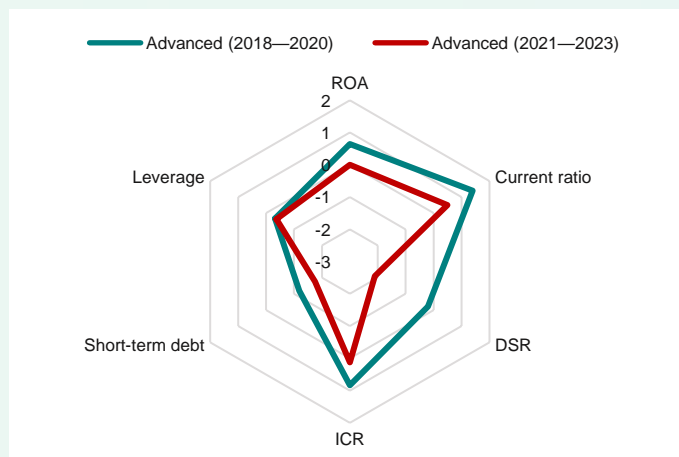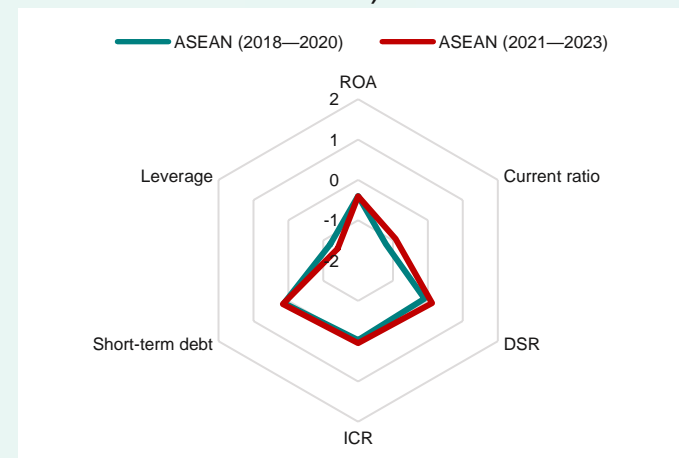
Source: Orbis; AMRO staff calculations.
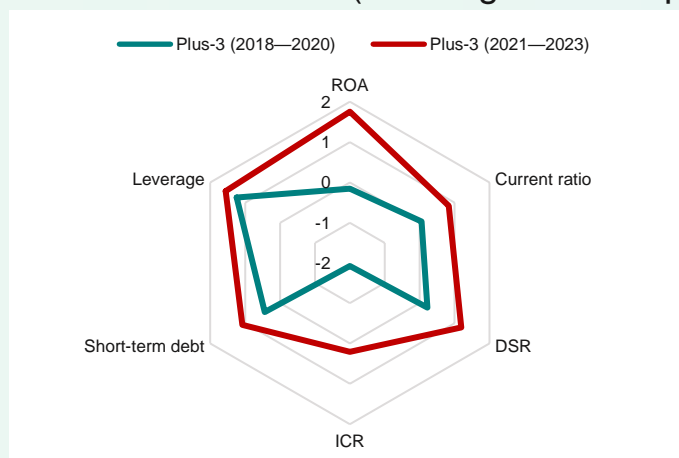Note: MSME = micro, small, and medium enterprise; ICR = interest coverage ratio.

In particular, financial soundness of property-related companies in ASEAN+3 has shown notable vulnerabilities, especially in Plus-3.

