

Asia Economics Reference Presentation

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Overview (1/2)

- Outside of Japan, Asia enters Trade War 2.0 with a lot of slack. Even as growth clocked close to trend in 2024, the level of output in most economies remains much below the pre-pandemic path, suggestive of hysteresis from recent shocks. Unsurprisingly, the Asian consumer (x Japan) has been very timid post-pandemic. The resulting slack explains why core inflation has remained so benign over the last year.
- Disappointing domestic demand has forced the region to rely more on exports as a driver of growth, making it vulnerable to trade and global growth uncertainty. Nine of the 15 economies with which the US runs the largest bilateral trade deficit reside in Asia.
- Against this backdrop, “Liberation Day” came as a gut punch to the region. Asia was subjected to the highest tariffs of any region with China (145%), Vietnam (46%), Thailand (36%), Taiwan (32%), Indonesia (32%), India (26%), Korea (25%), Malaysia (24%), Japan (24%) all being in the firing line.
- That cloud has been accompanied by some silver linings:
 - The US-China détente provides much needed relief to the region as growth prospects in the two largest economies are upgraded
 - Sector-specific exemptions have meant tariffs on many economies are now temporarily below 10%
 - EMAX (Emerging Asia x China and India) exports have increased sharply in 1Q25 as the region has indulged in front-loading before the anticipated tariffs and this is likely to continue into this quarter
- Despite that, however, EMAX growth is tracking a sub-trend 3% in 1Q25 for a second successive quarter. China remains an exception clocking ~7% growth for a second quarter, as the policy stimulus of 2024 works through the system. But growth is expected to soften in the coming quarters as the front-loading reverses and the tariff shock bites.

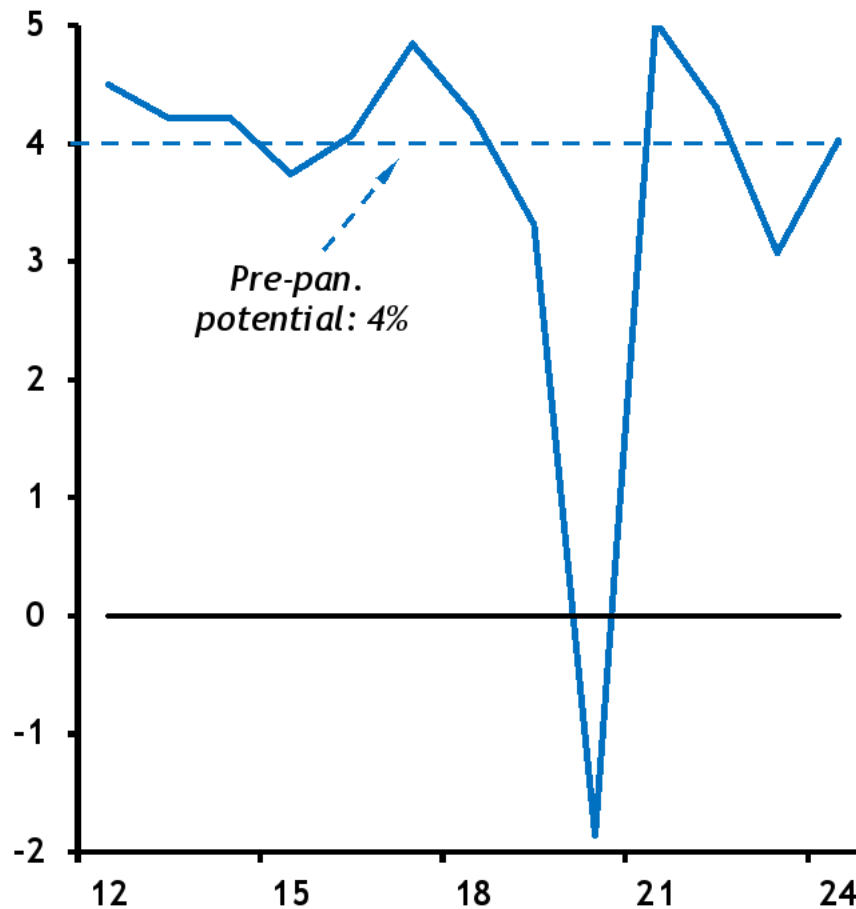
Overview (2/2)

- The key to the outlook is whether EMAX can negotiate trade deals with the U.S. While the economies are likely to pull out all stops to conclude a deal, transshipment tensions are likely to be a key sticking point. Between April and January, the decline of China's exports to the US are matched almost exactly by the increase in China's exports to EM Asia. Therefore, a 40% tariff on China but a 10% tariff on the rest of Asia will create powerful incentives for transshipment and constitute a tense and unstable equilibrium.
- Meanwhile, trade deals in China, Japan and Korea will not be easy to negotiate and may not be imminent, even though the UK deal provides a template for the latter two economies. While India and US appear to have agreed on the "Terms of Reference" for a bilateral trade deal, it remains to be seen how quickly agreement can be reached on the fine print.
- On its part, Japan's economy is expected to continue its recovery in 2025 and expected to grow at an above-potential 1% in 2025. This is likely to be underpinned by resilient domestic demand, which is likely to withstand the initial shock to the export sector caused by the US tariffs. Domestic consumption is likely to keep recovering as solid wage growth gradually alleviates consumers' concerns on persistent inflation.
- We therefore expect the BoJ to continue normalizing monetary policy, with the next rate hike expected in October. While the tariffs have prompted the BoJ to revise down their growth and inflation forecasts, we expect Japan's inflation momentum to be stronger than the BoJ's assessment.
- Outside of the BoJ, however, we expect monetary policy to be eased across the board as existing slack in concert with lower food and energy prices is causing inflation to undershoot forecasts. Real rates are therefore still higher than the state of the business cycle warrants creating space for more easing. We therefore expect more easing in China, India, Korea, Philippines, Thailand, Indonesia and Malaysia this year.
- In contrast fiscal policy is more constrained as debt levels have gapped up post-pandemic. Except for Korea, which is expected to unveil a supplementary budget post the June 3 presidential elections, additional fiscal stimulus is only expected to be deployed in the event of fresh downside risks to growth

Growth was close to trend and target in 2024...

EMAX GDP

%oya



Source: National statistical agencies, J.P. Morgan estimates

China: Real GDP growth vs. government's growth target

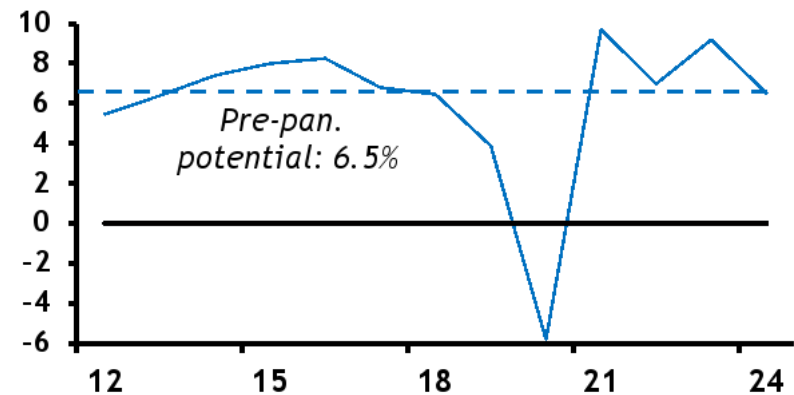
%



Source: NBS, J.P. Morgan

India GDP

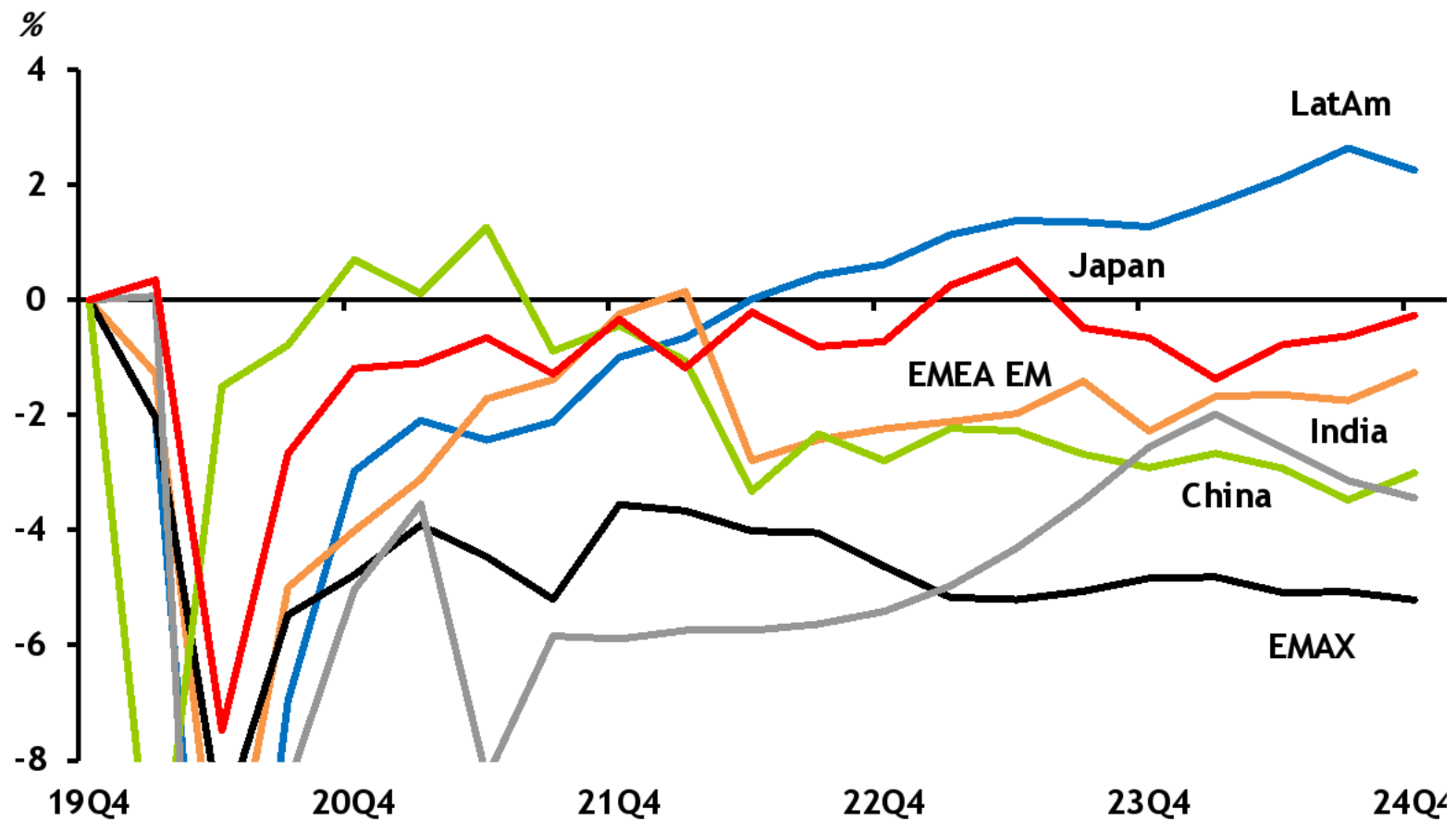
%oya



Source: National statistical agencies, J.P. Morgan

...but COVID has left its scars on the region

Real GDP deviation from pre-pandemic path

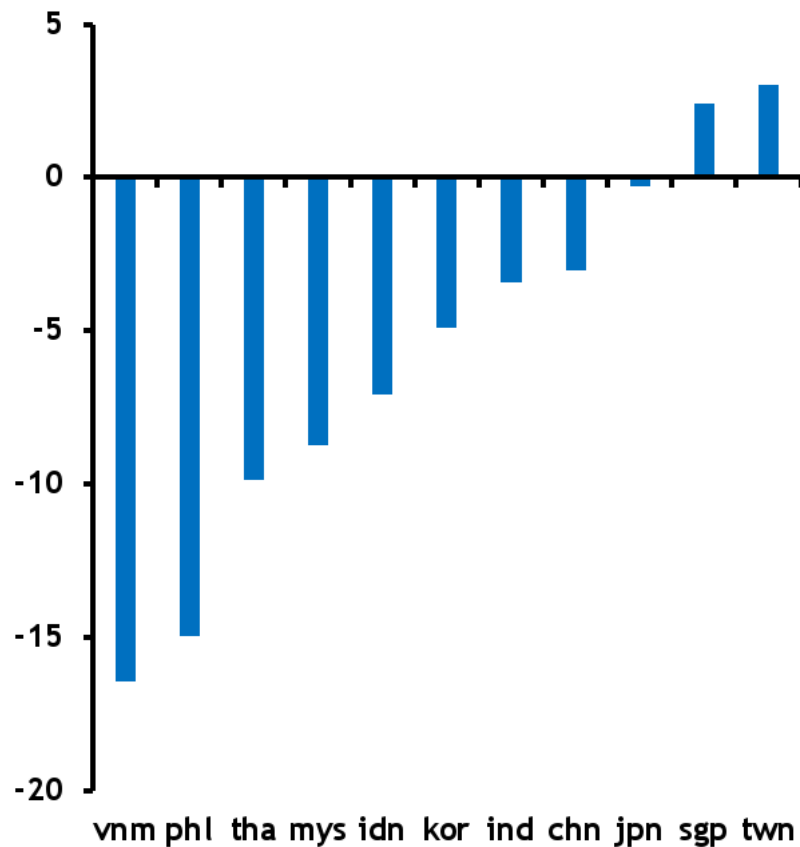


Source: J.P. Morgan, national statistical agencies

Exports have done the heavy lifting; domestic demand has languished in most economies

Real GDP dev. from pre-pan. path

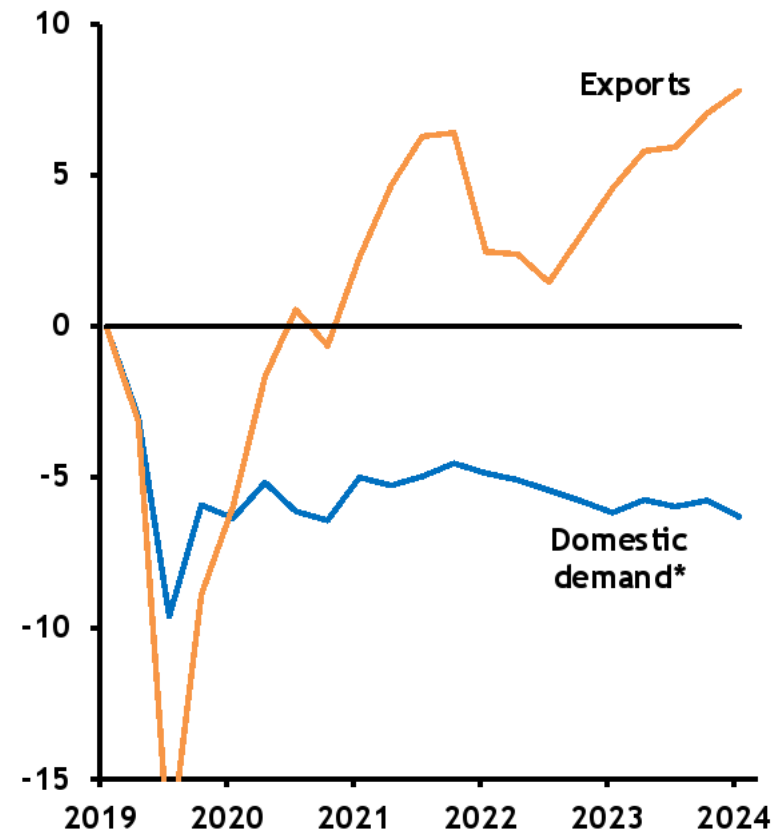
4Q24, %



Source: J.P. Morgan, national statistical agencies

EMAX domestic demand and exports

Dev. from pre-pandemic trend path (%)

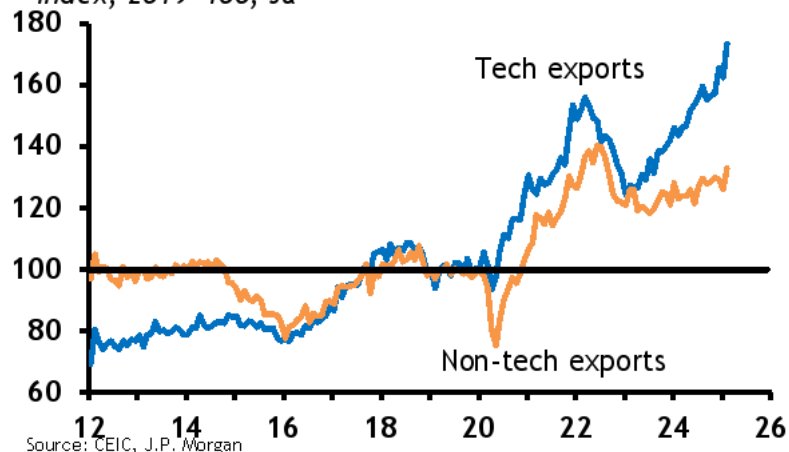


Source: National statistical agencies, J.P. Morgan

But even export strength is concentrated in tech

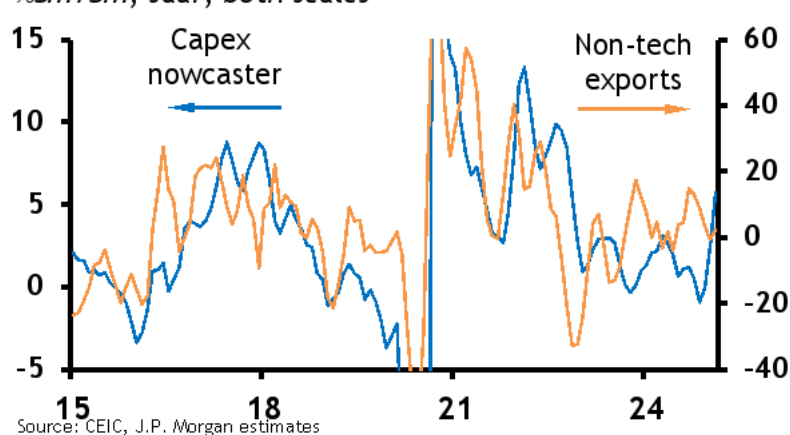
EMAX tech and non-tech exports

Index, 2019=100, sa



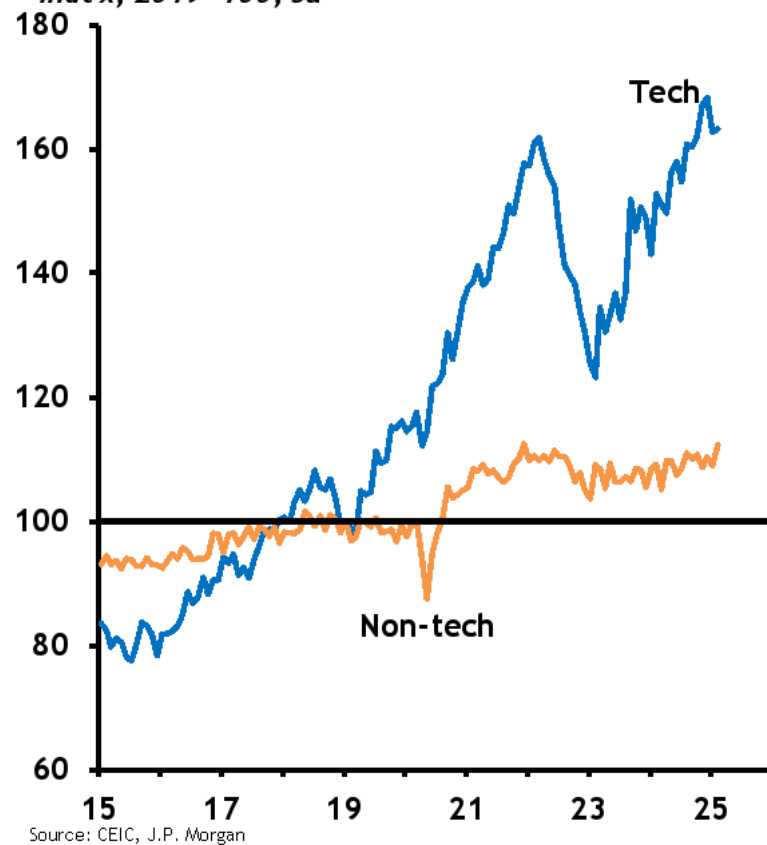
DM capex nwc. & EMAX non-tech exports

%3m/3m, saar, both scales



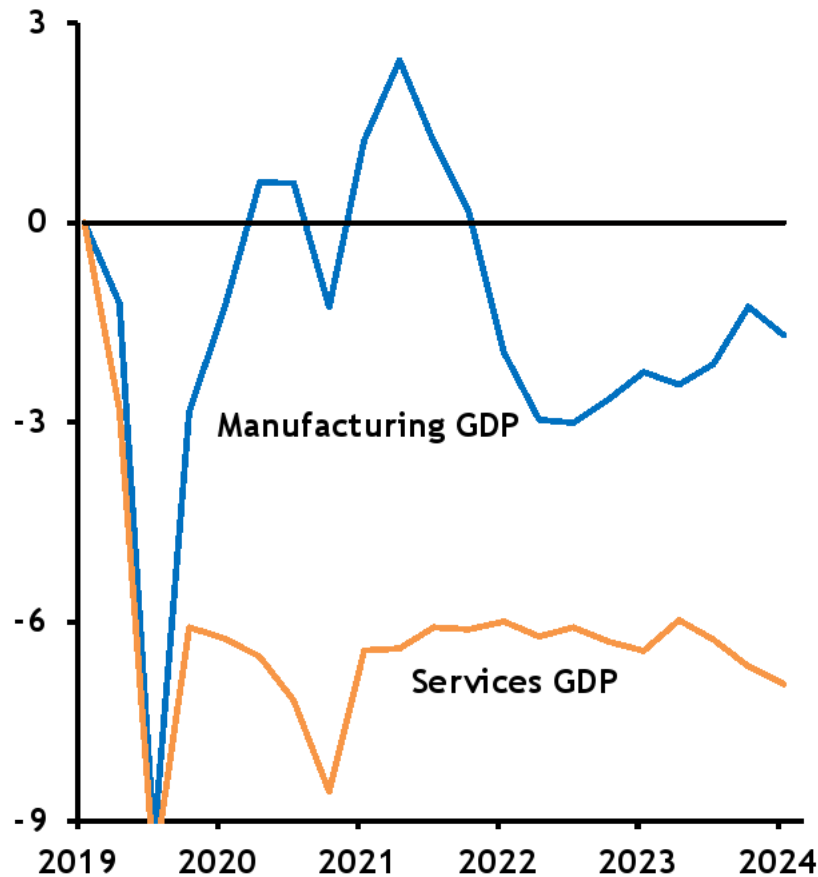
EMAX manufacturing production

Index, 2019=100, sa



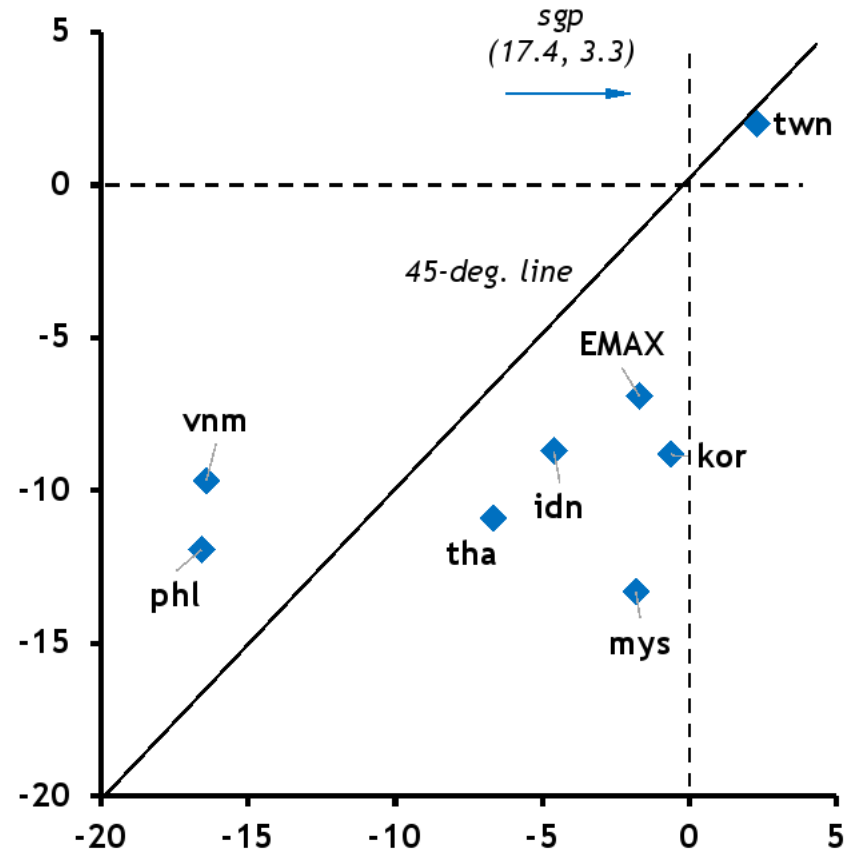
Exports buoy manufacturing while weak domestic demand weighs on services economy

EMAX manufacturing vs services GDP
Dev. from pre-pandemic trend path (%)



Source: National statistical agencies, Haver, J.P. Morgan. Pre-pandemic trend growth: manufacturing (3.7%ar), services (4.6%ar).

GDP dev. from trend - mfg vs services
%; X-axis: mfg, Y-axis: services

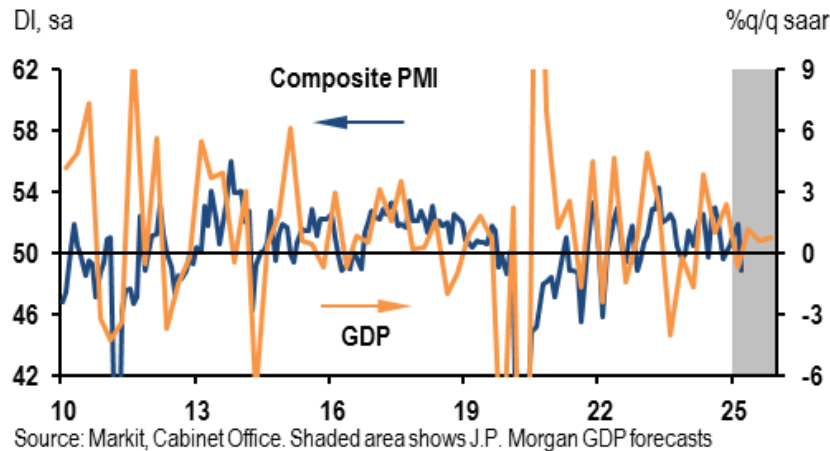


Source: National statistical agencies, Haver, J.P. Morgan. Pre-pandemic trend (mfg%, srv%): idn (4.1, 5.9); kor (2.6, 3.9); mys (4.3, 6.5); phl (5.4, 6.6); sgp (2.5, 2.7); twn (4.5, 2.3); tha (1.1, 3.9); vnm (10.8, 7.8), EMAX (3.7, 4.6)

Japan is an exception: Domestic resilience to offset external shocks

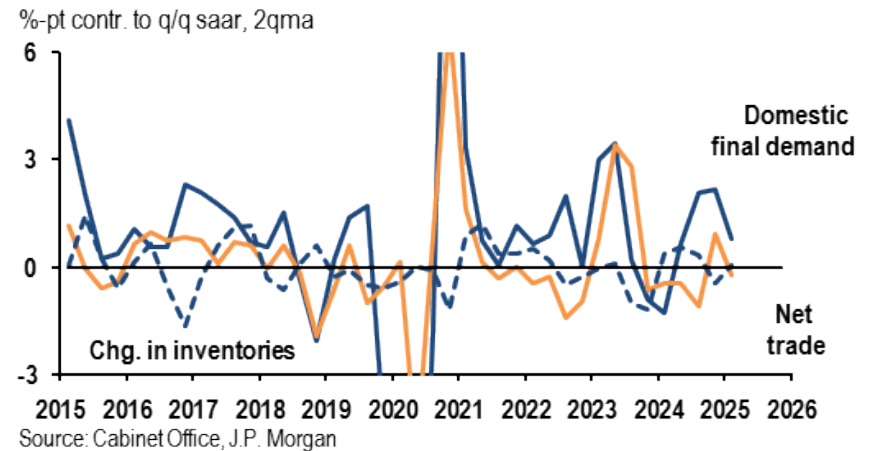
Real GDP to grow above potential in 2025

Japan: Composite PMI and GDP



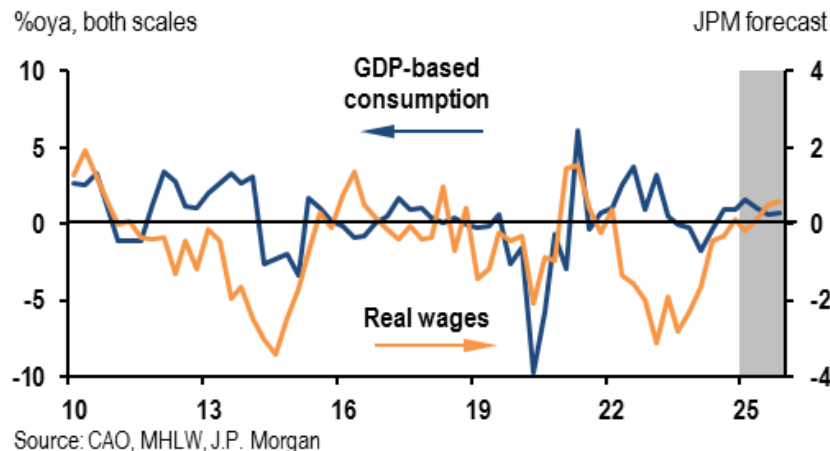
Growth would be driven by resilient domestic demand

Contribution to real GDP growth



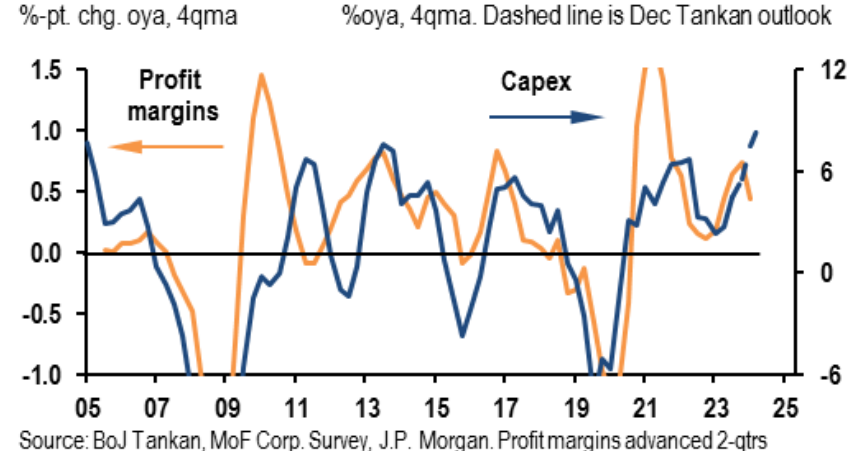
Consumption will keep growing, supported by wage gains

Real consumption vs. real wages



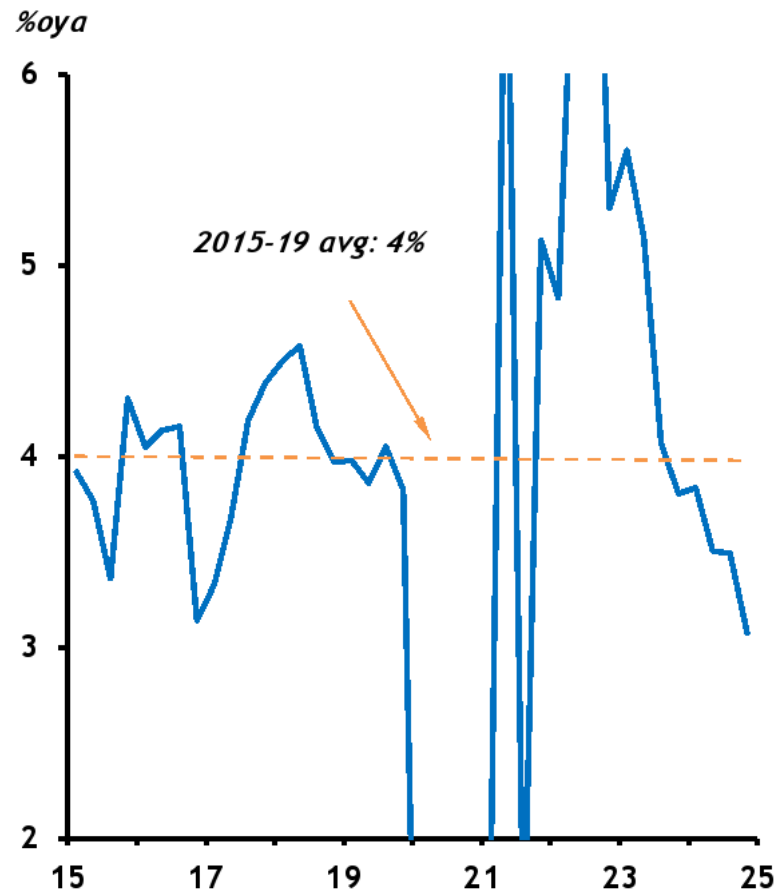
Capex to trend higher amid record profit margins

Nominal capex and corporate profits



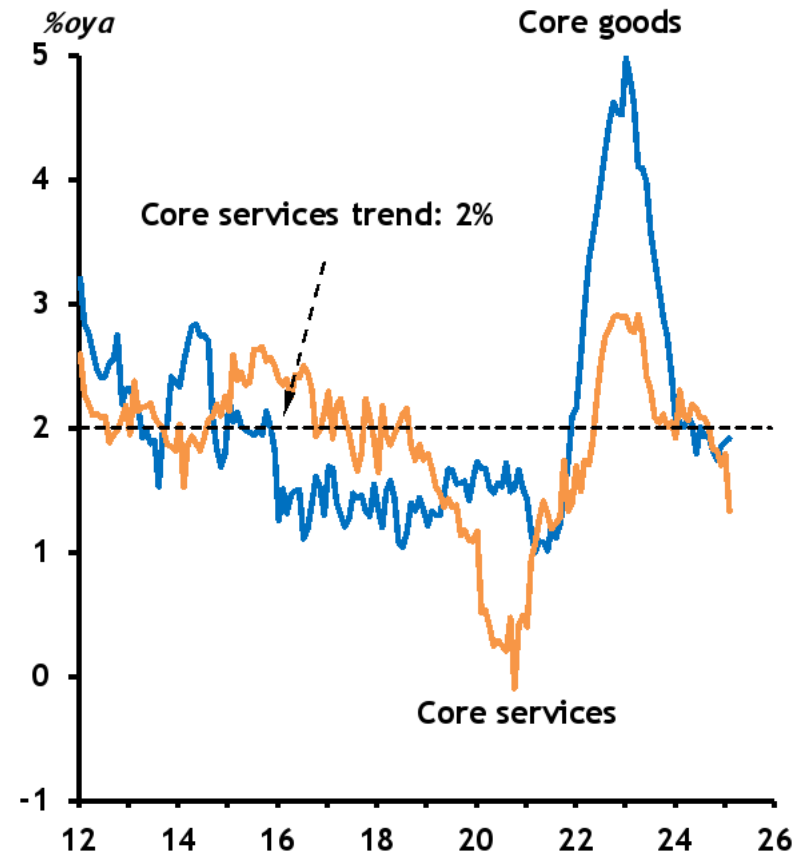
Outside of Japan, Asian consumer slips and slides, keeping inflation in check

EMAX private final consumption



Source: National statistical agencies, J.P. Morgan

EMAX core goods and services inflation

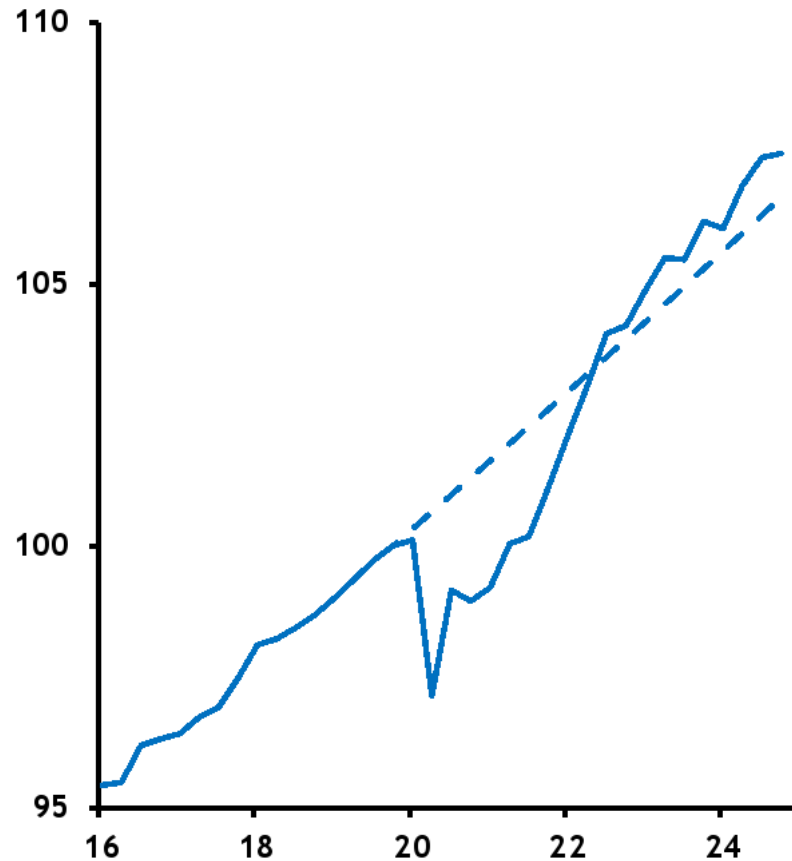


Source: National sources, J.P. Morgan; Note: EMAX here excludes VN

A post-COVID productivity shock

Employment, EMAX

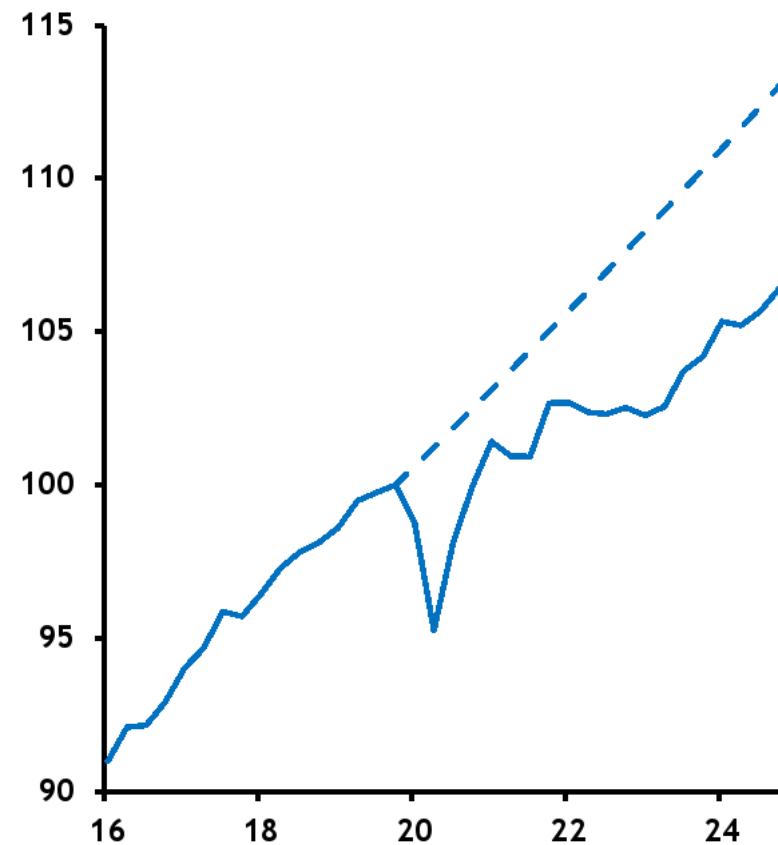
Index, 4Q19=100; dotted line show pre-pan. trend



Source: J.P. Morgan, national statistical agencies

Productivity, EMAX

Index, 4Q19=100; dotted line shows pre-pan. trend

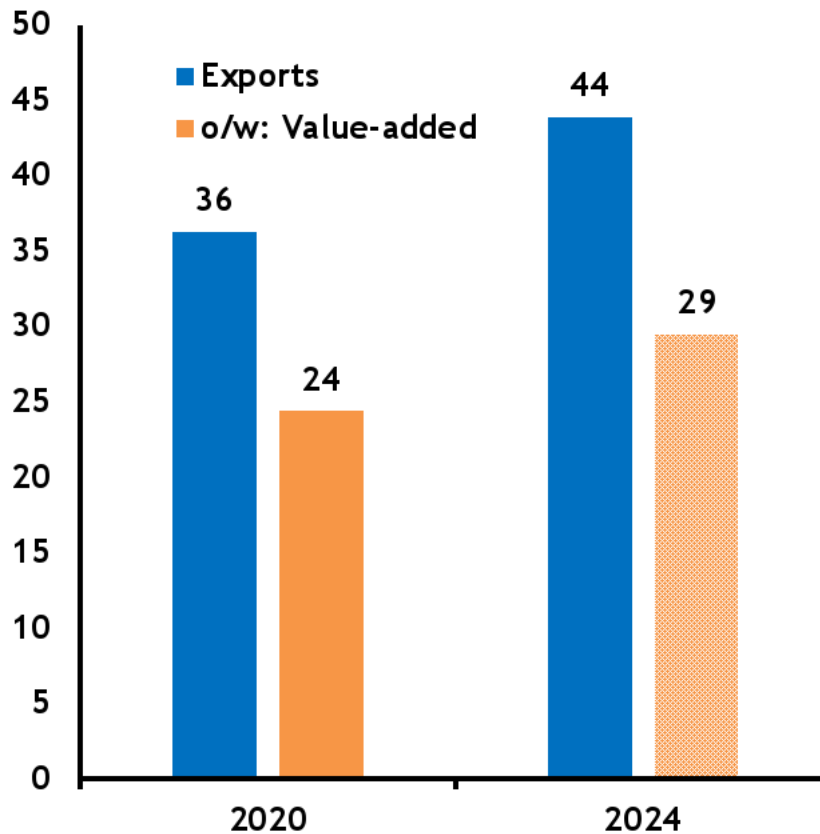


Source: J.P. Morgan, national statistical agencies

Why parts of Asia are so vulnerable to external shocks

EMAX exports to RoW

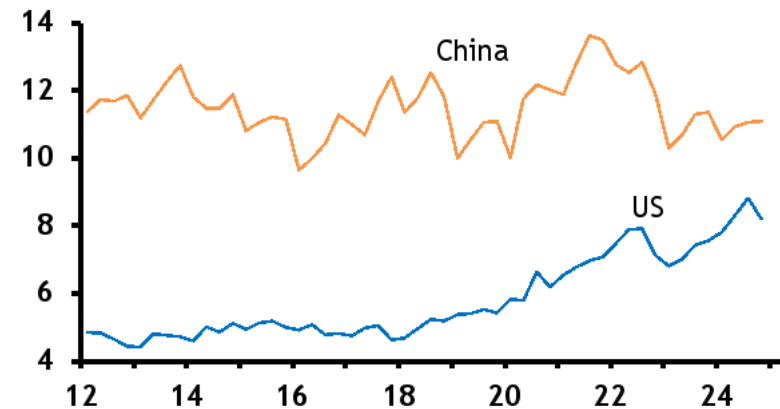
% of GDP; 2024 VA assumes 2020 VA/exports ratio



Source: National statistical agencies, OECD TiVA, J.P. Morgan. Note: total exports (goods + services) to RoW are assumed to be 75% of exports to world, with 25% being intra-regional, as is observed for goods trade.

Goods exports to US and China

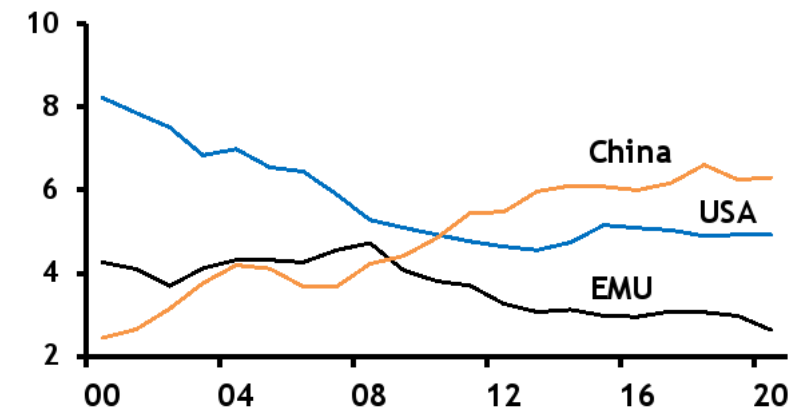
% of GDP



Source: CEIC, J.P. Morgan

EMAX value-added in DM & CN dom. demand

% of EMAX GDP

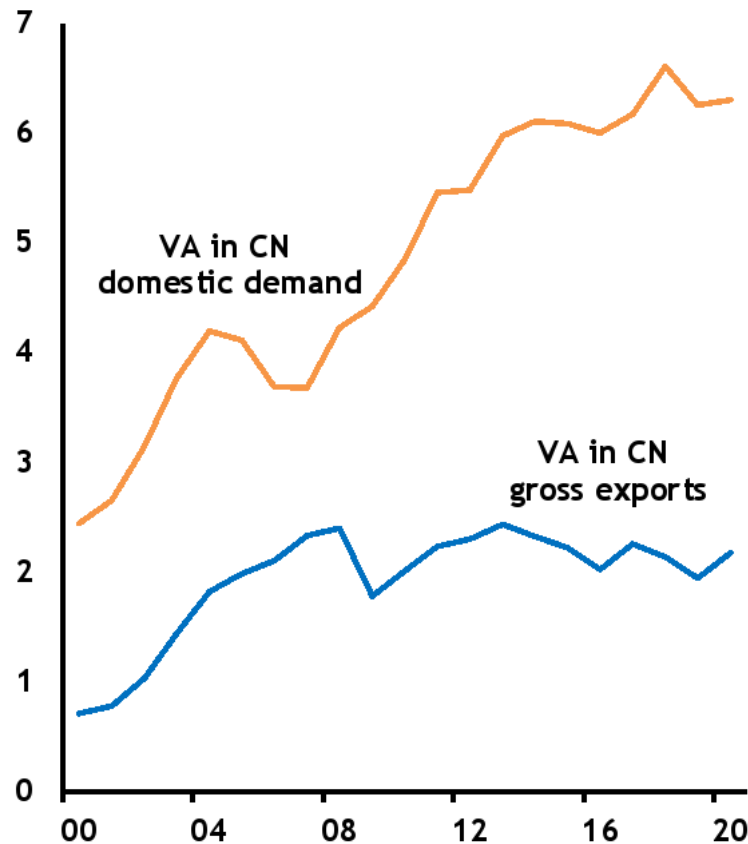


Source: TiVA, J.P. Morgan

Correlated hit to US and China will inflict large collateral damage on the region

EMAX value-added in CN GDP

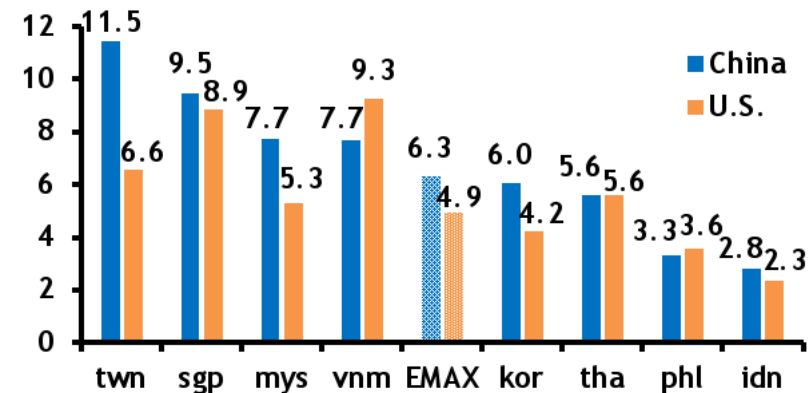
% of EMAX GDP



Source: OECD TiVA, J.P. Morgan

Value-added in dom. demand of US & China

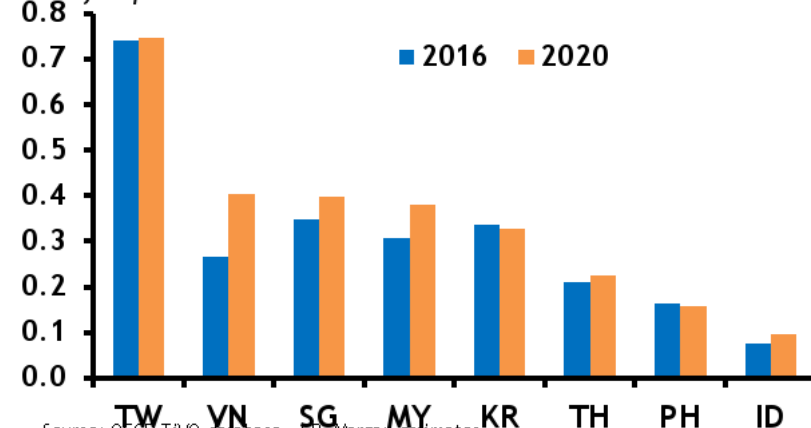
% of exporting country's GDP, 2020



Source: TiVA, J.P. Morgan

EMAX's val-add to China's gross exports

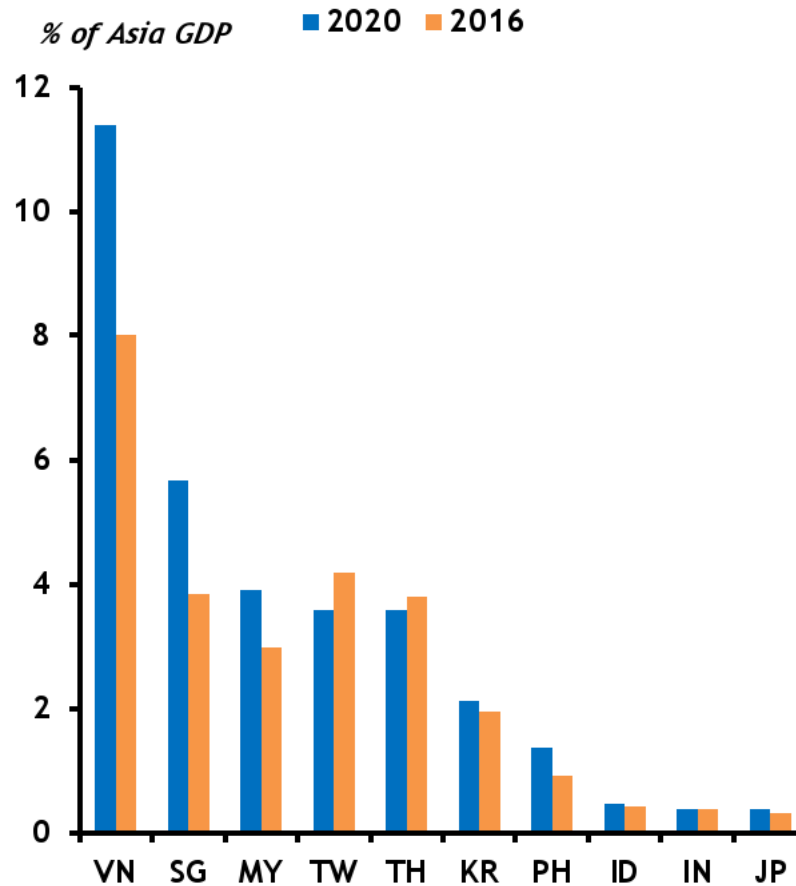
% of exporter's GDP



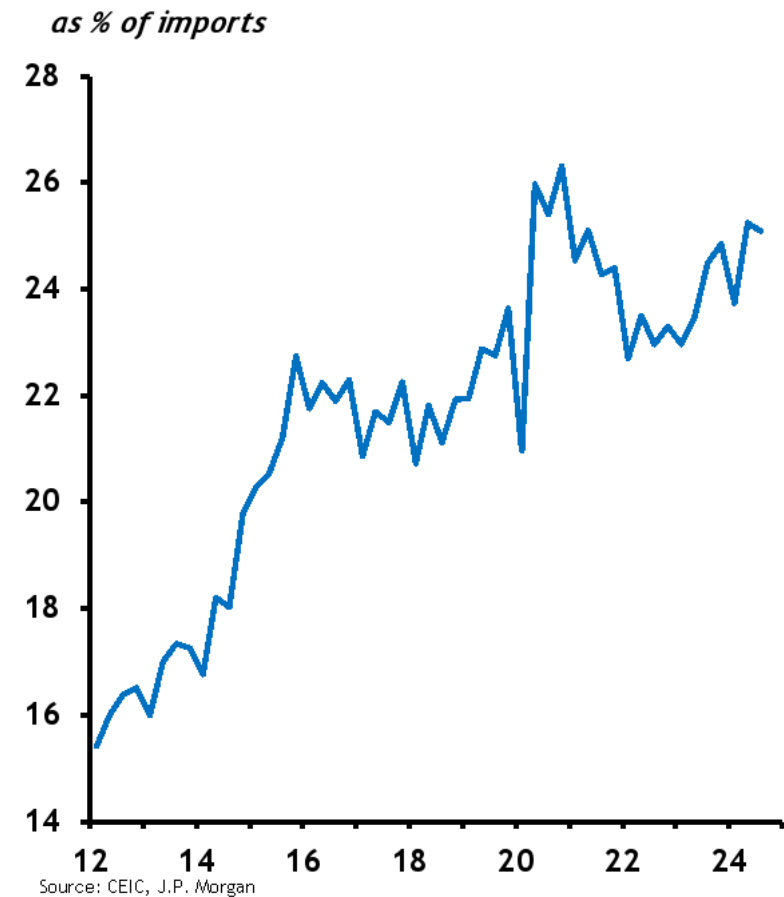
Source: OECD TiVO database, J.P. Morgan estimates

Dependency on China also runs through imports

China's val-add in Asia's gross exports



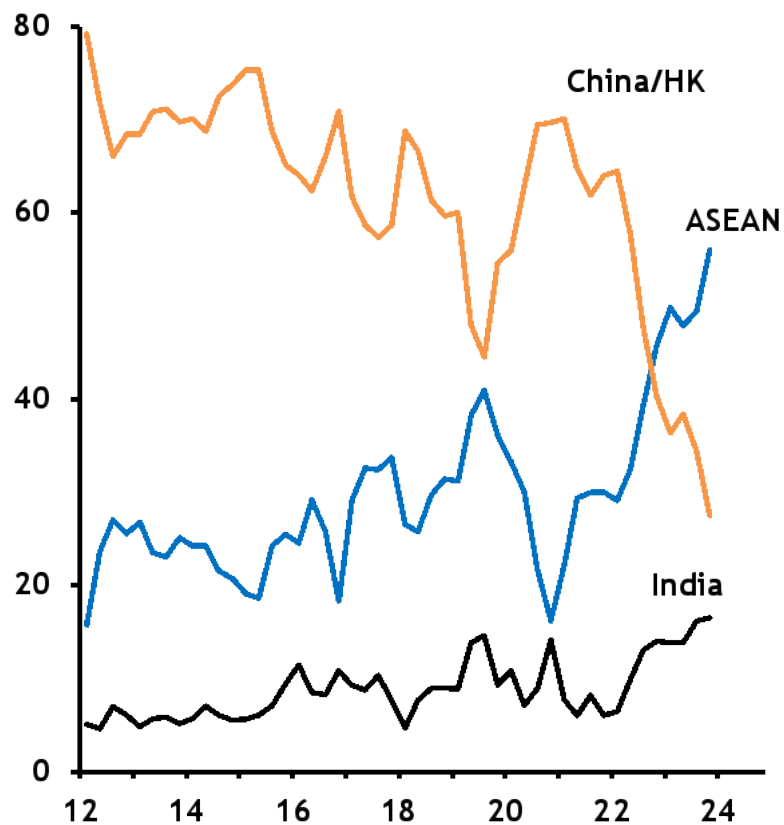
EMAX imports from China



FDI into Asia: EMAX gets bigger slice of smaller pie

Gross FDI inflows

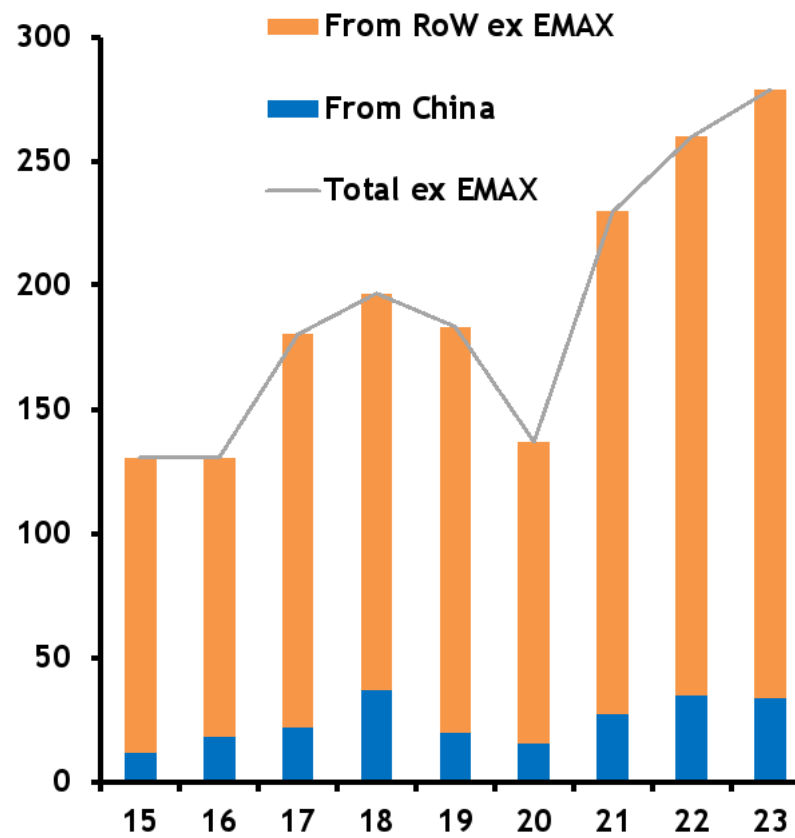
% total Greater China/ASEAN/India/Taiwan, 2qma



Source: National sources, J.P. Morgan estimates

EMAX ex-TW FDI inflows

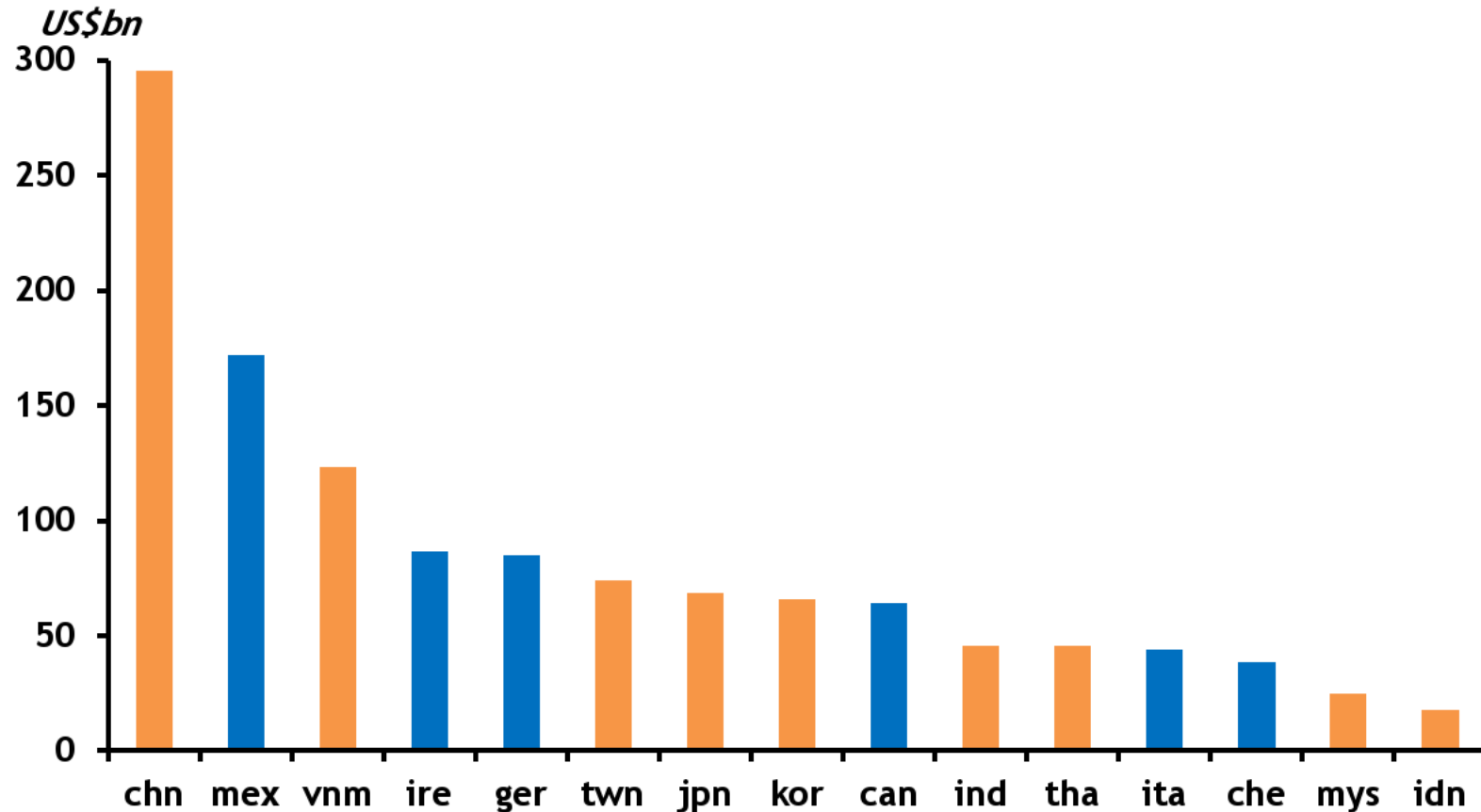
US\$ bn



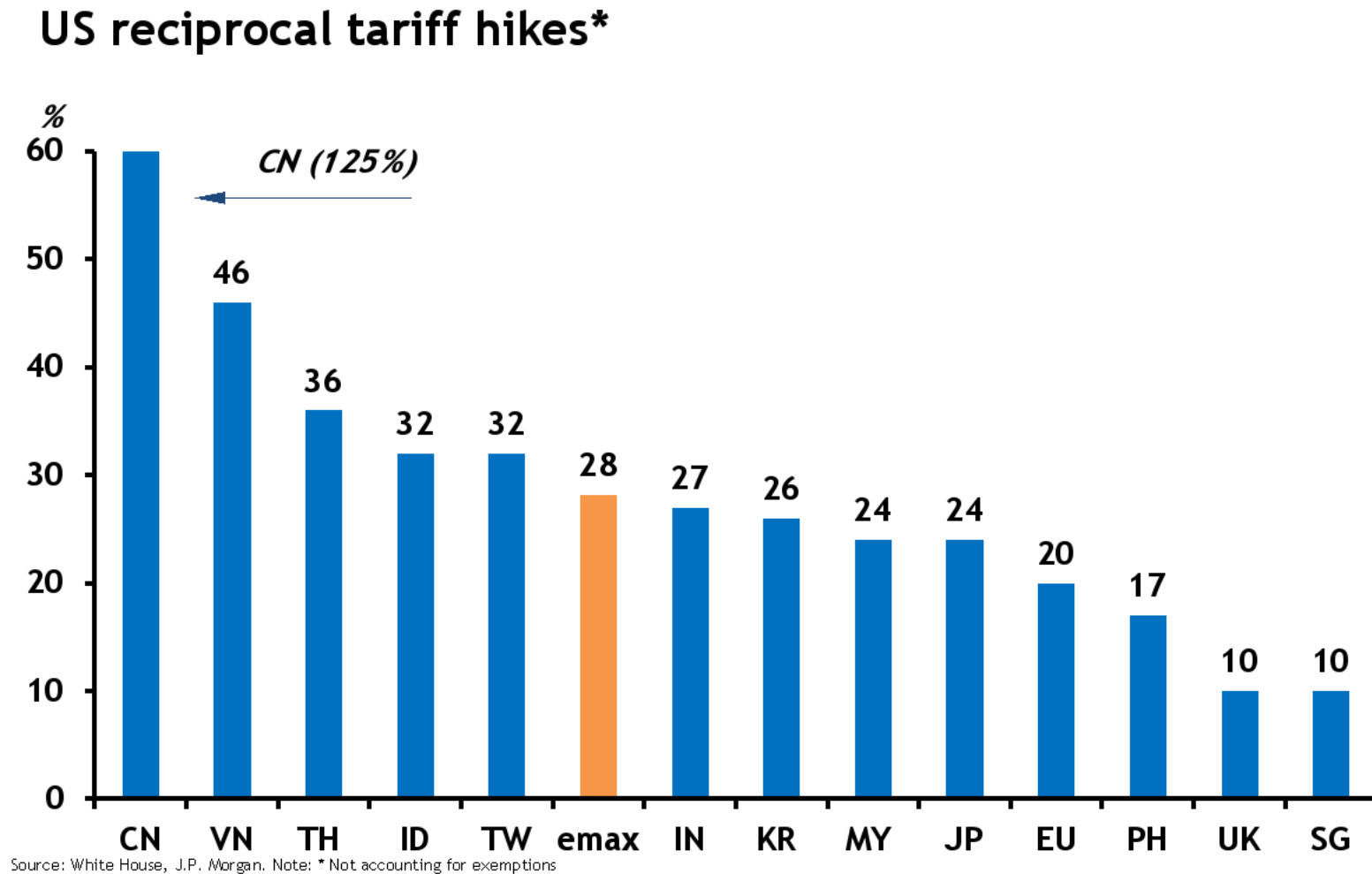
Source: Haver, CEIC, J.P. Morgan

If reciprocity was underpinned by mercantilism, Asia was always going to be in the firing line

U.S. trade deficit with top 15 trading partners - 2024



Asia bore the brunt of the shock on Liberation Day



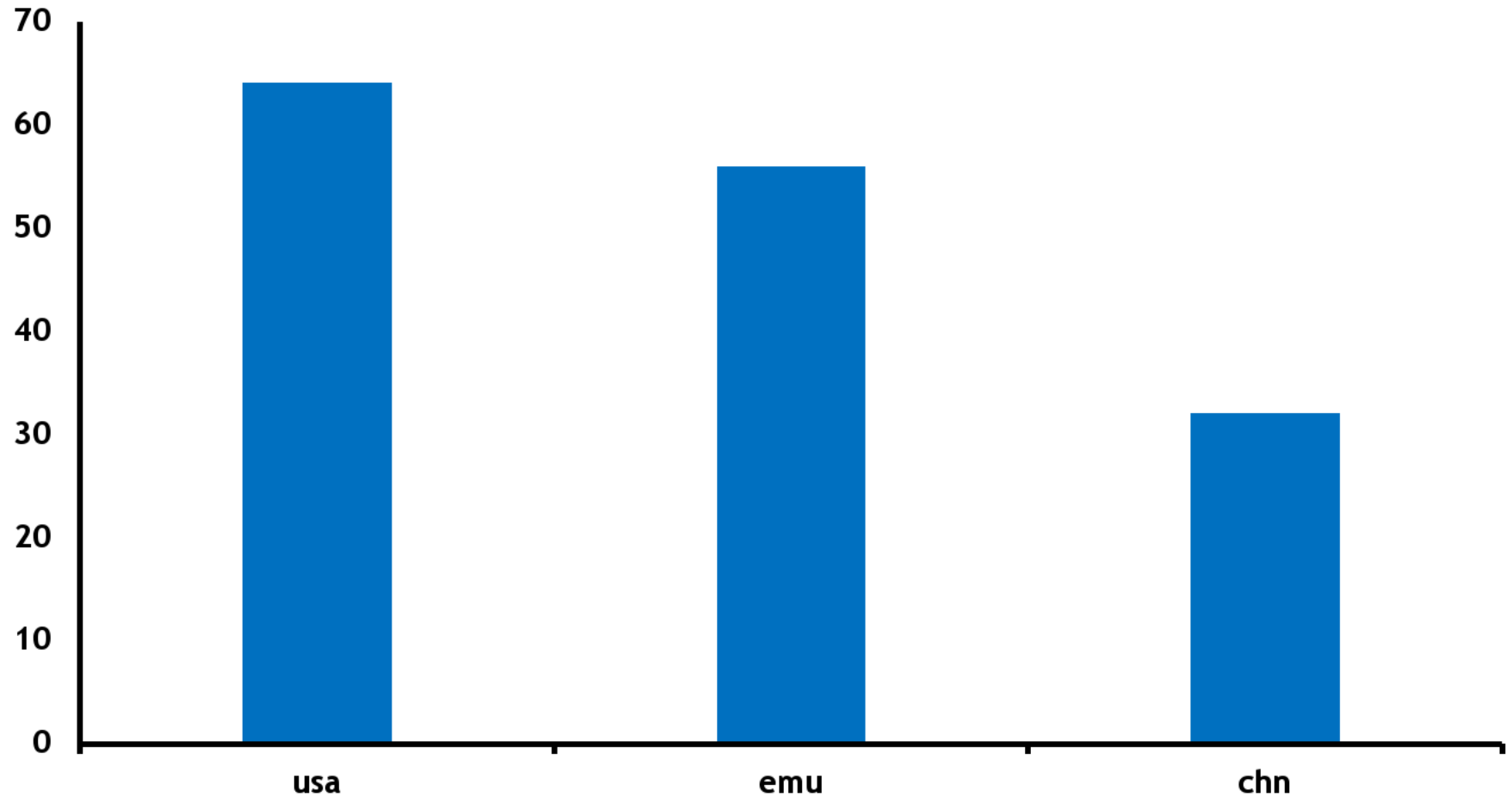
Channels of transmission

1. Competitiveness shock from reciprocal tariffs
2. Growth hit from a global/US/China slowdown
3. Investment hit from an uncertainty channel
4. Investment/activity being impinged from Chinese overcapacity being increasingly re-directed to the region

EMAX highly levered to global growth

EMAX response to DM & CN growth shocks

Impact of 100bp sustained growth impulse (bp)

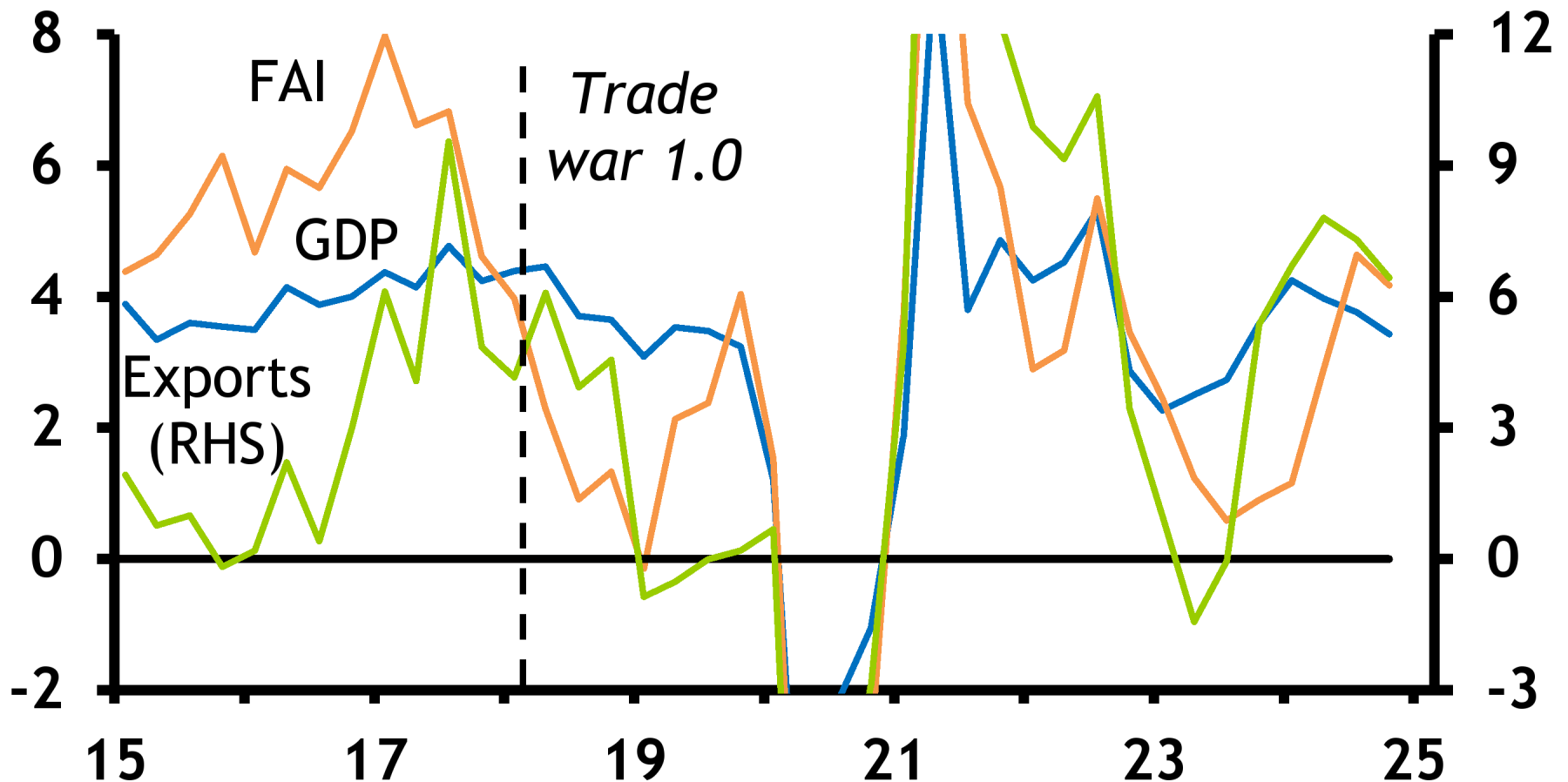


Source: National statistical agencies, J.P. Morgan estimates. Based on VARs of country growth, US growth, EA growth, and CN growth (all in %q/q; smpl 2005-19; Cholesky ordering: US, EA, CN, country). EMAX response is calculated as a GDP-weighted average.

Investment uncertainty likely to be an amplification mechanism

EMAX GDP, FAI and exports

%oya, both scales

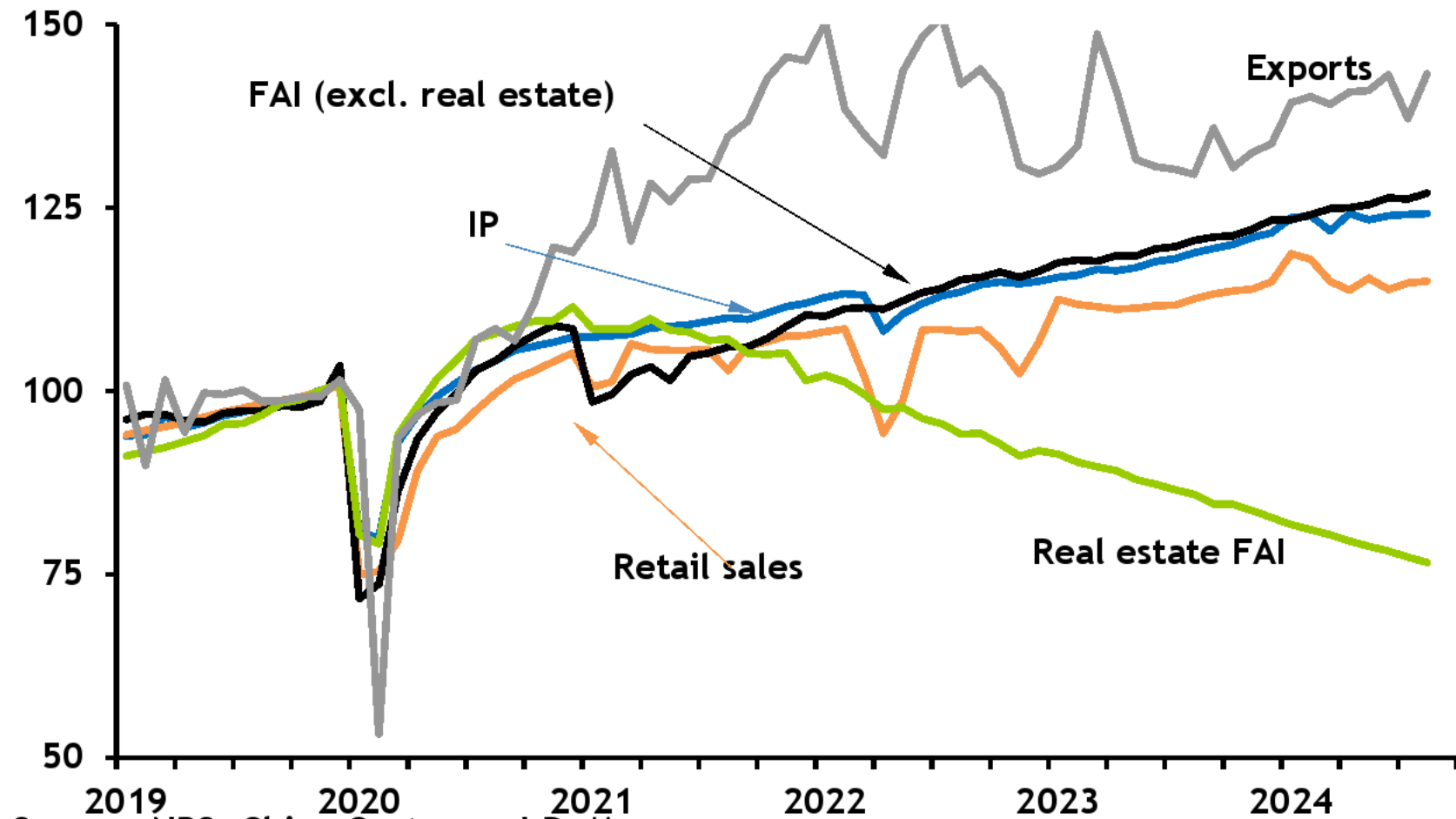


Source: J.P. Morgan, national statistical agencies

The dragon in the room: Chinese excess capacity

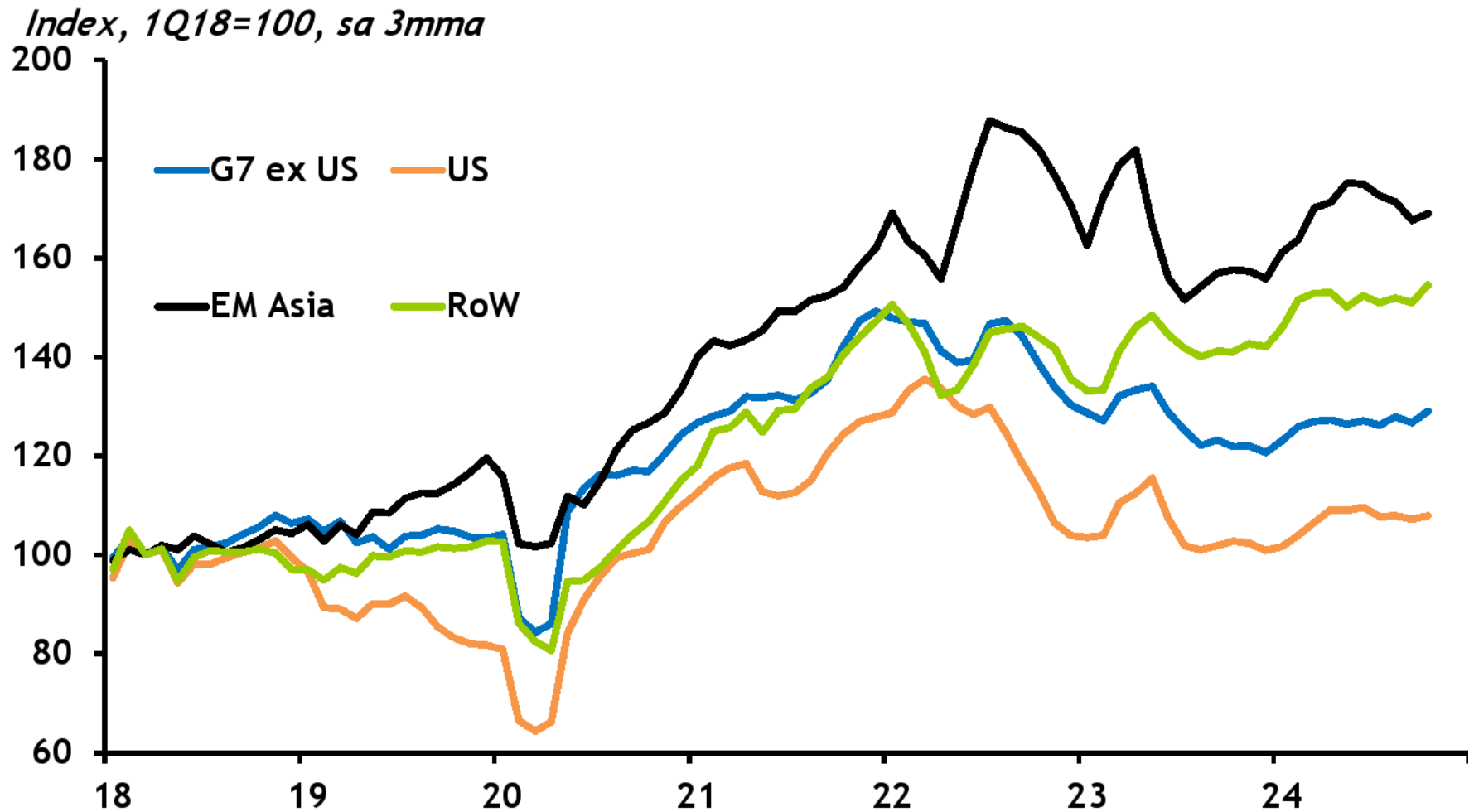
Key economic indicators in China

4Q19 = 100, sa



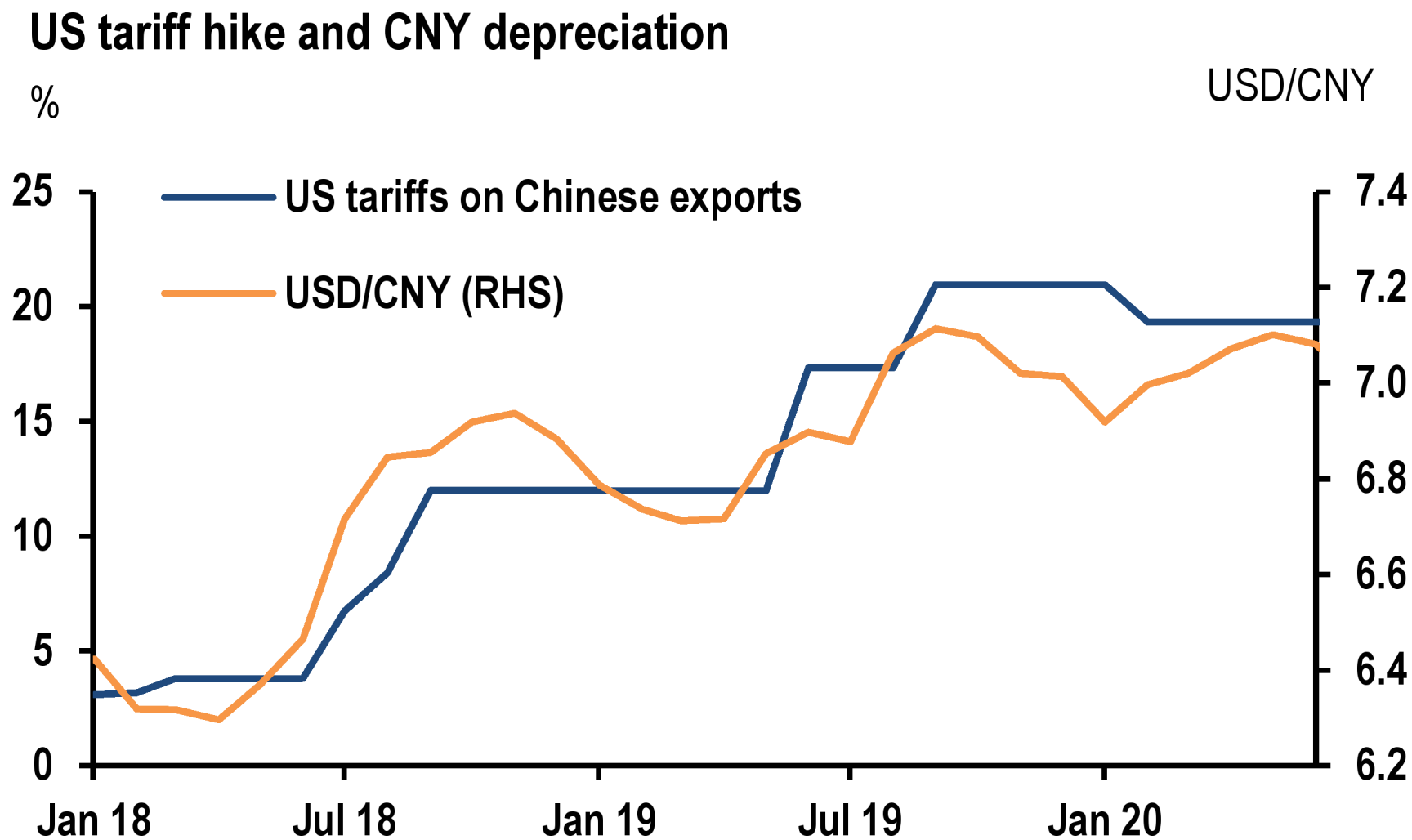
The law of unintended consequences

China export breakdown by destination



Source: China Customs, J.P. Morgan

The CNY depreciated sharply in the wake of tariffs in the last trade war

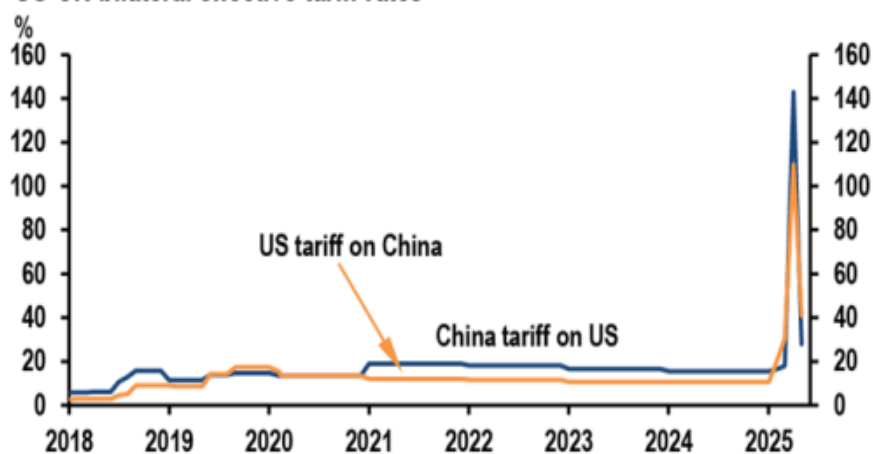


Source: PIIE, Haver, J.P. Morgan

China détente provides much needed relief to the region

Average effective tariff rate reduced from 145% to 41%

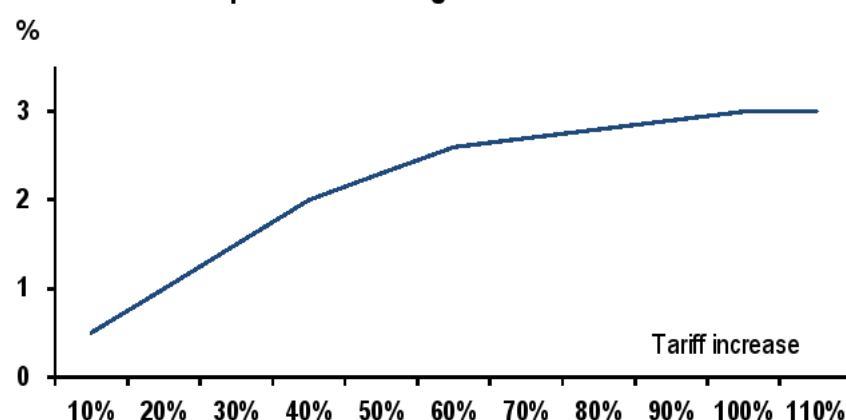
US-CN bilateral effective tariff rates



Source: J.P. Morgan estimates

Tariff drag on economic growth I expectedly non-linear

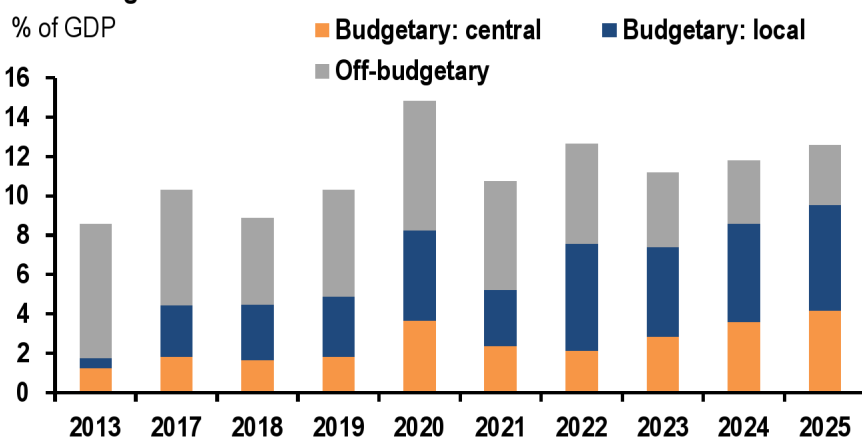
Tariff increase impact on China's growth



Source: J.P. Morgan estimates

Augmented deficit expected to widen further years...

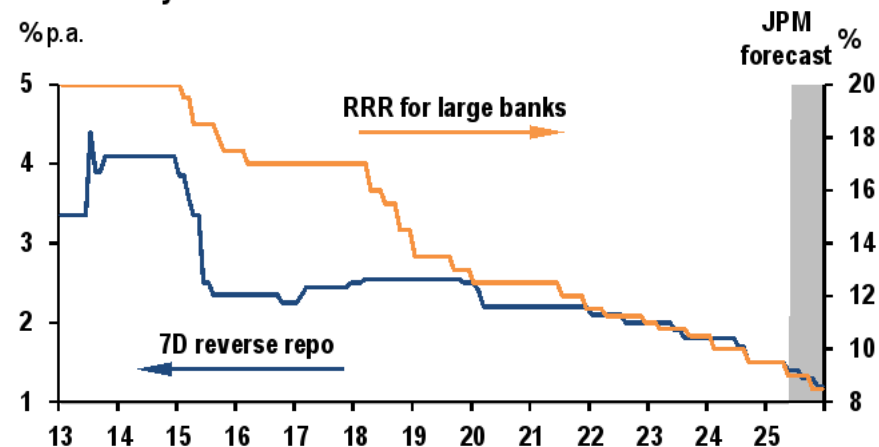
China augmented fiscal deficit



Source: MOF, J.P. Morgan. 2025 is JPM forecast.

.. Alongside more monetary policy easing

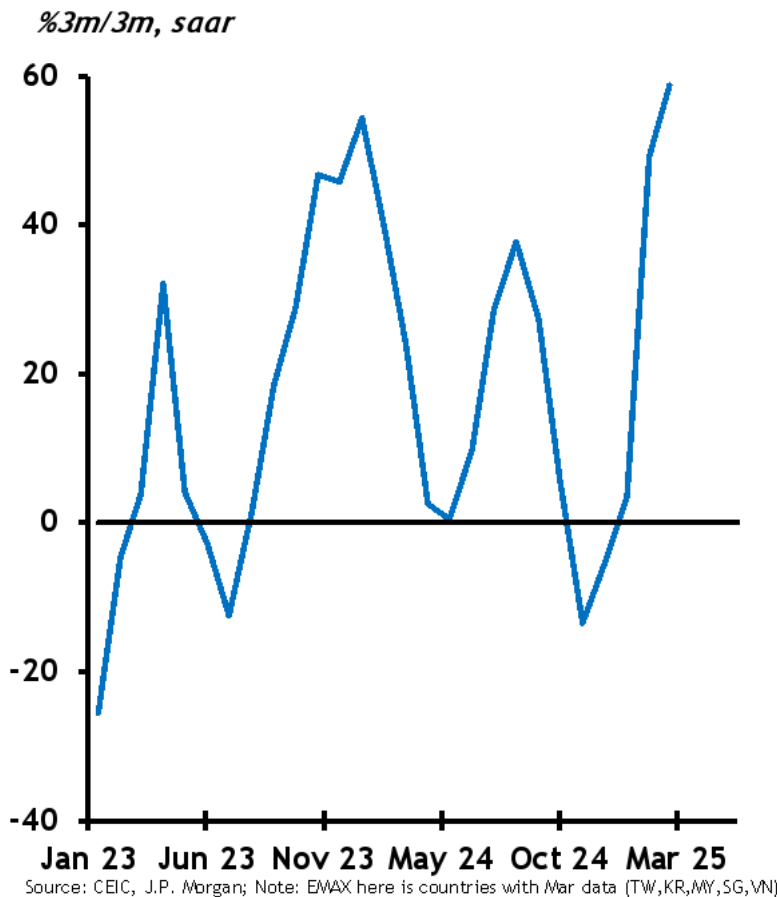
China Policy rate and RRR



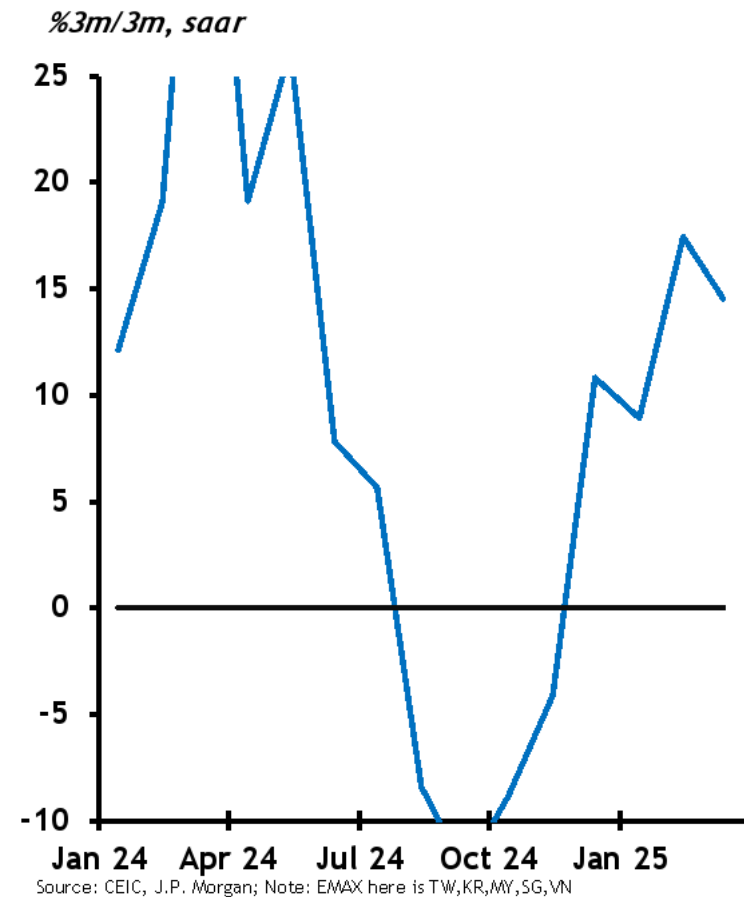
Source: PBOC, J.P. Morgan

Which has also benefitted from front-loading and transshipment in 1Q25

EMAX* exports to US



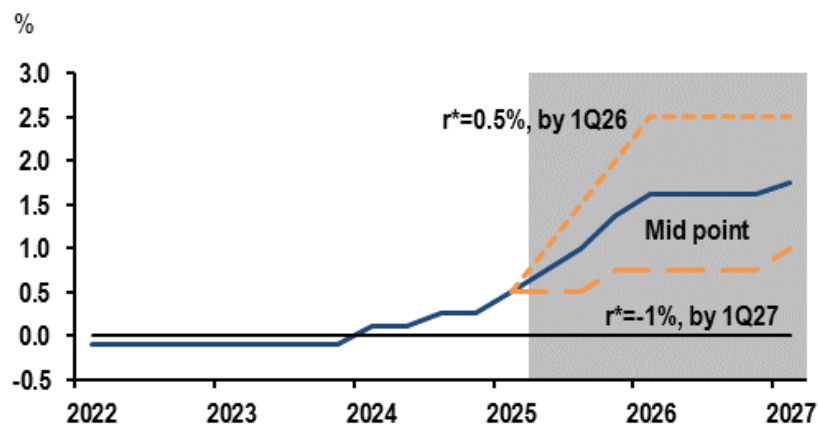
China exports to EMAX*



Japan: BoJ to continue policy normalization and QT

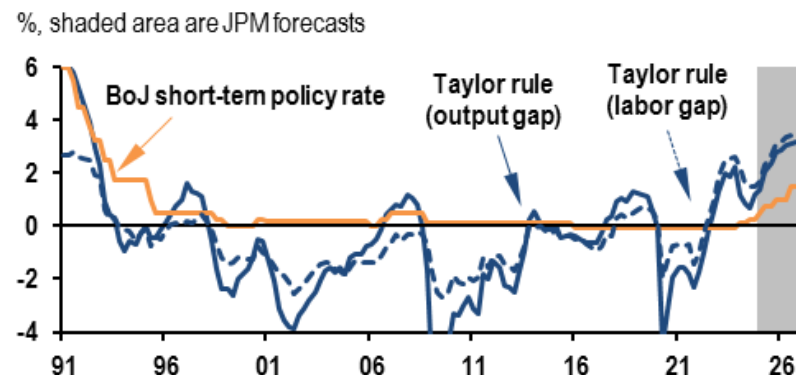
BoJ to proceed its policy normalization

BoJ's hinted policy rate path



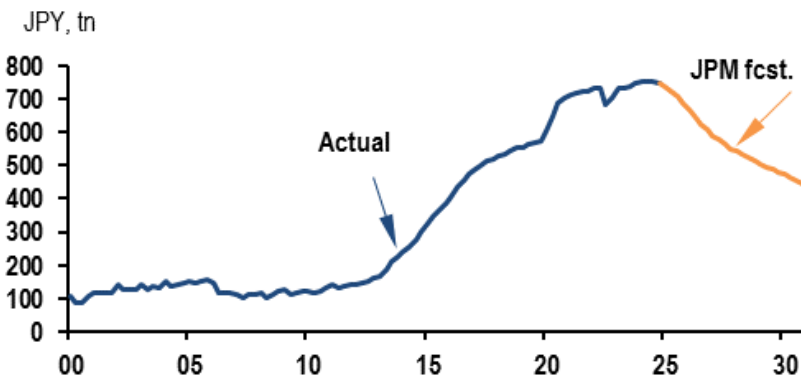
Modest behind-the-curve strategy limits easing space