Changes in Financial Soundness of Property-Related Corporates
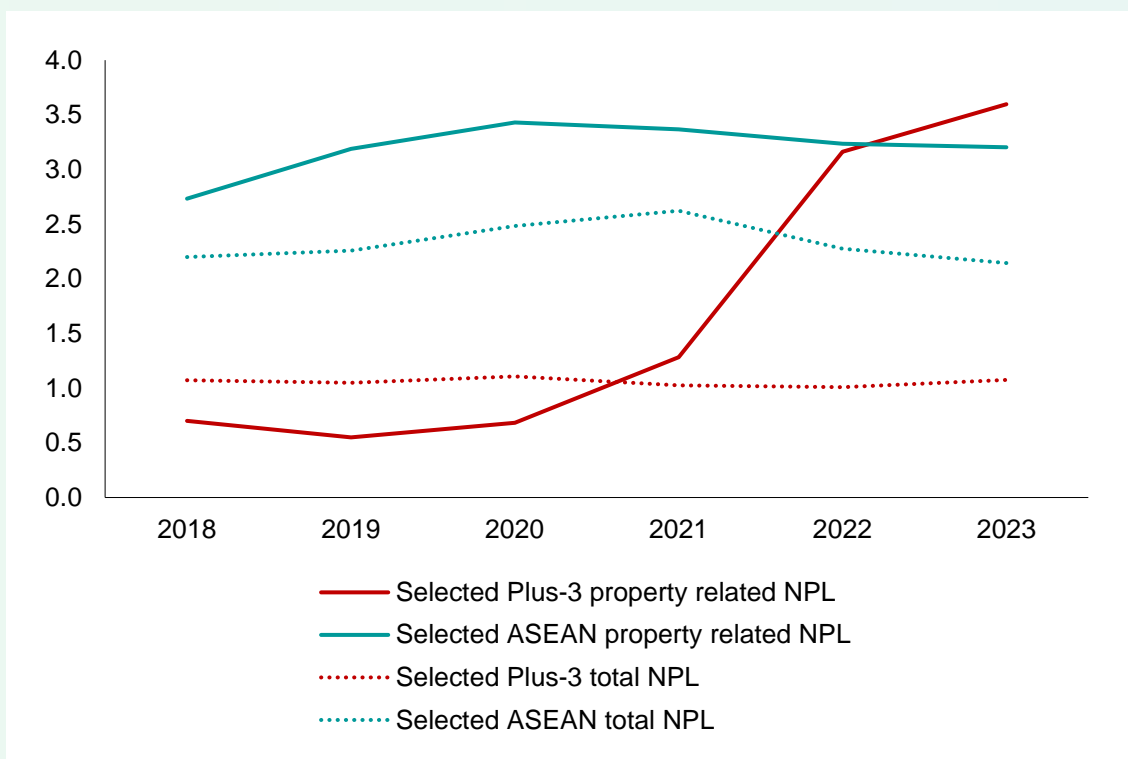
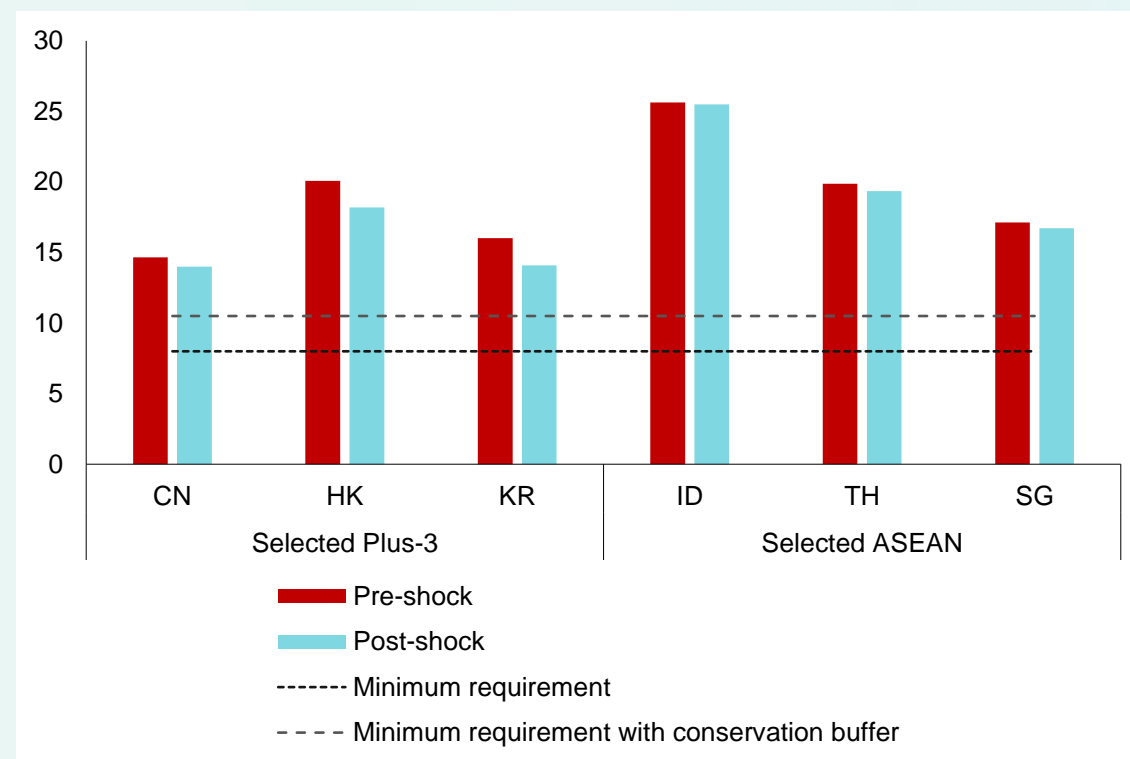(The larger the shape, the greater the vulnerabilities)