Taylor rule suggested and actual policy rates



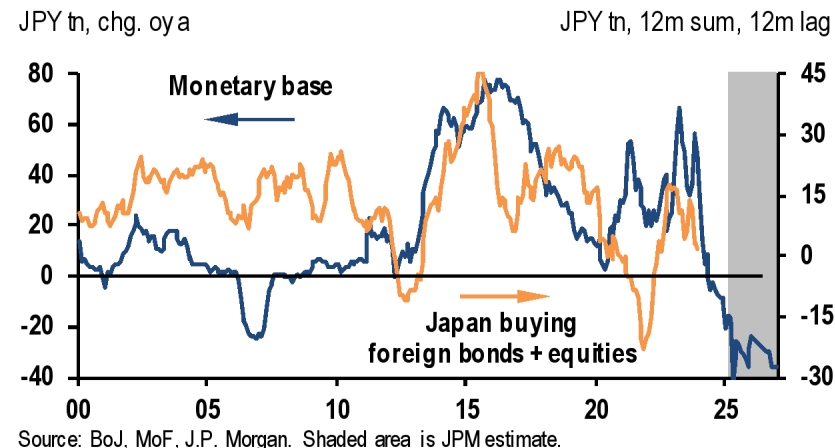
BoJ to continue reducing JGB purchases

BoJ balance sheet reduction



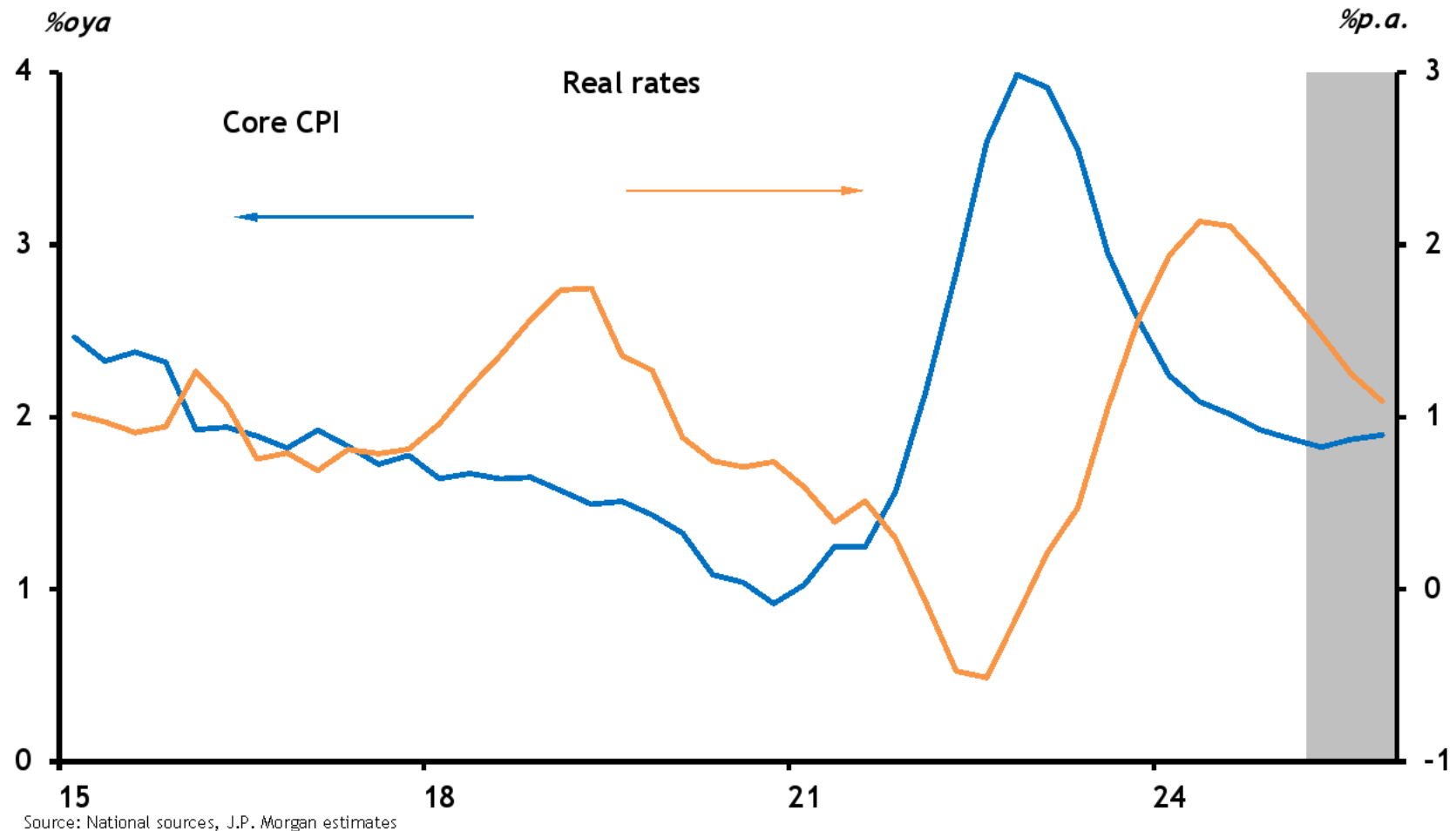
Watching the impact of tightening liquidity condition

Japan M0 and BoP net foreign portfolio invest. assets

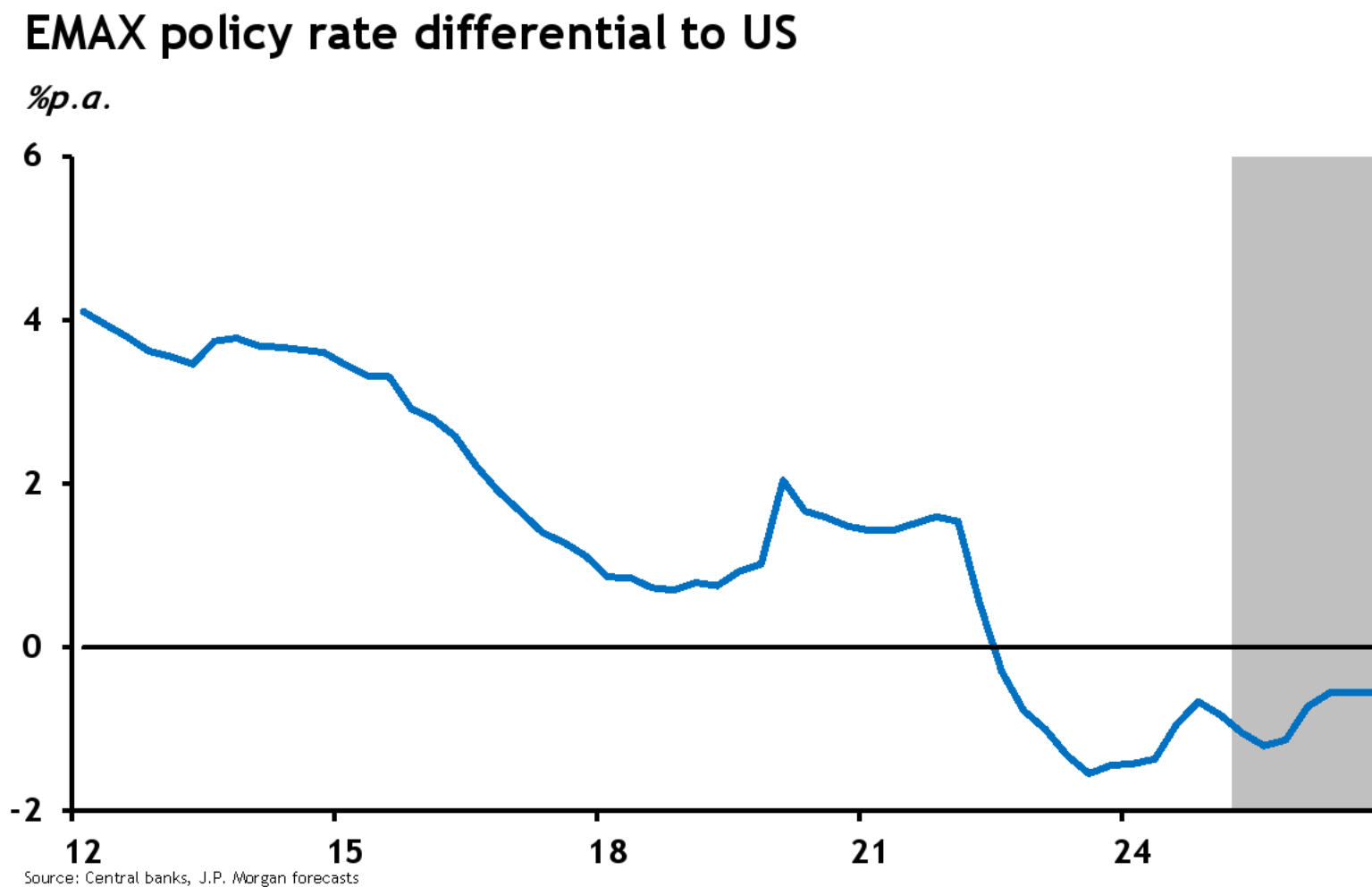


Elsewhere, elevated real rates point to room for more monetary easing

EMAX core CPI and real rates (core deflated)

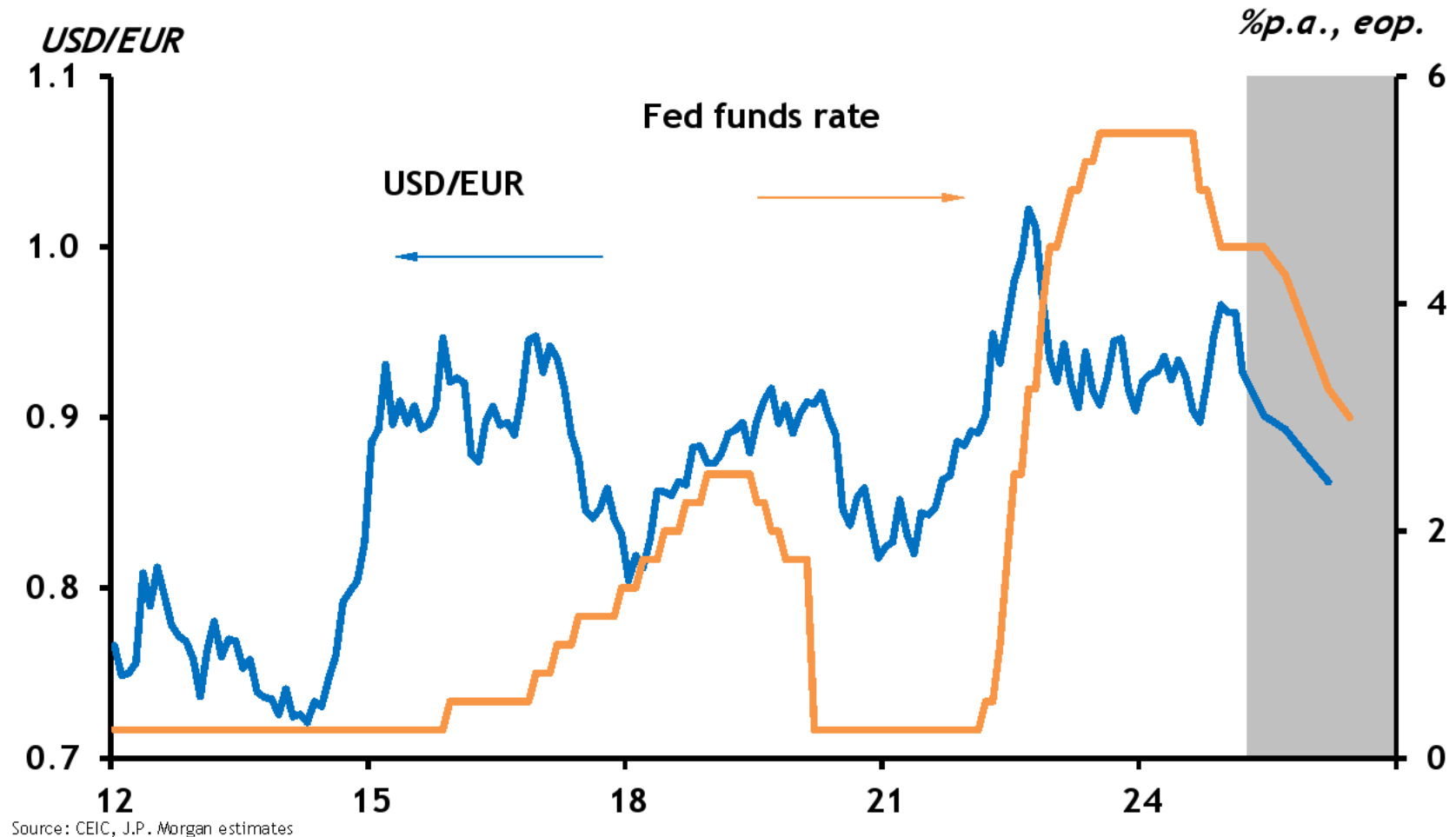


EM Asia was caught on the horns of a trilemma



A softer USD and projected Fed easing open the barn door

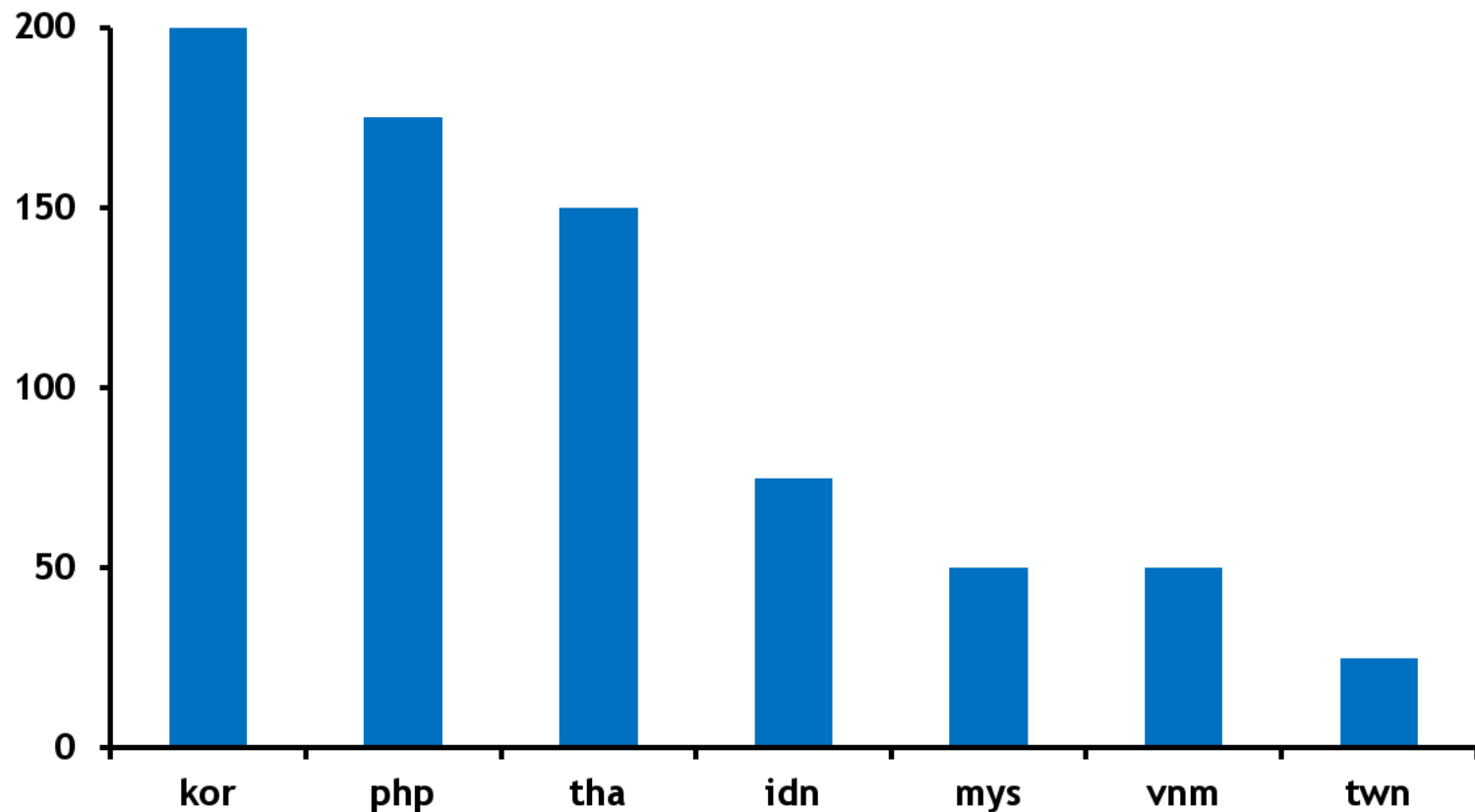
USD/EUR and Fed funds rate



Monetary policy to favor a steady stream of small rate cuts

Forecasted policy easing in this cycle

bp; 2Q26 less 2Q24

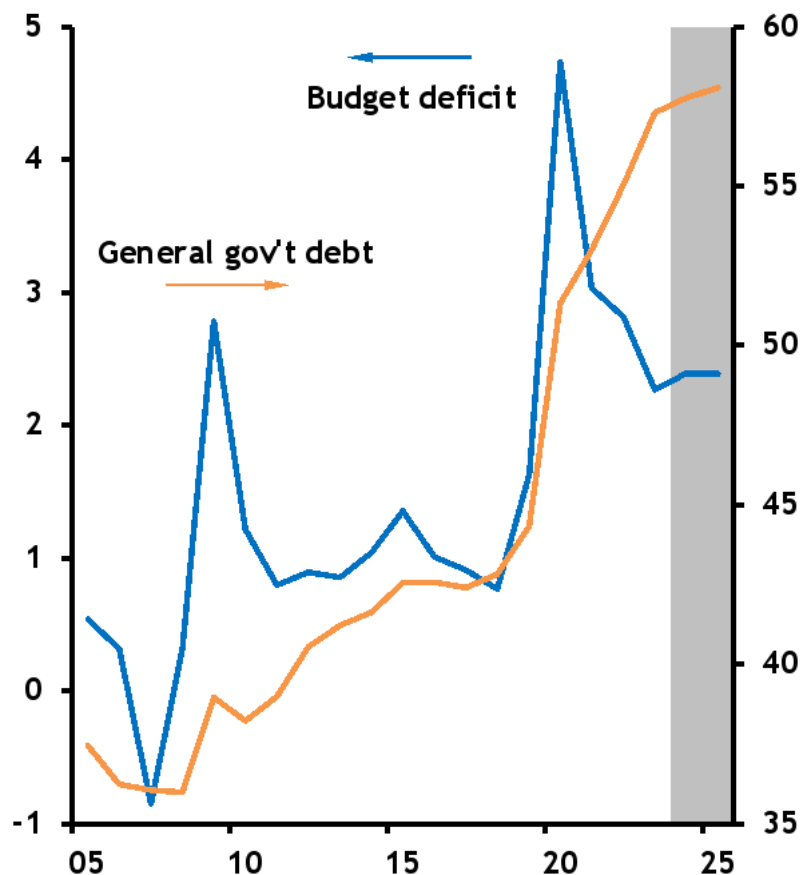


Source: J.P. Morgan forecasts

Fiscal room is more constrained...

EMAX deficits and debt

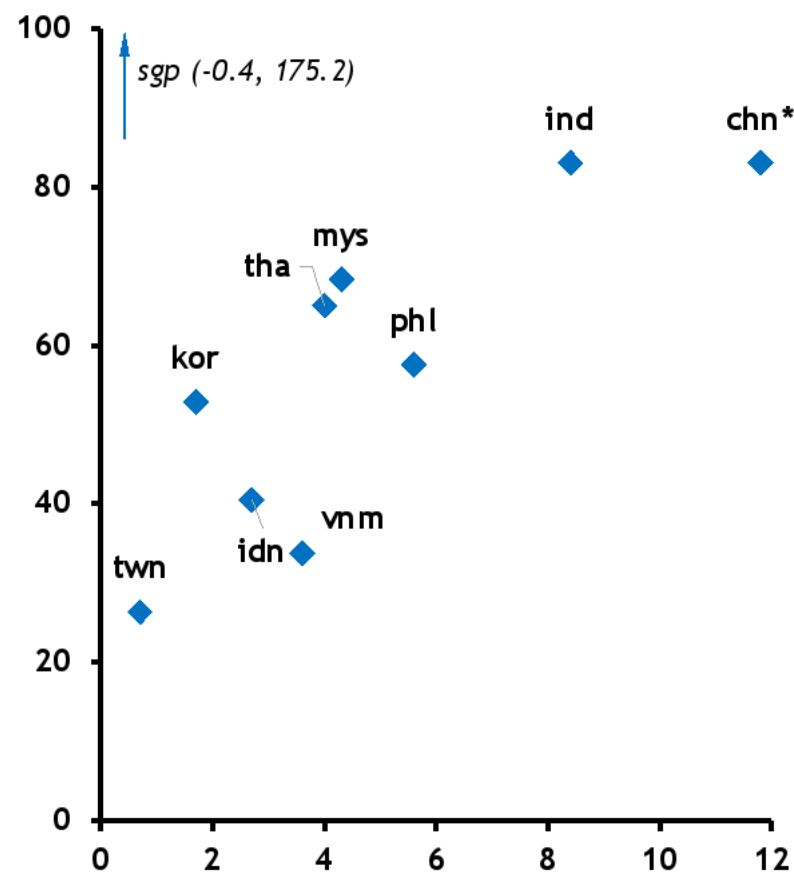
% of GDP, both scales



Source: IMF, national sources, J.P. Morgan

EM Asia deficits and debt - 2024

% of GDP; X-axis: budget deficit, Y-axis: gen. gov't debt



Source: IMF, national sources, J.P. Morgan. *Augmented deficit including LGFV borrowing.

...with differentiation in relative willingness and ability

Relative willingness and ability to deploy fiscal policy

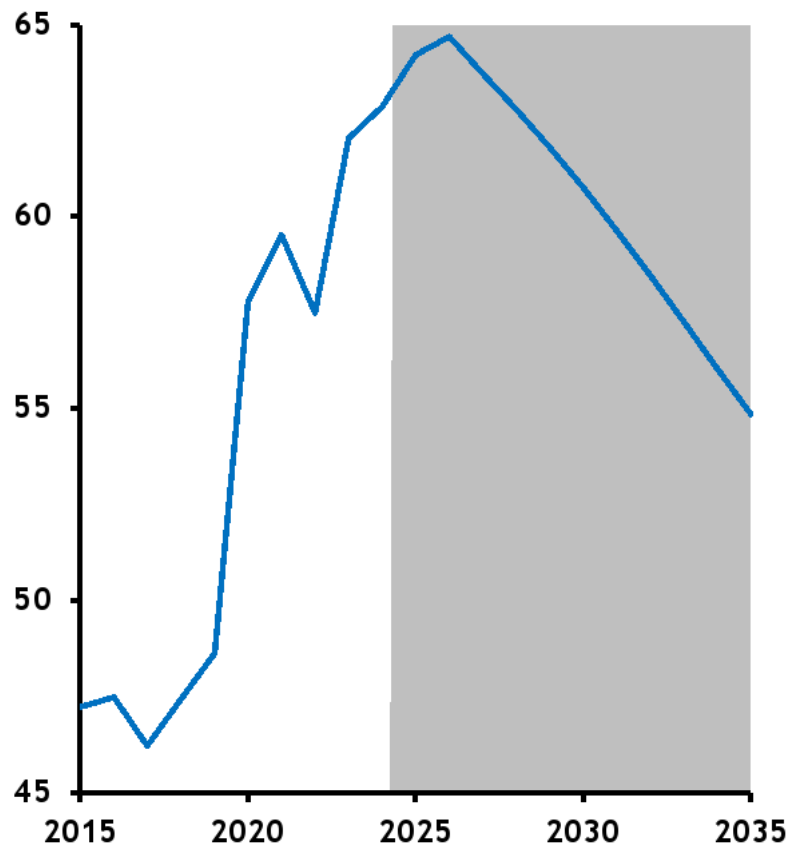
Ability	More	Vietnam Korea Singapore	Taiwan
	Less	Indonesia Malaysia Thailand	Philippines India
		High	Low
		Willingness	

Source: J.P. Morgan.

Debt dynamics to bind in some economies

Malaysia statutory gov't debt

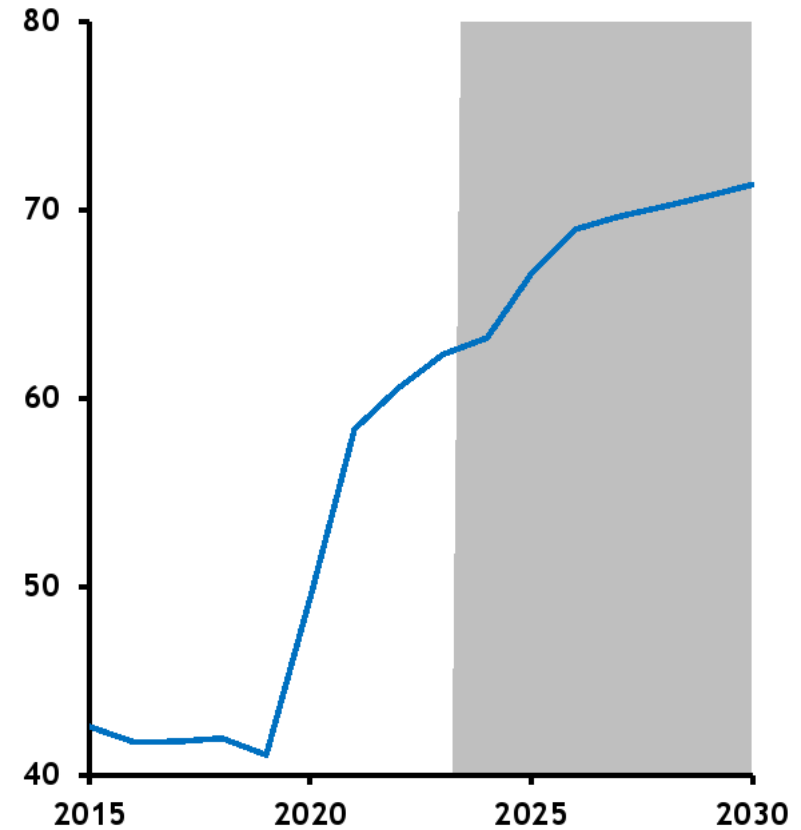
% of GDP; 65% is legal ceiling



Source: J.P. Morgan, national sources

Thailand general gov't debt

% of GDP



Source: J.P. Morgan, national sources

Japan: Macro View

J.P.Morgan Japan forecast

(%/q, saar unless otherwise noted)

	CY22	CY23	CY24	CY25	CY26
				F	F
Real GDP (2005=100)	0.9	1.4	0.2	1.0	0.8
Private Consumption	2.0	0.9	-0.1	1.0	0.8
Residential Investment	-2.8	1.5	-2.5	1.9	0.5
Business Capital Investment	2.6	1.3	1.4	2.0	0.3
Government Consumption	1.4	-0.3	0.9	0.5	-0.9
Public Investment	-8.4	1.7	-1.0	-0.5	0.4
Exports	5.6	3.3	1.1	2.1	1.1
Imports	8.3	-0.9	1.0	2.8	0.6
Net trade (%contribution to growth)	-0.5	0.8	0.0	-0.1	0.1
Change in Inventories	0.2	-0.3	-0.1	0.2	0.3
Nominal GDP	1.3	5.5	3.1	4.6	3.6
GDP deflator (%oya)	0.4	4.1	2.9	3.6	2.8
Core CPI (%oya, ex Fresh food) *	2.3	3.1	2.6	3.0	2.4
Core CPI (%oya, ex Fresh food and Energy) *	1.1	4.0	2.5	2.7	2.6
Core CPI (%oya, ex food and Energy) *	0.2	2.5	1.9	2.1	2.6
Trade Balance (¥tril) BoP	-15.9	-6.6	-3.5	-7.1	-4.2
as % of GDP	-2.8	-1.1	-0.6	-1.1	-0.6
Current Account Balance (¥tril)	10.7	22.5	29.2	27.3	32.0
as % of GDP	1.9	3.8	4.8	4.3	4.9
Unemployment rate, %	2.6	2.6	2.5	2.4	2.4
Industrial Production	0.0	-1.4	-3.0	-0.9	0.3

Source: J.P. Morgan

Annual real GDP growth to remain solid, driven by solid growth in domestic demand

CPI inflation will remain sticky above the 2% target

Japan: Muddling through

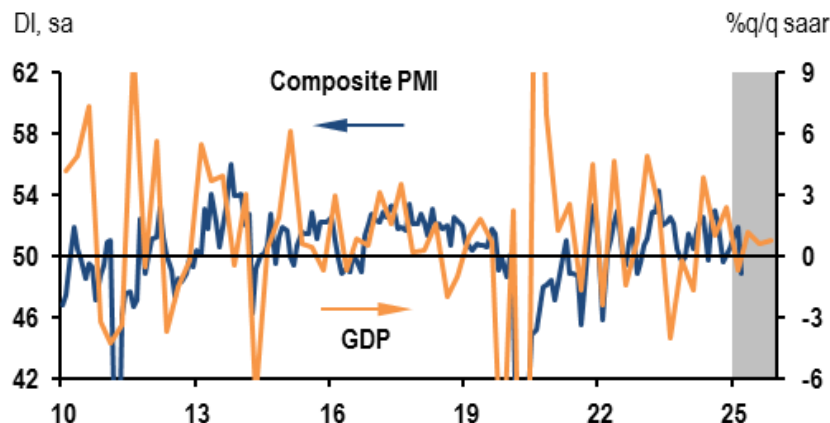
Japan macro highlights

- Japan's annual real GDP growth is expected to continue its recovery in 2025, with a rate of 1.0%oya, surpassing the estimated potential growth of 0.6%. This would be driven by resilient domestic demand, which is likely to withstand the initial shocks to the export sector caused by the US tariffs. Domestic consumption is likely to keep recovering as solid wage growth gradually alleviates consumers' concerns on persistent inflation.
- The direct negative impact of tariffs on the Japanese economy is likely to reflect a drag on exports and corporate profits. Also, increased uncertainty could negatively affect capex and household consumption through sentiment channels. But we believe Japan is in a strong position to rising trade tensions relative to many other Asian exporters, as Japan's production offshoring provides some insulation against tariffs. Additionally, if high tariffs between the US and China lead to substitution in other countries, including Japan, the impact through trade on Japan could be smaller than expected. Although uncertainty remains high, we expect the direct impact of US policy changes announced in April to be limited, with risks around our forecasts being two-sided.
- Despite the external growth risks, wage and inflation pressures are clearly rising. As labor market further tightens due to decreasing labor supply, full-timers' base pay growth is expected to trend to around 3.5%-4%oya in 2H25. Sustained wage growth, along with surges in food and energy prices, intensifies domestic price pressures. Progress in cost pass-through progress keeps Japan's inflation sticky, and global-standard core inflation is likely to exceed 2%oya in 2H25.
- In such an environment, we continue to expect the BoJ to proceed with normalizing monetary policy, with the next rate hike expected in October. The BoJ, which has previously highlighted upside inflation risks, has indicated the basic stance of policy normalization based on the expectation that the virtuous cycle of wages and prices would continue even amid a growth slowdown. Though the announced US tariffs endorsed the BoJ to revise down their growth and inflation forecast, we expect Japan's inflation momentum to be stronger than the BoJ's assessment.
- Also, BoJ is expected to continue reducing its JGB purchases. If recession concerns continue to suppress the rise in long-term yields, this will allow the BoJ to proceed with balance sheet reduction without worrying about excessive rise in yields. We believe the BoJ sees continuing to reduce monthly JGB purchase beyond 2Q26 (i.e. maintaining the current pace of reducing JGB purchases of by JPY400 billion each quarter) as a base case, and will assess the need to adjust the reduction pace at the June policy meeting.

Japan: Domestic resilience to offset external shocks

Real GDP to grow above potential in 2025

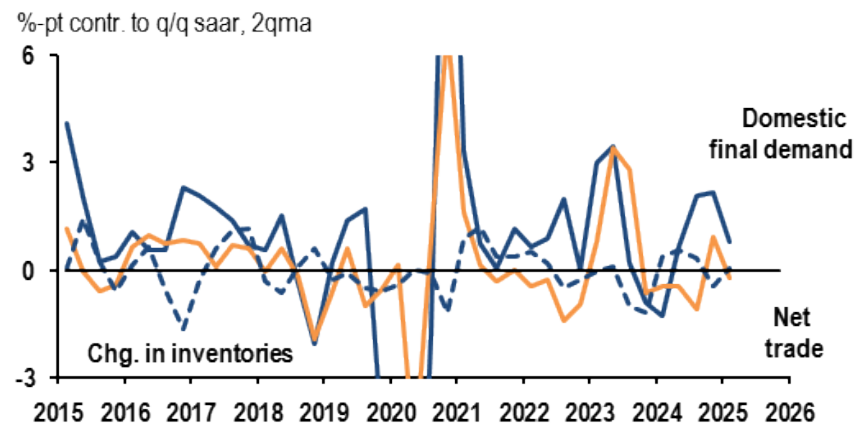
Japan: Composite PMI and GDP



Source: Markit, Cabinet Office. Shaded area shows J.P. Morgan GDP forecasts

Growth would be driven by resilient domestic demand

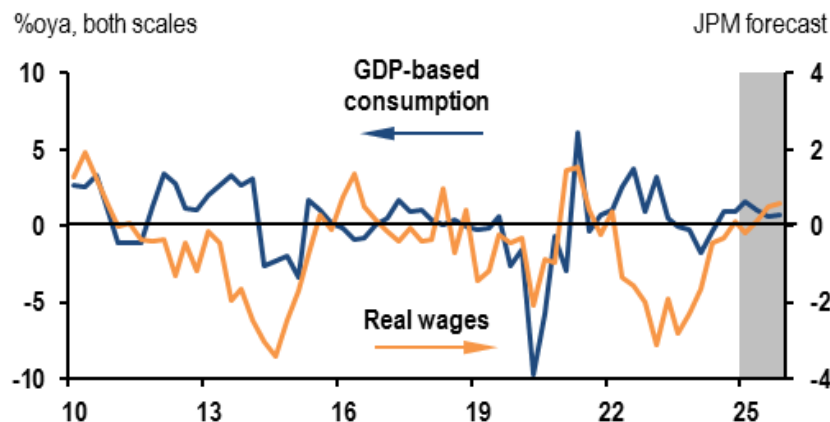
Contribution to real GDP growth



Source: Cabinet Office, J.P. Morgan

Consumption will keep growing, supported by wage gains

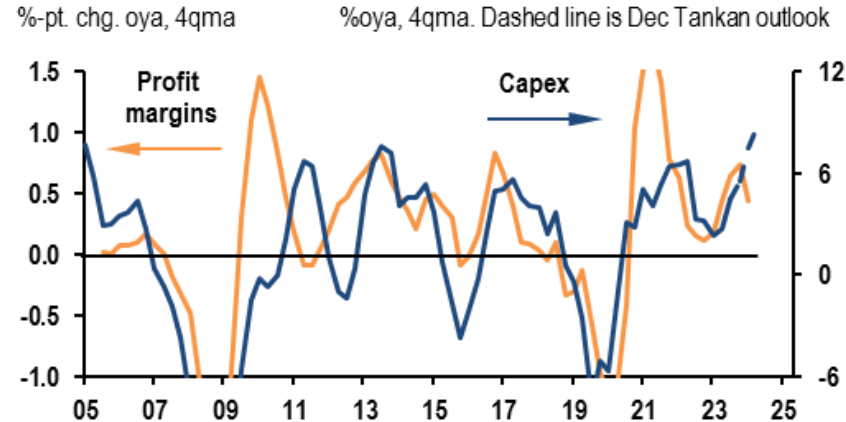
Real consumption vs. real wages



Source: CAO, MHLW, J.P. Morgan

Capex to trend higher amid record profit margins

Nominal capex and corporate profits

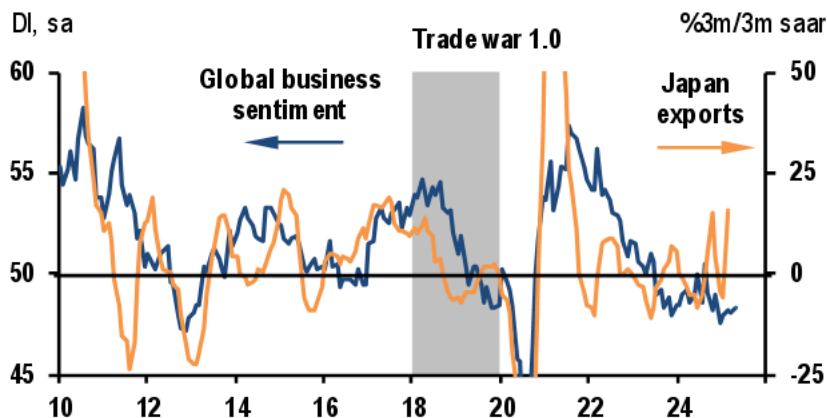


Source: BoJ Tankan, MoF Corp. Survey, J.P. Morgan. Profit margins advanced 2-qtrs

Japan: There's room for maneuver in the trade war

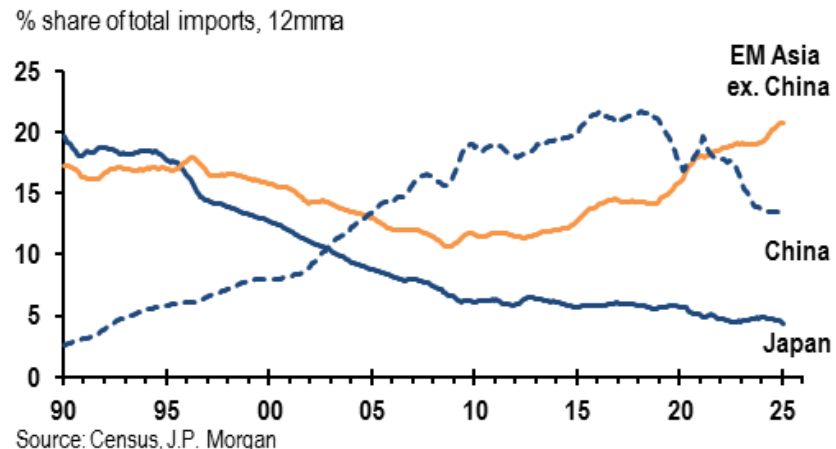
Rising trade tensions present greatest downside risk

Global business sentiment¹ and Japan exports



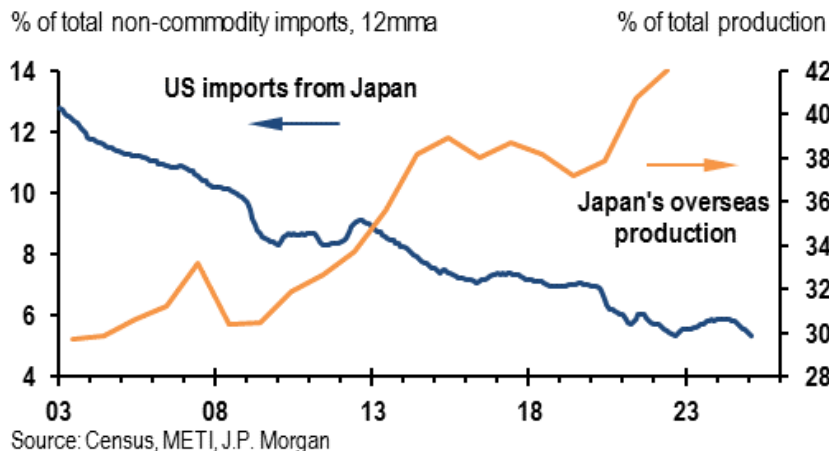
Japan is getting robust relative to other Asian exporters

US imports from Asia



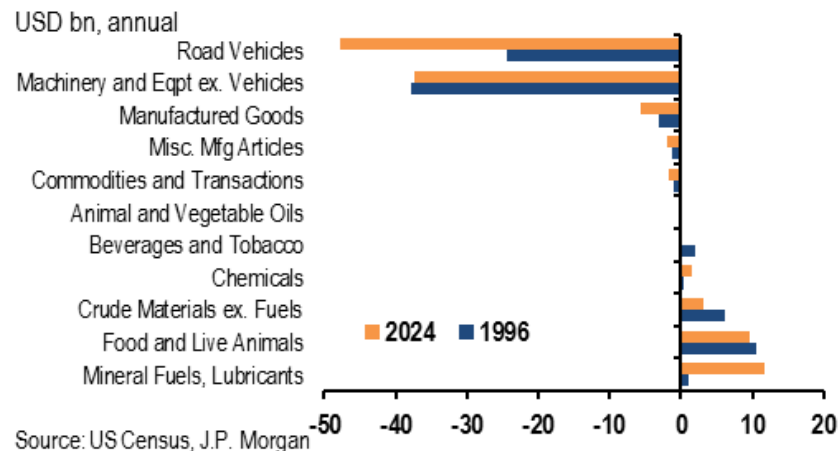
Production offshoring provides some insulation

US imports from Japan and overseas mfg. ratio



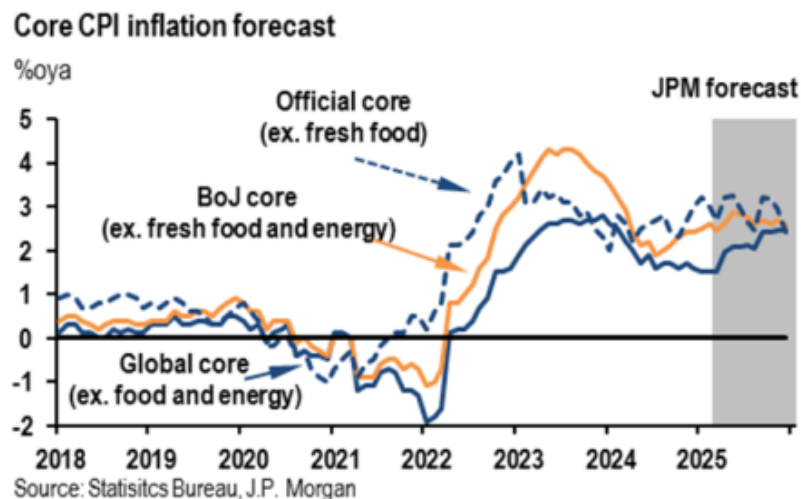
Japan seeks for entire removal of tariffs by negotiation

US goods trade balance with Japan

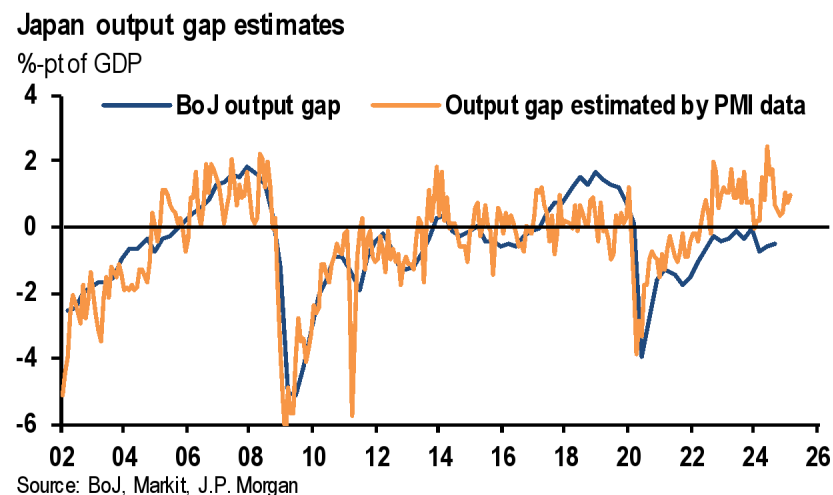


Japan: Inflation will accelerate again

Expecting inflation to remain sticky above 2%



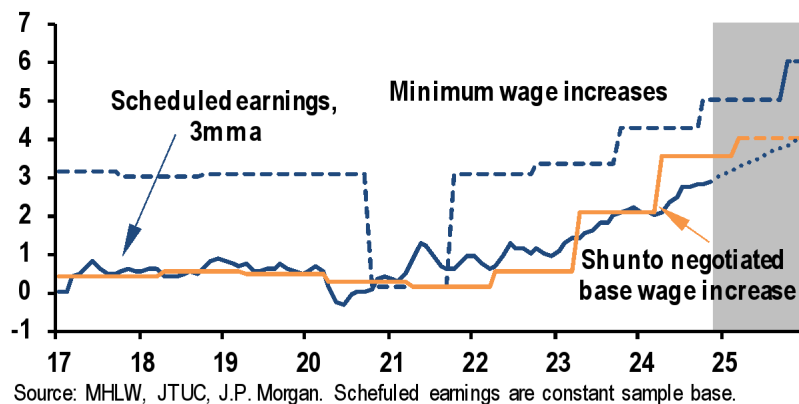
Our output gap estimate suggests less slack



Sustained wage growth to fuel price pressures

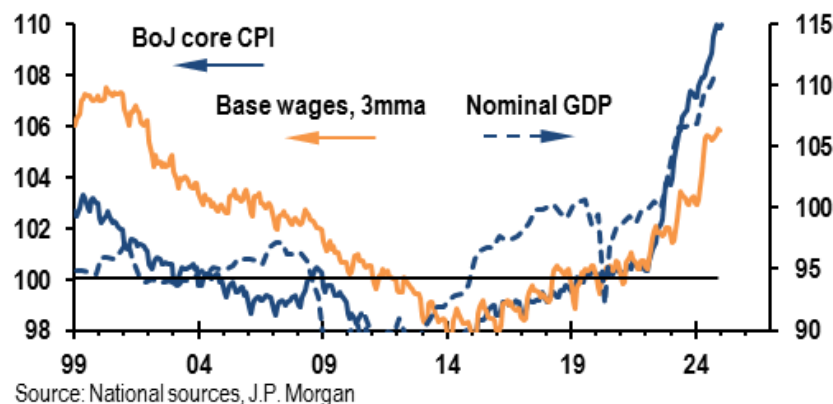
Wage negotiation and actual wage growth

%oya, shaded area is J.P. Morgan forecast



Japan: prices, wages, and nominal GDP

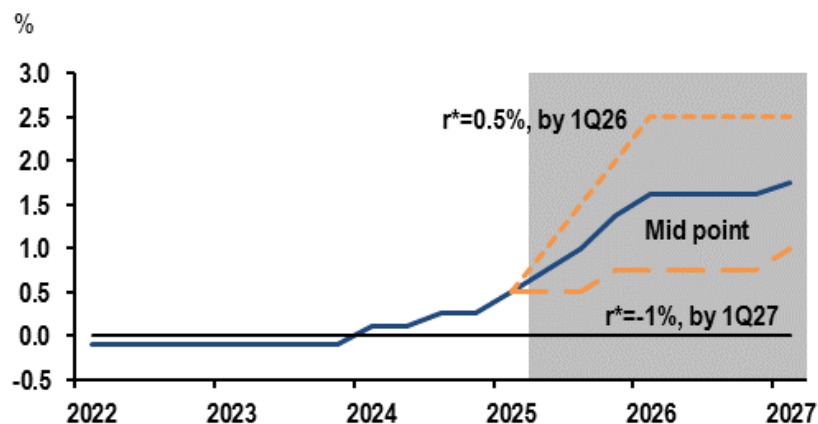
2019=100, both scales



Japan: BoJ continues policy normalization and QT

BoJ to proceed its policy normalization

BoJ's hinted policy rate path

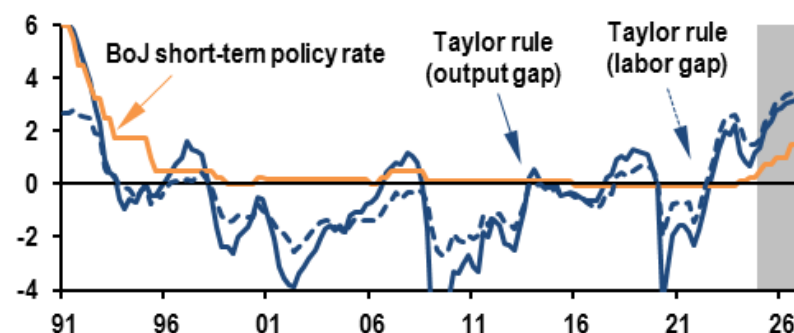


Source: J.P. Morgan

Modest behind-the-curve strategy limits easing space

Taylor rule suggested and actual policy rates

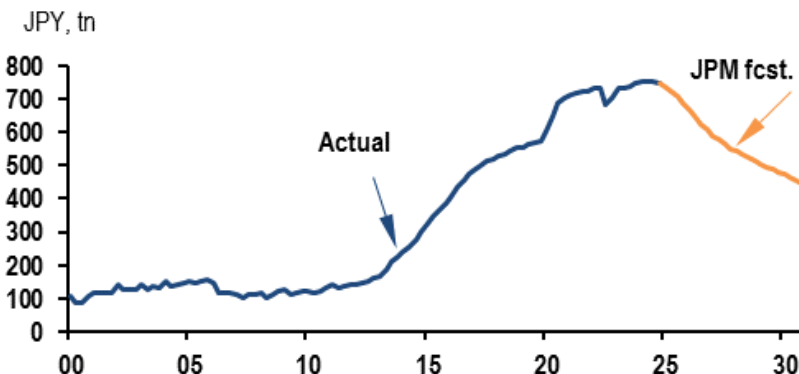
%, shaded area are JPM forecasts



Note: Global core (ex. food and energy), $r^* = -0.5\%$, future path is BoJ indicated
Source: BoJ, CAO, J.P. Morgan

BoJ to continue reducing JGB purchases

BoJ balance sheet reduction



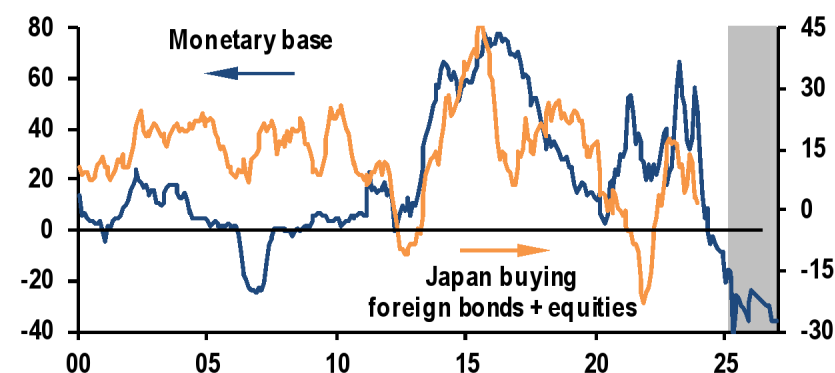
Note: Assumes the BoJ's reduction of JGB holdings of JPY36tn annual pace
Source: BoJ, J.P. Morgan

Watching the impact of tightening liquidity condition

Japan M0 and BoP net foreign portfolio invest. assets

JPY tn, chg. oya

JPY tn, 12m sum, 12m lag



Source: BoJ, MoF, J.P. Morgan. Shaded area is JPM estimate.

China: Macro View

Table: China economic indicators

	Average				
	2018-22	2023	2024	2025f	
Real GDP, % change	5.2	5.2	5.0	4.8	Annual growth target 5%. Growth challenge due to trade tension
Consumption ¹	2.5	4.4	2.2	2.8	
Investment ¹	2.0	1.4	1.3	1.9	
Net trade ¹	0.7	-0.6	1.5	0.1	
Consumer prices, %oy a	2.1	0.2	0.2	-0.2	Persistent demand-supply imbalance and deflation pressure
% Dec/Dec	2.0	-0.3	0.1	0.1	
Government balance, % of GDP	-3.0	-3.9	-3.0	-4.0	Unconventional fiscal policy: 4% budget deficit, 0.8% fiscal impulse
Merchandise trade balance (US\$ bn)	503	594	767	804	
Exports	2,765	3,162	3,392	3,510	
Imports	2,262	2,569	2,625	2,706	
Current account balance	234	253	421	434	We expect current account to stay stable at 2.3% of GDP
% of GDP	1.5	1.4	2.3	2.3	
International reserves, (US\$ bn)	3,168	3,239	3,203	3,323	

1. Contribution to growth of GDP.

Source: NBS; J.P. Morgan forecasts

Three themes to understand the Chinese economy in 2025

Tariff war 2.0

- Tariff war 2.0 under Trump 2.0: Higher, broader, more disruptive
- Punitive tariff rates and tit-for-tat retaliation from China
- Tariff de-escalation in May, but uncertainties remain

Pro-growth Policy

- Policy shift since September 2024: Entering the second half
- Boosting domestic demand became the top policy priority

DeepSeek and Innovations

- DeepSeek and re-assessment of China's ability to innovate
- Impact on capital market is immediate, macro impact will take time

Divided views on Tariff war 2.0

Tariff outlook

- J.P. Morgan's assumption of a tariff increase from 20% to 60% throughout 2025 was non-consensus. Actual outcome is even worse
- Tariff increase: A modest start but quick evolvement
- While we are hopeful of a deal, further risks to China still exist (non-tariff measures by the US, tariff on transshipments and possible tariff increases by other trading partners)

Tariff impact

- Our estimates of tariff impact on growth in a static analysis: (1) 40%pt increase, 1.9%pt; (2) 110% tariff, 3%
- Opposing views: China is more resilient to tariff shocks
- What matters: tariff de-escalation; tariffs on China's transshipments; tariff increases by other trading partners

China's response

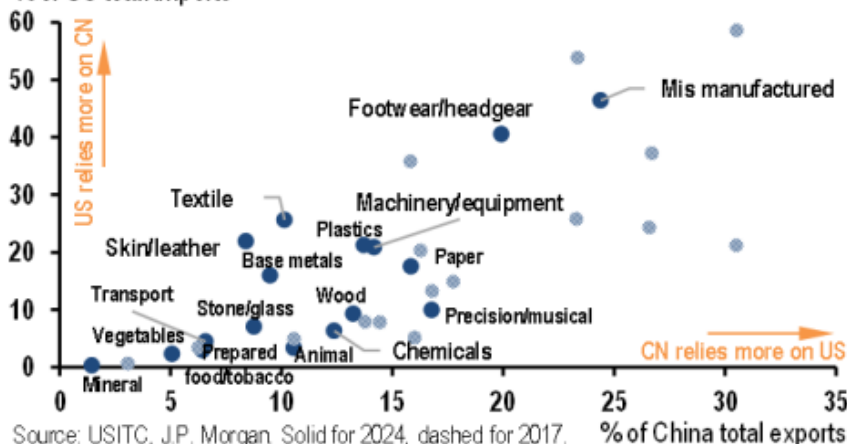
- Retaliation: From a modest to a tit-for-tat retaliation, including: retaliatory tariff increases; export controls; "unreliable entity" list; investigation into US firms; WTO dispute
- Offsetting measures: export diversification; fiscal policy; monetary policy: exchange rate policy

Tariff impact on trade: Lessons of Tariff war 1.0

US-China bilateral trade dependence

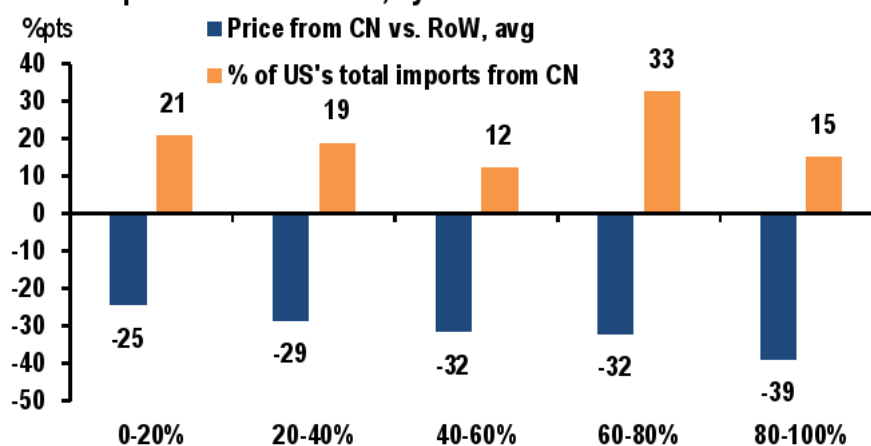
US imports from China

% of US total imports



Market share of Chinese imports

Chinese products breakdown, by its US market share

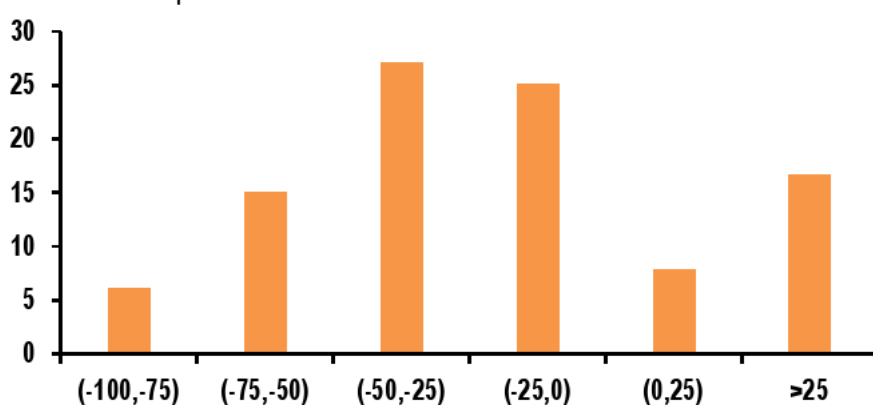


Source: USITC, J.P. Morgan

Price advantage of Chinese goods

US import price: China vs. RoW

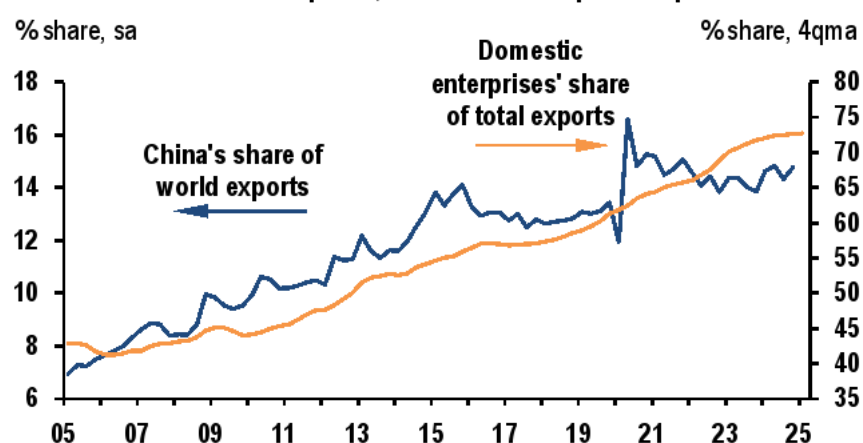
% of total US imports from CN



Source: USITC, J.P. Morgan

China's share of global exports

China share of world exports; domestic enterprise exports



Source: China Customs, J.P. Morgan

Fiscal policy: Modest fiscal expansion, not fiscal bazooka

China's fiscal policy

% of GDP

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Budgetary items									
Fiscal deficit (set at March NPC)	2.8	2.5	2.7	3.6	3.0	2.7	3.0	3.0	4.0
Special LGB	0.9	1.4	2.1	3.6	2.2	4.2	2.9	3.0	3.1
Special CGB (additional fiscal deficit)	0.0	0.0	0.0	1.0	0.0	0.0	0.8	0.7	0.9
Transfer across years	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.4	0.0
Off-budgetary items									
LGFV borrowing	4.6	3.0	4.0	5.0	4.1	4.0	2.9	2.5	2.5
Net land sales	1.2	1.4	1.4	1.6	1.5	1.1	0.9	0.7	0.6
Policy banks/special refinancing LGE	0.7	0.5	0.0	0.0	0.0	0.6	1.1	1.5	1.5
Augmented fiscal deficit	10.3	8.9	10.3	14.8	10.8	12.7	11.2	11.8	12.6
Change in augmented fiscal deficit	0.4	-1.4	1.4	4.5	-4.1	1.9	-1.5	0.6	0.8
Memo: Nominal GDP (trillion yuan)	84.7	93.6	100.6	103.5	117.4	123.4	129.4	134.9	140.2

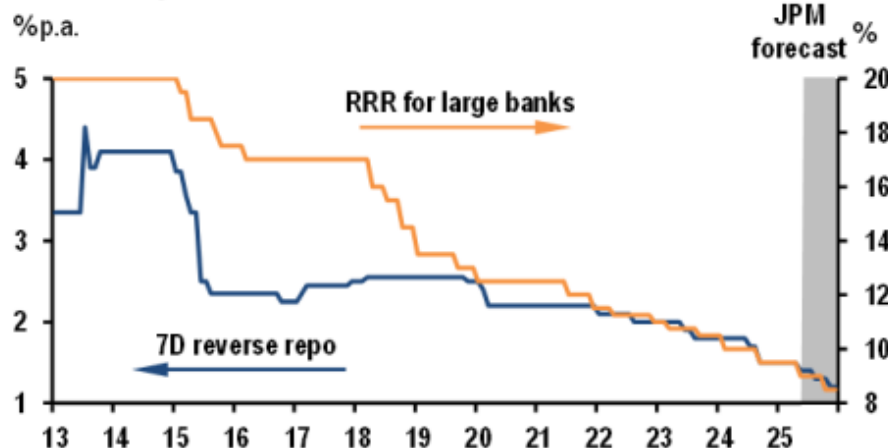
* Others include sales of government assets, saving from mobilizing idle fiscal resources, interest payment saving from LGD swap program, policy bank financing, and special refinancing bonds etc.

Source: MOF, NBS, JP Morgan

Monetary policy

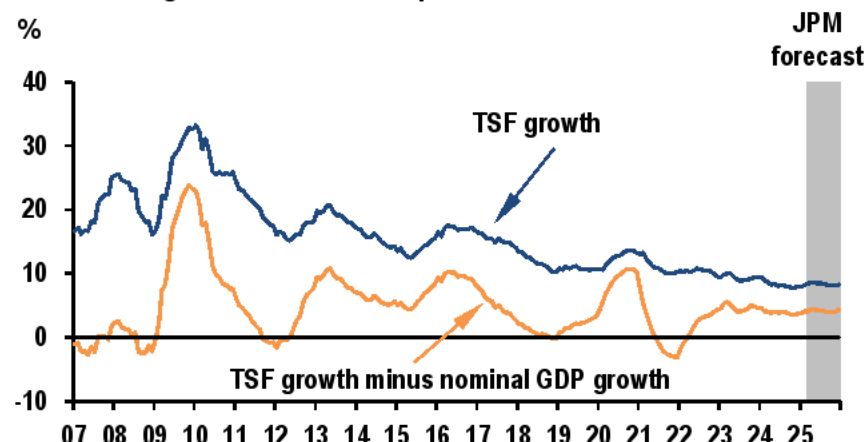
Policy rate and RRR

China Policy rate and RRR



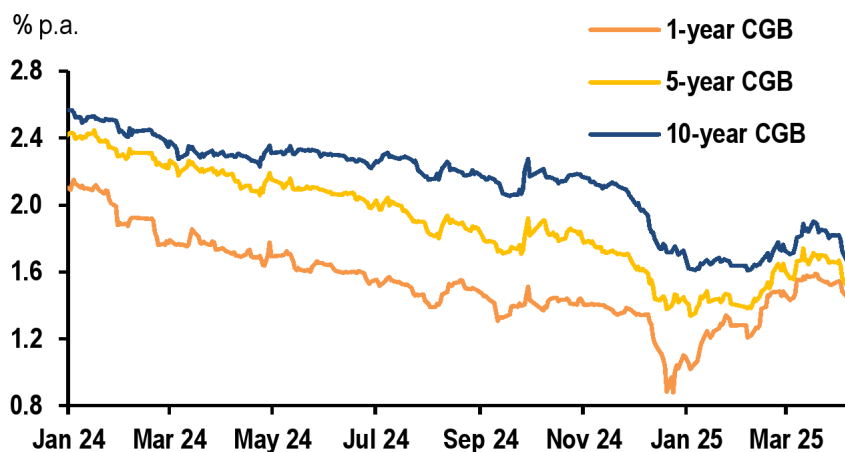
Credit policy

China: TSF growth and credit impulse



CGB yields

China interest rates



Active use of countercyclical factor

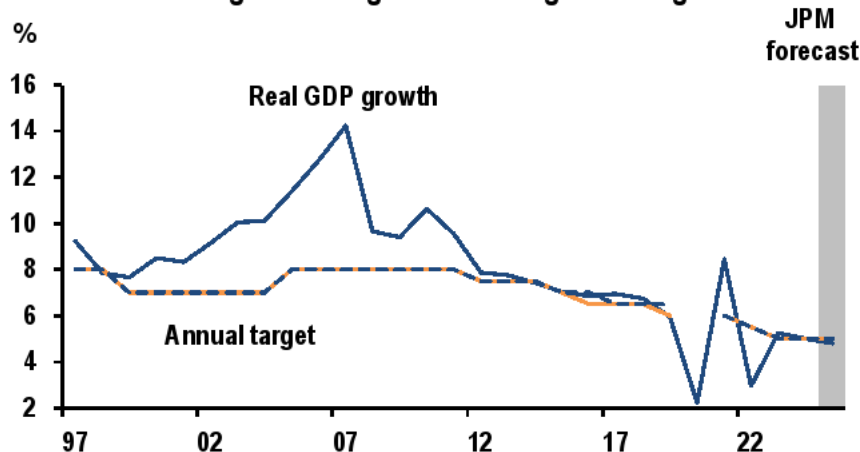
CNY exchange rate



Assessing China's economic condition

5% growth target in both 2024 and 2025

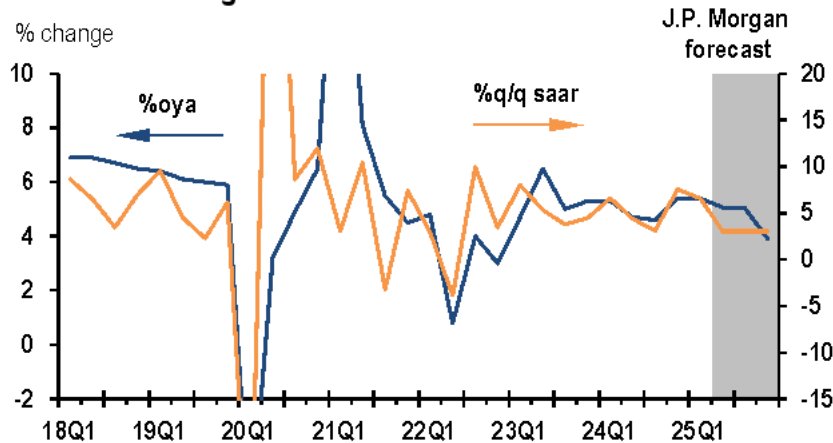
China: Real GDP growth vs. government's growth target



Source: NBS, J.P. Morgan

Sequential growth has been volatile in recent years

China: Real GDP growth

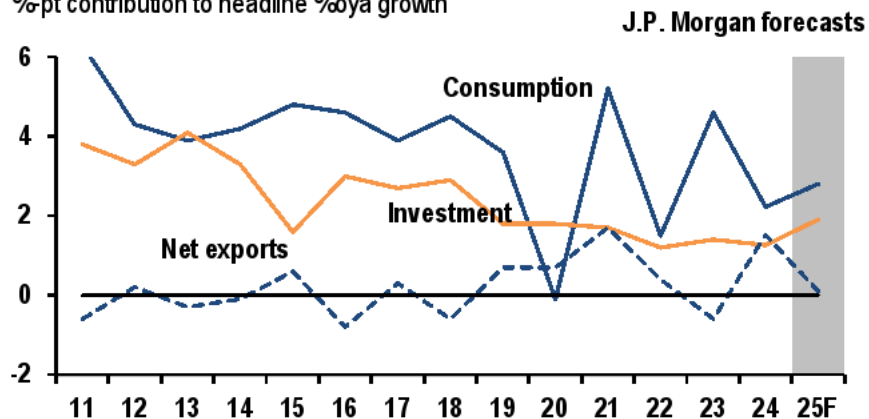


Source: NBS, J.P. Morgan

Net exports contribution will decline significantly

Contribution to headline GDP growth

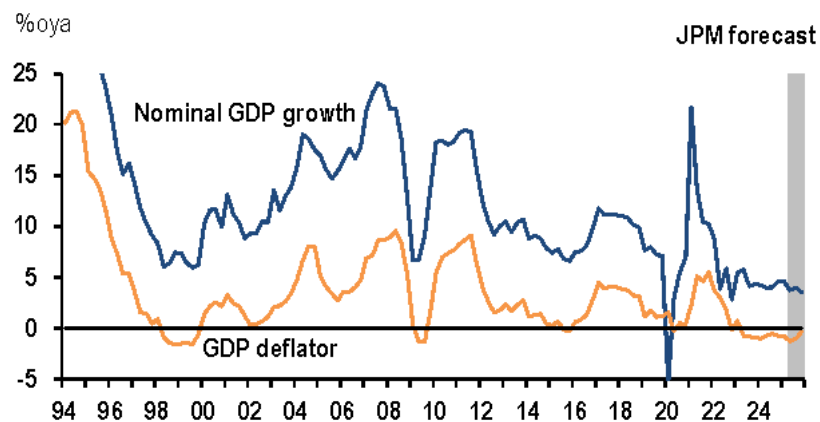
%pt contribution to headline %oya growth



Source: NBS, J.P. Morgan

Deflation is a key macro concern

Nominal GDP and GDP deflator



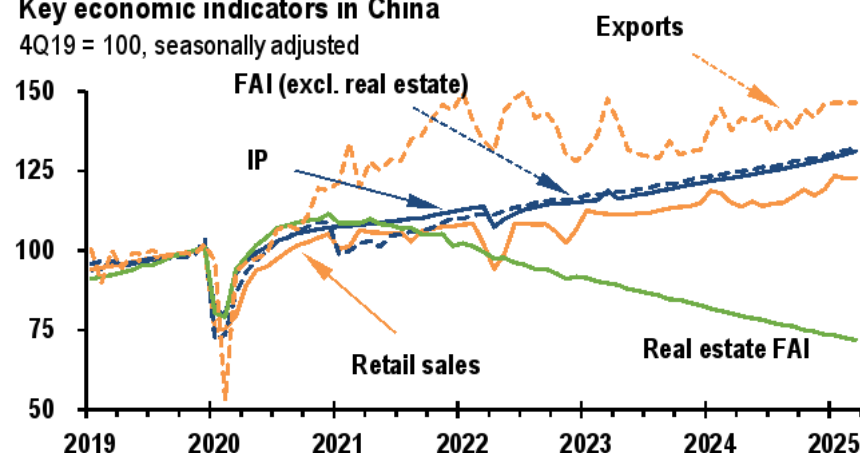
Source: NBS, J.P. Morgan

Uneven developments

Uneven recovery

Key economic indicators in China

4Q19 = 100, seasonally adjusted

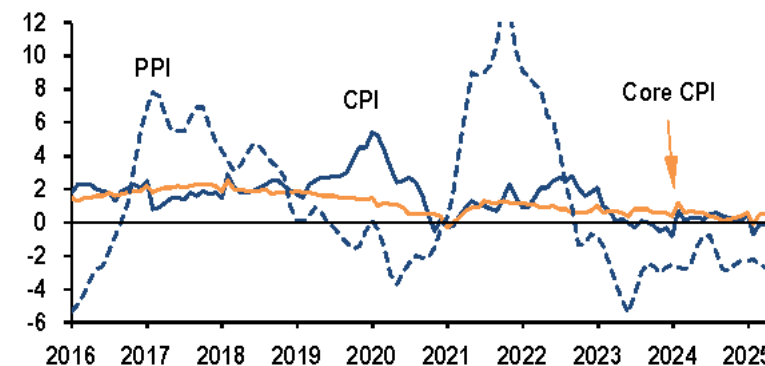


Source: NBS, China Customs, J.P. Morgan

Deflation pressure

China's inflation dynamics

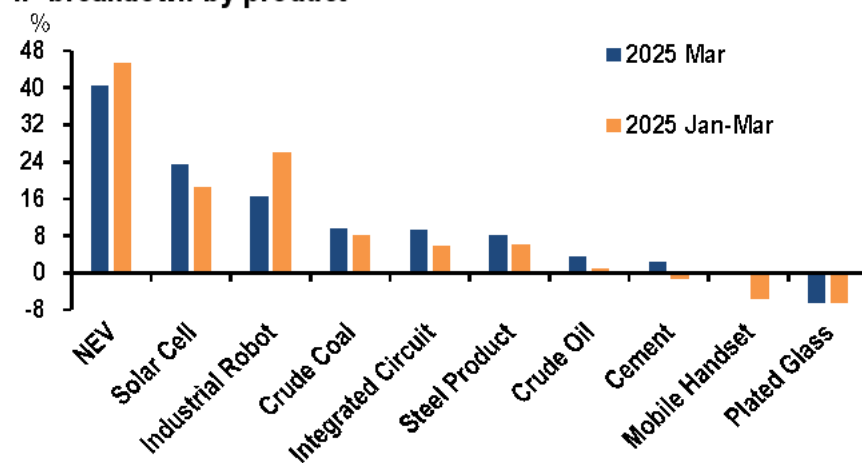
%oya



Source: NBS.

Breakdown of IP activity

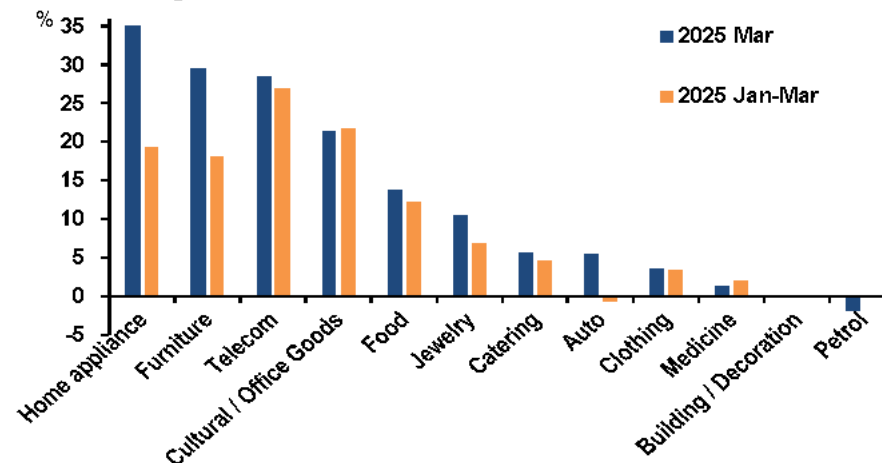
IP breakdown by product



Source: NBS, J.P. Morgan

Breakdown of retail sales

Retail sales growth breakdown



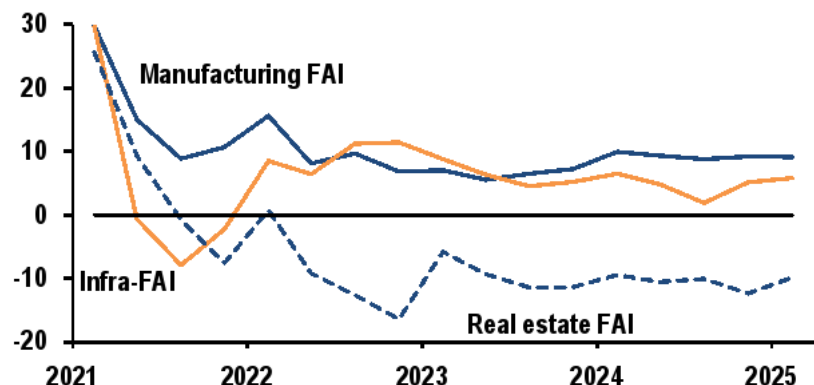
Source: NBS, J.P. Morgan

FAI breakdown

Manufacturing investment has outperformed

China: FAI growth

%yoy, quarterly

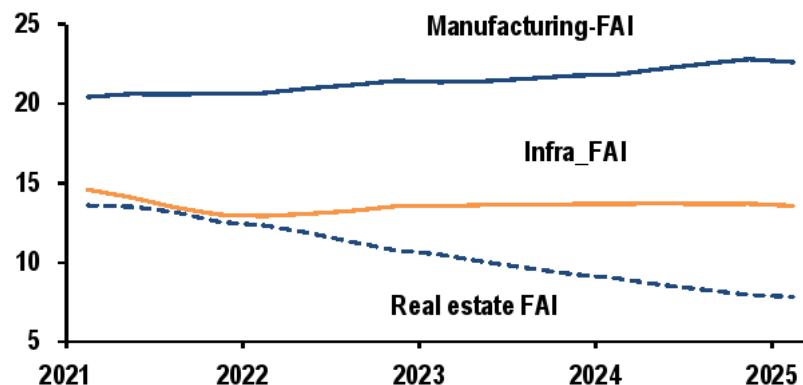


Source: NBS, J.P. Morgan

Breakdown in FAI activity

China: Key components of FAI

% of GDP, 12-month rolling

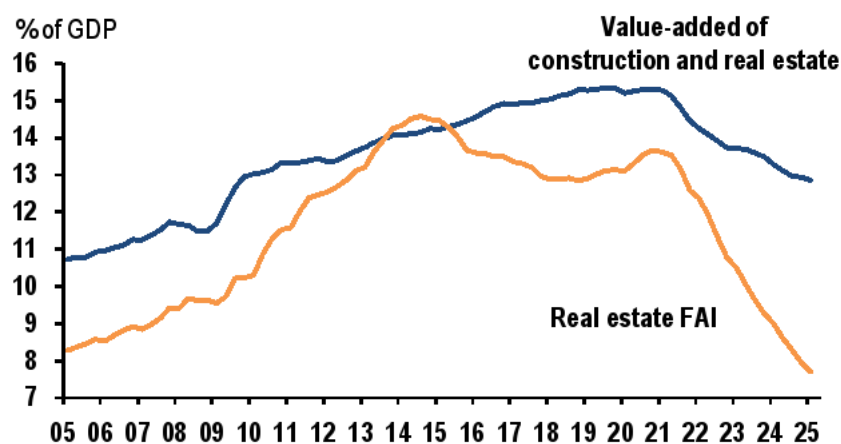


Source: NBS, J.P. Morgan

Housing is a pillar industry

Real estate FAI and share in GDP

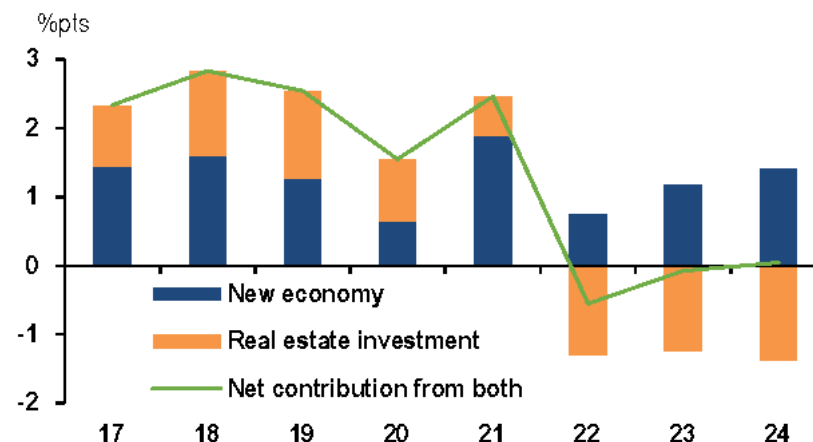
% of GDP



Source: NBS, J.P. Morgan

Time inconsistency in economic transformation

GDP growth contribution: new economy vs. real estate

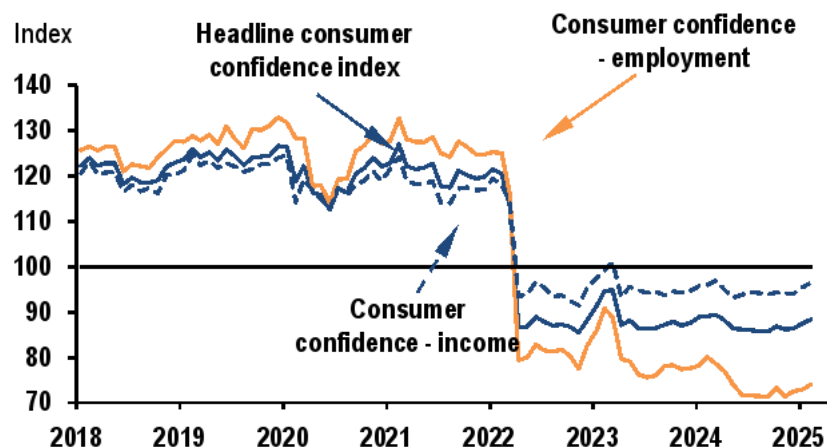


Source: NBS, J.P. Morgan

Consumption

Low confidence among consumers

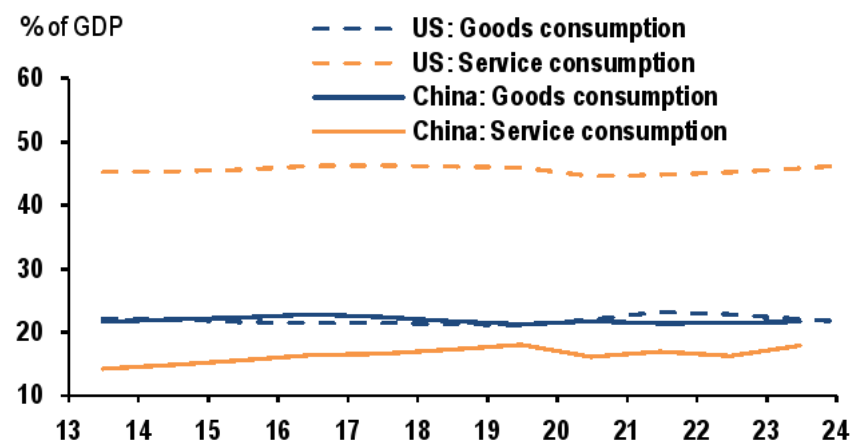
China consumer confidence index



Source: NBS, J.P. Morgan

Low service consumption in China

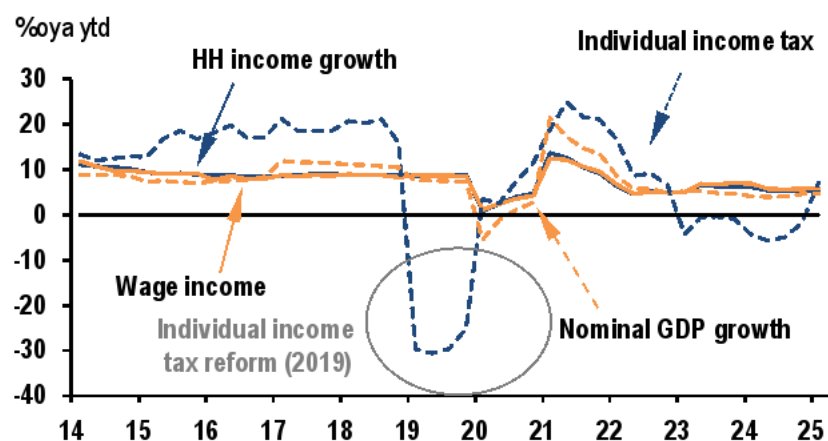
Household consumption in China vs. the US



Source: NBS, CEIC, J.P. Morgan

Income is the primary driver of consumption

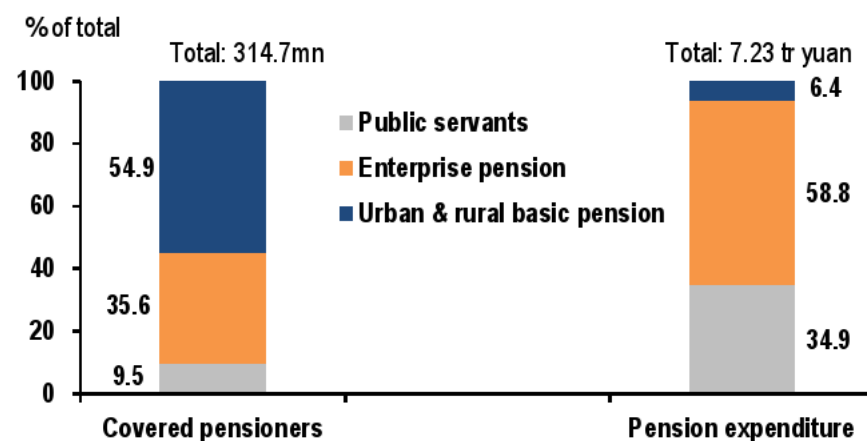
Household income



Source: NBS, J.P. Morgan

China's tiered pension system

China's tiered pension system



Source: NBS, J.P. Morgan

India: Macro View

India: economic indicators fiscal years beginning Apr 1

Fiscal years beginning Apr 1	Average 2017-21	2023	2024F	2025f	2026f
Real GDP, % change	4.1	9.2	6.5	6.0	6.3
Consumption ¹	3.1	3.5	3.4	3.6	3.7
Investment ¹	0.4	7.6	3.2	3.4	2.9
Net trade ¹	0.6	-1.9	0.0	-1.0	-0.4
Consumer prices, %oy a	5.3	5.4	4.7	4.0	4.7
% Dec/Dec	5.1	6.2	5.2	4.0	4.5
Wholesale prices, %oy a	5.9	-0.7	2.5	0.3	4.0
Government balance, % of GDP	-10.1	-9.1	-8.4	-7.9	-7.5
Merchandise trade balance (US\$ bn)	-178.9	-245.1	-272.1	-281.5	-300.4
Exports	367.8	441.4	436.4	454.1	472.4
Imports	546.8	686.4	708.5	735.6	772.8
Current account balance	-32.8	-26.3	-37.0	-41.3	-54.8
% of GDP	-1.1	-0.7	-1.0	-1.0	-1.2
International reserves ex gold, (US\$ bn)	489.4	570.4	560.4	555.4	570.4
Total external debt, (US\$ bn)	591.2	686.7	724.7	762.7	800.7
Short term ²	116.3	143.7	154.7	165.7	176.7
Total external debt, % of GDP	20	19.0	18.5	18.2	17.7
Total external debt, % of exports ³	81	75	77	79	80
Interest payments, % of exports ³	8	6	7	7	7

1. Contribution to growth of GDP.

2. Debt with original maturity of less than one year.

3. Exports of goods, services, and net transfers.

Source: MoSPI, J.P. Morgan.

India Macro Outlook

- **GDP growth in India is expected to slow from an upwardly-revised 9.2% in FY24 to about 6.5% in FY25.** To be sure 1Q25 growth (the last quarter of the fiscal year) is expected to see a sharp acceleration in growth to ~7.2% from 6.2% in the previous quarter. But much of this acceleration is on account of a significant payout of subsidies in 1Q25 which will boost Net Indirect Taxes (NIT). Instead, a better representation of underlying growth will be Gross Value add (GVA) which is expected to accelerate more modestly from 6.2% to 6.4% helped by a strong agricultural harvest. While private sector high frequency data in recent months has been unconvincing (IP, exports, auto sales) much will depend on how corporate earnings pan out.
- **FY26 GDP growth pegged to slow from 6.5% to at 6%.** India's goods exports to the US constitute ~2.3% of GDP, suggesting the direct impact of the 10% tariffs imposed by the US on India may be relatively limited. However, with the US and the global economy expected to slow meaningfully in 2025, India's exports (22% of GDP) are expected to be impacted more broadly. Furthermore, heightened global growth, trade and policy uncertainty creates headwinds for private capex. That said, India will benefit from a few offsets. First, as a large importer of crude (~3% of GDP), India is poised to benefit from a favorable terms-of-trade shock on account of the sharp recent decline in crude oil prices. Second, lower commodity prices will depress WPI inflation and boost growth through a deflator effect. Third, monetary policy easing should support growth even as fiscal policy continues to be consolidated.
- **Food price relief and soft core keeps inflation benign.** April CPI softened further to 3.2% oya and inflation is expected to remain benign in the coming month with full-year FY26 inflation expected a tad below 4%. Inflation is currently benefiting from sharp food disinflation. Food prices declined for a fourth consecutive month taking over-year-ago food inflation in April to 2.1 % – the lowest in three-and-a-half years. Robust production from the rabi (winter) crop coupled with forecasts of an above-normal monsoon is expected to keep food price momentum benign in the near future. Meanwhile, core-core prices increased sequentially by 0.42% m/m, sa pushing up year-on-year core inflation to 4.4%. While this may seem ominous, core-core prices were again boosted by rising gold prices. Excluding gold, core-core increased by 0.3% m/m sa in April and has averaged 0.3% m/m, sa over the last three months – an annualized rate of below 4%. On a year-on-year basis, too, core-core (ex gold) is running at 3.6%, reflective of existing slack in the economy.
- **RBI expected to cut by another 25 bps in June.** Having cut policy rates by 50 bps already and having changed the stance to “accommodative,” we expect the RBI to cut policy rates by another 25 bps in June. With fiscal policy continuing to tighten, the onus to support growth will continue to fall squarely on monetary policy. Our baseline call therefore expects another 100 bps of easing in this cycle, taking the terminal rate to 5% – an ex ante real rate of 1% – while inflation continues to be forecast at 4%. However, this had presumed a US and global recession. With the recent US-China détente, however, the odds of a US recession have receded and the risk is the terminal rate is 5.5%, especially since a large liquidity surplus is ensuring that the de facto easing is greater than suggested by the terminal rate, as we discuss next.

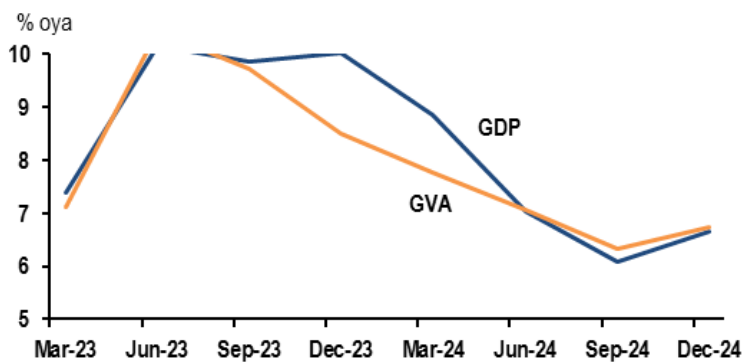
India Macro Outlook

- **Surplus easing resulting in greater de facto easing.** While much attention has been given to policy rate cuts, a key development is the drop in overnight rates below the policy rate, driven by a combination of surplus liquidity and the elimination of Variable Rate Reverse Repo (VRRR). This indicates that the actual easing has been more substantial than the cumulative 50 bps rate cuts suggest. This downward pressure on rates has also been helped by the RBI's recent operational shift - eliminating VRRR auctions, which typically serve to absorb excess liquidity in the system. In the absence of VRRR operations, banks have increasingly turned to the Standing Deposit Facility (SDF) to park their surplus funds. The SDF by design is pegged 25bps below the policy rate, effectively setting a soft floor for overnight rates and allowing them to drift lower in response to expanding liquidity. India's banking system liquidity is expected to move deeper into surplus, averaging Rs. 1.8 trillion in May and projected to rise to Rs. 2.4 trillion in June helped in part by the anticipated dividend payout from the RBI.
- **FY26 Fiscal deficit pegged at 4.4% of GDP.** Central government spending also came off meaningfully in February after growing by ~13% in January. Combined, January and February saw a contraction in government spending, led by both revenue expenditure as well as capex. Central government spending would need to rise by 18% in March (capex by 44%) for the budget targets to be met. That said, we expect the government to meet its 4.8% of GDP budget target for FY25. The budget also targets further consolidation of 0.4% of GDP next year to reduce the deficit to 4.4% of GDP. If this year's budget is achieved, total Public Sector Borrowing Requirements (PSBR) in FY26 would reduce to 7.6% of GDP-comparable to levels seen in 2017-18. After a big public investment push that led to the doubling of center's capex from 1.7% of GDP to 3.2% of GDP in FY24- FY25 capex was pegged lower at 3.1% of GDP. With states also missing their capex targets and prioritising subsidies, combined public capex likely peaked in FY24.
- **CAD to remain benign.** Despite exports losing momentum in the last few months, the current account is expected to print a surplus of \$10 bn (1.1% of GDP) in 1Q25 helped by strong services exports and some favourable seasonality of goods exports in the January-March quarter. This is a sharp swing from the \$11 billion (1.2% of GDP) deficit recorded in 4Q24. After posting a large BoP deficit of \$38 billion in the 4Q24, the BoP is expected to post a surplus of \$10-12 bn in 1Q25 helped by the current account surplus. For the full 2024-25 fiscal year, the current account is forecast to be in a deficit of just \$27 bn (0.7% of GDP), the same as last year. Importantly, RBI's reaction function in terms of INR FX management has changed significantly, with the central bank allowing higher volatility on both the sides of the market.

India – continued

Growth slowed in FY25

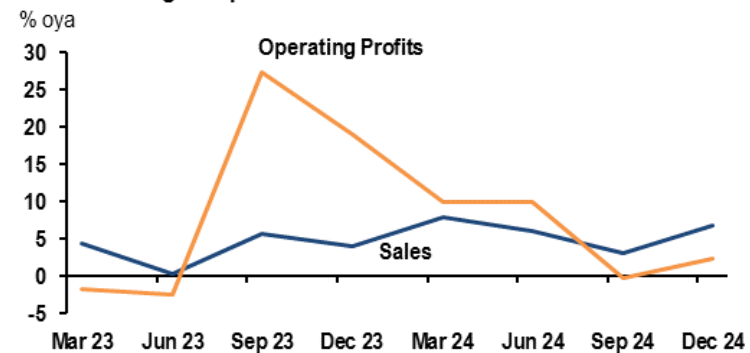
GDP and GVA



Source: MoSPI

Manufacturing companies' profits key to growth outlook

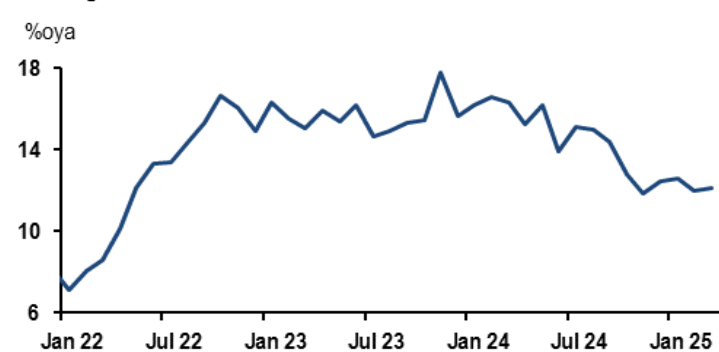
Manufacturing Companies Sales and Profits



Source: RBI

Credit growth continues to slow

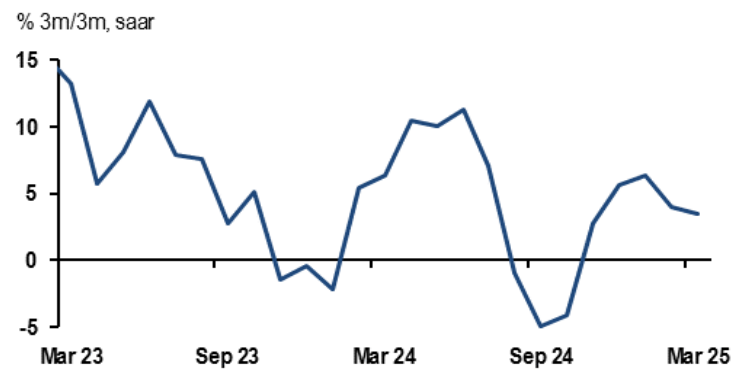
Credit growth



Source: RBI

Industrial activity has lost pace

Industrial Production



Source: MoSPI

India – continued

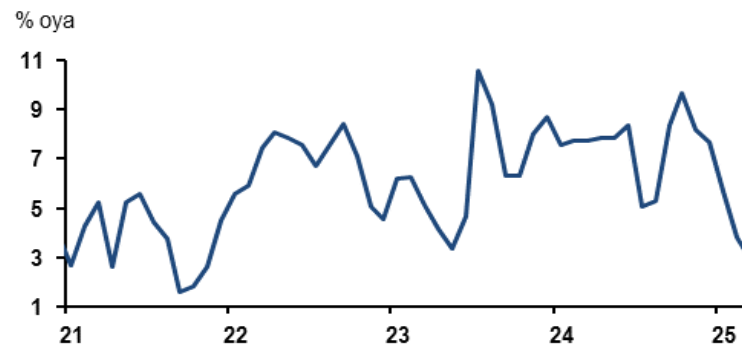
Core Inflation remains soft

Core-Core inflation



Food disinflation

Food Inflation



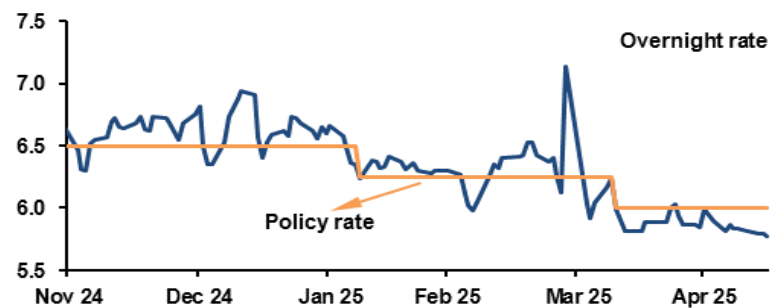
Real policy rates still remain high

Real policy rates



Liquidity has moved into surplus

Overnight rates vs policy rate



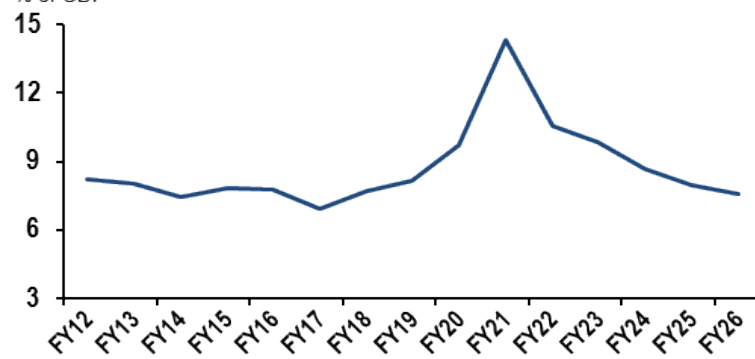
Source: RBI, J.P. Morgan.