Source: Orbis and AMRO staff calculations.

Property-related loan quality remains stable in ASEAN but is declining in Plus-3.

Property-related NPLs out of Property-related Loans
(Percent)

- Selected Plus-3 property related NPL
- Selected ASEAN property related NPL
- Selected Plus-3 total NPL
- Selected ASEAN total NPL

Potential Impact of Property Developers' NPL Deterioration on Banks' CAR (Percent)

Selected Plus-3   Selected ASEAN

- Pre-shock
- Post-shock
- Minimum requirement
- Minimum requirement with conservation buffer

Source: CEIC; Wind; Haver Analytics; national authorities; AMRO staff calculations
Note: Simply average across available economies. Selected Plus-3 includes China, Hong Kong, and Korea. Selected ASEAN includes Indonesia, Singapore, and Thailand. Property-related loans are commercial bank loans to construction and real estate activities (CN, TH, KR, ID); Construction, property development and investment (HK); and building and construction (SG). Property-related NPL ratios refer to property-related NPLs out of all property-related loans. For Korea, Q3 data is used for 2023.

Source: CEIC, Wind, National authorities, Bank financial statements, AMRO staff estimates.
Note: Shock is equivalent to a three standard deviation increase to NPLs in each economy.

Selected Regions: Nonperforming Loan (NPL) Ratio
(Percent)
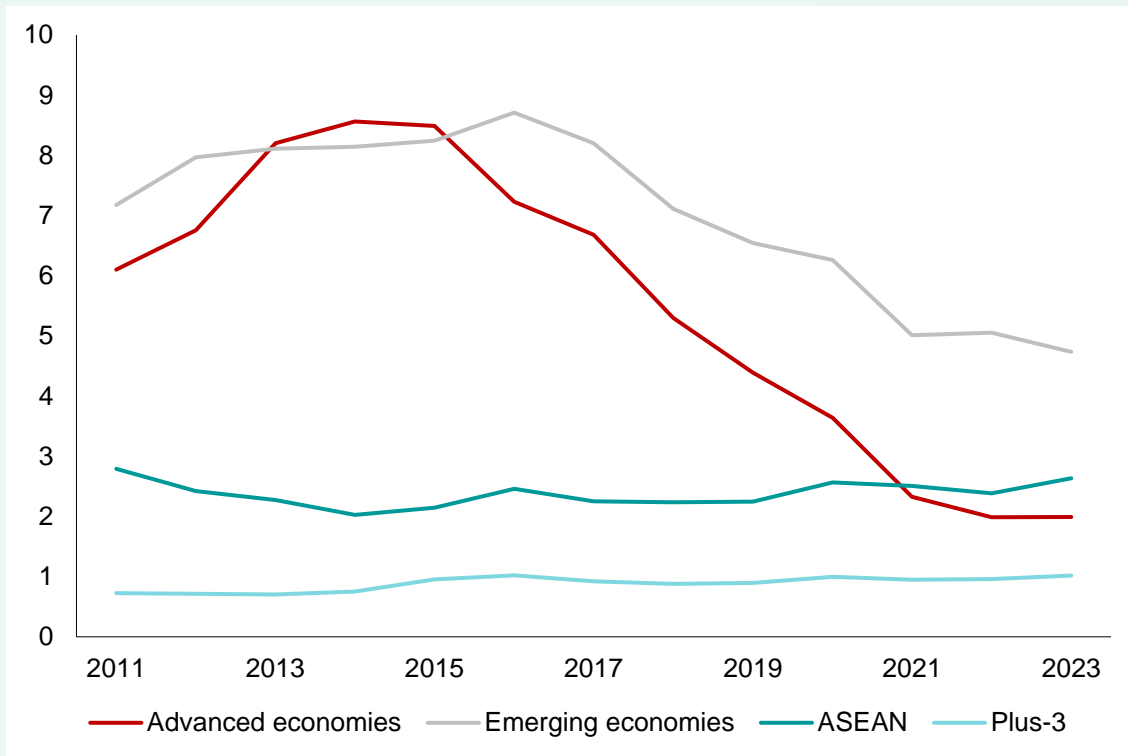
Legend: Advanced economies — Emerging economies — ASEAN — Plus-3

World and ASEAN+3: Financing of Nonfinancial Private Sector by Banks and NBFIs (Percent of GDP, Percent)

Legend: NBFI — Bank — NBFI share to total financing (right aixs)

Categories: Rest of the World (2022, 2023); Plus-3 ex HK (2022, 2023); IFCs (2022, 2023); Selected ASEAN (2022, 2023)

Source: National authorities via CEIC and Haver Analytics; AMRO (2024); AMRO staff calculation.
Note: The interest payments are computed based on simple averages amongst economies in the specific group. Plus-3 ex Japan = China, Hong Kong, JP = Japan, ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand, BCLMV = Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Vietnam.

Source: National authorities; Bank for International Settlements; AMRO staff calculation.
Note: The debt burden is estimated by multiplying household debt by the interest rate and assuming a 10-year average debt maturity using the formula in Drehmann and others (2015). CN = China, HK = Hong Kong, ID = Indonesia, JP = Japan, KR = Korea, MY = Malaysia, SG = Singapore, TH = Thailand.

US: Inflation and Inflation Data Surprises
(Percent of GDP; percent)

Many inflation readings have been higher than forecasts

- Headline CPI (positive surprises)
- Headline CPI (negative surprises)
- Headline CPI (actual, right axis)
- Core CPI (actual, right axis)
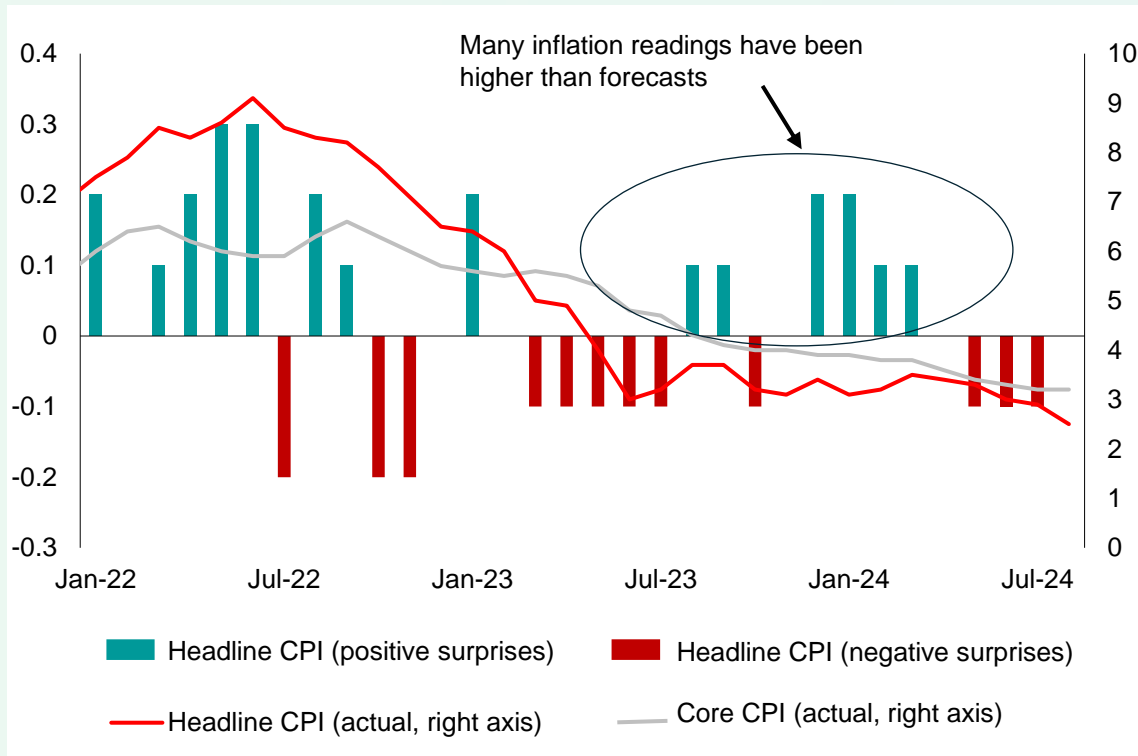
Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Headline CPI surprise is calculated as the difference between actual and forecast median of Bloomberg economist survey. CPI = consumer price index. Latest data as of August 2024.