India – continued

PSBR back to pre-pandemic levels

Public Sector Borrowing Requirements (PSBR)

% of GDP

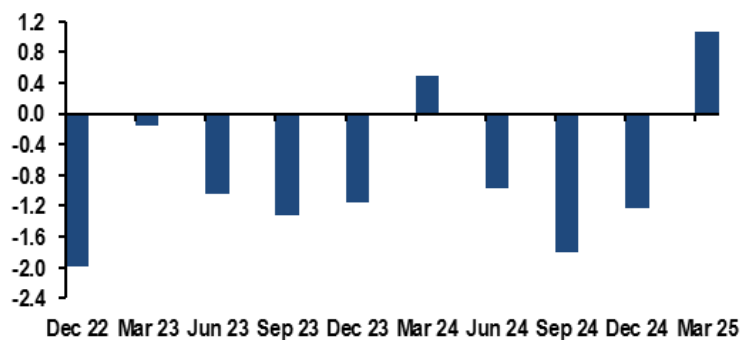


Source: Budget documents, J.P Morgan

Current Account Balance in surplus in 1Q25

Current Account Balance

% of GDP

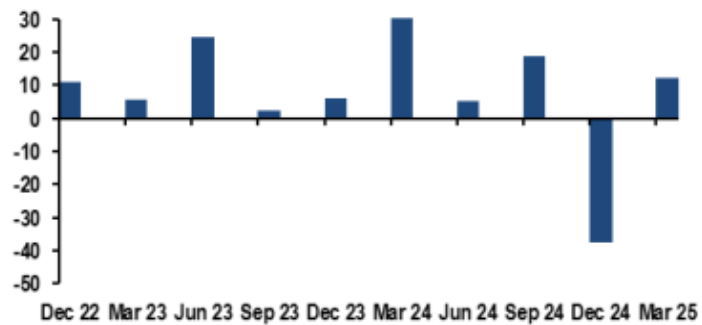


Source: RBI, Dec figure is an estimate

BoP swings back into surplus

Balance of Payments (BoP)

\$ bn



Source: RBI, Dec figure is an estimate

REER has mean reverted

INR Real effective exchange rate (40 currency)

Index, increase = appreciation



Source: RBI

Korea: Macro View

South Korea: economic indicators

	Average			
	2018-22	2023	2024	2025f
Real GDP, % change	2.4	1.4	2.0	0.5
Consumption ¹	1.7	1.1	0.9	1.1
Investment ¹	0.2	0.2	-0.7	-0.8
Net trade ¹	0.5	0.2	1.8	0.2
Consumer prices, %oy a	2.0	3.6	2.3	2.2
% Dec/Dec	2.3	3.2	1.9	1.8
Producer prices, %oy a	3.2	1.6	1.7	1.7
Government balance, % of GDP	-1.4	-1.5	-1.7	-2.2
Merchandise trade balance (US\$ bn)	72.4	37.7	100.1	107.1
Exports	608.9	643.6	696.2	703.2
Imports	536.6	605.9	596.1	596.1
Current account balance	64.8	32.8	99.0	102.1
% of GDP	3.6	1.8	5.3	5.7
International reserves, (US\$ bn)	422.8	414.0	408.9	442.1

1. Contribution to growth of GDP.

Source: National sources, J.P.Morgan estimates

Annual real GDP growth to slow to 0.5%/y in 2025 with headwinds from trade tensions

CPI inflation is expected to undershoot the 2% target going forward

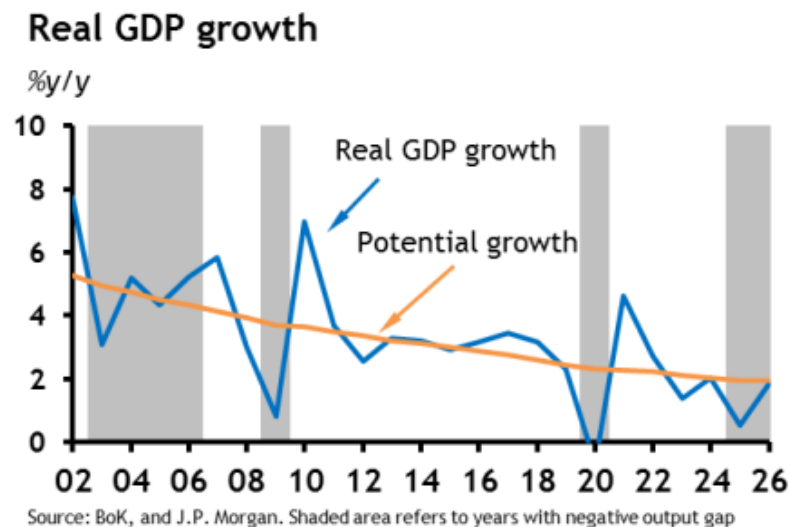
Korea: Growth to slow, policy to react

Korea macro highlights

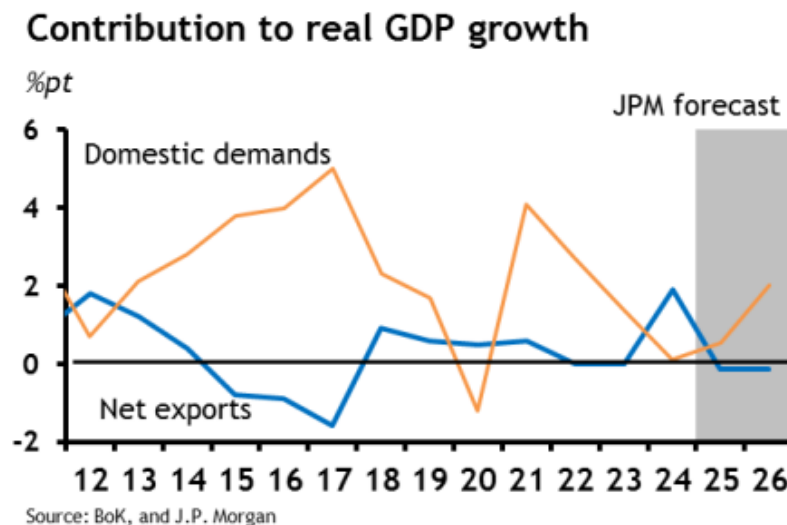
- Korea's real GDP growth is likely to slow to 0.5%/y/y in 2025 from a recovery at 2.0% in 2024. With a revised potential GDP trajectory and the growth outlook for 2025/26, the output gap is anticipated to turn negative going forward. In 2025/26, domestic demand contribution is expected to gradually rise, similar to the period from 2013 to 2016, partially offsetting a decline in net exports' contribution. Real exports are likely to underperform relative to global demand growth in 2025 due to a mid-year tariff shock affecting major trading partners. There is a rotation between tech and non-tech real exports, with tech exports likely rising strongly in 2024 but softening in 2025. In the details of domestic demand, private consumption expenditure's contribution should gradually normalize. Construction growth is expected to undergo further correction in 2025. The contribution from equipment investment growth is anticipated to increase in 2025, supported by favorable terms of trade.
- CPI inflation stabilized around the 2% target in 2024, recording 2.3%/y/y annual inflation after above-target rates of 5.1% in 2022 and 3.6% in 2023. While we see upside pressure on headline inflation due to spillover from a weaker KRW NEER in the near term by mid-2025 (annual forecast: 2.2%), we think the deeper negative output gap, the U.S. administration's strong preference for reducing crude oil prices, and China's potential export diversification away from the U.S. to other markets, including Korea, will contribute to disinflationary forces in the coming quarters.
- Room for more policy action looms large with the easing of the political standoff and a stronger need to address downside growth risks. For fiscal policy, we now expect a two-stage fiscal stimulus in 2Q25 and 3Q25, totaling 1.3% of GDP. In addition to an expected technical rise in private consumption in 2Q, with an anticipated easing of consumer sentiment drag, fiscal action should boost domestic demand in 2Q and 3Q.
- For monetary policy, the expected deeper negative output gap suggests a need for more preemptive and deeper policy rate cuts. After the anticipated cut in May 2025, the BoK is likely to continue a quarterly cut pace from the August meeting, in line with our call for the U.S. Fed to resume policy rate easing from mid-year and larger room for cuts from a softer inflation outlook from 4Q this year. We now expect the terminal rate of 1.5% should be reached by 2Q26.
- We see headwinds from trade tensions and an anticipated slowing in export volume growth, to be offset by a moderation of import growth due to sluggish domestic demand. Also, the terms of trade is expected to rise modestly further to provide an additional offset. We estimate the CA surplus to firm up as a percent of GDP (to 5.7%). In the financial accounts, we cautiously expect that financial flows will turn around in 2025 to record a gain in the FX reserve after decreases from 2022 to 2024. While net FDI outflow and other investment outflow are expected to continue to rise further in 2025, we expect marginal inflows in portfolio investment in 2025 (for the first time since 2012). Such an external balance recovery should provide the BoK with more room to focus on the domestic policy environment.

Korea: Growth to slow, policy to react

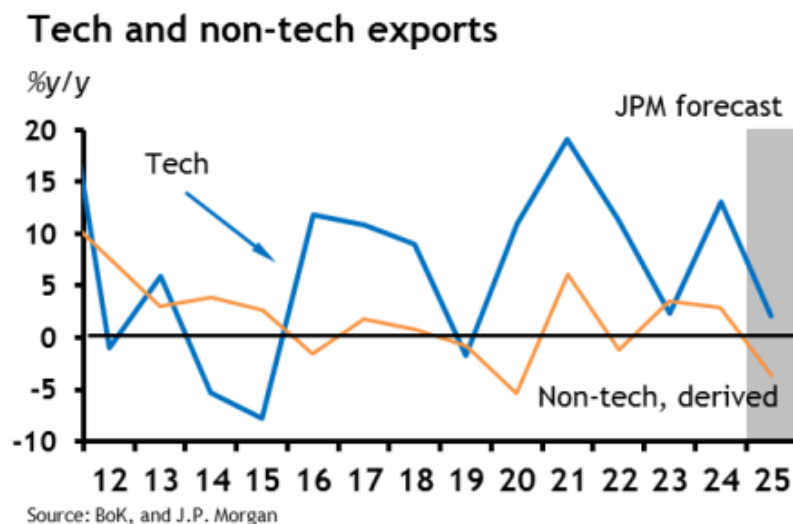
Real GDP growth to slow to 0.5%/y/y in 2025



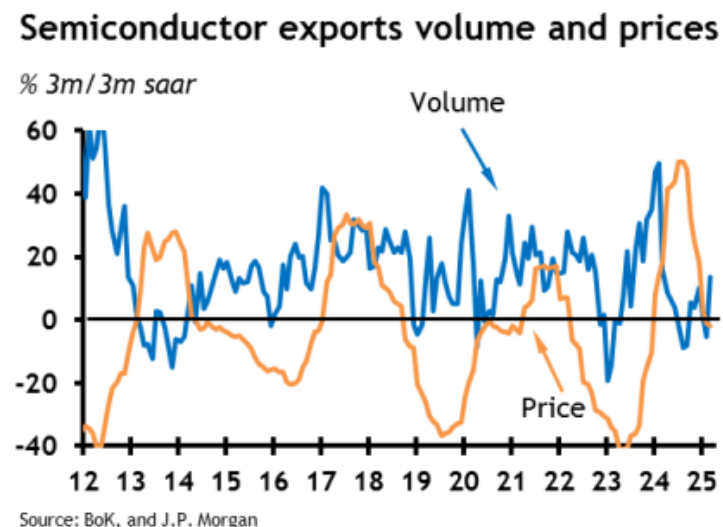
Near-stall in exports amid headwinds from trade tensions



Non-tech exports' buffer to weak tech exports is fading



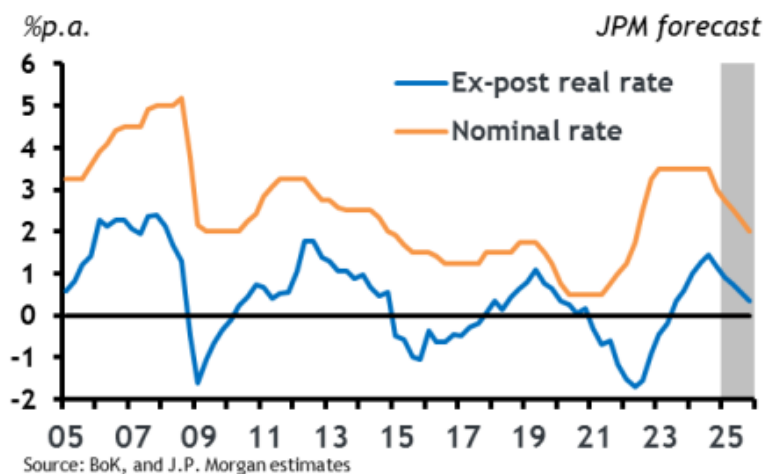
Tech cycle in nominal terms may be peaking in 1H25



Korea: Growth to slow, policy to react

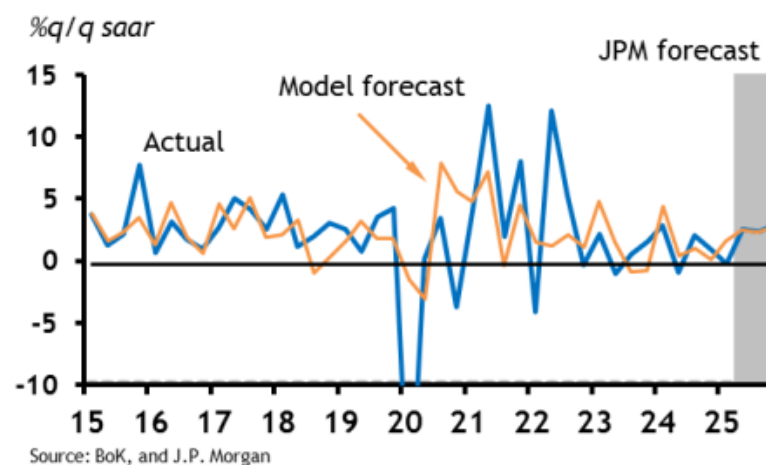
Drag from tight real policy rate is expected to fade in 2025

BoK policy rate



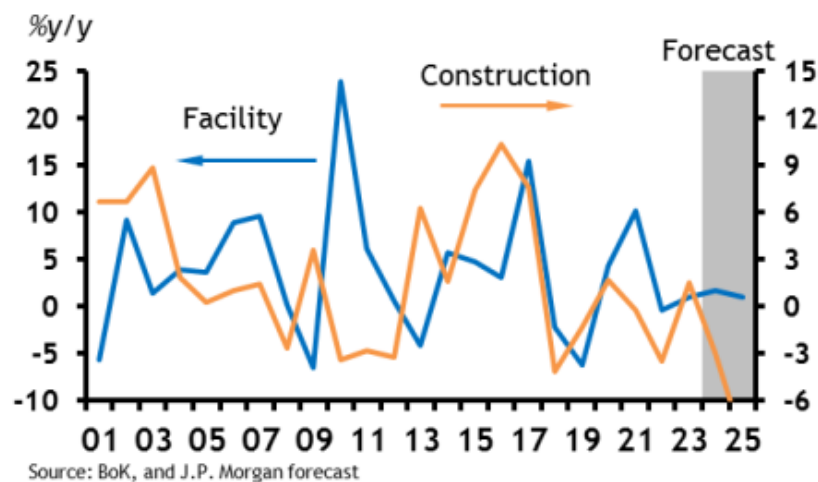
Private consumption growth to normalize

Private consumption



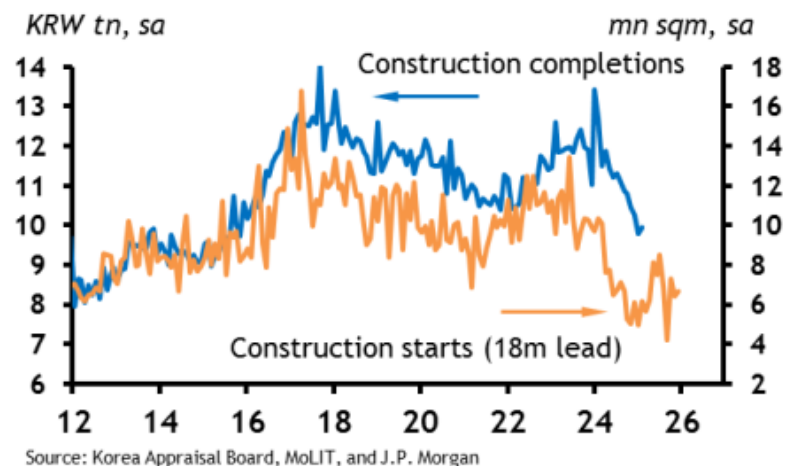
Capex recovery to benefit from terms of trade

Fixed investment



Downward pressure on construction to persist through 1H25

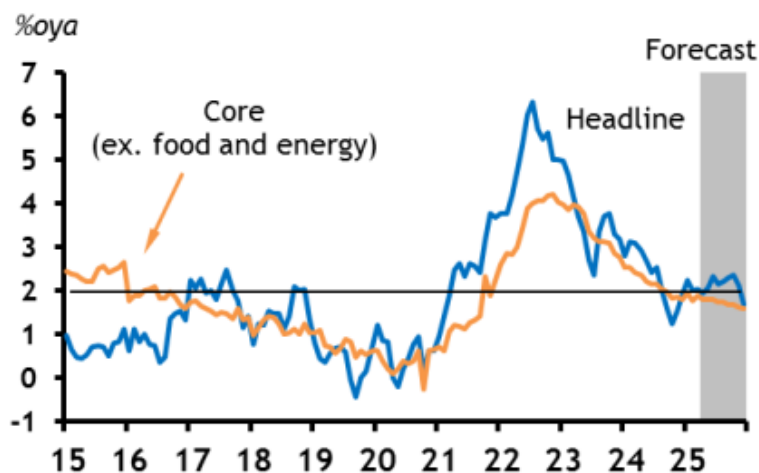
Construction starts and completions



Korea: Growth to slow, policy to react

CPI inflation to undershoot 2% target going forward

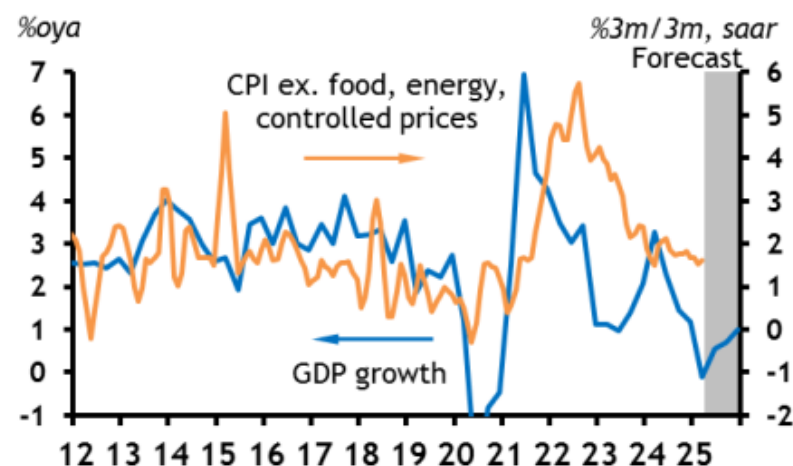
Inflation forecast



Source: NSO, and J.P. Morgan

Stabilizing core inflation amid abating demand-side pressure

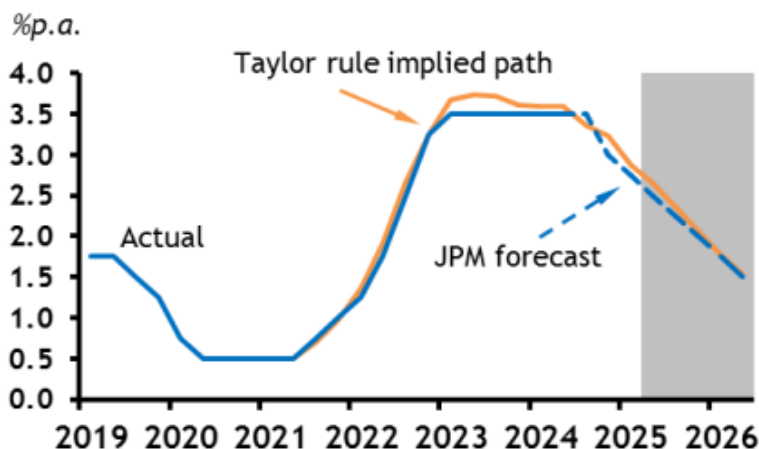
GDP and demand-side price pressure



Source: NSO, and J.P. Morgan

BoK's rate cut cycle is expected to be deeper

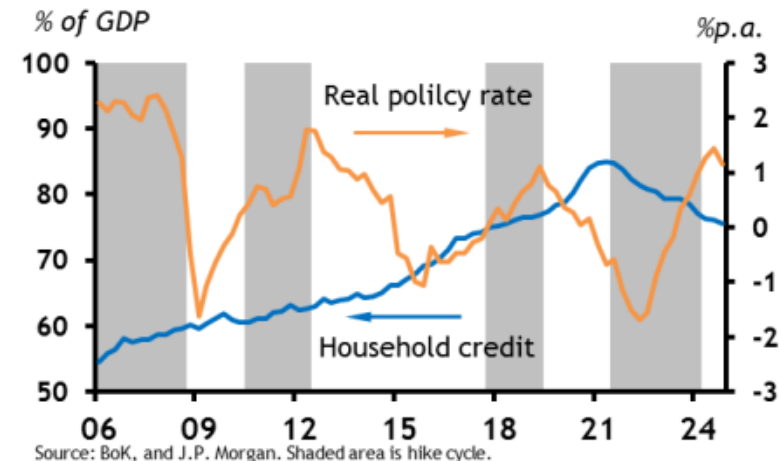
Policy rate



Source: BoK, and J.P. Morgan estimates

Household leverage to somewhat alleviate BoK's concern

Household credit and real policy rate

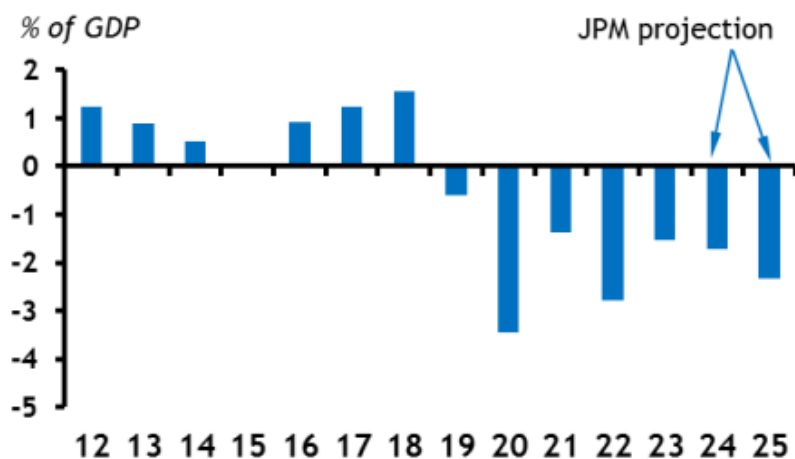


Source: BoK, and J.P. Morgan. Shaded area is hike cycle.

Korea: Growth to slow, policy to react

Widening fiscal deficit in 2025 with fiscal stimulus expected

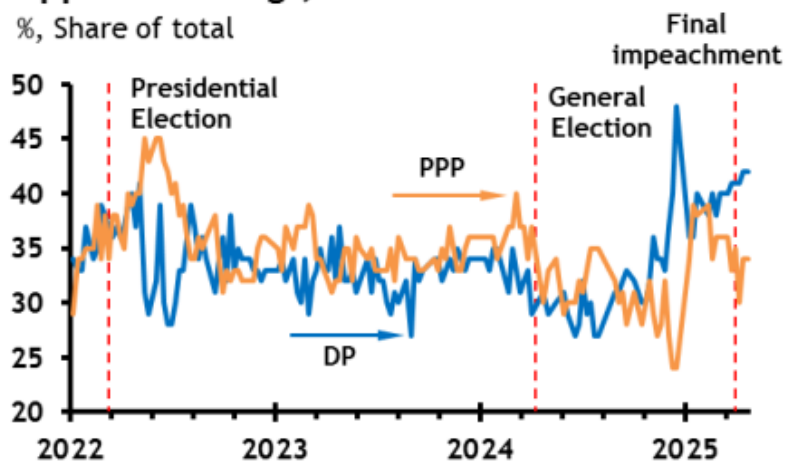
Fiscal balance (consolidated)



Source: MoEF, BoK, and J.P. Morgan

Recovery of political stability yet with a risk of polarization

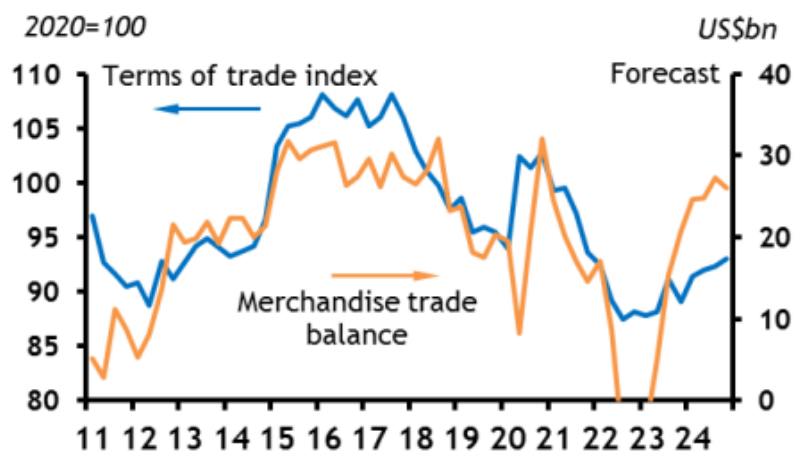
Approval ratings, PPP vs. DP



Source: Gallup Korea, J.P. Morgan

Terms of trade gains to support merchandise trade surplus

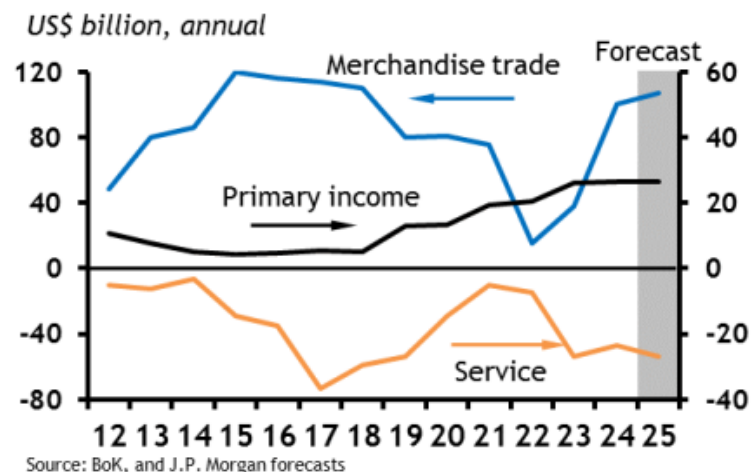
Merchandise balance and terms of trade



Source: BoK and J.P. Morgan

BoP surplus to persist despite headwinds

Current account balance



Source: BoK, and J.P. Morgan forecasts

Taiwan: Macro View

Taiwan: economic indicators

	Average			
	2018-22	2023	2024	2025f
Real GDP, % change	3.7	1.1	4.6	3.7
Consumption ¹	1.2	4.8	3.1	1.1
Investment ¹	1.9	-3.8	1.6	2.1
Net trade ¹	0.6	0.2	-0.1	0.5
Consumer prices, %oy a	1.3	2.5	2.1	1.7
% Dec/Dec	1.3	2.7	1.8	1.1
Producer prices, %oy a	2.6	-0.6	1.2	1.1
Government balance, % of GDP	-0.1	-0.5	-0.7	0.1
Merchandise trade balance (US\$ bn)	72.8	96.5	100.8	99.8
Ex ports	401.5	461.7	502.1	537.1
Imports	328.6	365.2	401.3	437.2
Current account balance	90.4	105.8	113.9	102.3
% of GDP	13.1	14.0	14.3	11.9
International reserves, (US\$ bn)	514.6	570.6	577.6	584.6
Total external debt, (US\$ bn)	195.9	206.3	214.0	221.6
Short term ²	184.0	199.0	207.0	215.0
Total external debt, % of GDP	28	27	26	25
Total external debt, % of ex ports ³	39	36	34	34
Interest payments, % of ex ports ³	2.4	3.9	3.5	2.5

1. Contribution to growth of GDP.
2. Debt with original maturity of less than one year.
3. Ex ports of goods, services, and net transfers.

Source: MOF, DGBAS, J.P. Morgan.

After strong export-led growth in recent quarters, we expect the Taiwan economy to slow from 2Q onwards amid US tariff risks and global slowdown. Our 2025 real GDP growth forecast stands at 3.7%/y.

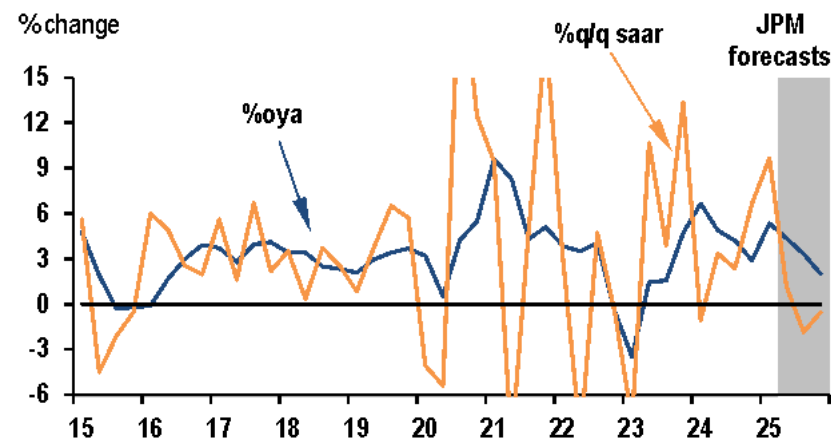
We expect headline CPI inflation to ease below 2% towards 2H25. We have pushed out the timing for the modest CBC rate cuts (two 12.5bp cuts) to December this year and March 2026 respectively.

Taiwan's tech sector has done well on AI-related tech demand. Going ahead, we are concerned about the risk of softening US/global growth, as well as the risk of renewed US tariff hikes, including that for semiconductors, which will likely drag Taiwan's export activity going into 2H25.

Taiwan: Macro View

- Taiwan's export and manufacturing sectors have shown strong growth in recent quarters, led by strong tech demand, and tariff-related front-loading lately. 1Q25 GDP growth delivered further upside surprise at 5.4%oya (or 9.7% q/q saar).
- Recent US-China tariff de-escalation and our US and China growth forecast upgrade partly mitigate downside growth pressure for Taiwan. Compared to a sharp slowdown in our previous forecast, we now look for moderate positive growth in 2Q (+1.2% q/q saar), followed by moderate easing into 2H (-1.8% in 3Q and -0.5%). The full-year 2025 growth forecast now stands at 3.7%yoy (previously: 3.3%).
- External headwinds and tariff-related uncertainty may still weigh on domestic sentiments for corporates and households, potentially restraining corporate capex and domestic consumer spending going ahead.
- The less severe external sector stress would ease the pressure for CBC rate cut in the near term: we have pushed out the timing for the modest CBC rate cuts (two 12.5bp cuts) to December this year and March 2026 respectively, with CPI inflation expected to ease decisively (to 1.2%oya in 4Q25 and 1.0% in 1Q26), especially considering easing global commodity prices and the recent strengthening in TWD NEER.

Taiwan: Real GDP growth



Source: DGBAS, J.P. Morgan

Global manufacturing PMI and Taiwan exports



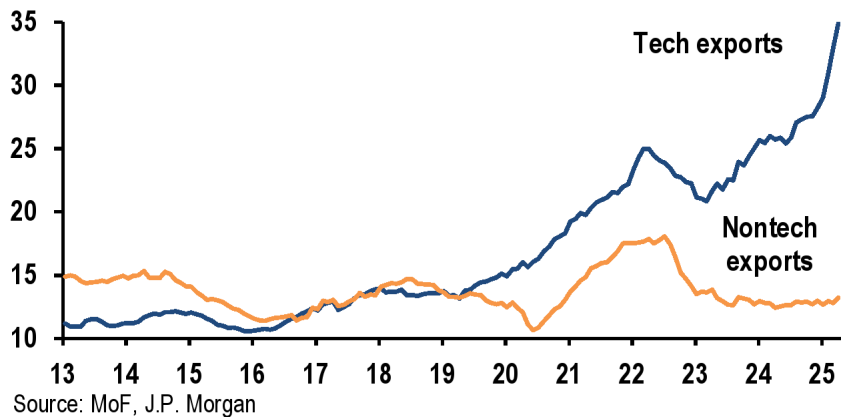
Source: MOF, DGBAS, S&P Global, J.P. Morgan

Taiwan: solid tech-cycle dynamics may be disrupted by tariff headwinds and global slowdown

Tech exports on solid upward trend, led by AI-related demand growth; non-tech exports remain sluggish

Taiwan: export breakdown by products - level

US\$ bn, sa, 3mma

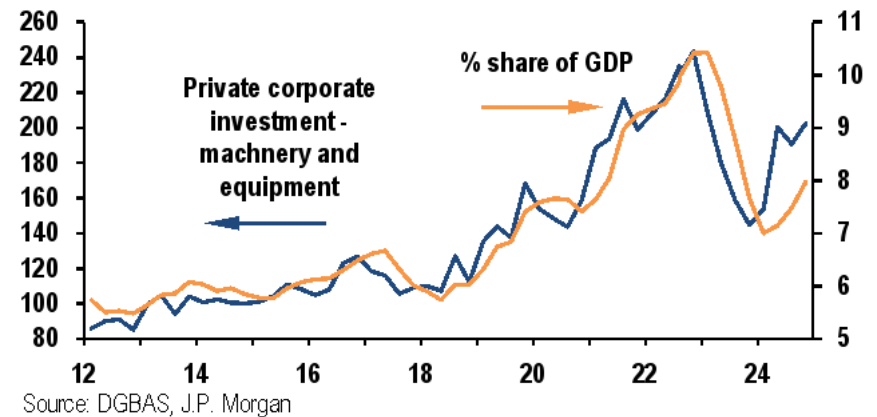


Tech corporates solid capex expansion on constructive demand outlook

Taiwan private corporate sector capex

Index, 2010=100, sa

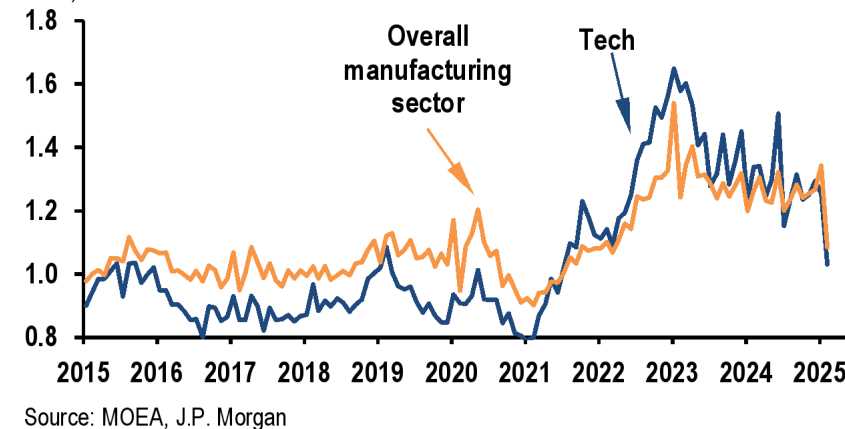
% share of GDP, 4qma



Tech inventory to shipment ratio

Taiwan: Inventory to shipment ratio breakdown

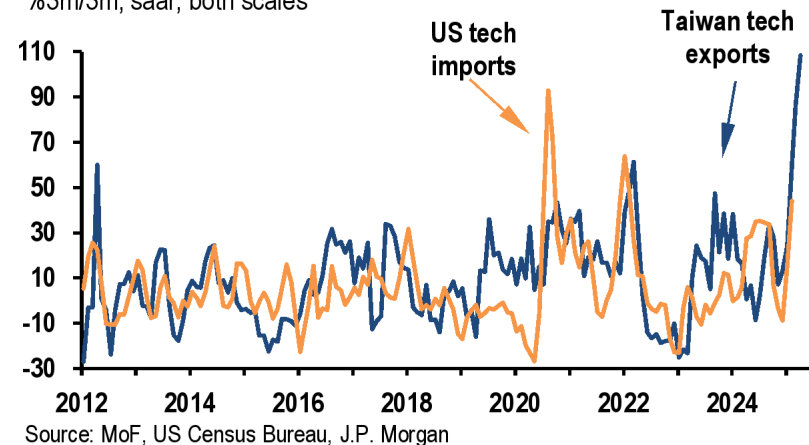
Ratio, sa



TW tech export

Taiwan tech exports and US tech imports

%3m/3m, saar, both scales



Regional and global supply chain adjustments

Regional supply chain adjustments

Table: Taiwan export orders - offshore production by region

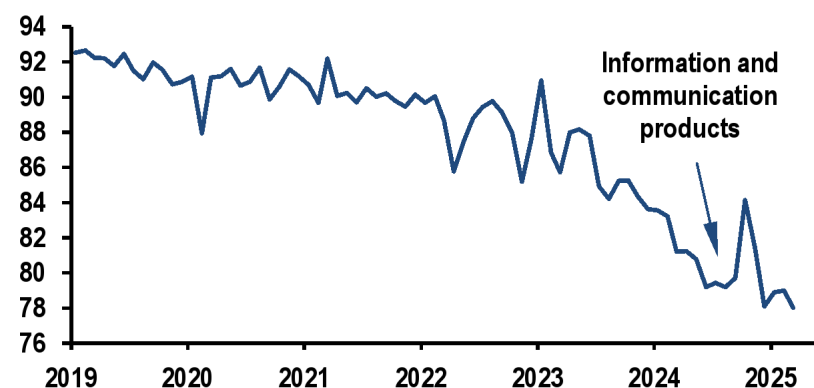
% share of offshore production	2019	2020	2021	2022	2023	2023 vs. 2018
Total offshore production	52.6	54.0	51.6	51.2	50.9	-1.5
Mainland China/ HK	44.8	45.5	42.4	38.7	37.8	-9.1
ASEAN	1.9	2.9	3.2	5.8	7.0	5.4
Rest of Asia	1.7	1.6	1.9	2.3	2.0	-0.2
America	2.0	2.1	2.2	2.3	1.9	1.0
Europe	1.2	1.3	1.3	1.5	1.6	0.9
Rest of world	0.8	0.6	0.6	0.6	0.6	0.4

Source: Taiwan MoEA

Signs of on-shoring of tech production

Taiwan: Export orders - overseas production ratio

%, sa

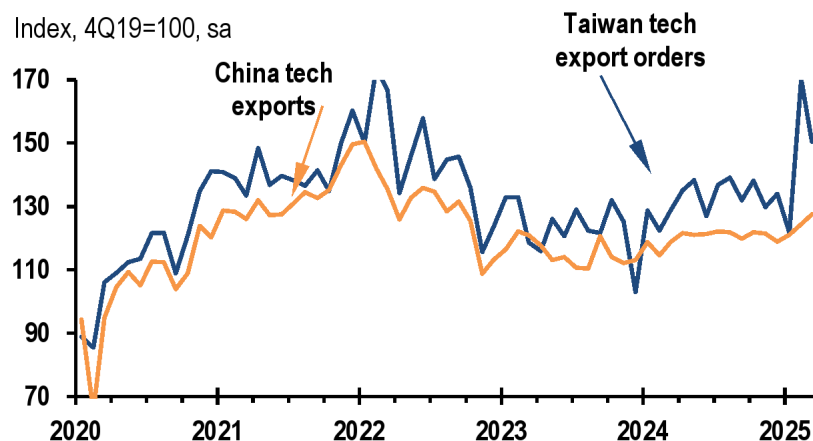


Source: MOEA, J.P. Morgan

Taiwan tech exports to China vs. China's tech exports

Taiwan tech orders and China tech exports

Index, 4Q19=100, sa

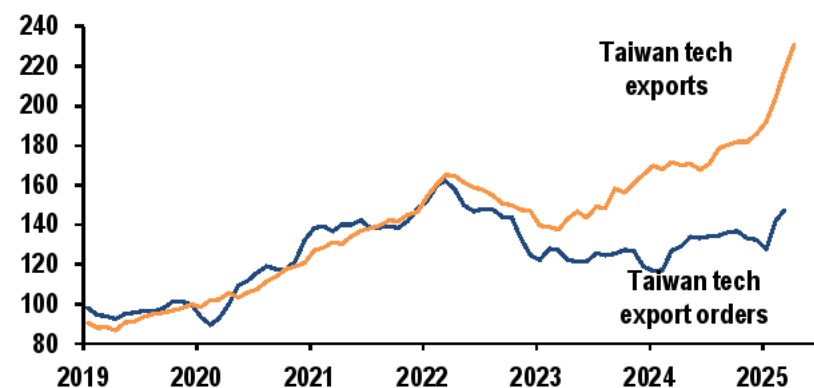


Source: China Customs, Taiwan MoEA, J.P. Morgan

Actual tech exports have outperformed tech export orders since 2023 on AI-strength

Taiwan: Tech exports vs. export orders

Index, 4Q19=100, sa, 3mma



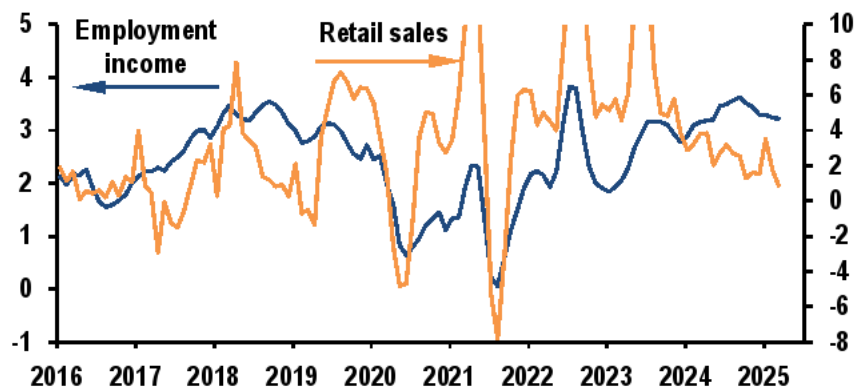
Source: Taiwan MoF, MOEA, J.P. Morgan

Domestic demand and CPI inflation

After the post-Covid bounce in 2023, retail sales have moderated through 2024

Taiwan: Employment income and retail sales

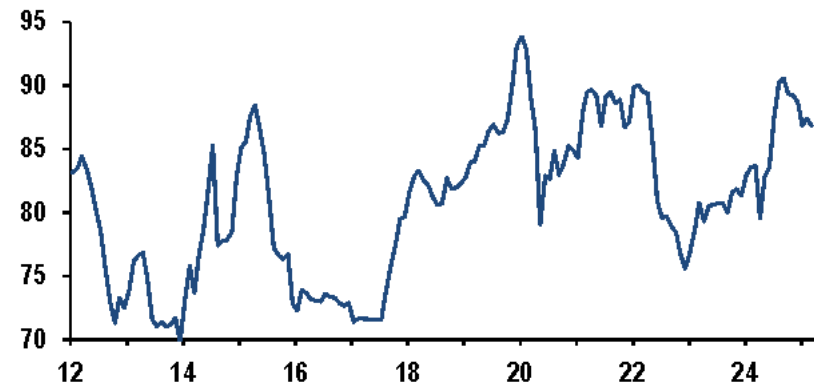
%oya, 3mma, both scales



Consumer confidence has come off lately

Taiwan: consumer confidence on economic climate - 6 month outlook

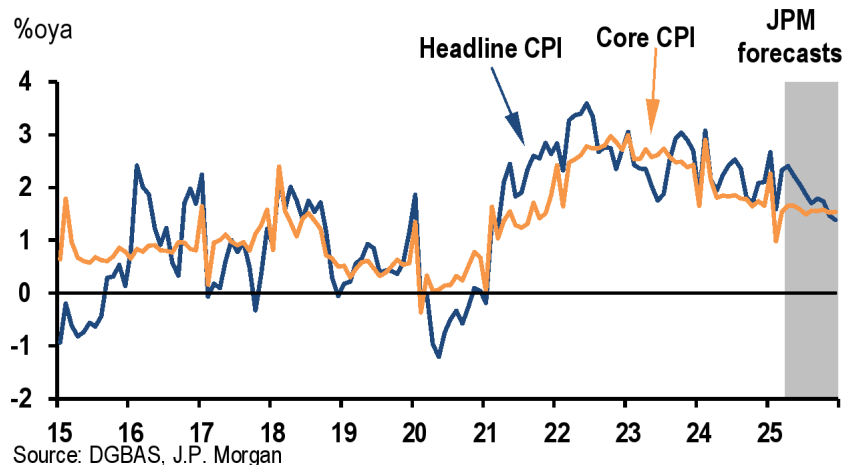
Index



CPI inflation to ease to below 2%-handle by 2H25

Taiwan: Headline and core CPI

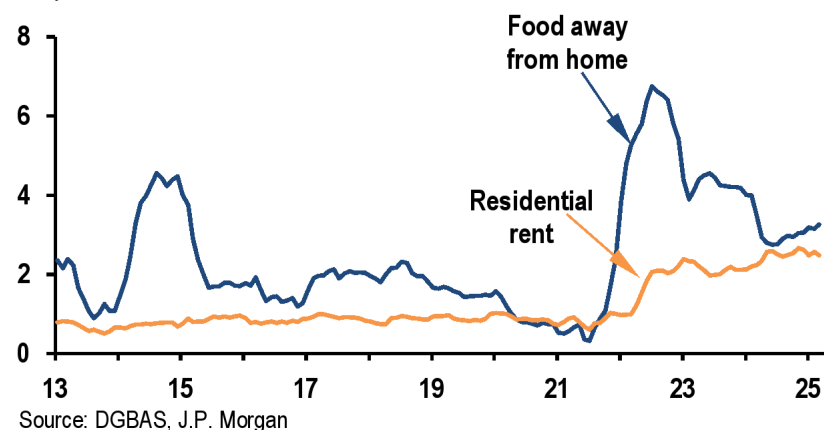
%oya



Housing market boom and CPI rent component

Taiwan: key CPI components

%oya

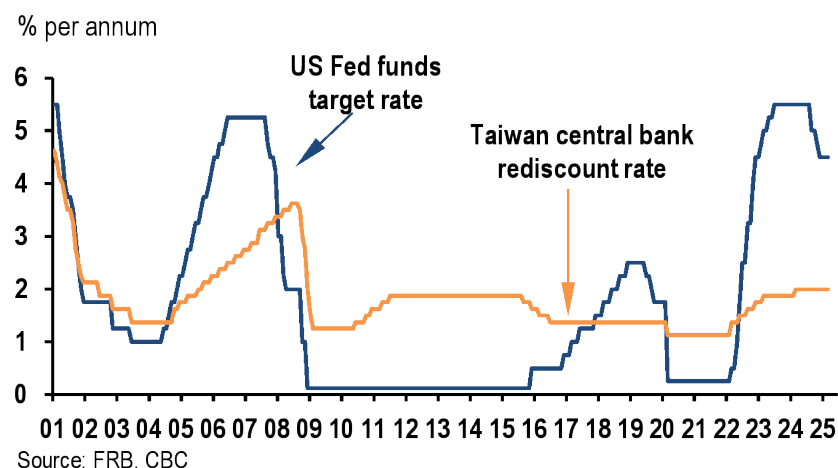


Rising possibility of central bank policy rate cuts in 2H25

- In our view growing external sector uncertainty and related macro growth risks will likely dominate the Taiwan central bank's policy considerations this year.
- While property sector boom and financial stability concerns were key considerations for the central bank in recent quarters, property market seems to be cooling lately, as tightening measures in 2024 begin to bite.
- The less severe external sector stress would ease the pressure for CBC rate cut in the near term. We have pushed out the timing for the modest CBC rate cuts (two 12.5bp cuts) to December this year and March 2026 respectively, with CPI inflation expected to ease decisively (to 1.2%oya in 4Q25 and 1.0% in 1Q26), especially considering easing global commodity prices and the recent strengthening in TWD NEER.

Taiwan central bank may consider modest rate cuts in 2H25

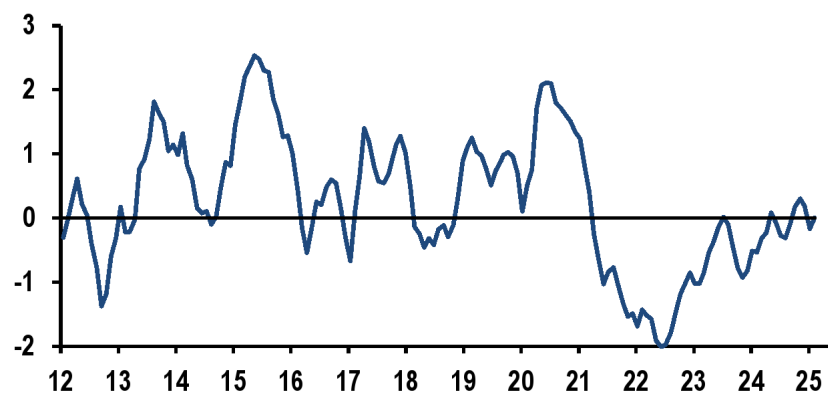
Taiwan: Central bank policy rate and US Fed funds rate



Real bank lending rate

Taiwan real bank lending rate

% per annum, discounted by 3mma headline CPI inflation

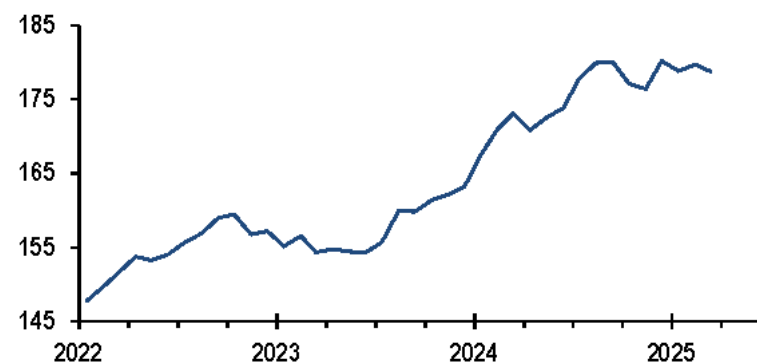


Source: DGBAS, J.P. Morgan

Property prices seem to be peaking

Taiwan: Property prices - Taipei Area

Index, 2011=100



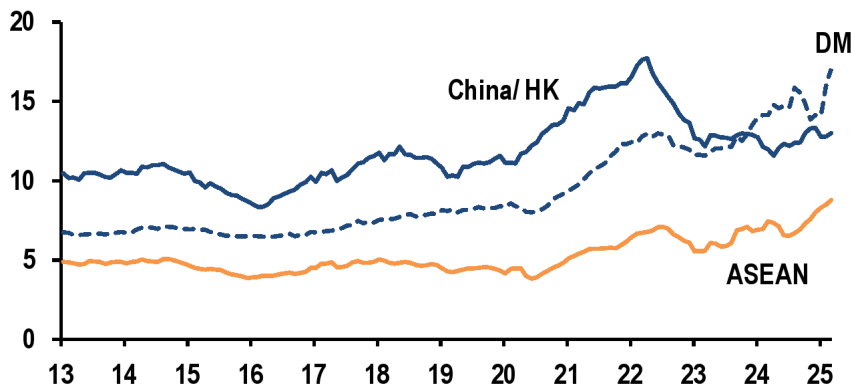
Source: CEIC, Sinyi Realty, J.P. Morgan

US-China trade tensions, geopolitical risks and Taiwan trade activity

There have been notable adjustments in Taiwan's export market mix in recent years amid supply chain relocation

Taiwan exports by major destinations

US\$ bn, sa, 3mma

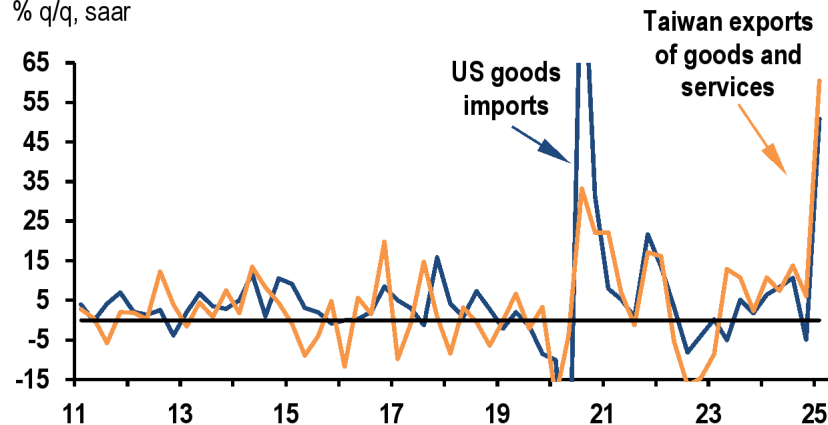


Source: Taiwan MoF, J.P. Morgan

Taiwan exports track US import cycle closely, and will be impacted by US growth slowdown

US imports vs. Taiwan exports

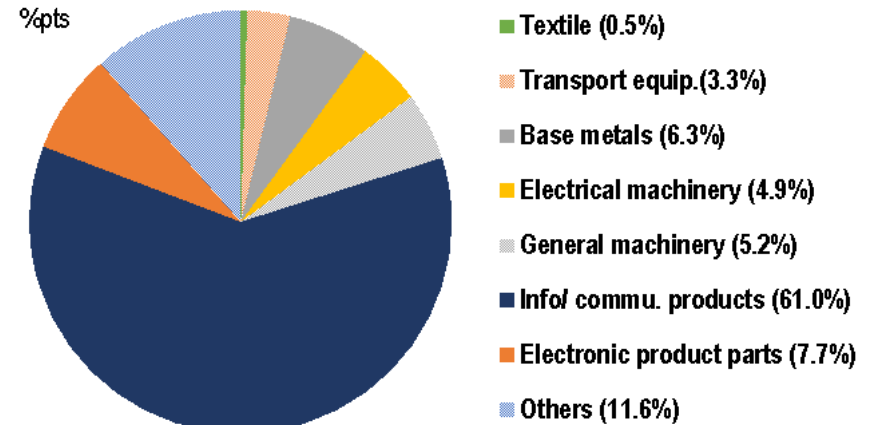
% q/q, saar



Source: US BEA, Taiwan DGBAS, CEIC, J.P. Morgan

Taiwan's exports to US dominated by tech products

Breakdown of Taiwan exports to US

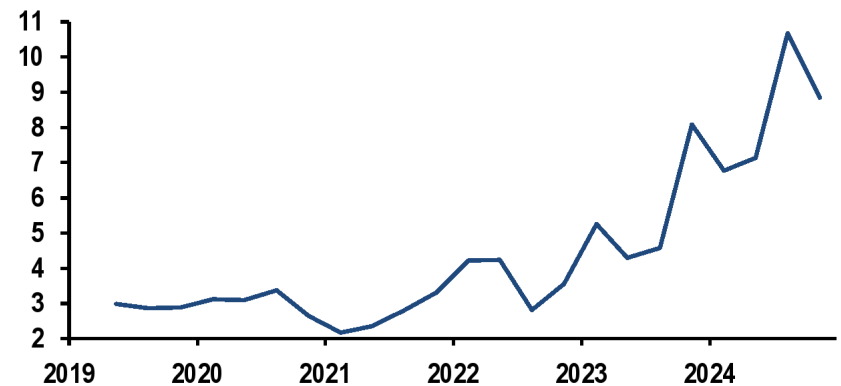


Source: Taiwan MoF, J.P. Morgan

Taiwan's ODI rose significantly on supply chain diversification

Taiwan: Outward direct investment

US\$ bn, 2qma



Source: CBC, J.P. Morgan

Hong Kong: Macro View

Hong Kong: economic indicators

	Average			
	2018-22	2023	2024	2025f
Real GDP, % change	-0.6	3.2	2.5	2.8
Consumption ¹	0.2	4.0	-0.3	1.9
Investment ¹	-1.1	1.9	0.7	0.7
Net trade ¹	0.3	-2.7	2.1	0.1
Consumer prices, %oy a	1.8	2.1	1.9	2.1
% Dec/Dec	1.8	2.4	2.2	1.4
Government balance, % of GDP	-1.9	-3.3	-2.7	-2.0
Merchandise trade balance (US\$bn)	-11.0	-16.4	2.2	-22.1
Exports	588.1	574.4	635.6	601.0
Imports	599.1	590.8	633.5	623.1
Current account balance	27.8	35.4	38.4	14.0
% of GDP	7.7	9.3	9.4	3.3
International reserves, (US\$ bn)	456	351	421	390

1. Contribution to growth of GDP.

Source: HK C&SD, J.P. Morgan

Following the strong 1Q GDP report, we upgrade 2025 GDP to 2.8%/y (vs. 1.6% previously), with %q/q growth deceleration for rest of year on lingering tariff policy uncertainties.