Impact of USD Appreciation to ASEAN+3 Stock Market (Percent)

- CN
- JP
- KR
- HK
- SG
- MY
- TH
- ID
- PH

Days
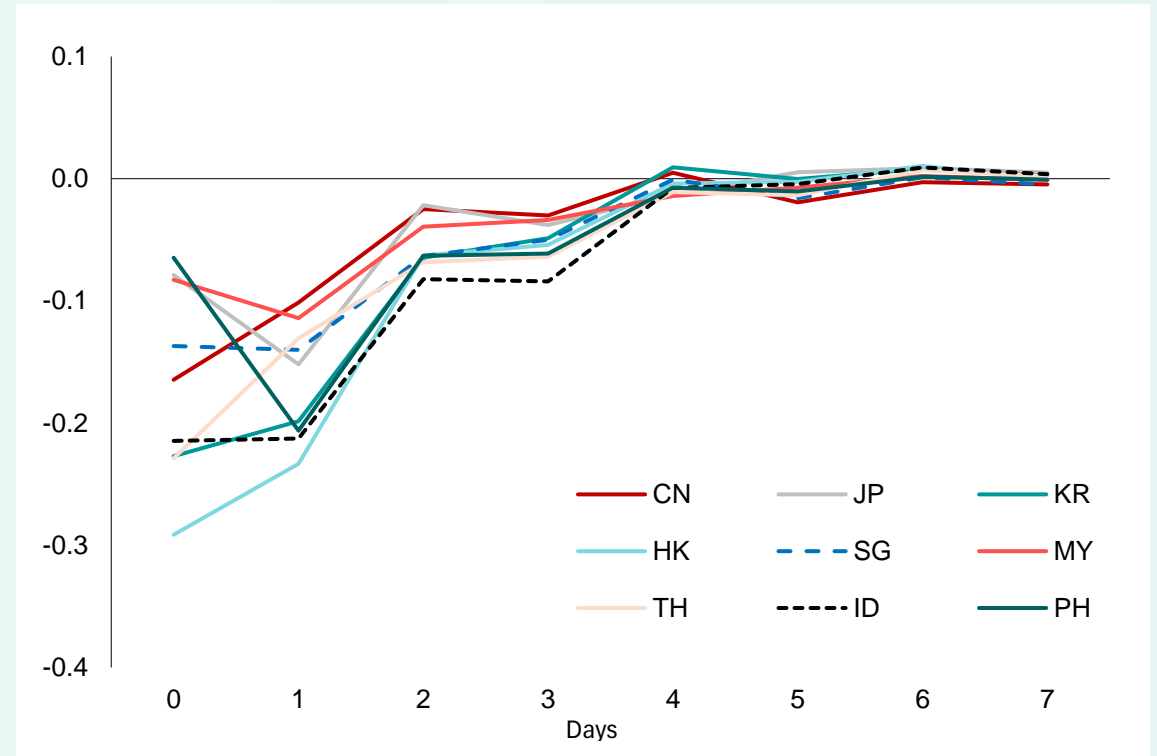
Source: AMRO staff calculation.
Note: Note: The figure depicts generalized impulse responses of stock market in ASEAN+3 economies to a 1 standard deviation US nominal effective exchange rate (NEER) appreciation, using daily data. CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; VN= Vietnam.

Risk #2: Rising geopolitical uncertainties could impact financial stability through multiple channels.

Brent Crude Oil Price and Shipment Cost
(thousands of US dollar; US dollar per barrel)
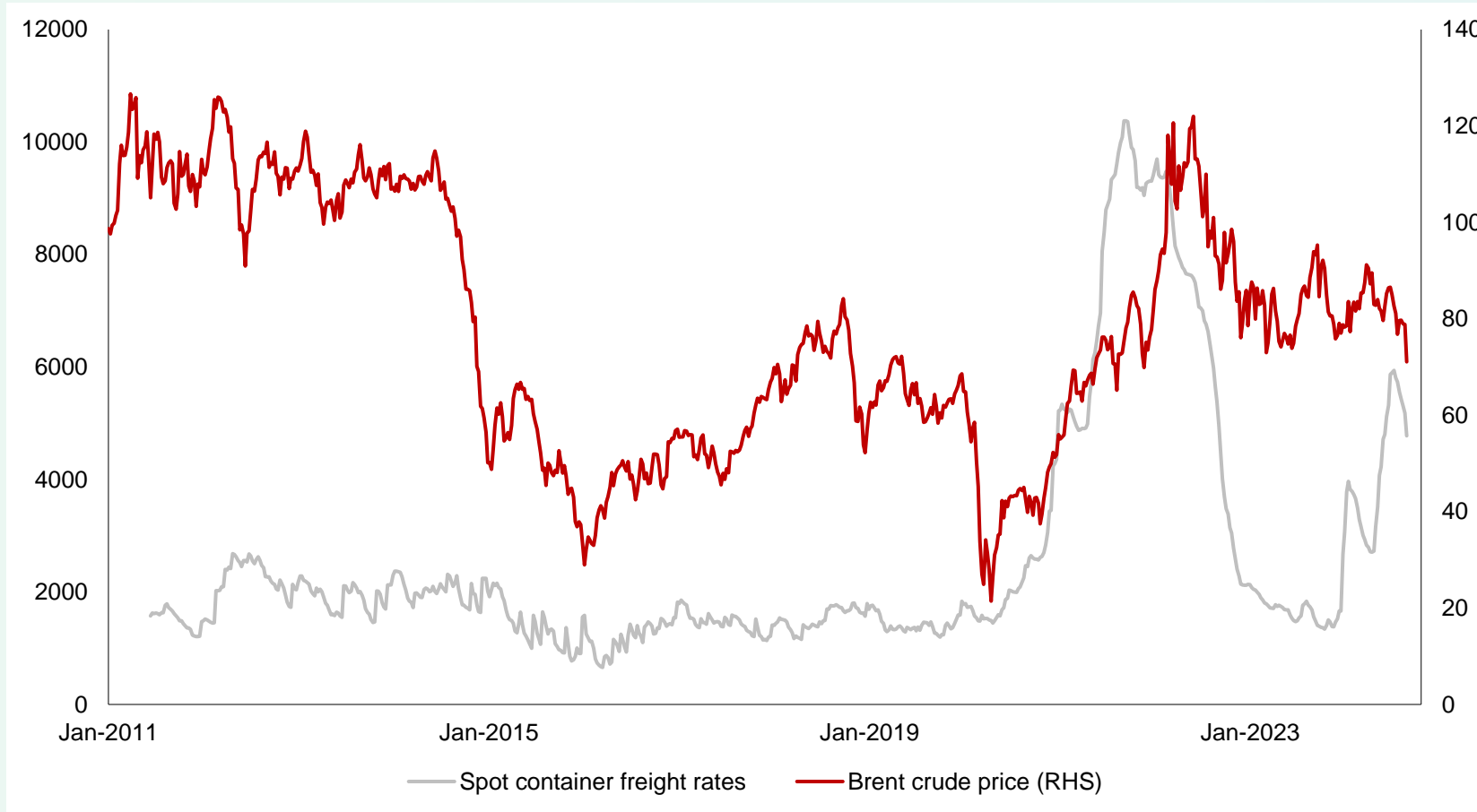
Legend: Spot container freight rates — Brent crude price (RHS)