The fiscal budget targets around 2.0% of GDP deficit for FY25/26 (vs. -2.7% last year). Fiscal reserves should come lower, likely to ~14% of GDP by FY28/29

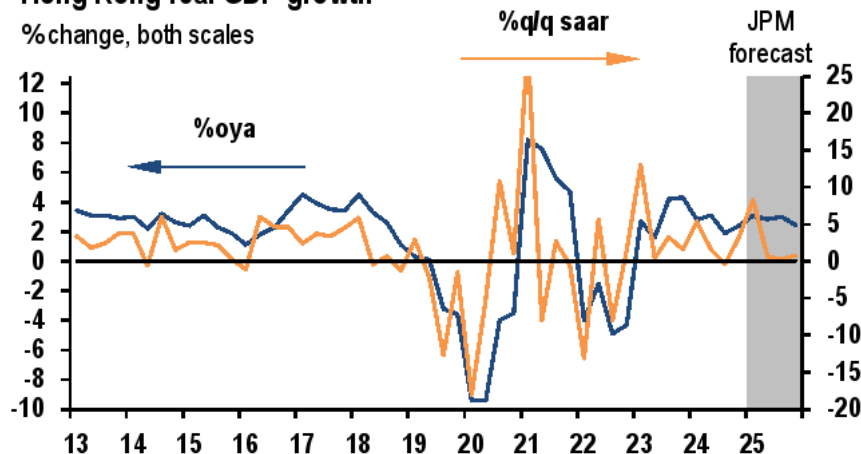
- Land premium and stamp duty shortfall motivates greater fiscal consolidation efforts, with multiple measures to cut expenditure and increase revenue.
- Anticipated further (though delayed) Fed easing may bring more-friendly rate environment.
- The US effective tariff on imports from Hong Kong has also moved up to 100%+ punitive levels, though the city decided not to retaliate. The asymmetric bilateral tariff arrangements (no HK tariff on US imports) suggest there might be room for the city to import more from the US and then re-export to the Mainland if there is demand.

Back to normal pace of growth

HK real GDP growth

Hong Kong real GDP growth

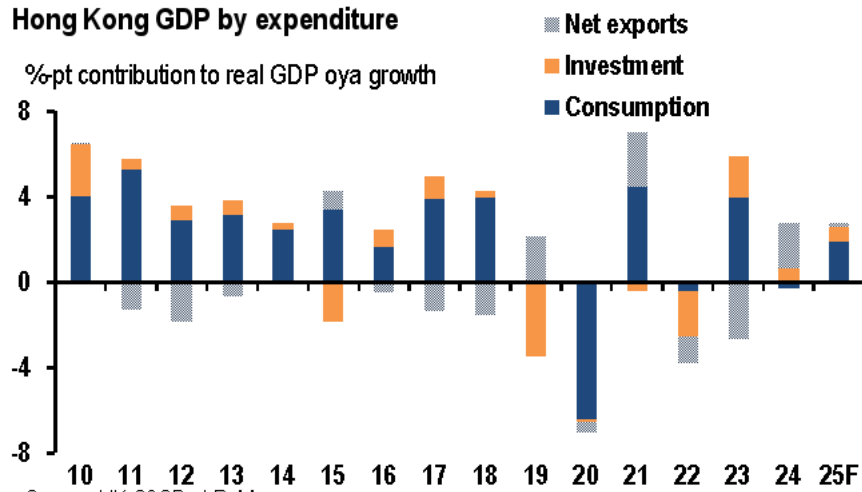
% change, both scales



Net exports to turn into a drag

Hong Kong GDP by expenditure

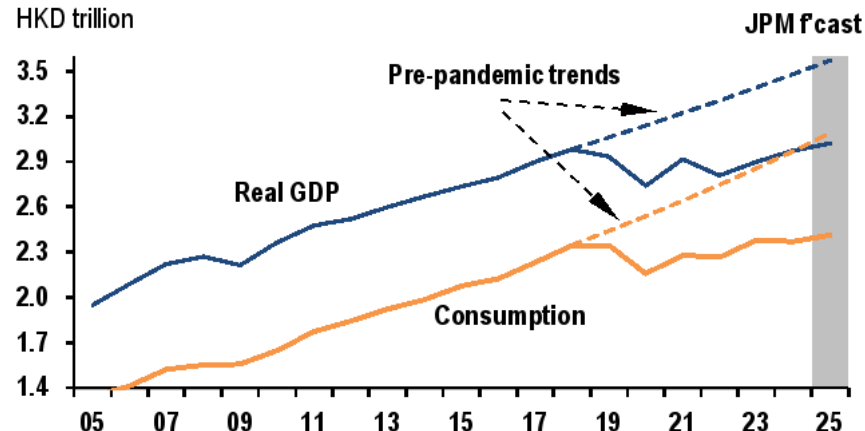
%pt contribution to real GDP oya growth



Persistent gap from pre-pandemic trends

Hong Kong GDP and consumption

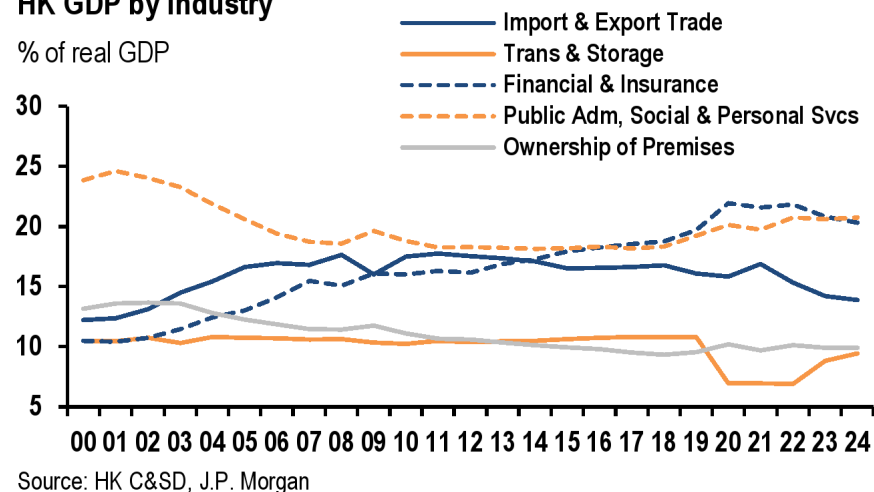
HKD trillion



GDP breakdown by industry

HK GDP by industry

% of real GDP

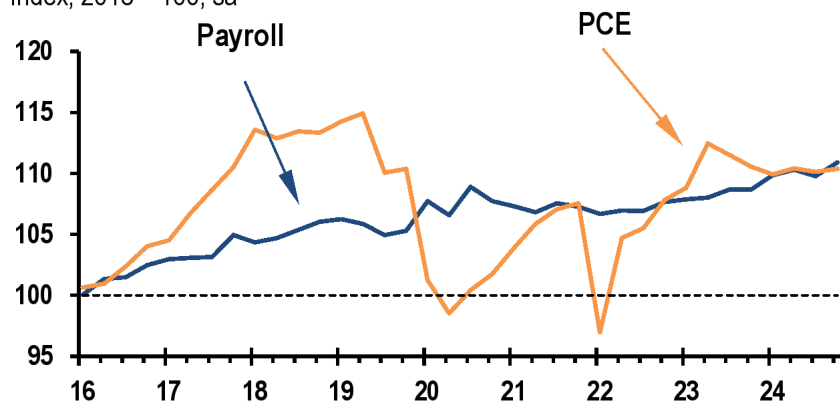


Incomplete consumption recovery

Payroll increased 3.1%oya in 1H23

Hong Kong: real PCE and payroll per worker

Index, 2018 = 100, sa

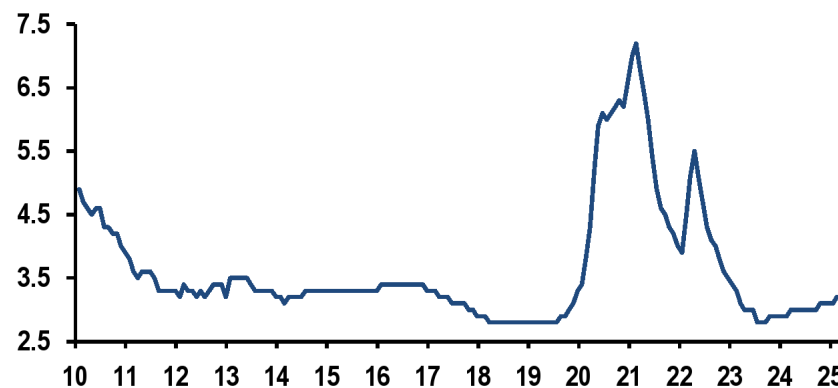


Source: HK C&SD, J.P. Morgan

Tightness in labor market likely to continue

Hong Kong: unemployment rate

%, sa

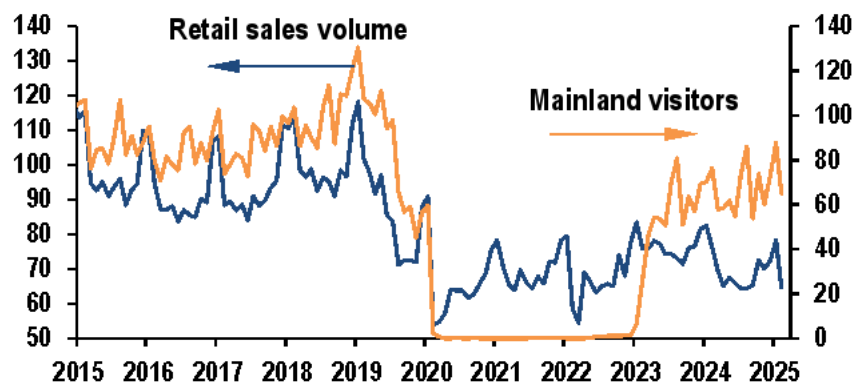


Source: HK C&SD, J.P. Morgan

Slow recovery in retail sale and inbound mainland visitors

Hong Kong retail sales volume and Chinese visitors

Index, 2018 = 100, both scales

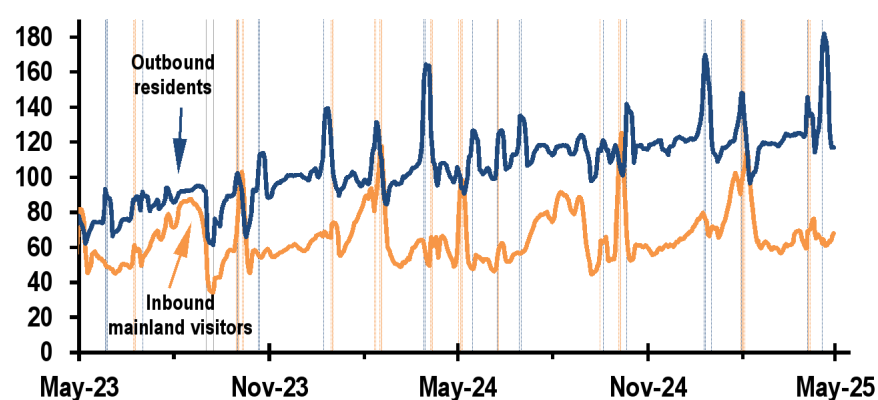


Source: HK C&SD, Hong Kong Tourism Board, J.P. Morgan

Outbound HK resident numbers recovered faster

Hong Kong cross-border travel

Index, 2018 avg. = 100, 7dma



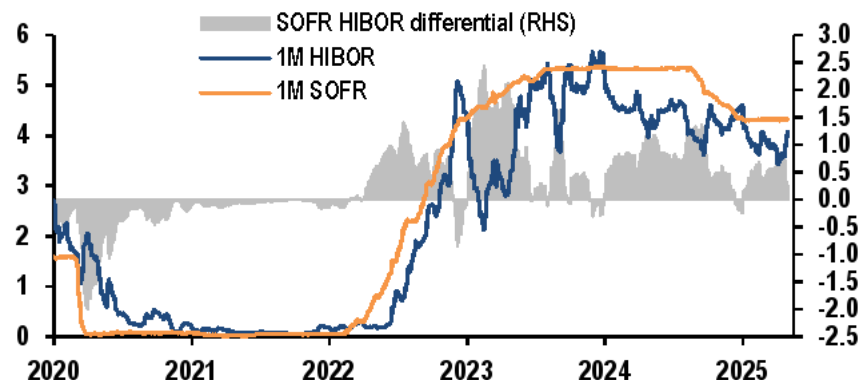
Source: Hong Kong Immigration Department, J.P. Morgan

Financial condition tightening

SOFR vs. HIBOR

1M SOFR vs. HIBOR

% both scales

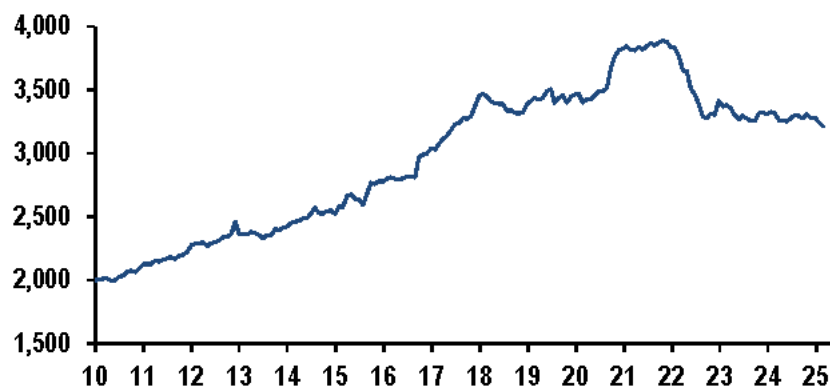


Source: Bloomberg Finance L.P., J.P. Morgan

FX reserves stabilized with a tick lower

Hong Kong: FX reserves

HK\$ bn

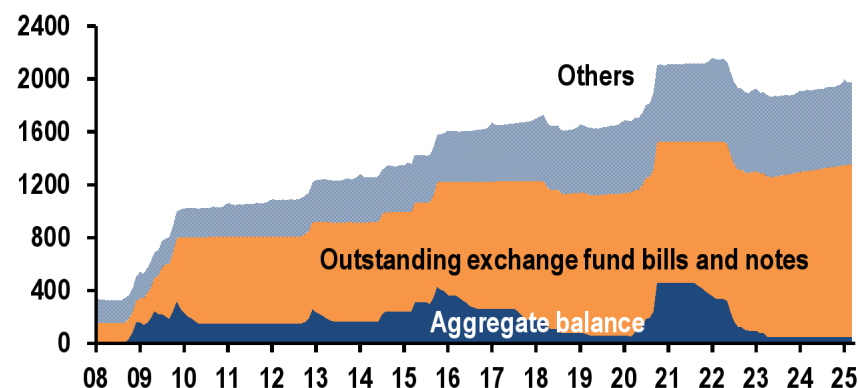


Source: HKMA, CEIC, J.P. Morgan

Monetary base breakdown

Monetary base components

HKD bn

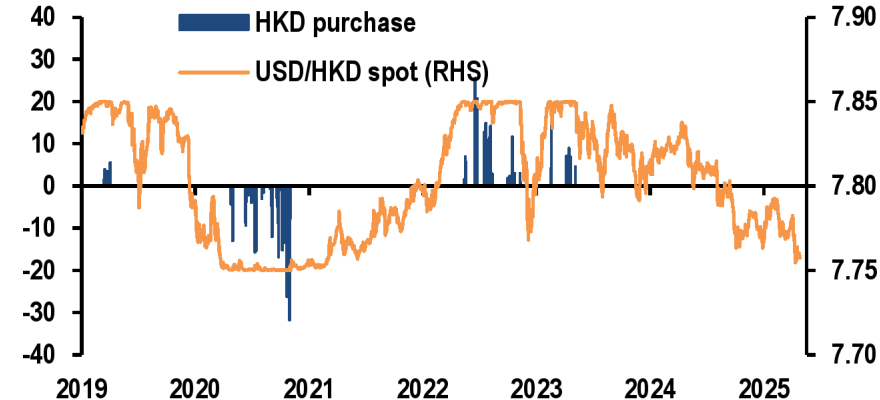


Source: HKMA, J.P. Morgan

HKMA intervention

HKD purchase and HKD exchange rate

HK\$bn

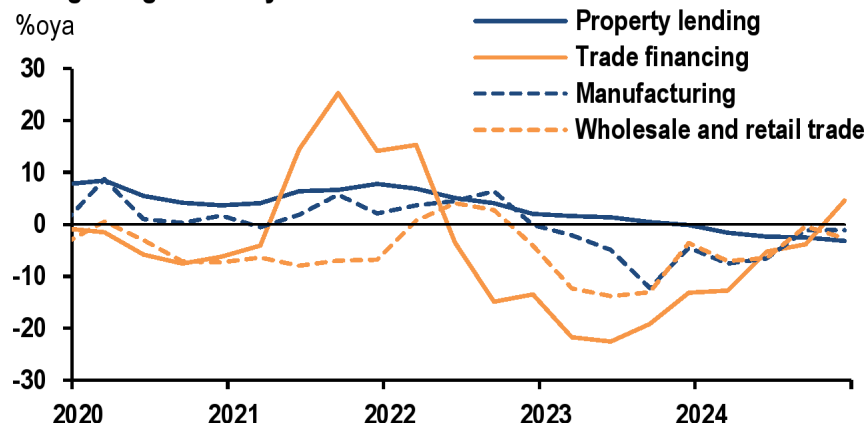


Source: HKMA, Bloomberg Finance L.P., J.P. Morgan

Financial condition tightening

Loan growth breakdown

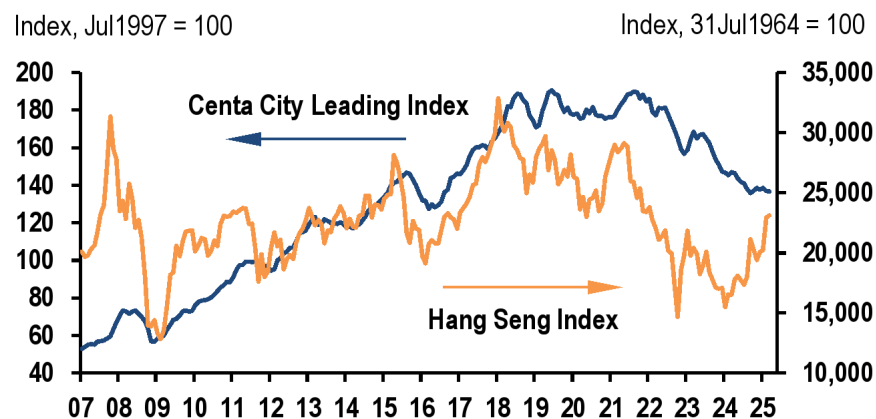
Hong Kong: loans by economic sector



Source: HKMA, J.P. Morgan

Property and equity market

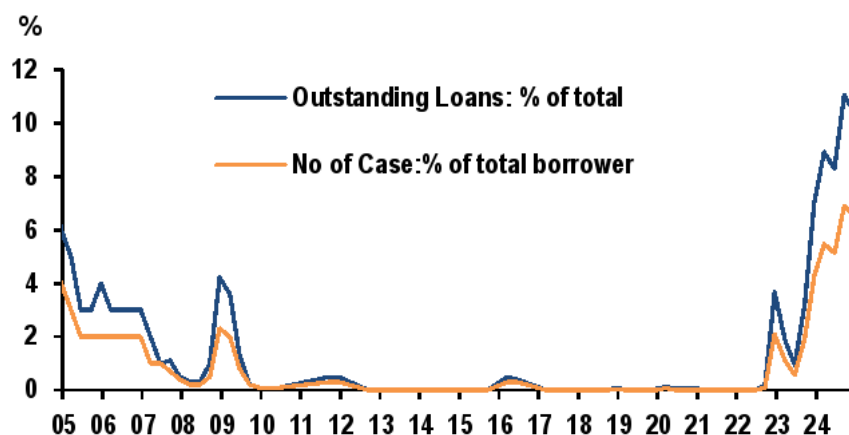
Hong Kong property and stock market index



Source: CEIC, J.P. Morgan

Share of HK residential mortgage with negative equity

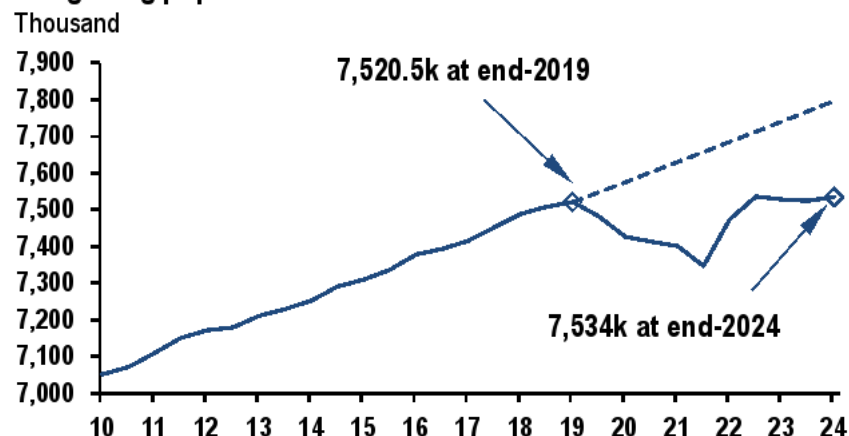
Hong Kong residential mortgage with negative equity



Source: HKMA, J.P. Morgan

Talent bids take time to reward

Hong Kong population

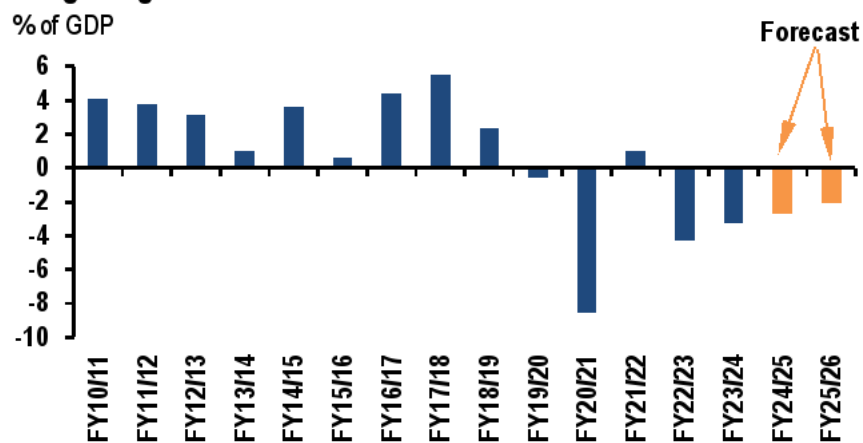


Source: HK C&SD, J.P. Morgan

Fiscal consolidation

We forecast a fiscal deficit of 2.0% of GDP for FY25/26

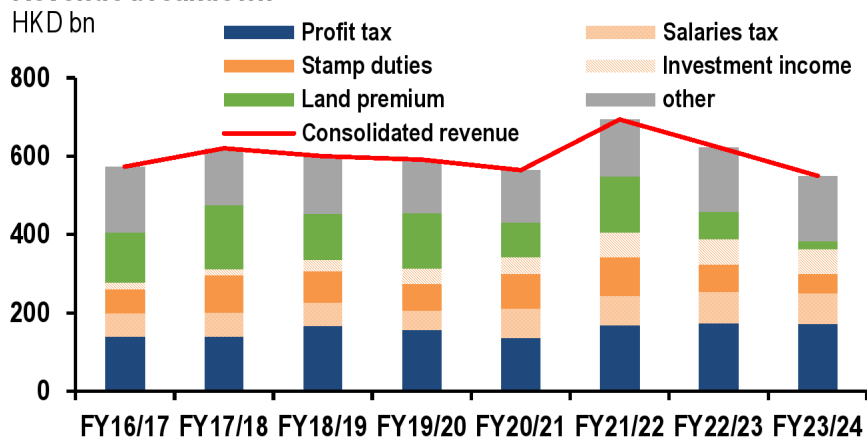
Hong Kong fiscal balance



Source: HK Government, J.P. Morgan

Revenue from profit/salary tax was resilient

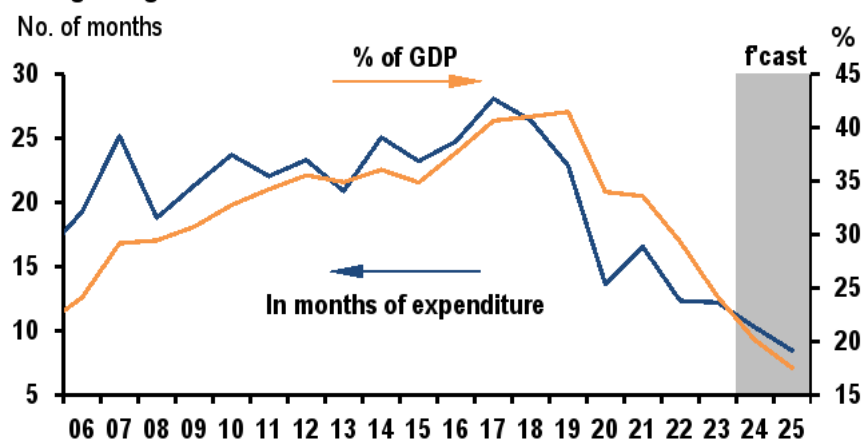
Revenue breakdown



Source: HK Treasury, J.P. Morgan

Fiscal reserves to fall further

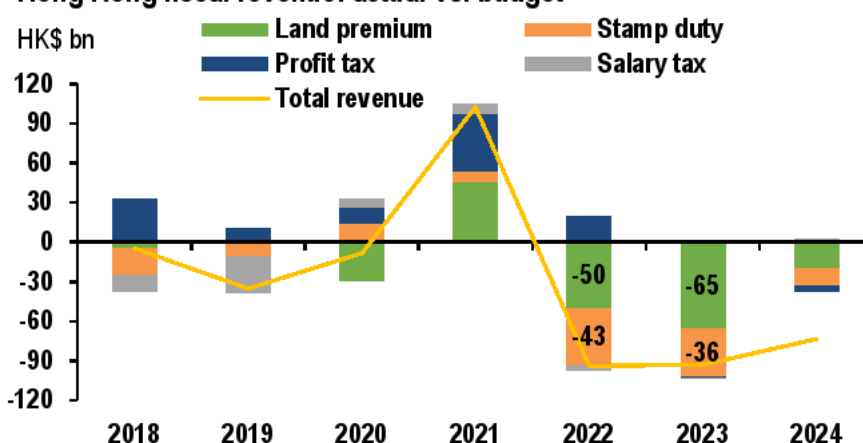
Hong Kong: Fiscal reserve



Source: HK C&SD, J.P. Morgan estimates

Shortfall in revenue from land premium

Hong Kong fiscal revenue: actual vs. budget



Source: HK Treasury, J.P. Morgan. 2024 is a forecast

Indonesia: Macro View

Indonesia: economic indicators

	Average 2017-21	2023	2024f	2025f
Real GDP, %change	3.4	5.0	5.0	4.7
Consumption ¹	1.6	2.9	3.3	3.1
Investment ¹	1.3	1.5	1.8	1.3
Net trade ¹	0.5	0.7	0.0	0.3
Consumer prices, %oya	2.7	3.7	2.3	2.3
%Dec/Dec	2.9	2.8	1.6	3.1
Wholesale prices - mfg., %oya	3.2	4.0	2.3	4.0
Government balance, % of GDP	-3.3	-1.6	-2.7	-2.5
Merchandise trade balance (US\$ bn)	27.6	46.3	39.8	34.0
Exports	207.6	259.5	268.1	268.0
Imports	180.0	213.1	228.3	234.0
Current account balance	-9.7	-1.6	-9.0	-14.8
% of GDP	-0.8	-0.1	-0.6	-1.0
International reserves, (US\$ bn)	129.4	141.1	149.1	149.6

1. Contribution to growth of GDP.

Source: National sources, J.P. Morgan estimates

Growth pressures from US tariff hike, global slowdown, and weaker commodity prices

Inflation to average at mid-point of target range

High risk of fiscal slippage from revenue shortfall and spending increases

CA deficit to widen from weaker commodity prices and weaker Chinese import demand

Still no green light to cut rates yet

Key summary

- **Minor GDP downgrade post-Liberation Day:** We push up 2025 GDP forecast from 4.5% to 4.7% amid positive news-flow surrounding trade negotiations. US trade policy aside, the state of Indonesian consumer is key. Recent measures (e.g., VAT hike cancellation, minimum wage hike, electricity tariff discount) could provide some relief, but we think that steep budget cuts, if implemented, weaker global backdrop, and IDR depreciation will ultimately weigh on private consumption. 1Q25 GDP data also showed a sharp drop in infrastructure spending, which if continues, poses another downside risk.
- **Inflation to stay at mid-point of target range:** Underlying price pressures remain manageable, but the expiry of Jan-Feb electricity discounts will create unfavorable base effects that will push annual headline inflation higher towards 3% by year-end. However, headline and core CPI are still expected to average 2.3% in 2025.
- **Rising pressures in CA/BOP:** We also recently downgraded 2025 CA deficit forecast from 0.6% of GDP to 1.0% of GDP on weaker commodity prices and Chinese energy import demand. On the financial account side, dollarization activity (e.g., Chinese metals company profit repatriation) continues, while foreign portfolio selling pressures may intensify.
- **BI remains constrained by FX; June 25bp rate cut call at risk of further delay:** Despite softer growth conditions, BI's reaction function remains locked in on FX stability as BOP pressures build. DHE earnings may also fall short of expectations on falling commodity prices, leading to a smaller buildup in FX reserves. Finally, the government's ability to keep 2025 fiscal deficit within the 3% of GDP ceiling is put into question. Much depends on if intra-year spending increases can be offset by budget efficiency measures, which maybe politically difficult to execute.

Indonesia's CA/BOP pressures are rising

Table 1: Indonesia balance of payments (BOP)

US\$bn	2017-19	2023	2024	2025F	Chg ¹	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F
Current account	-25.7	-2.0	-8.9	-14.7	-5.9	-2.6	-3.1	-2.0	-1.1	0.5	-4.8
% of GDP	-2.4	-0.1	-0.6	-1.0	-0.4	-0.7	-0.9	-0.6	-0.3	0.1	-1.3
Goods	7.4	46.3	39.9	34.1	-5.8	9.3	10.0	9.3	11.3	12.9	7.5
Services	-7.2	-17.7	-18.7	-19.7	-1.0	-4.2	-5.1	-4.2	-5.2	-4.9	-4.9
Income	-32.2	-36.0	-36.1	-35.5	0.6	-8.9	-9.5	-8.6	-9.0	-8.9	-8.9
Transfer	6.3	5.4	6.0	6.4	0.4	1.3	1.4	1.5	1.7	1.4	1.5
Financial account	30.2	9.9	16.4	10.0	-6.4	-2.0	2.4	7.1	8.5	2.5	2.5
- Direct	17.2	14.4	14.5	12.0	-2.5	4.7	2.0	4.9	2.8	3.0	3.0
- Portfolio	17.5	2.2	8.2	3.0	-5.2	-2.1	3.2	9.7	-2.5	0.8	0.8
- Other	-4.5	-6.9	-6.7	-5.0	1.7	-4.6	-2.8	-7.5	8.2	-1.3	-1.3
E&O	-1.4	-1.5	-0.3	-1.5	-1.2	-1.0	-0.3	0.4	0.5	-0.4	-0.4
Overall balance	3.0	6.3	7.2	-6.2	-13.4	-5.6	-1.0	5.5	7.9	2.6	-2.7
% of GDP	0.3	0.5	0.5	-0.4	-1.0	-1.6	-0.3	1.6	2.3	0.7	-0.8

Source: Bank Indonesia and J.P. Morgan forecasts; 1. 2025F less 2024

Systemwide liquidity continues to tighten



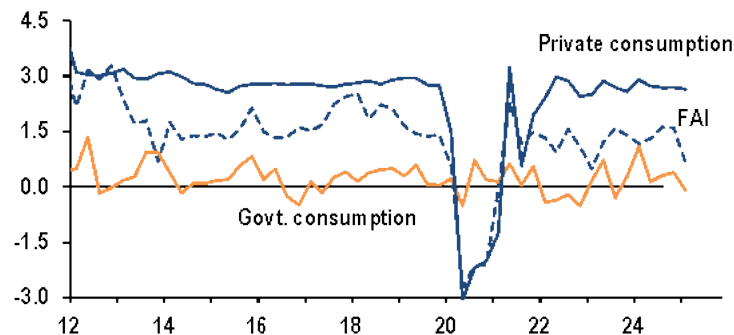
Source: CEIC, J.P. Morgan

1Q25 GDP disappoints on weak infra FAI and govt spending; US tariff hike impact to be limited relative to rest of the region

1Q25 GDP disappointed on weaker domestic demand...

Indonesia domestic demand decomposition

%pt. contribution to % oya GDP growth

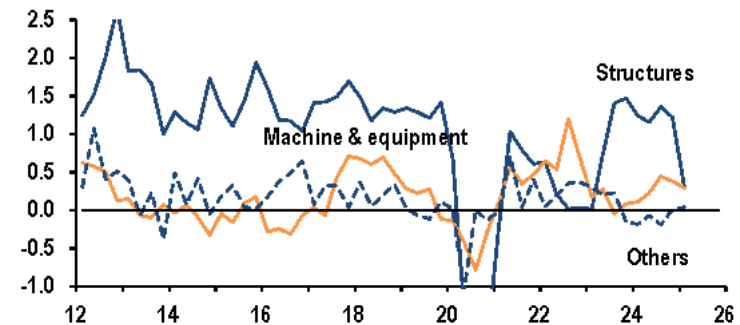


Source: BPS, J.P. Morgan

...led by a pullback in investment, particularly infrastructure

Indonesia FAI decomposition

%pt. contribution to % oya GDP growth

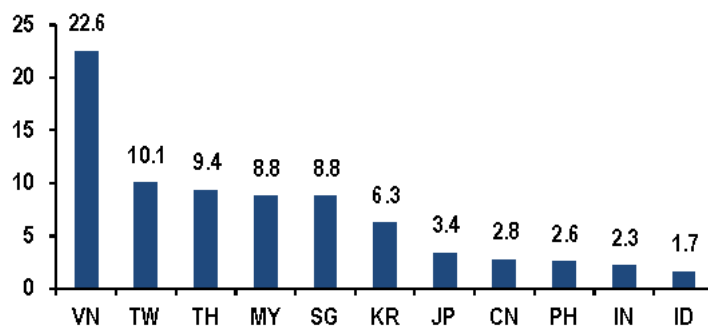


Source: BPS, J.P. Morgan

Indonesia is least exposed to US trade

Direct exports to US in 2023

% of GDP

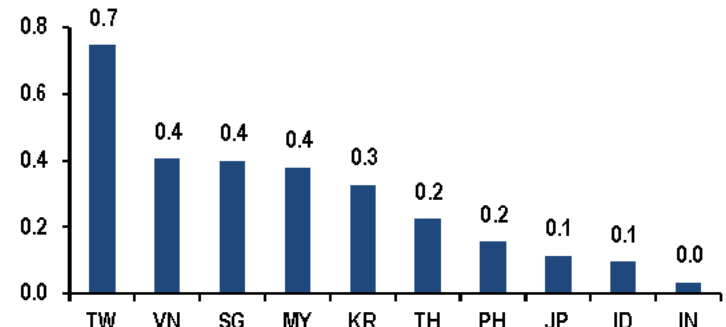


Source: CEIC, J.P. Morgan

Supply-chain linkages to China are also limited

Asia's indirect exports to US via China supply chains

% of GDP (latest data in 2020)



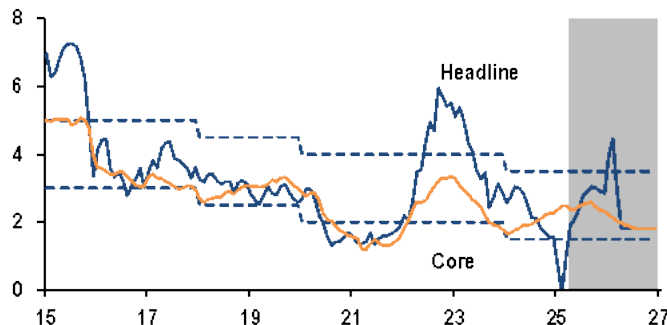
Source: OECD TIVO database, J.P. Morgan

Inflation to approach 3% by year-end but on technical reasons; underlying price pressures stay manageable

Headline and core inflation to average around the mid-point of 1.5-3.5% target range through 2025

Indonesia CPI

% oya; dotted lines show BI target range

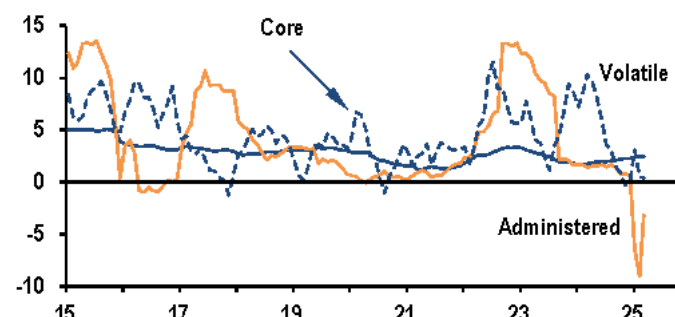


Source: BI, BPS, J.P. Morgan

Temporary electricity discount in Jan-Feb has created unfavorable base effects for annual headline CPI

Indonesia CPI

% oya

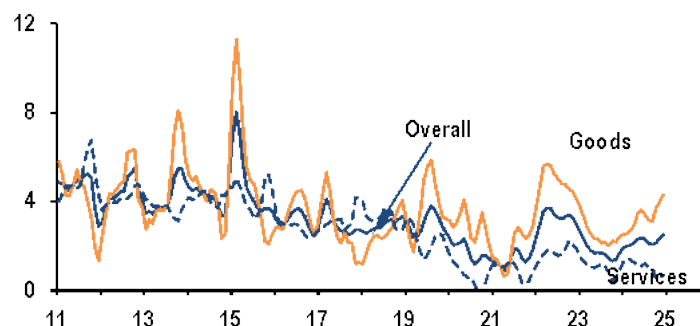


Source: CEIC, J.P. Morgan

Core inflation is also well behaved, albeit with divergence between goods and services

Indonesia core CPI

%3m/3m, saar

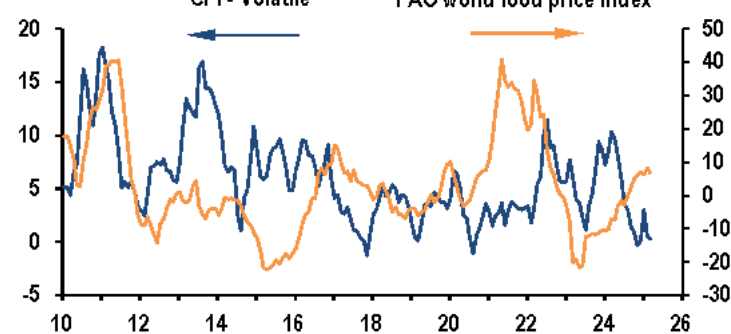


Source: CEIC, J.P. Morgan estimates

Volatile food prices have de-correlated with world food prices and are better managed due to supply-side reforms

FAO world food price index vs. Indonesia volatile CPI

% oya



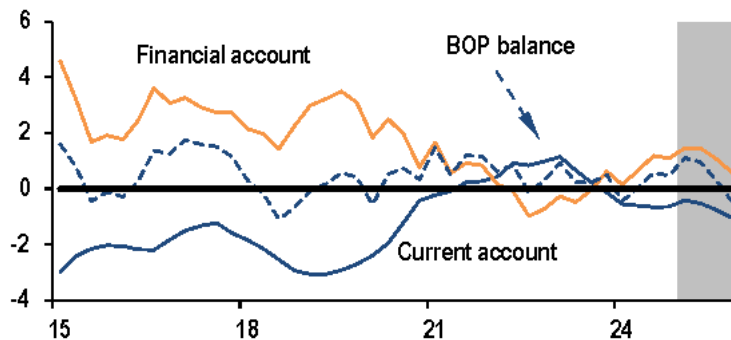
Source: CEIC, J.P. Morgan

Major reversal in goods balance as commodity prices fall and China import demand weakens

We recently downgraded 2025 CA deficit forecast from 0.6% of GDP to 1.0% of GDP

Indonesia balance of payments (BOP)

% of GDP, 4qma

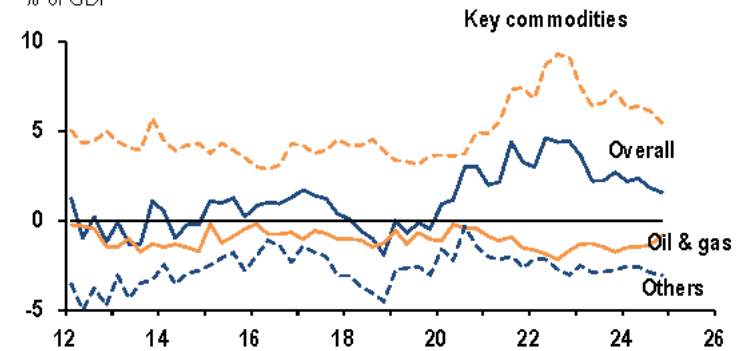


Source: CEIC, J.P. Morgan forecast in shaded region

Strong goods surplus in recent years is at risk of major reversal ...

Indonesia goods balance

% of GDP

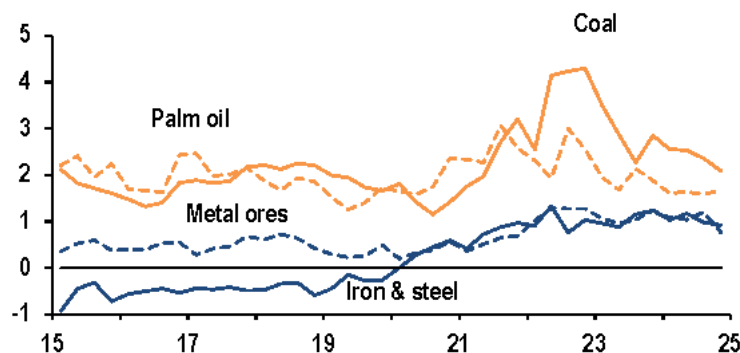


Source: CEIC, J.P. Morgan

... catalyzed by weaker terms-of-trade in key commodity exports (e.g., coal, CPO, metals) as global growth slows ...

Indonesia trade balance composition

% of GDP

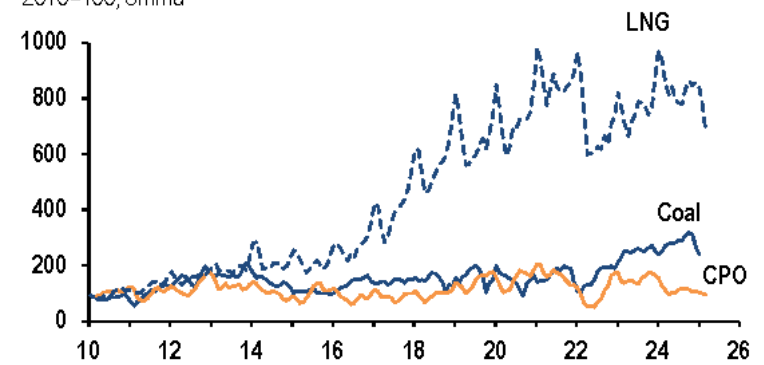


Source: CEIC, J.P. Morgan estimates

... as well as by a sharp pullback in Chinese energy stockpiling and import demand

China commodity import volume

2010=100, 3mma



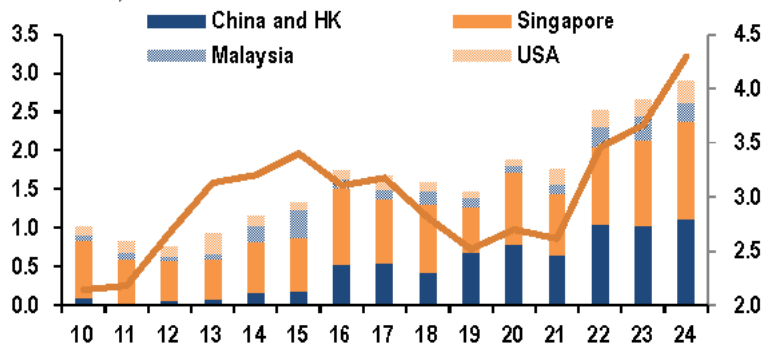
Source: CEIC, J.P. Morgan

Persistent dollarization pressures from MNC profit repatriation and yield-seeking behavior

Indonesia has benefited from a surge in Chinese FDI, primarily in processed metals since the pandemic

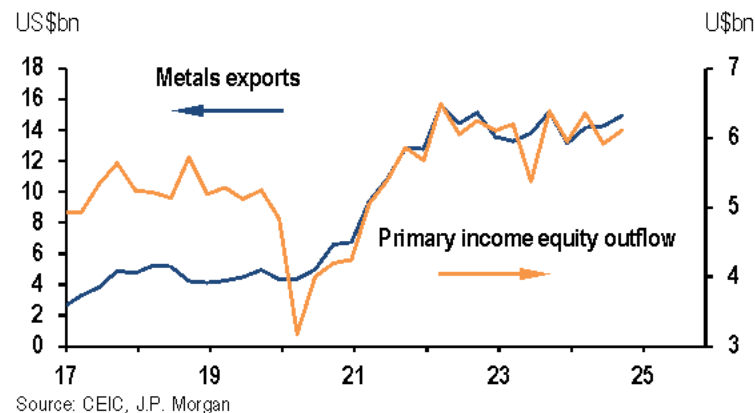
Indonesia realized foreign direct investment

% of GDP, both axis



However, the positive BOP effect has been offset by dividend/profit repatriation

Indonesia metals exports vs. Primary income equity outflow



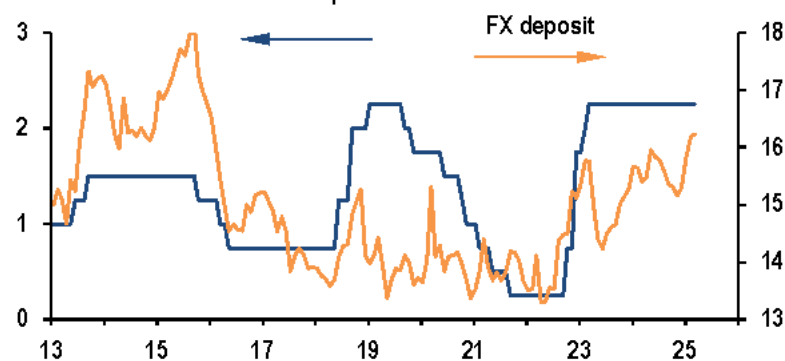
Dollarization has also occurred via conversion from IDR to FX deposits as US\$ rates stay historically elevated

Indonesia foreign currency deposit

% p.a.

12M USD time deposit rate

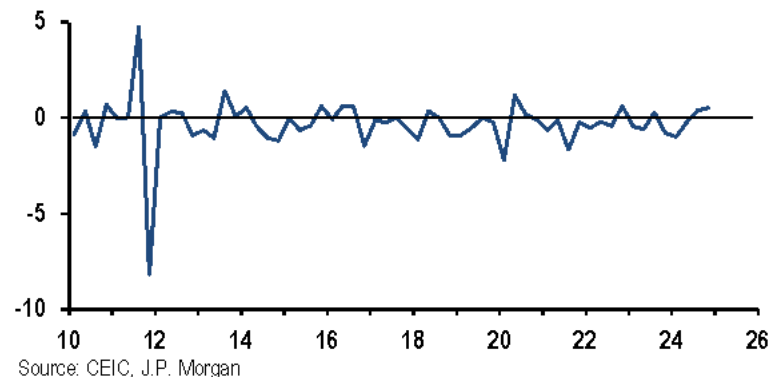
% of total deposit



Unaccounted financial outflows remain contained due to BI's tighter administrative controls over the years

Indonesia BOP - Net errors & omission

US\$bn



Tentative 25bp rate cut in June, but predicated on FX and DHE earnings flows into reserves

BI's reaction function is very sensitive to external conditions, proxied by US Treasury yields

Table 1: Bank Indonesia Augmented Taylor Rule model

Quarterly, 2011-22

Independent variable	Coefficient	P-val
Constant	1.07	0.00
FASBI rate, % (2Q lag)	0.46	0.00
Headline CPI gap, % oya (1Q lag)	0.24	0.00
10Y US yield, % (1Q lag)	0.54	0.00
R-squared	86.4%	F-stat
SER	0.39	Observations
		48

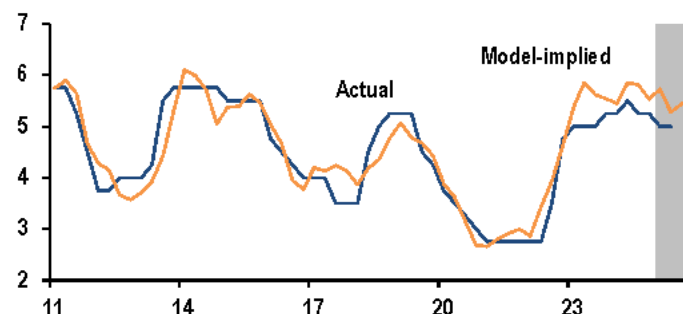
Dependent variable: BI policy rate, Source: J.P. Morgan estimates

However, the DHE ruling, which mandates commodity exporters to park 100% of earnings onshore for a year, may boost onshore US\$ liquidity and reduce BI sensitivity to external financial conditions

Based on in-house 10Y US yield forecasts, Taylor Rule model does not allow for additional BI rate cuts

Bank Indonesia FASBI rate

% p.a.

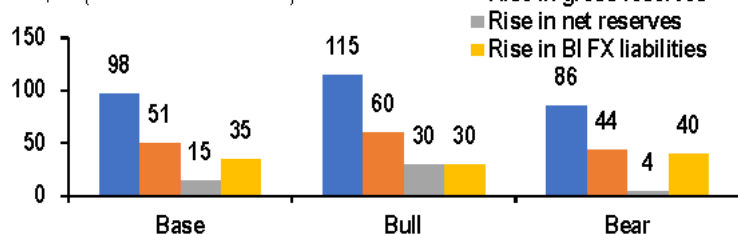


Source: J.P. Morgan estimates, forecast in shaded region

March increase in valuation-adjusted gross reserves was smaller than expected. With falling coal prices, DHE impact maybe overstated, putting risk to June rate cut call.

Scenario analysis of GR8/2025

US\$bn (from Mar 25 to Feb 26)

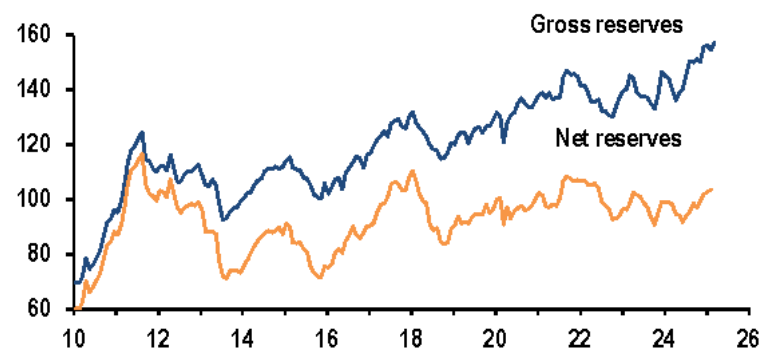


Source: CEIC, J.P. Morgan estimates

1. Gross exports: -15% from 2024 level for Base, 0% for Bull, -25% for Bear)
2. Gross reserves = gross exports less US\$ carve-outs (40% of gross exports)
3. Net reserves = Gross reserves x conversion rate (30% for base, 50% for bull, 10% for bear)
4. BI FX liabilities = Gross reserves less net reserves (i.e., FX swaps)

Indonesia gross vs. net reserves

US\$bn



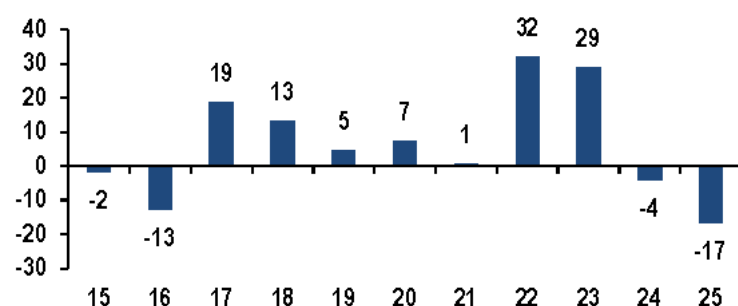
Source: CEIC, J.P. Morgan

Fiscal deficit ceiling (3% of GDP) could be tested

Tax revenue collections have lagged through 1Q25 due to softer growth and technical challenges in digitalization push

Indonesia central government domestic revenues

YTD % oya, through March



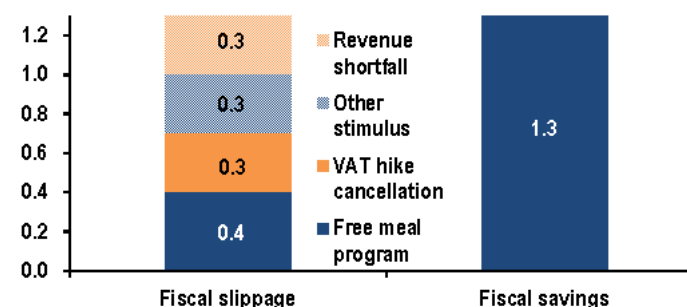
Source: CEIC, J.P. Morgan

Potential fiscal slippage could be offset by budget efficiency measures, but the latter has received grassroots pushback

Indonesia potential fiscal slippage vs. fiscal savings in 2025

% of GDP

Budget efficiency measures



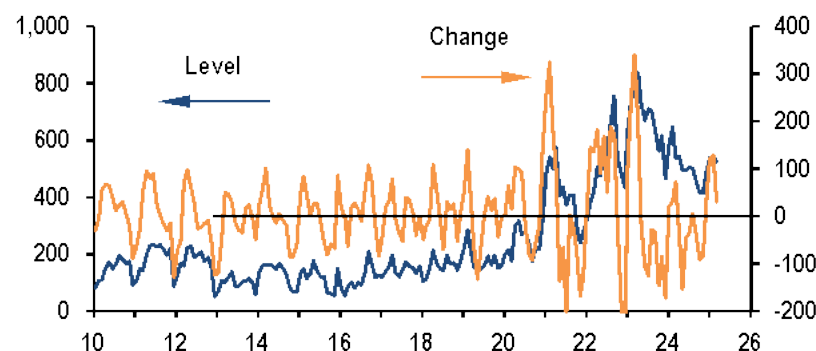
Source: News sources, J.P. Morgan estimates

Cash balances at BI have dwindled in recent years ...

Indonesia government balances at BI

IDR trillion

IDR trillion, change over 3-mos

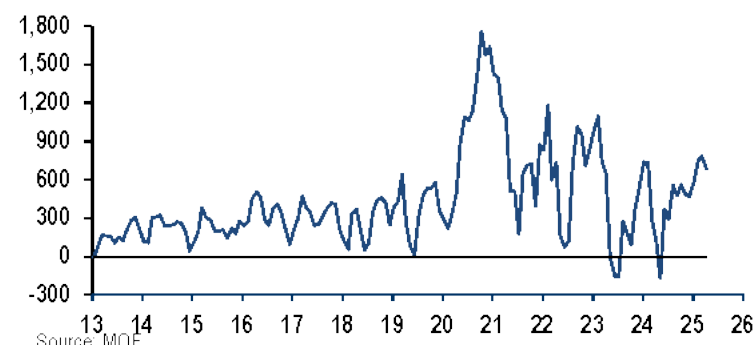


Source: BI, J.P. Morgan

... prompting fiscal authorities to accelerate pace of bond issuance

Indonesia net issuance of IDR govt bonds

IDR trillion, change over 3-mos., at



Source: MOF

Thailand: Macro View

Thailand: economic indicators

	Average 2017-21	2023	2024f	2025f
Real GDP, % change	0.8	2.0	2.5	1.4
Consumption ¹	1.8	3.3	2.8	1.6
Investment ¹	0.8	-4.3	-1.9	-0.5
Net trade ¹	-1.8	3.0	1.7	0.3
Consumer prices, %oya	1.6	1.2	0.4	0.5
% Dec/Dec	1.8	-0.8	1.2	0.5
Wholesale prices, %oya	2.6	-2.4	-0.7	1.0
Government balance, % of GDP	-3.8	-3.3	-4.0	-4.3
Merchandise trade balance (US\$ bn)	27.2	17.7	19.4	15.9
Exports	255.4	280.3	289.9	292.3
Imports	228.2	262.6	270.6	276.4
Current account balance	12.4	6.4	11.1	17.2
% of GDP	2.4	1.2	2.1	3.0
International reserves, (US\$ bn)	208.4	208.0	220.4	222.9

Growth to fall significantly on tariff escalation and global growth slowdown

Inflation to slow to below-target on lower oil prices and weak domestic demand

Wider fiscal deficit to cushion impact of hawkish US trade policy

Stronger 2025 CA surplus with intra-period weakness from trade disruption and slower tourist arrivals

1. Contribution to growth of GDP.

Source: National sources, J.P. Morgan estimates

Thailand: Brace for the tariff “storm”

Domestic and external headwinds in 2025

- **Growth profile stays weak despite US tariff walkback** – US-China de-escalation and paring back of US/global recession odds have led us to upgrade 2025 GDP growth estimate from 1.0% to 1.4%, with front-loading dynamics expected to boost 2Q growth. However, Thailand’s road to achieving a trade deal with the US remains challenging, mostly due to the perceived lack of effort to tackle trans-shipment, and as such, we assume for now, that the full reciprocal tariff of 36% will be implemented after the 90-day détente. There are also other domestic headwinds (e.g., tourism slowdown, property overhang) that will keep GDP profile very subdued.
- **Inflation to fall below-target; Dovish BoT to extend rate cut cycle** – Deflationary pressures from lower oil prices and weak domestic demand could push headline CPI to below-target (2025F: 0.5% vs. 2024: 0.4%). In the face of intense domestic and external growth pressures, we expect BoT to ease 25bp in the next 3 MPC meetings, taking the policy rate from 1.75% to 1.0% by October.
- **CA pressures to intensify in 2Q-3Q25 despite overall annual improvement** – We expect CA surplus to pick up from 2.1% of GDP in 2024 to 3.0% of GDP in 2025 on the continuous decline in oil prices, but 2Q-3Q25 outlook will likely be challenged by sharply lower exports as higher US tariffs kick in and slower tourist arrivals, particularly from China.
- **Additional fiscal stimulus in the pipeline as excess liquidity stays flush** – Government is contemplating a THB500bn (2.5% of GDP) stimulus package to address growth impact of US tariffs, but timely implementation could be hampered by debt ceiling concerns. Upward pressure on term premia maybe neutralized by rising excess liquidity as loans growth continue to contract amid souring economic outlook.

CA pressures could turn up in next two quarters on weaker export and tourism flows

Thailand balance of payments

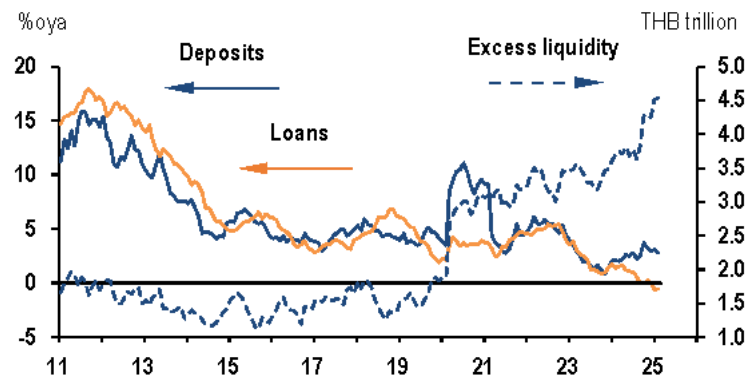
US\$ bn, n.s.a

	2017-19	2023	2024	2025F	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F
Current acc	36.9	7.4	11.1	17.1	3.4	1.1	2.3	4.2	10.5	(0.2)	1.2	5.6
% GDP	7.4	1.4	2.1	3.0	2.6	0.9	1.8	3.2	7.3	(0.1)	0.8	3.9
Goods	27.2	19.4	19.3	19.7	2.5	5.7	5.8	5.4	8.2	2.9	3.5	5.2
Oil & gas	(33.8)	(50.1)	(47.6)	(42.2)	(11.9)	(11.9)	(12.3)	(11.5)	(11.7)	(10.6)	(10.0)	(9.8)
Non oil & gas	61.0	69.5	66.8	61.9	14.4	17.5	18.1	16.9	19.9	13.5	13.5	15.0
Services & income	9.7	(12.0)	(8.2)	(3.4)	0.9	(4.5)	(3.5)	(1.1)	1.5	(3.0)	(2.2)	0.4
Transport	(11.0)	(15.7)	(15.4)	(12.7)	(3.8)	(3.8)	(4.0)	(3.7)	(3.2)	(3.3)	(3.2)	(3.1)
Travel	44.5	17.5	27.0	28.2	7.7	5.1	6.2	8.0	7.7	5.6	6.6	8.2
Other services	(9.9)	(10.7)	(13.1)	(13.1)	(2.8)	(3.3)	(3.4)	(3.6)	(2.8)	(3.3)	(3.4)	(3.6)
Primary income	(21.6)	(13.0)	(15.9)	(13.8)	(2.7)	(4.8)	(4.3)	(4.0)	(2.3)	(4.1)	(4.3)	(3.1)
Secondary income	7.6	9.3	9.2	8.0	2.6	2.4	2.0	2.2	2.0	2.0	2.0	2.0
Financial acc	(13.1)	(11.9)	(16.1)	(14.7)	(5.1)	(2.4)	0.6	(9.2)	(4.3)	(3.8)	(3.3)	(3.3)
% GDP	(2.6)	(2.3)	(3.1)	(2.9)	(3.9)	(1.9)	0.4	(7.0)	(3.0)	(2.6)	(2.3)	(2.3)
Direct	(4.6)	(7.2)	2.4	(1.2)	1.3	(0.9)	(0.5)	2.5	(0.3)	(0.3)	(0.3)	(0.3)
Portfolio	(5.6)	(13.7)	(20.0)	(11.5)	(4.5)	(3.1)	(1.9)	(10.6)	(3.5)	(3.0)	(2.5)	(2.5)
Others	(3.2)	9.1	0.6	(2.0)	(1.8)	1.7	2.3	(1.6)	(0.5)	(0.5)	(0.5)	(0.5)
Errors & omissions	(8.0)	5.0	16.7	-	3.1	3.3	4.3	6.0	-	-	-	-
Overall BOP	15.6	2.6	12.4	2.4	1.8	2.1	7.0	1.5	6.2	(4.0)	(2.1)	2.3
% GDP	3.2	0.5	2.4	0.4	1.4	1.6	5.3	1.1	4.3	(2.7)	(1.4)	1.6
Chg in reserve assets	15.6	2.6	12.4	2.4	1.8	2.1	7.0	1.5	6.2	(4.0)	(2.1)	2.3

Source: CEIC, J.P. Morgan forecasts

Excess liquidity continues to rise on weak loans growth

Thailand excess liquidity



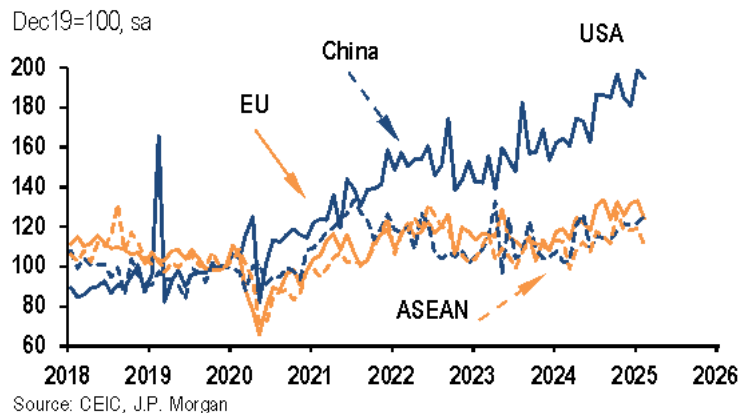
Source: CEIC, J.P. Morgan

US recession the looming threat for Thai industry

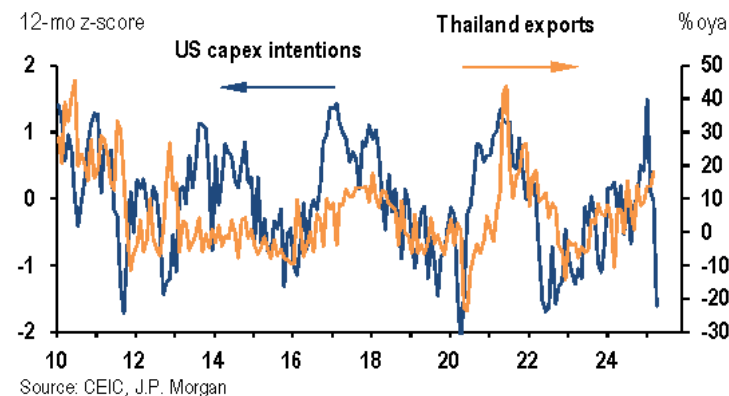
While the 90-day tariff pause may intensify front-loading activity in the near term...

...sagging US capex sentiment is bound to weigh heavily on Thai exports in 2H25

Thailand exports by country



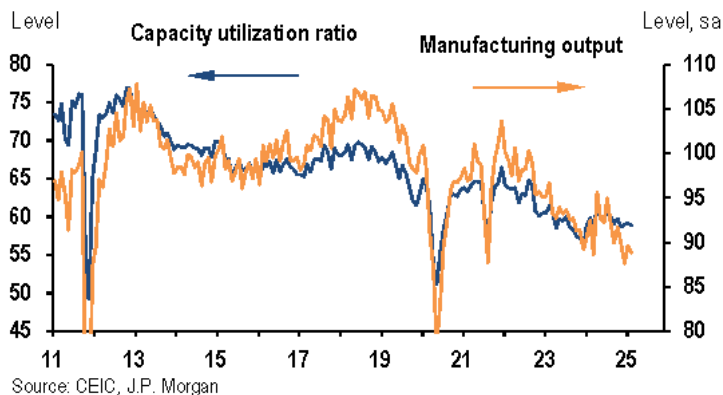
US capex intentions vs. Thailand exports



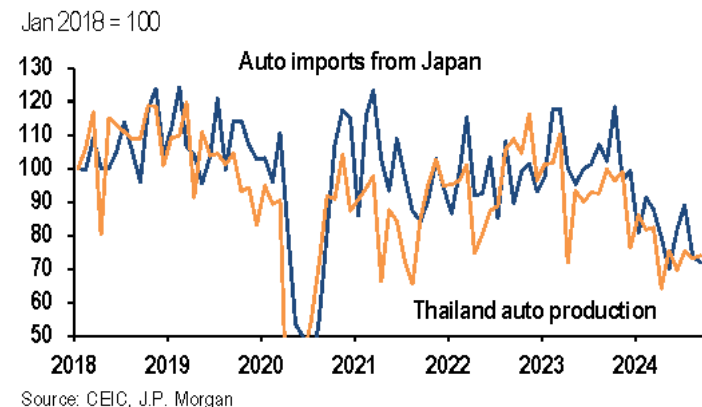
This comes when starting conditions for Thai industry are weak, as reflected in lingering excess capacity

Auto sector in particular remains saddled with issues, from supply-chain disruptions in Japan to weak domestic demand

Thailand manufacturing sector



Auto imports from Japan vs. Thailand auto production

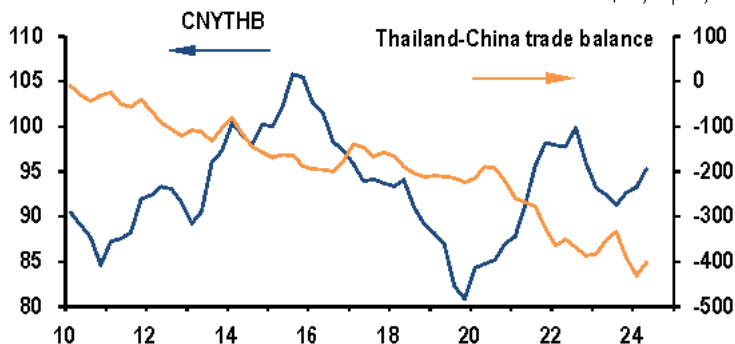


Redirection of Chinese excess capacity and debt-trapped Thai consumer add to growth concerns

Lack of bilateral FX adjustment could exacerbate the influx of cheap, imported goods into Thailand...

Thailand-China trade balance vs. CNYTHB

2015=100

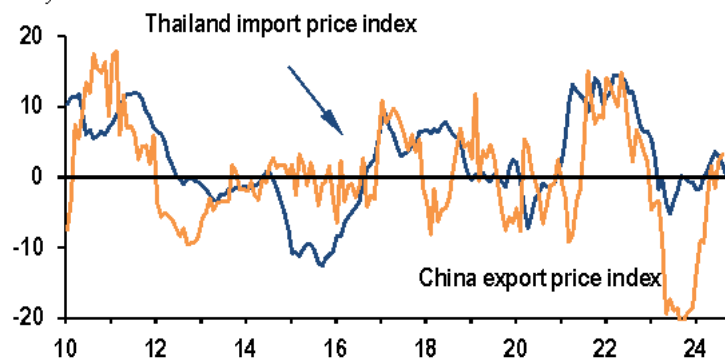


Source: CEIC, J.P. Morgan estimates

...leading to higher imported deflationary pressures

Thailand import price index vs. China export price index

% oya

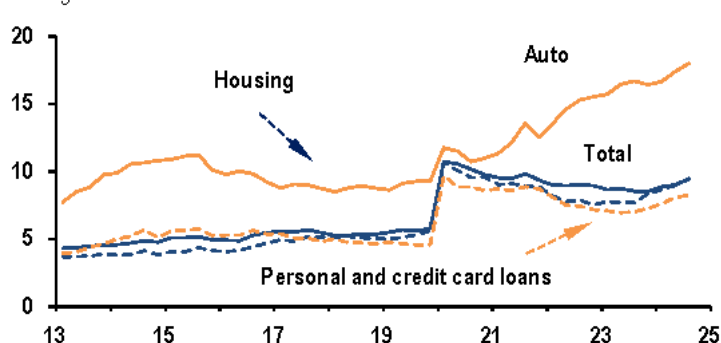


Source: CEIC, J.P. Morgan

HH debt also stays at record peak (89% of GDP), with credit quality across various consumer segments worsening

Thailand special mention and non performing loans

% of gross loans

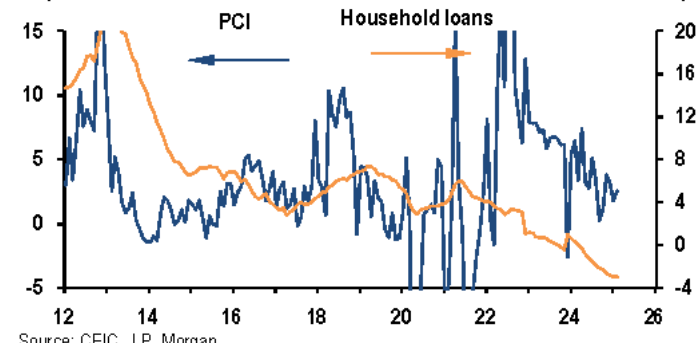


Source: CEIC, J.P. Morgan

This has sparked a vicious cycle of tighter lending standards and weaker private consumption

Household loans vs. Private consumption indicator (PCI)

% oya



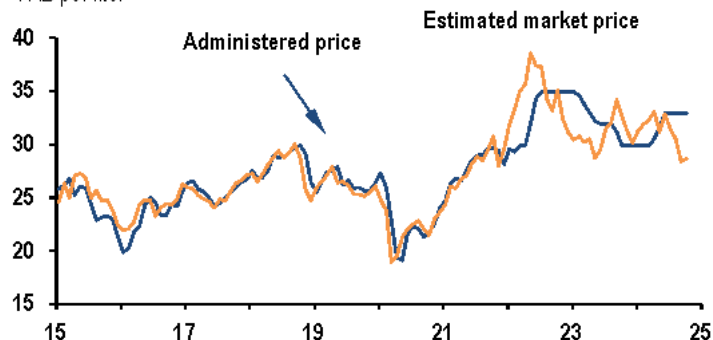
Source: CEIC, J.P. Morgan

Inflation to fall below-target for rest of 2025

Falling oil prices have enabled the government to expand energy subsidies (e.g., diesel, gasoline, electricity)

Thailand diesel price

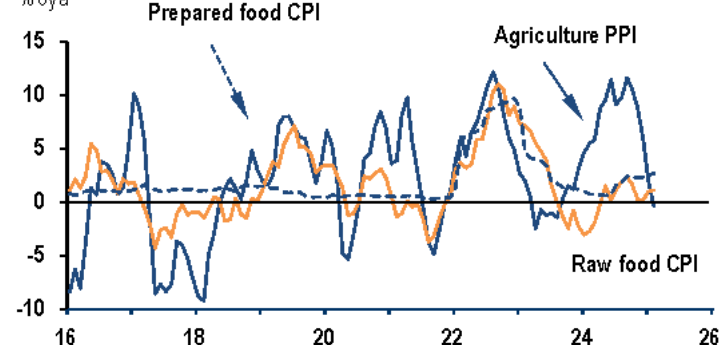
THB per liter



After a brief spike last year, upstream agriculture cost pressures have pulled back sharply

Thailand agriculture PPI vs. food CPI

% oya



Core-core CPI remains subdued and reflect weak demand-pull pressures

Thailand core-core inflation (ex F&B and energy)

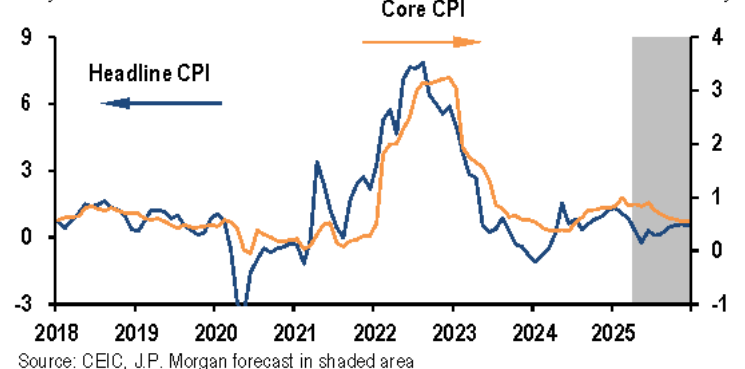
% oya



We expect headline CPI to stay below target through 2025

Thailand headline vs. core CPI

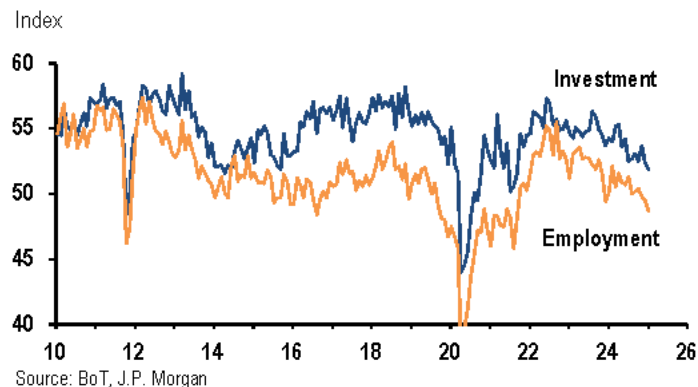
% oya



75bp of additional rate cuts in the cards this year

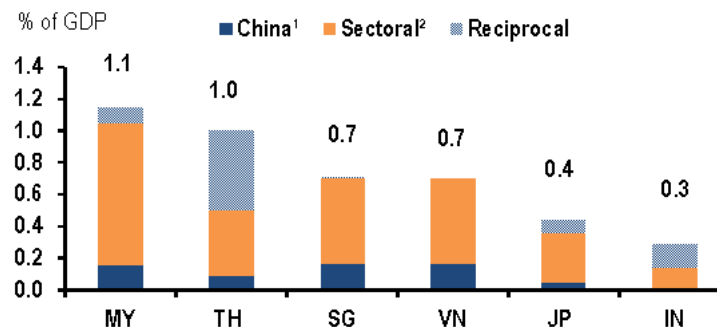
Manufacturing sentiment continues to decline

Thailand business sentiment index



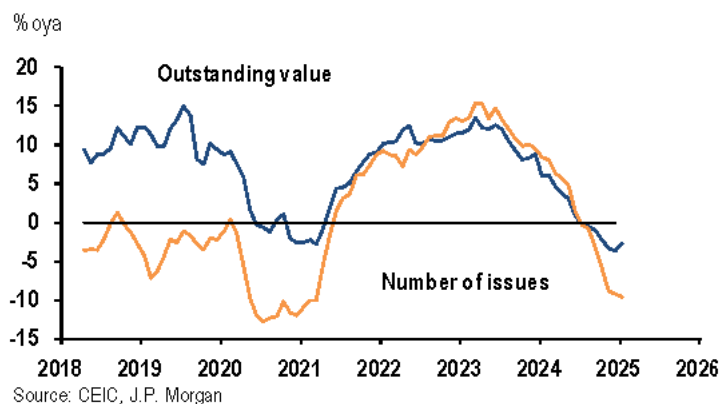
Thailand is in the crosshairs of various tariff threats

Direct impact of US tariff threats on Asia GDP



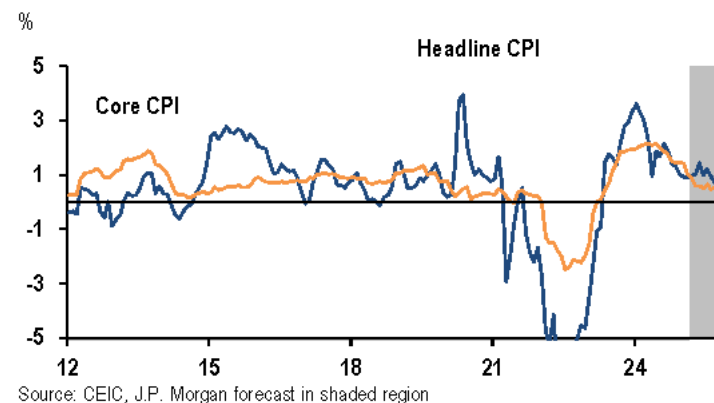
Financial conditions in onshore capital markets have tightened considerably as well

Thailand corporate bond market



Even with 3 more rate cuts, ex-ante real policy rate will only fall to 0.3%, still in line with historical average

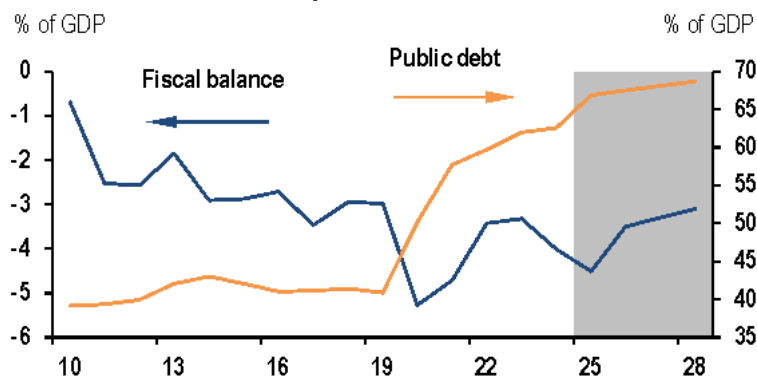
Thailand real policy rate



Wider fiscal deficits still financed by domestic savings

Periodic budget stimulus and high debt rollovers will likely push public debt ratio towards 70% ceiling in coming years

Thailand fiscal balance vs. public debt

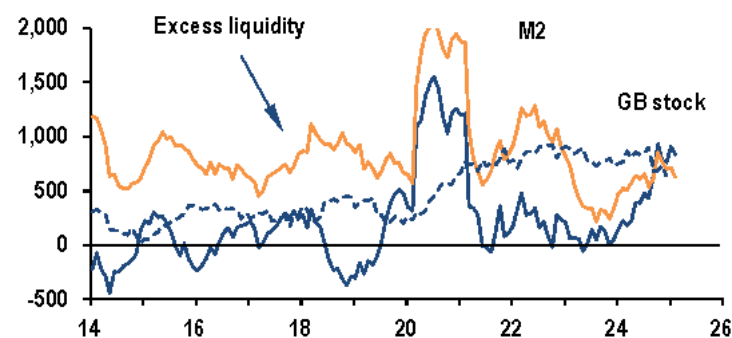


Source: MOF Thailand, NESDC, J.P. Morgan forecast in shaded region

Despite the structural increase in net debt issuance, systemwide liquidity has loosened significantly ...

Thailand M2 vs. excess liquidity vs. GB stock

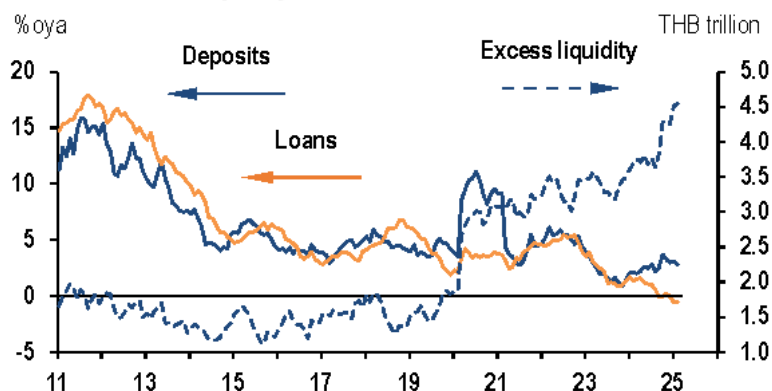
THB billion, 12-mo chg



Source: CEIC, J.P. Morgan

... driven by higher savings rate and more importantly, the steep decline in loans formation as economic outlook sours

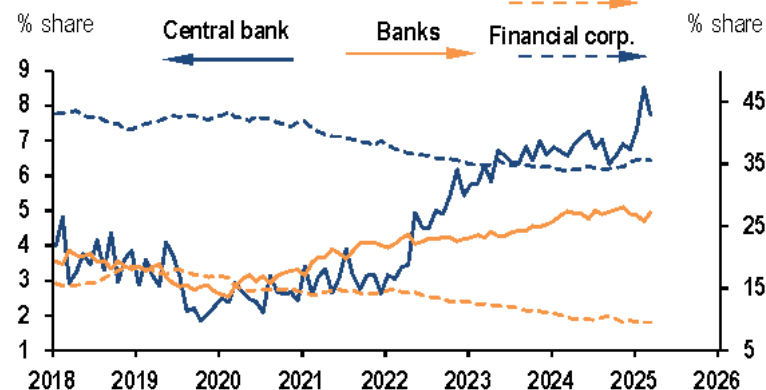
Thailand excess liquidity



Source: CEIC, J.P. Morgan

Govt bonds are increasingly being absorbed by the central bank and non-bank domestic investors (e.g., insurance)

Thailand GB ownership by entity



Source: CEIC, J.P. Morgan

Malaysia: Macro View

Malaysia: economic indicators

	Average			
	2017-21	2023	2024f	2025f
Real GDP, % change	3.1	3.6	5.1	3.4
Consumption ¹	3.3	3.2	3.7	3.3
Investment ¹	-0.1	1.2	1.3	0.0
Net trade ¹	0.0	-0.9	0.1	0.1
Consumer prices, %oy a	1.3	2.5	1.8	2.3
% Dec/Dec	1.3	1.5	1.7	3.2
Government balance, % of GDP	-5.1	-5.0	-4.3	-3.8
Merchandise trade balance (US\$ bn)	33.9	32.1	34.7	33.0
Exports	200.1	214.7	227.5	235.5
Imports	166.2	182.6	192.8	202.5
Current account balance	12.5	9.4	7.2	4.7
% of GDP	3.4	2.3	1.7	1.1
International reserves, (US\$ bn)	105.5	116.7	124.2	129.2

1. Contribution to growth of GDP.

2. Debt with original maturity of less than one year.

3. Exports of goods, services, and net transfers.

Source: National sources, J.P. Morgan estimates

US tariff hikes to weigh on growth once 1H25 front-loading boost fades

Midyear RON-95 subsidy re-targeting to only be modestly inflationary, allowing BNM to ease rates to support growth; risks are rising that subsidy re-targeting gets delayed again

BOP surplus to narrow as growth pressures weigh on both trade and capital flows

Malaysia: Don't rain on our parade

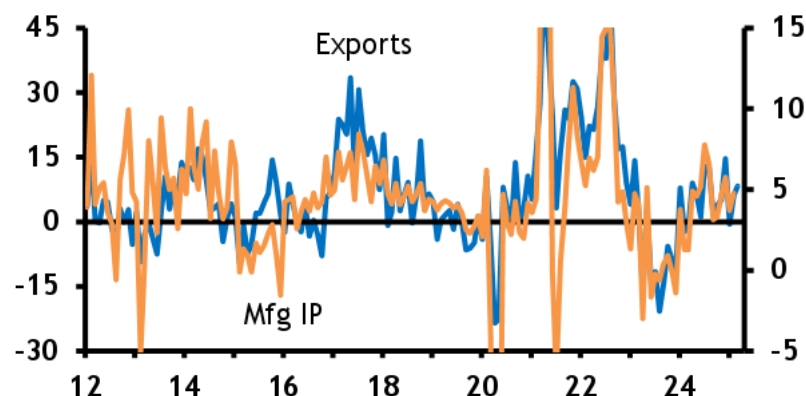
Higher US tariffs the key threat to 2025 outlook

- **Trump tariffs to play spoiler:** Malaysia's growth surged last year as exports buoyed manufacturing on the one hand and data center building boosted construction GDP on the other. But the bulk of export strength was driven by strong US demand which we expect to fade as the US slides into a recession in 2H25. At the same time, reduced FDI and elevated uncertainty will also depress fixed asset investment, further pressuring growth. We expect GDP growth to come in at 2.8% this year, down sharply from 5.1% in 2024, absent a broad-based rolling back/suspension of tariffs post the 90-day reprieve.
- **Expect modest inflation rise on fuel price hike:** We expect the midyear retargeting of the RON95 fuel subsidy to only be modestly inflationary given the recent slide in oil prices and expect limited passthrough to core inflation given weaker corporate pricing power and a dimmer growth outlook. We project headline/core inflation to average 2.3%/2.1%, up modestly from 1.8% last year.
- **Gradual fiscal consolidation; GLIC support needed as onshore liquidity tightens:** Budget 2025 aims to reduce the fiscal deficit from a better-than-expected 4.1% of GDP to 3.8% of GDP, but weaker than expected growth alongside delayed SST expansion which was initially slated for May could make the targeted consolidation harder to achieve. Gross/net issuance to remain unchanged from last year, but given tighter onshore liquidity as trade surpluses narrow, support from state-owned social security funds will remain pivotal to compress MGS term premia.
- **Expect rate easing amid limited fiscal room and looming growth pressures:** Based on our global team's 2H25 US/global recession call, we project 100bp of BNM rate cuts starting 3Q25. But BNM has only delivered deep easing during global recessions, and if one is avoided this year, the quantum of easing could be less than we have currently penciled in.

Exports have pulled out manufacturing from a 2023 slump...

Malaysia real goods exports and mfg IP

%oya, both scales

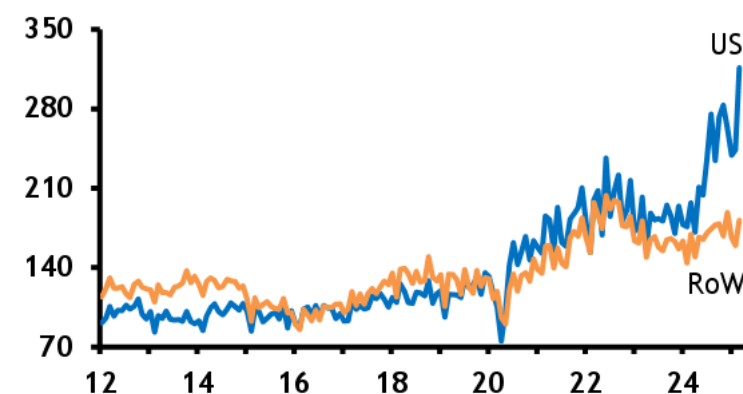


Source: National statistical agencies, J.P. Morgan

...but the bulk of export strength owes to US demand

Malaysia exports to the US and RoW

Index, 2016=100; US\$bn terms



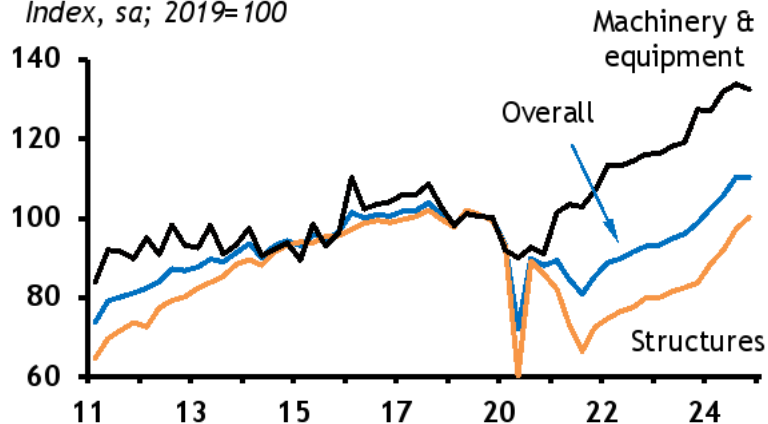
Source: DoS, J.P. Morgan

Data-center investment and tech exports boosted 2024 growth

12% FAI growth contributed half of 5.1% annual growth

Malaysia FAI by asset type

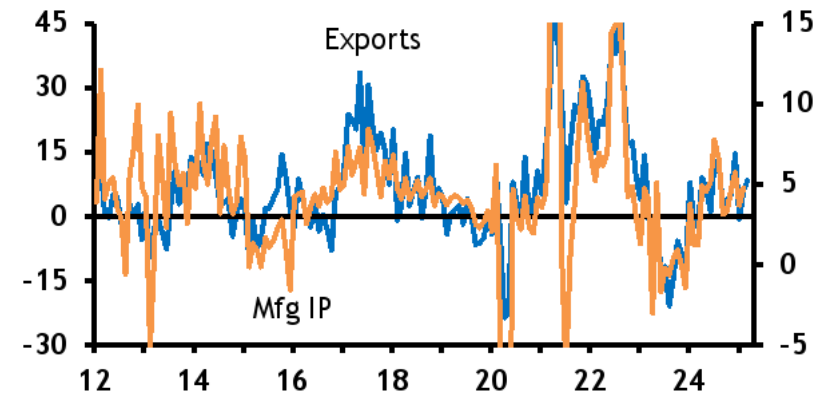
Index, sa; 2019=100



Strong exports pulled out manufacturing from a 2023 slump...

Malaysia real goods exports and mfg IP

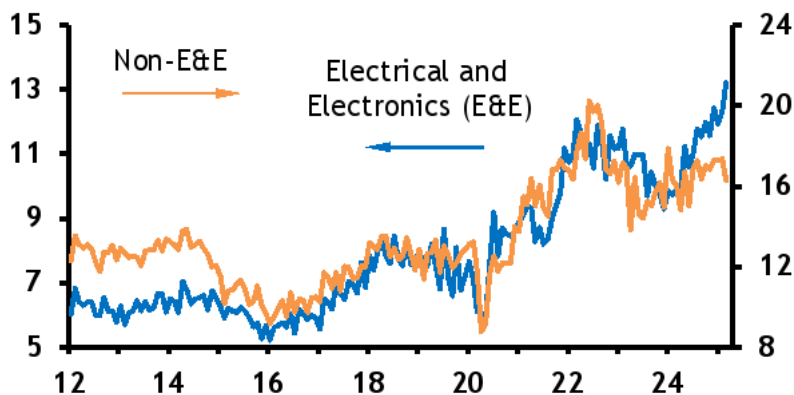
%oya, both scales



...but the strength was concentrated in tech goods...

Malaysia exports

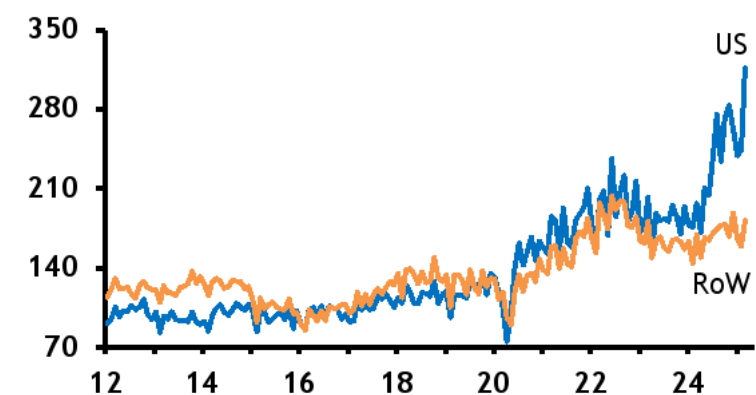
US\$bn, sa; both scales



...with a sharp acceleration in exports to the US

Malaysia exports to the US and RoW

Index, 2016=100; US\$bn terms

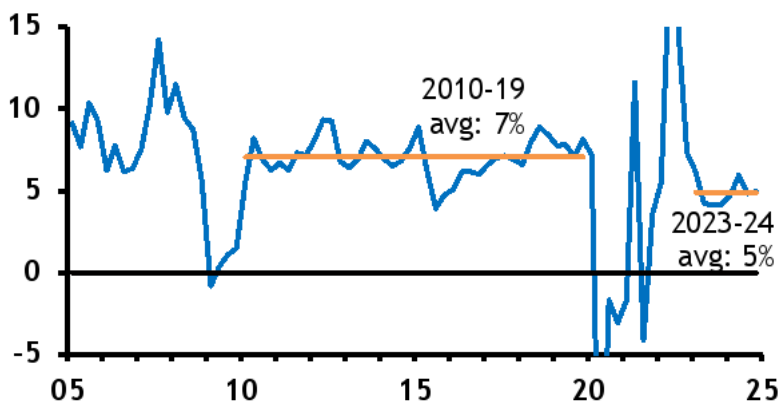


But PCE growth disappointed for a second year

PCE growth has disappointed over the last two years...

Malaysia private consumption expenditure

%oya

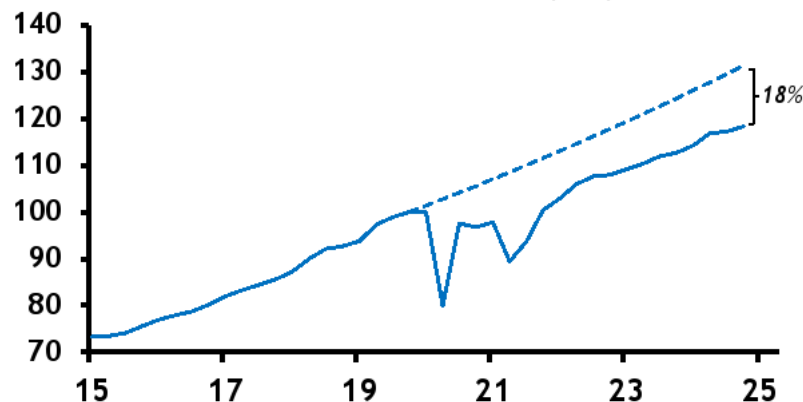


Source: DoS, J.P. Morgan

...resulting in the widest consumption gap in EM Asia

Malaysia private consumption expenditure

Index, sa; 4Q19=100; dotted line shows pre-pan. trend

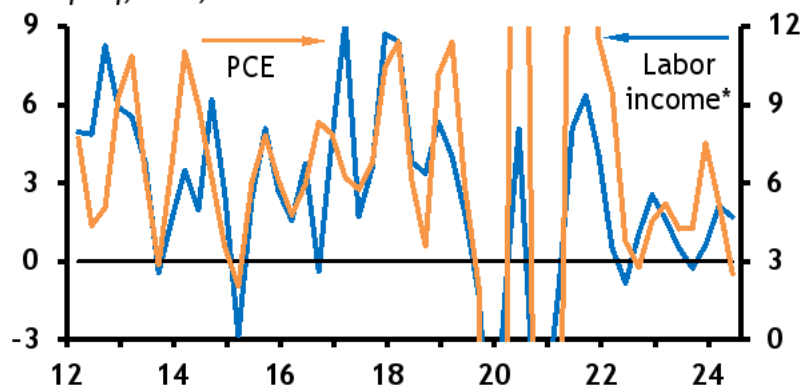


Source: DoS, Haver, J.P. Morgan

Slower PCE driven by sluggish labor income gains

Malaysia real labor income and PCE

%2q/2q, saar; both scales

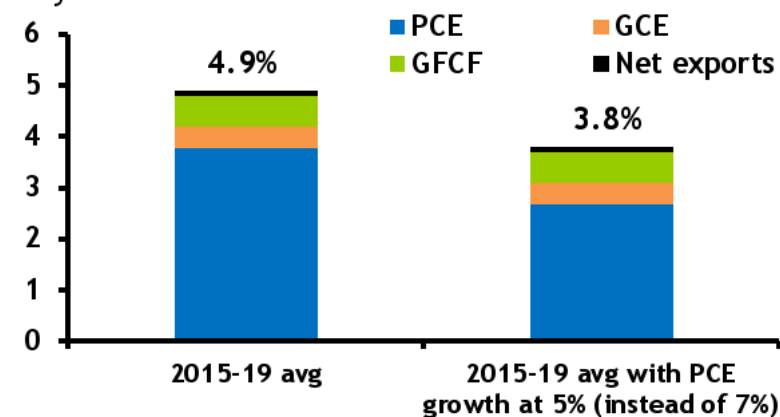


Source: DoS, Haver, J.P. Morgan. *Generated in mfg and services sectors which have a combined employment share of around 80%.