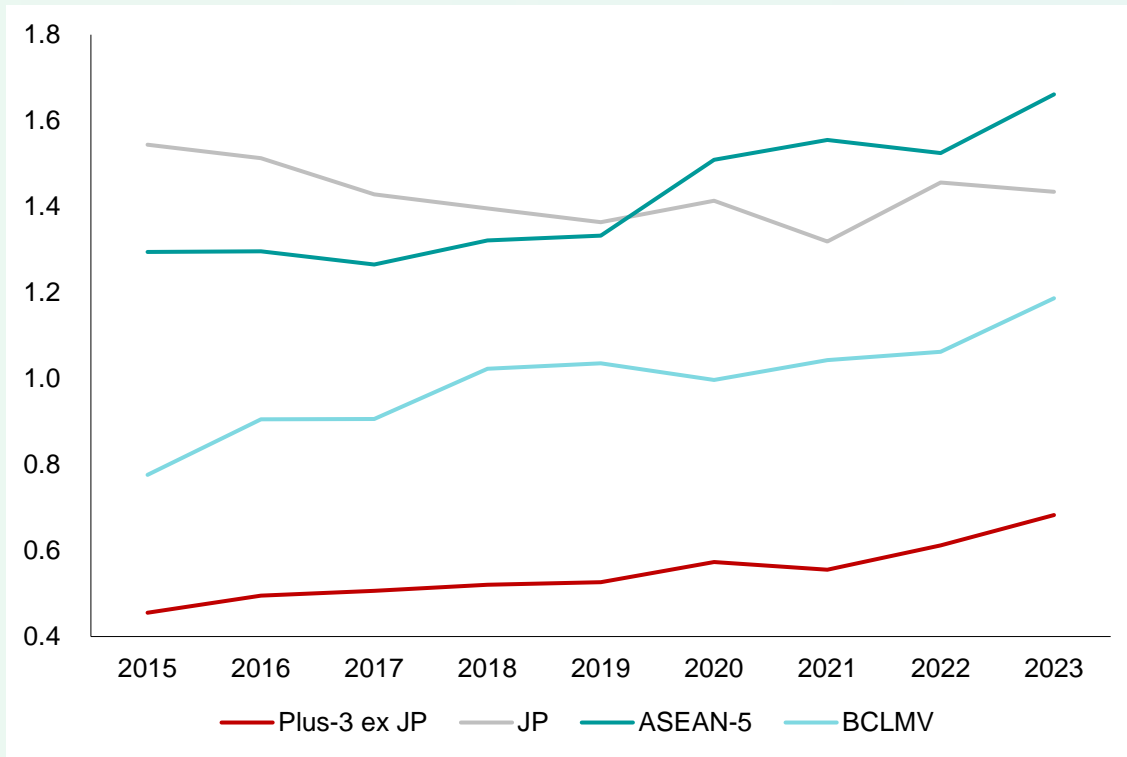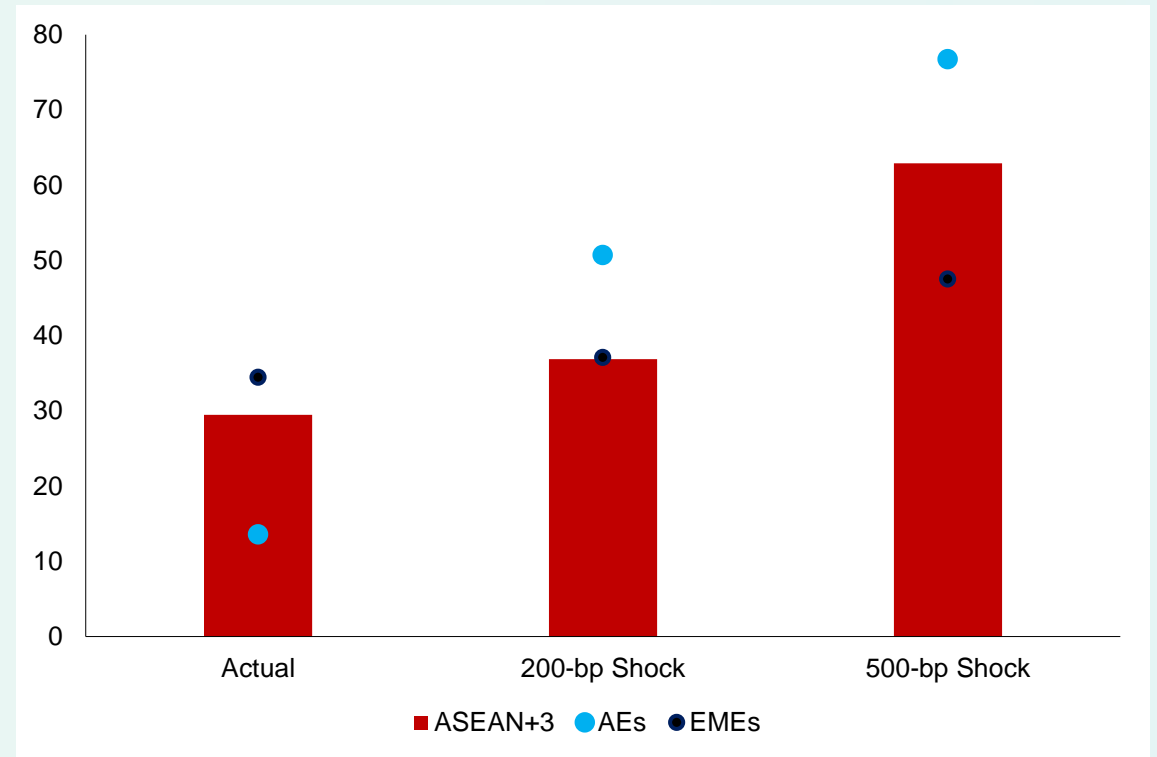# *Risk #3: Rising debt levels leads to larger debt servicing obligations of both governments and corporates.*

Selected ASEAN+3: Government Interest Payments
(Percent of GDP)

Legend: Plus-3 ex JP — JP — ASEAN-5 — BCLMV

Property Developers' Share of Debt Under Stress by Funding Cost Shock, 2023 (Simulation Results, percent)

Legend: ASEAN+3 ■ AEs ● EMEs ●

Categories: Actual, 200-bp Shock, 500-bp Shock

Source: National authorities via CEIC and Haver Analytics; AMRO (2024); AMRO staff calculation.
Note: The interest payments are computed based on simple averages amongst economies in the specific group. Plus-3 ex Japan = China, Hong Kong, JP = Japan, ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore, and Thailand, BCLMV = Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Vietnam.

Source: AMRO staff calculations.
Note: Due to data availability, Brunei, Cambodia, Lao PDR, and Myanmar are not included in the ASEAN+3. AEs refer to selected advanced economies in Western Europe and North America. EMEs refer to selected emerging market economies in Eastern Europe and Latin America.

Risk #4: US dollar supply chain also creates some currency and maturity mismatches and could pose risks during adverse market conditions.

Interaction of Various Entities in US Dollar Supply Chain and Resultant Maturity Mismatches

	Spot	0 – 3 months	3 months to 1 year	1 – 2 years	2 – 5 years	5 – 10 years
NFCs	FX positions for importers *(deposits, spot, forwards)*					
	FX positions for exporters *(deposits, spot, forwards, CCS)*					
CBs, brokers, clearing houses, FIs, MMFs	Interbank liquidity management *(repo, CP, CD, forwards, swaps, CCS, deposits, etc.)*					
FX traders, FIs, NBFIs, individuals, NFCs	FX speculation *(onshore and offshore forwards)*					
CBs, brokerages, dealers, FIs, NBFIs, individuals, NFCs	FX hedging *(onshore and offshore forwards)*	Investment horizon for both foreign and domestic investors *(equity and debt instruments)*				
FIs, NBFIs ,NFCs	Debt issuance *(spot, deposit)*			Debt repayments *(CCS)*		

Policy makers should focus on building resilience and address structural issues.

Inflation Resurgence

- Remain vigilant regarding the upside risk to inflation

- Maintain price stability by both monetary and non-monetary measures

Increasing Debt

- Monitor financial imbalances and rebuild policy buffers

- Prevent a buildup of risks through macroprudential tools

Geopolitical Escalation

- Enhancing the resilience of the macro-financial system

- Swiftly facilitate orderly market adjustments to external shocks

Longer-term Risks

- Climate change and green finance

- Digitalization

Messages from the thematic topics are the followings.

US Dollar Reliance

- Build economic resilience through regional safety net

- Encourage local currency usage

- Explore technology for better regional integration (e.g. cross-border payments and transactions)

Spillovers

- Robust ASEAN+3 centric surveillance and cooperation

- Monitor macro-financial shocks from the global market

Property Developers

- Enhance the soundness of financial sectors with large property market exposures

- Improve property market practice and conduct

- Targeted support for viable projects under temporary liquidity stress

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Thank you.

Contact Us

Add: 10 Shenton Way, #15-08/9, Singapore 079117

Tel: +65 6323 9844

Email: AMRO_AFSR@amro-asia.org

Website: www.amro-asia.org

AMRO

EAN +3 MACROECONOMIC RESEARCH OFFIC