A 2% sustained PCE slowing can subtract 1% off potential growth

Malaysia trend GDP counterfactual

%oya



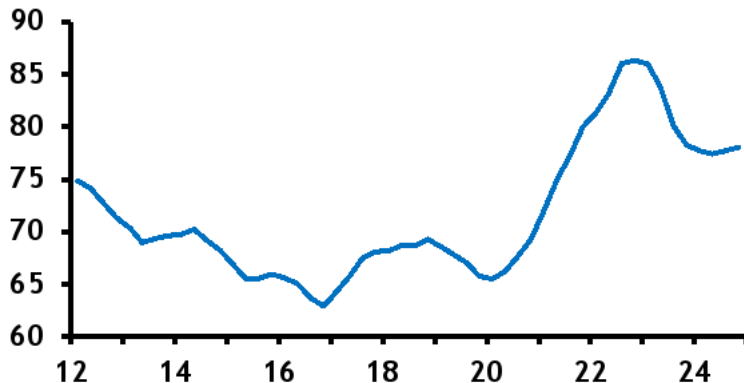
Source: DoS, J.P. Morgan estimates

Trade war to pressure both engines of 2024 growth: FAI & exports

If global growth slows, it's not just exports to US that will slow

Malaysia goods exports

% of GDP, 4qma

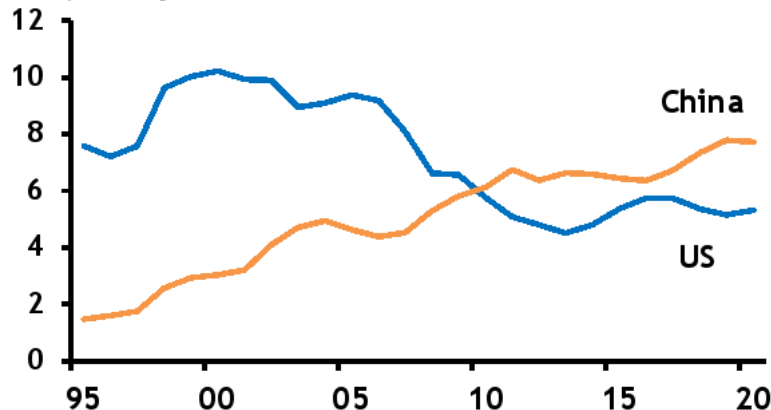


Source: DoS, J.P. Morgan

Close ties with China could make trade talks with the US difficult

Malaysia VA* in US and China final demand

% of Malaysia's GDP

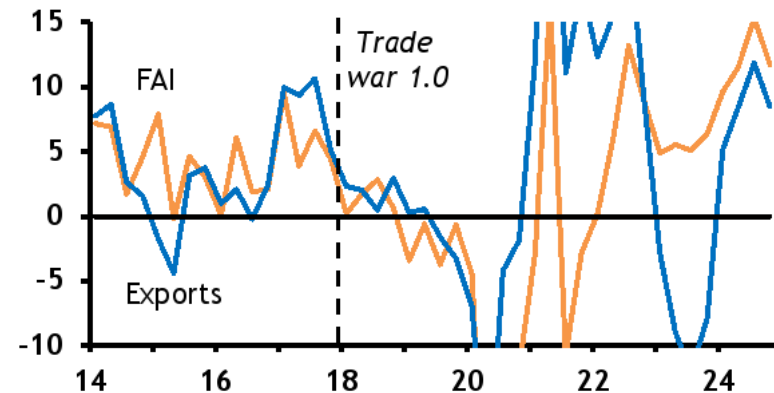


Source: TiVo, DoS, J.P. Morgan. *Value-added

Slower exports and elevated uncertainty will also weigh on FAI

Malaysia exports and FAI

%oya

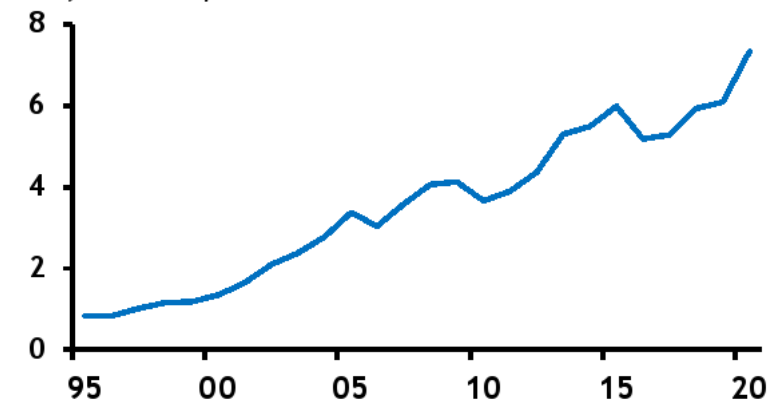


Source: DoS, J.P. Morgan

China's participation in Malaysia's production has steadily risen

Chinese value-added in Malaysia's exports

% of total exports



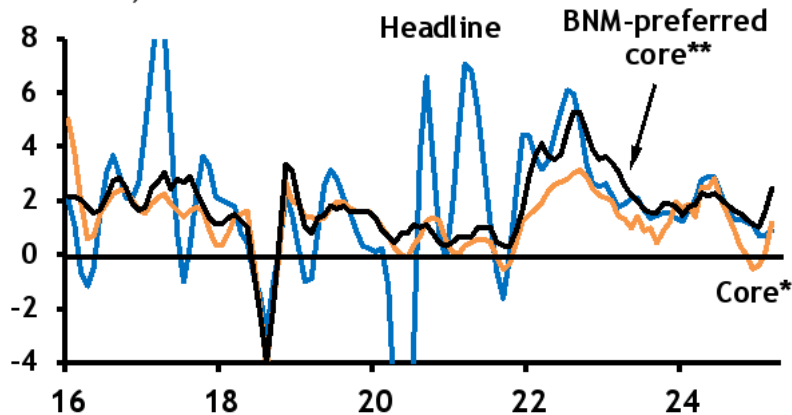
Source: OECD TiVo, J.P. Morgan

Inflation remains benign, and RON95 subsidy re-targeting to be less inflationary amid lower oil prices

Inflation momentum remains benign

Malaysia CPI

%3m/3m, saar

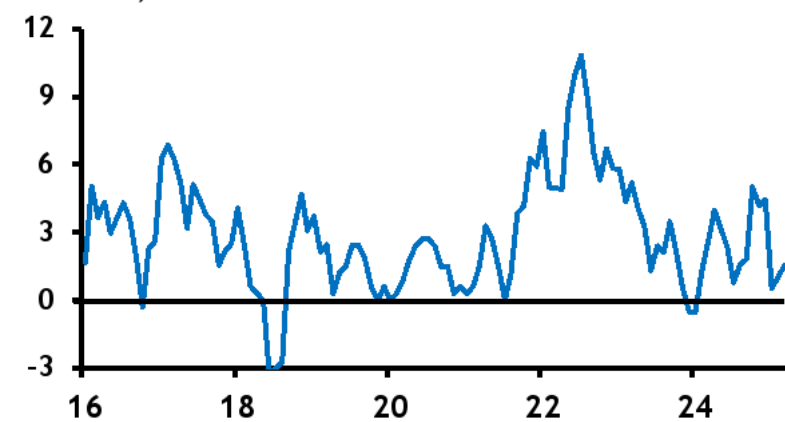


Source: DoS, J.P. Morgan. *Ex all food and energy. **Ex volatile fresh food and admin. prices.

Food prices have stabilized after 4Q24 firming

Malaysia food CPI

%3m/3m, saar

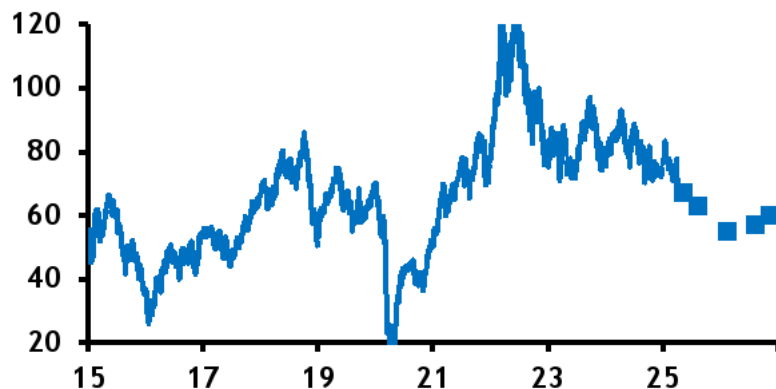


Source: DoS, J.P. Morgan

And with the recent and further projected slide in oil prices...

Brent crude

US\$/bbl; markers show quarterly J.P. morgan f'cast

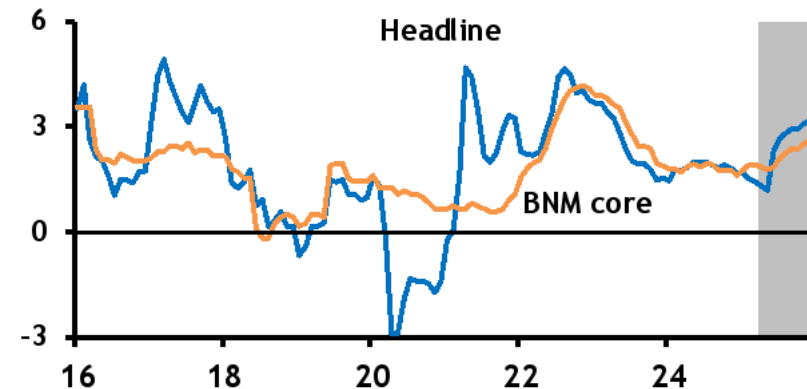


Source: EIA Daily Energy Prices, Haver, J.P. Morgan forecast

...midyear RON95 subsidy re-targeting to be less inflationary than previously thought

Malaysia CPI

%oya



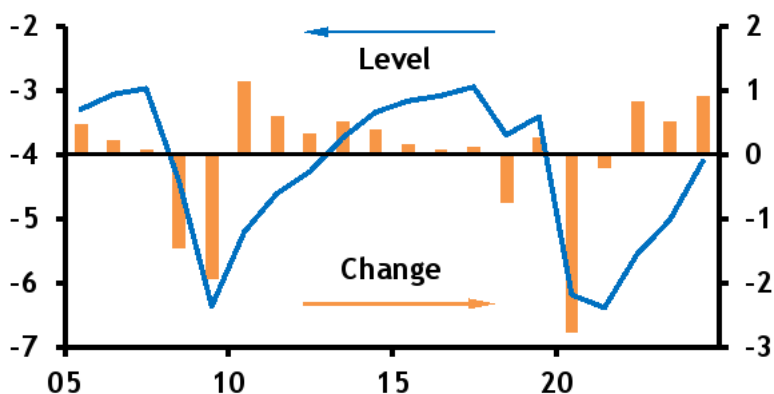
Source: DoS, J.P. Morgan forecasts

Amid limited fiscal space, monetary policy will have to be deployed to cushion growth

Deficit shrank by an impressive 0.9% of GDP in 2024 as growth bounce boosted (indirect tax) revenues

Malaysia federal budget

% of GDP, both scales



Source: BNM, J.P. Morgan

100bp May SSR cut to boost thin banking system liquidity by RM19bn, helping absorb bond issuance

Malaysia excess banking system liquidity

MYRbn



Source: BNM, J.P. Morgan. *Reserves held at BNM in excess of SRR

But weaker growth and delayed SST expansion could pressure 2025 deficit; debt could test 65% legal ceiling

Malaysia statutory debt

% of rolling 4-qtr GDP

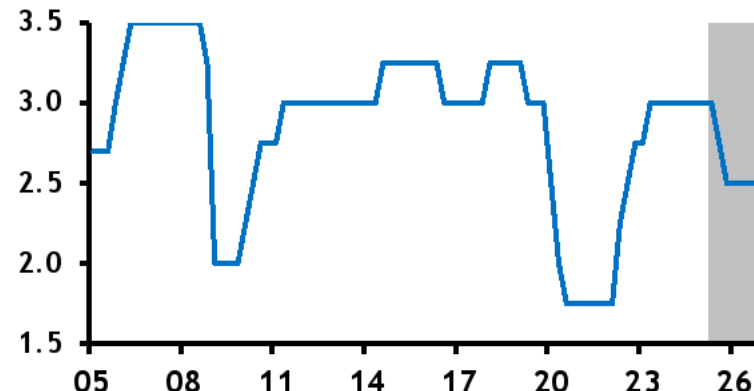


Source: National statistical agencies, Haver, J.P. Morgan

Amid limited fiscal room, rates will have to be eased to support growth...

BNM overnight policy rate

%p.a.



Source: BNM, J.P. Morgan

Singapore: Macro View

Singapore: economic indicators

	Average			
	2017-21	2023	2024f	2025f
Real GDP, % change	2.9	1.8	4.4	1.5
Consumption ¹	1.0	1.9	2.6	1.9
Investment ¹	0.4	-2.4	2.1	-0.5
Net trade ¹	1.5	2.3	-0.3	0.1
Consumer prices, %oy a	1.8	4.8	2.4	1.2
% Dec/Dec	2.3	3.8	1.5	1.5
Producer prices, %oy a	5.1	-6.7	-1.3	3.0
Government balance, % of GDP	-1.6	-0.9	0.4	0.4
Merchandise trade balance (US\$ bn)	108.3	135.2	137.5	135.9
Exports	472.3	571.5	600.3	624.5
Imports	363.9	436.3	462.9	488.6
Current account balance	66.3	86.1	91.2	78.6
% of GDP	16.2	17.0	16.7	13.6

1. Contribution to growth of GDP.

Source: National sources, J.P. Morgan estimates

Ongoing trade war to weigh heavily on Singapore's trade driven economy; we expect sub-1% growth

Inflation has come off sharply and weaker oil prices will likely sustain the weak inflation momentum. We expect MAS to deliver another 50bp S\$NEER slope cut the July meeting, resulting in a flat slope

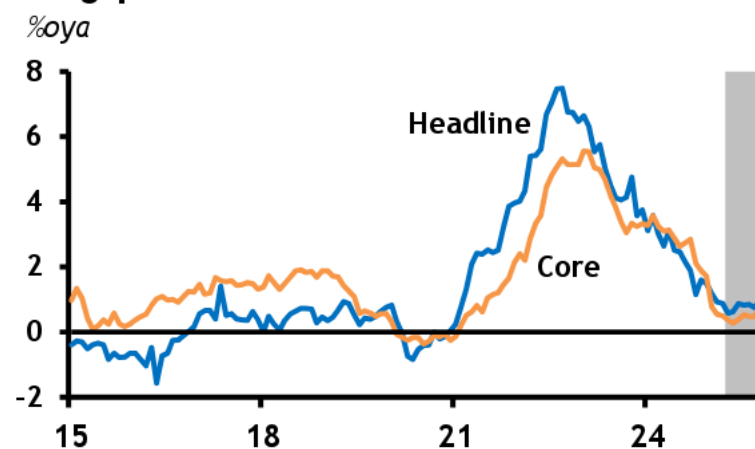
2025 Singapore: Slower growth and inflation, MAS to return to flat slope at July meeting

Growth to slide in 2H25 on trade war impact

- After clocking a solid 4.4% manufacturing-led expansion in 2024, Singapore is seen slowing sharply to below 1% this year amid building trade war drags (JPM: 0.7%). Indeed, GDP already contracted at a sharp 3%ar in 1Q amid steep declines in both the (tech-reliant) manufacturing and services sectors, and a large April PMI drop points to continued growth weakness ahead. Fiscal policy, although already projected to turn more accommodative this year, will have to double-down on supporting growth, especially if major trading partners (China, Japan, ASEAN, Korea) fail to strike trade deals with the US.
- Core disinflation has been surprisingly swift, deep and broad-based, aided by a combination of moderating industrial rentals, normalizing unit labor costs, and a one-off slide in holiday prices. With the recent large drop in Brent crude and weaker growth momentum, inflation is expected to remain subdued for the remainder of this year.
- Having moved early in January, MAS demonstrated patience at the April meeting, trimming the S\$NEER slope by a measured 50bp. But macro conditions are in place on a durable basis for it to return to a flat slope at the upcoming July meeting: we expect another 50bp slope cut but do not foresee any changes to the width or the level at which the band is centered.

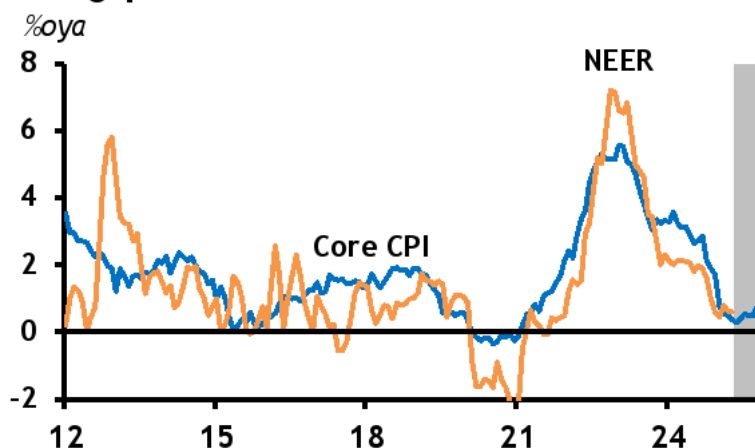
Core inflation to average 0.7% in 2025

Singapore CPI



Gradualism trumps sharply weaker growth-inflation mix; MAS to ease slope again in July

Singapore core CPI and NEER

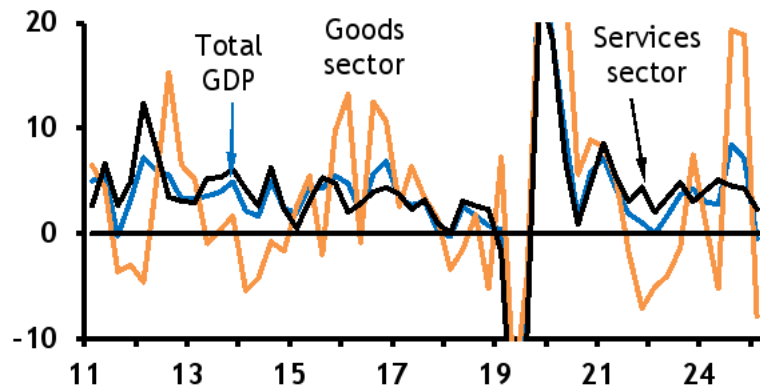


1Q25: GDP contracted at a 3%ar amid a manufacturing pullback

Goods sector strength that drove 2024 outperformance reversed sharply last quarter...

Singapore real GDP

%2q/2q, saar

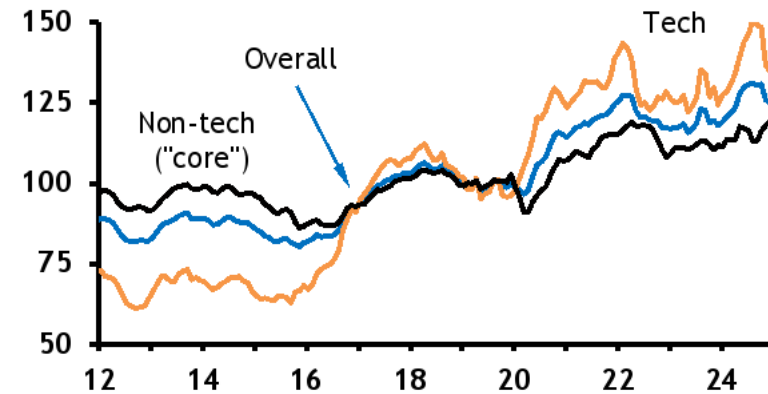


Source: DoS, J.P. Morgan

...driven by a collapse in tech production

Singapore mfg IP ex biomedical

Index, sa, 3mma; 2019 = 100

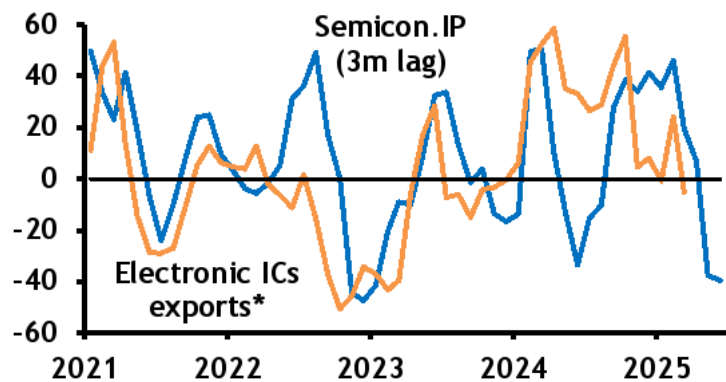


Source: DoS, J.P. Morgan

Tech IP contraction contrasts with as-of-yet resilient exports...

Singapore real semicon. output and exports

%3m/3m, saar



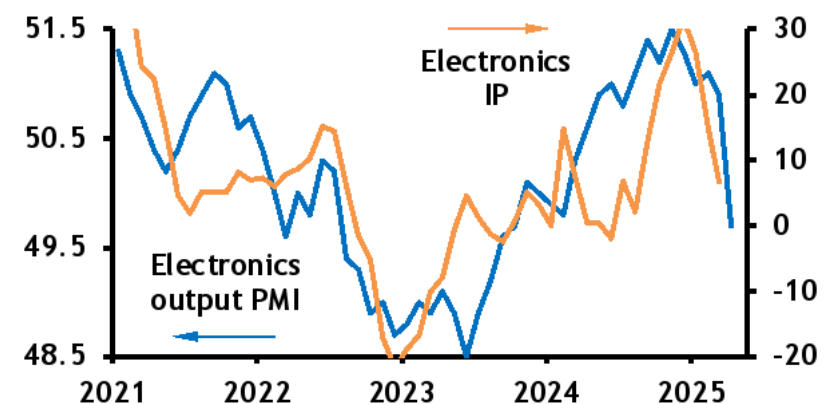
Source: DoS, IES, Haver, J.P. Morgan. *Deflated by the export price index for diodes, transistors and semiconductors.

...but is aligned with the sustained slide in output PMI

Singapore electronics PMI and production

DI pts, sa; thru April

%6m/6m, saar; thru March

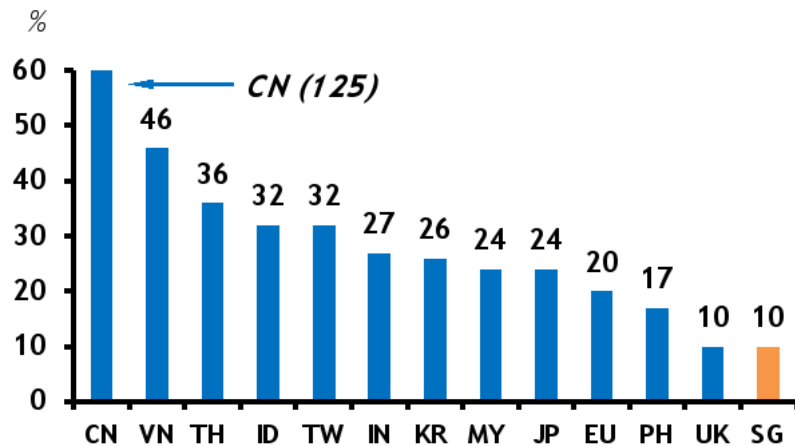


Source: SIPMM, J.P. Morgan

Singapore hit with 10% tariff, but main conduit of trade war damage will be a broader global growth slowdown

Singapore hit with 10% (minimum) US tariff

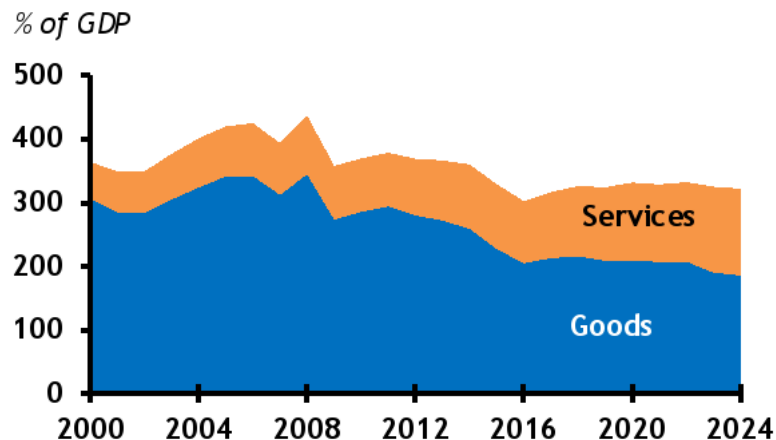
Liberation Day reciprocal tariffs



Source: White House, J.P. Morgan

But the main conduit of growth hit will be overall trade intensity and intimate supply chain interlinkages with the rest of Asia...

Singapore trade intensity*

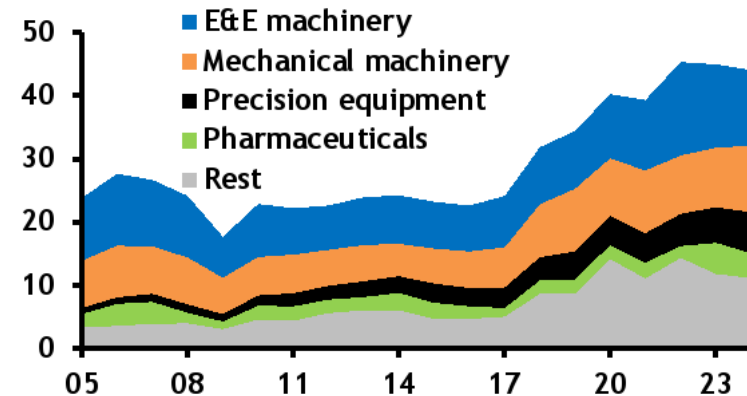


Source: DoS, J.P. Morgan. *Trade/GDP

US is a key export destination for E&E and mechanical machinery and pharmaceuticals; sectoral tariffs hence another key risk

Singapore exports to the US

US\$bn

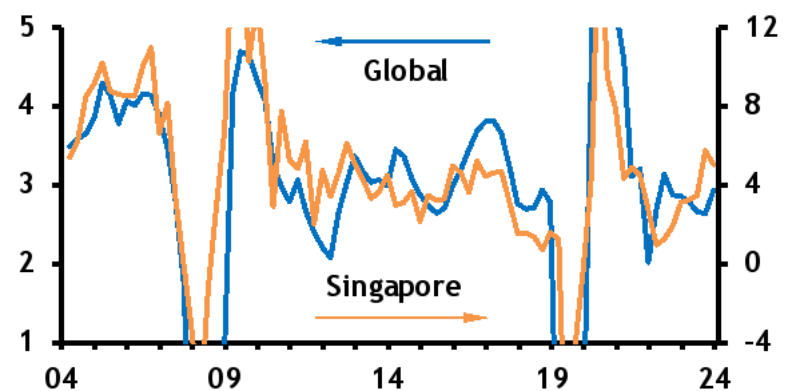


Source: IES, ITC trademap, J.P. Morgan

...which make the city-state highly sensitive to global growth swings

Real GDP - Global and Singapore

%oya, both scales



Source: J.P. Morgan

Disinflation has been surprisingly swift, deep and broad-based

Core inflation has eased sharply since 3Q24...

Singapore core CPI

% change

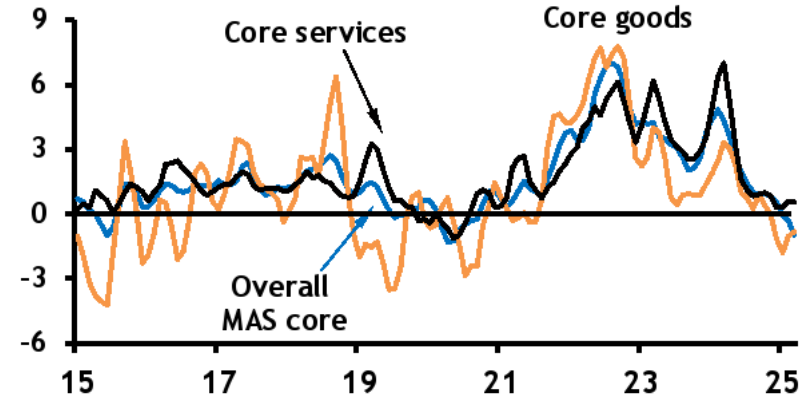


Source: DoS, J.P. Morgan

...as both goods and services price gains slowed...

Singapore core CPI

%3m/3m, saar

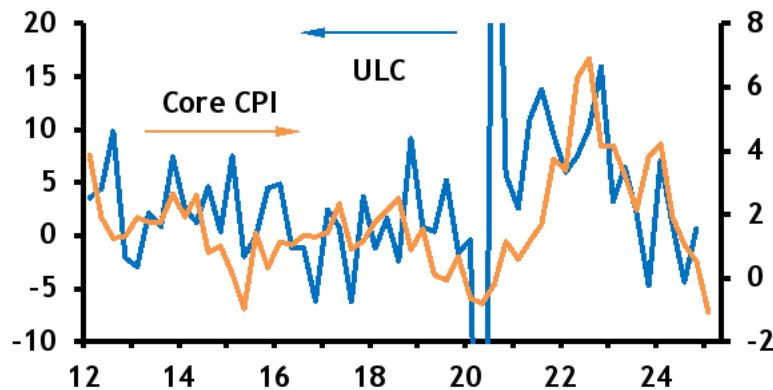


Source: DoS, MAS, J.P. Morgan estimates

...helped by normalizing Unit Labor Costs...

Singapore Unit Labor Costs and core CPI

%q/q, saar; both scales

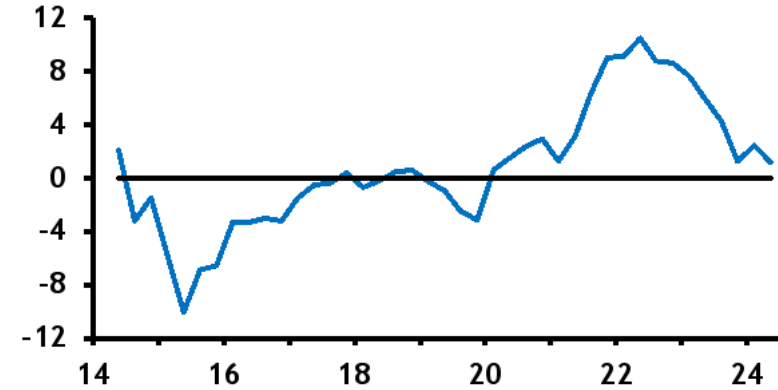


Source: DoS, Haver, J.P. Morgan

...and moderating industrial rentals

Industrial rentals

%q/q, saar



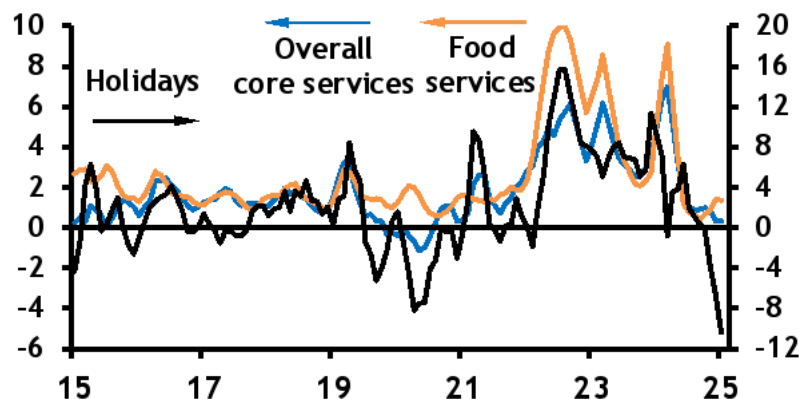
Source: URA, J.P. Morgan

Expect another 50bp S\$NEER slope reduction in July

Holiday prices have dragged down overall core CPI since Jan

Singapore core services CPI

%3m/3m, saar

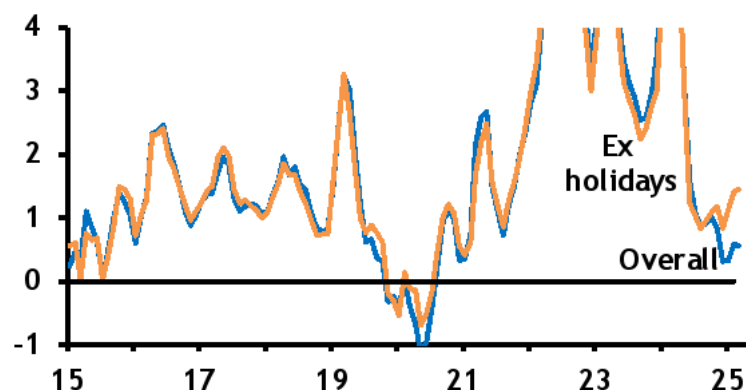


Source: DoS, MAS, J.P. Morgan estimates

But even ex holidays, services still running around a 1.5%ar

Singapore core services CPI

%3m/3m, saar



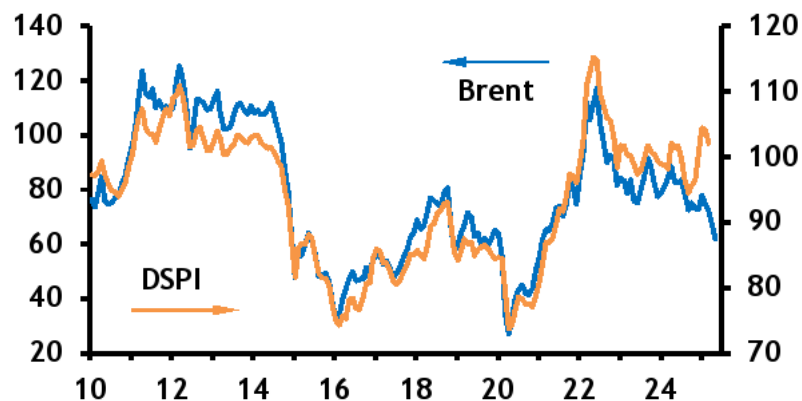
Source: DoS, J.P. Morgan estimates

Oil price slide and weaker growth to pull down import prices

Brent and DSPI

US\$/bbl; thru May*

Index, 2023 = 100; thru March

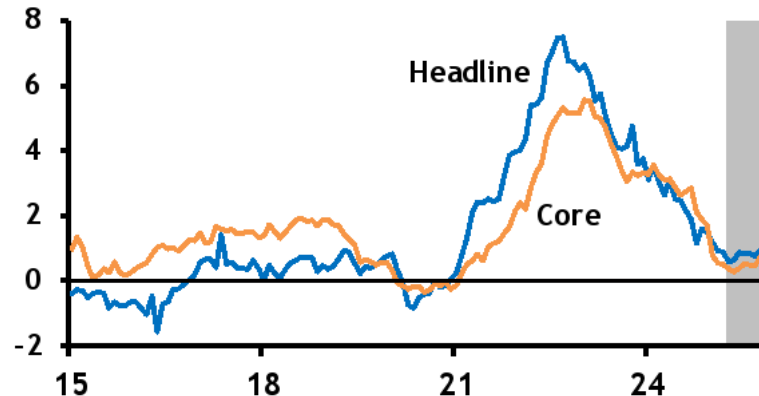


Source: DoS, J.P. Morgan. *May is mtd average

Core CPI seen averaging 0.7%/y this year; expect MAS to ease again in July to go to a flat slope

Singapore CPI

%oya



Source: DoS, J.P. Morgan. Shaded is J.P. Morgan forecast.

Philippines: Macro View

	Average 2017-21	2023	2024	2025F
Real GDP, % change	3.0	5.5	5.7	5.1
Consumption ¹	3.4	4.1	4.5	4.3
Investment ¹	0.2	1.4	1.9	1.3
Net trade ¹	-0.5	0.0	-0.7	-0.5
Consumer prices ² , %oya	4.1	6.0	3.2	1.7
%Dec/Dec	4.5	3.8	3.0	1.3
Wholesale prices, %oya	0.1	1.4	-0.7	1.5
Government balance, % of GDP	-6.1	-6.4	-5.6	-5.4
Merchandise trade balance (US\$ bn)	-51.3	-65.8	-68.7	-70.9
Exports	54.6	70.3	72.5	72.9
Imports	105.9	136.1	141.2	143.7
Current account balance	-9.1	-11.5	-17.5	-18.4
% of GDP	-2.4	-2.6	-3.8	-3.6
International reserves, (US\$ bn)	87.1	93.2	93.7	87.2

2025 GDP marked down by weak 1Q25 print in addition to trade war drag

Inflation to fall to below target range

CAD to stay elevated on weaker exports

1. Contribution to growth of GDP.

2. Debt with original maturity of less than one year.

3. Exports of goods, services, and net transfers.

Source: National sources, J.P. Morgan estimates

Easier policy mix as global recession risks rise

BSP to deliver two rate cuts; BOP to register smaller surplus

- **Weaker domestic demand and higher tariff prospects to push GDP lower.** We downgrade 2025 growth from 5.8% to 5.1% on the back of a weaker-than-expected 1Q25 print, a soft domestic demand profile, and potential reciprocal tariff implementation. The 90-day tariff pause may revive exports front-loading but there are still drags from elevated uncertainty that could weigh on hiring/investment plans.
- **Falling and below-target inflation amidst stable FX to spur more BSP rate cuts.** Rice price deflation is gaining momentum in recent months, while weaker global energy prices and stable PHP are also pushing down imported inflation. We revise lower 2025 CPI from 2.5% to 1.7% and together with a weaker GDP profile, expect BSP to deliver 100bp of rate cuts this year (April, June, August, October), bringing down policy rate from 5.75% to 4.75%.
- **BOP to register modest deficit.** CAD to stay at historically elevated levels (3.5% of GDP) on export hit, even as imports soften on terms-of-trade boost and lack of domestic capex recovery. Financial account may see more outflows from foreign portfolio selling and tapering of official loan disbursements. Weaker BOP position weighs on FX but strong reserve buffers allow BSP to manage FX volatility.
- **Onshore liquidity tightens; Delayed fiscal consolidation to keep debt supply high.** Excess liquidity is tightening, albeit from high levels as loans growth picks up. Government has pushed back fiscal consolidation plans, with expenditures and net bond issuances still projected to stay historically elevated. As the BSP gradually brings down its bond holdings, domestic bank and non-bank investors will need to do the heavy lifting in supporting the bond market.

BOP to register smaller surplus on narrower CAD but weaker financial inflows

Philippines balance of payments

US\$ bn

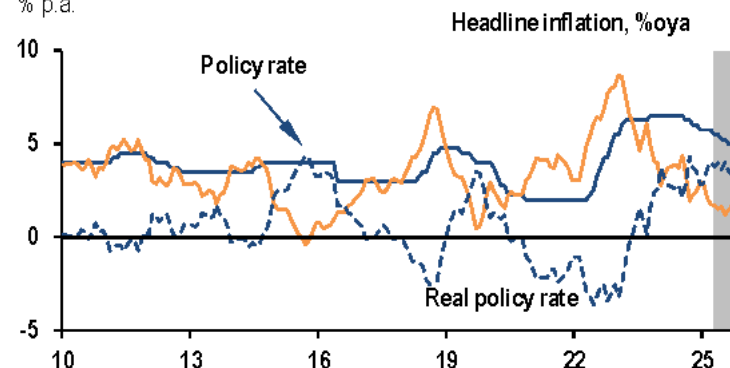
	2017-19	2023	2024	2025F	1Q25F	2Q25F	3Q25F	4Q25F
Overall Balance (1+2+3)	0.5	3.6	0.5	-6.5	-0.3	-0.8	-2.8	-2.7
% of GDP	0.1	0.8	0.1	-1.3	-0.2	-0.6	-2.2	-2.1
1. Current Account	-5.7	-12.4	-17.5	-18.3	-3.3	-3.6	-5.6	-5.8
(% of GDP)	-1.6	-2.8	-3.7	-3.6	-2.6	-2.8	-4.4	-4.5
Goods	-47.8	-66.0	-68.7	-70.9	-16.4	-16.7	-18.8	-19.1
Invisibles	42.1	53.6	51.2	52.6	13.0	13.1	13.2	13.3
Services	11.1	18.2	14.6	14.0	3.5	3.5	3.5	3.6
Income	4.1	4.3	5.0	4.8	1.2	1.2	1.2	1.2
Current Transfers	27.0	31.1	31.7	33.8	8.4	8.4	8.5	8.6
2. Cap and Financial Account	6.7	13.6	17.6	11.8	3.1	2.8	2.8	3.1
Direct Investment	6.0	5.4	6.1	6.0	1.5	1.5	1.5	1.5
Portfolio Investments	-0.5	-3.5	3.6	-0.5	0.0	-0.3	-0.3	0.0
Financial Derivatives	0.1	0.1	0.3	0.3	0.1	0.1	0.1	0.1
Other Investments	1.1	11.6	7.7	6.0	1.5	1.5	1.5	1.5
3. E&O	-0.6	2.4	0.4	0.0	0.0	0.0	0.0	0.0

Source: BSP, J.P. Morgan forecast

Well-anchored inflation to allow BSP to resume rate cut cycle in 2025

Philippines real policy rate

% p.a.



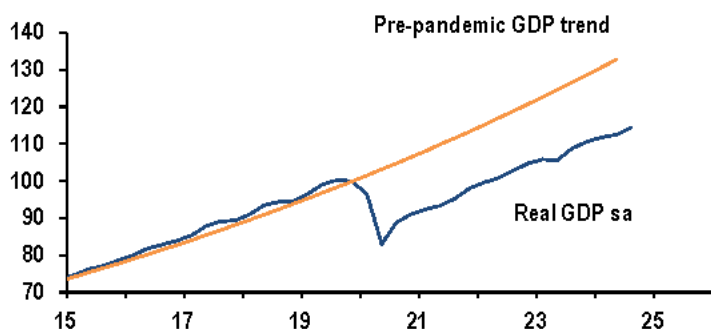
Source: CEIC, J.P. Morgan forecast in shaded region

Weak private sector demand offset by public spending

GDP growth has recovered to potential pace (around 6%) but is operating significantly below pre-pandemic trend

Philippines real GDP vs. potential GDP

4Q19=100, sa

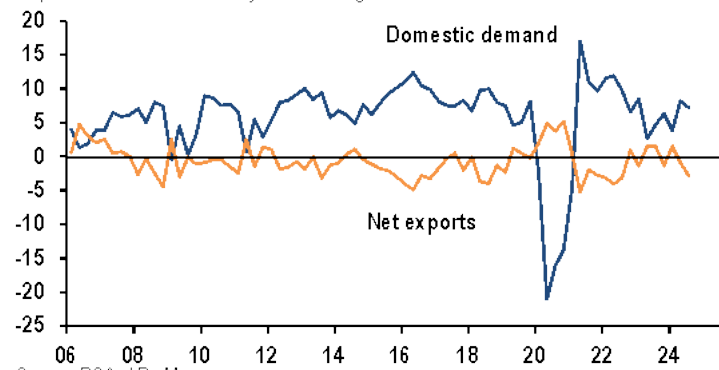


Source: CEIC, J.P. Morgan estimates

Recent pick-up in GDP has been driven by domestic demand instead of external sector...

Philippines contribution to GDP growth

%-point contribution to % oya headline growth

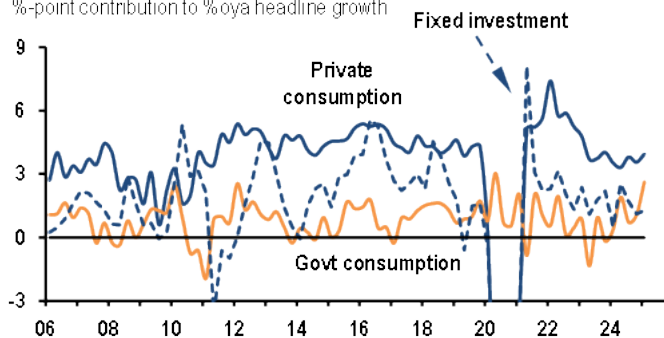


Source: PSA, J.P. Morgan

...reflecting an acceleration in government spending while PCE and FAI growth has been subpar

Philippines composition of final domestic demand

%-point contribution to % oya headline growth

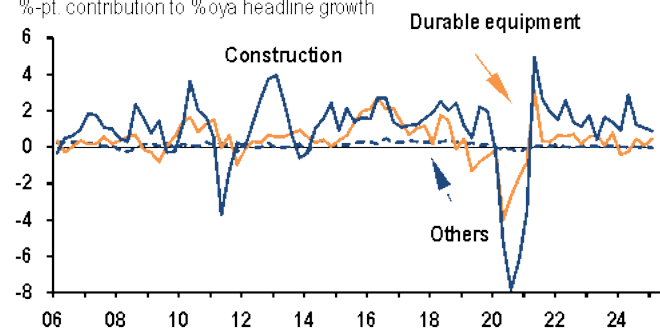


Source: PSA, J.P. Morgan

FAI growth driven by equipment spending, instead of construction, which is more imports-intensive

Philippines fixed investment

%-pt. contribution to % oya headline growth



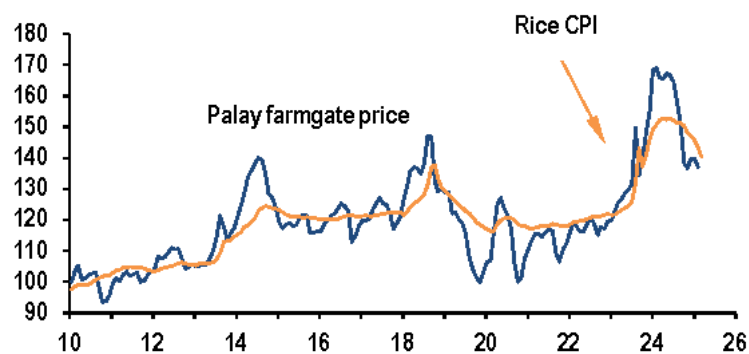
Source: PSA, J.P. Morgan

Below-target CPI profile; BSP to cut 100bp this year

Rice prices are falling rapidly as tariff cut and tougher law enforcement against profiteering take effect

Philippines rice farmgate price vs. rice CPI

2010 = 100

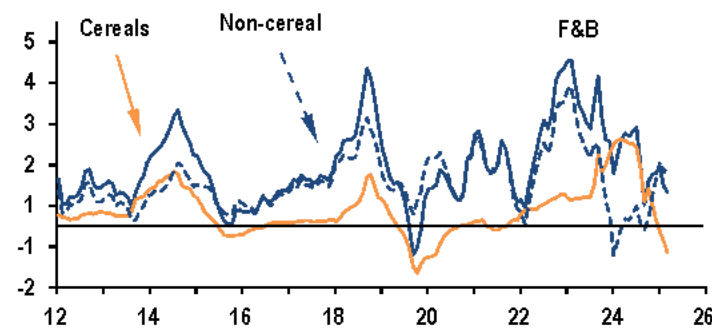


Source: CEIC, J.P. Morgan

Fresh food prices have also stabilized following weather disruptions in 4Q24/early-1Q25

Philippines food inflation

% pt. contribution to headline, % oya

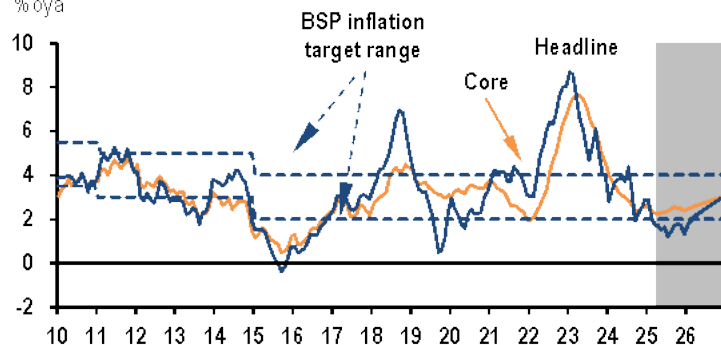


Source: CEIC, J.P. Morgan estimates

Together with weaker oil prices, we expect a below-target (sub-2%) CPI profile for the rest of the year

Philippines inflation

% oya

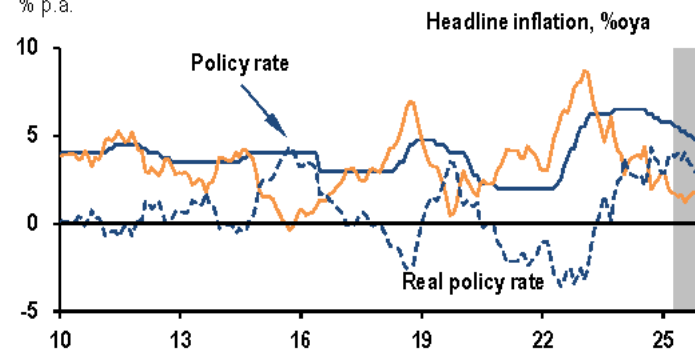


Source: PSA and J.P. Morgan forecast in shaded region

We pencil in 100bp of rate cuts, bringing the policy rate from 5.75% to 4.75% by year-end

Philippines real policy rate

% p.a.

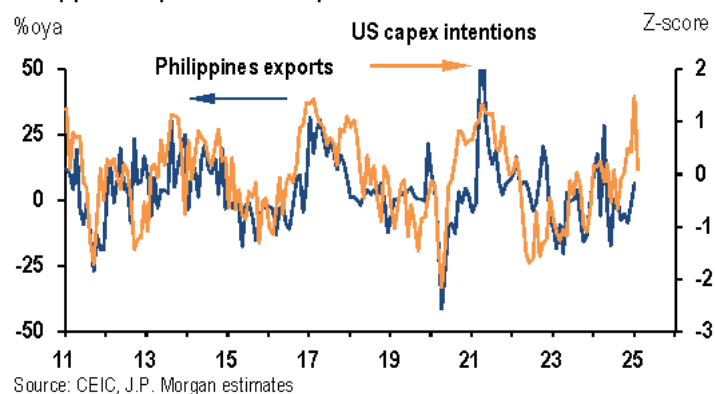


Source: CEIC, J.P. Morgan forecast in shaded region

Trade deficit to widen on weaker exports

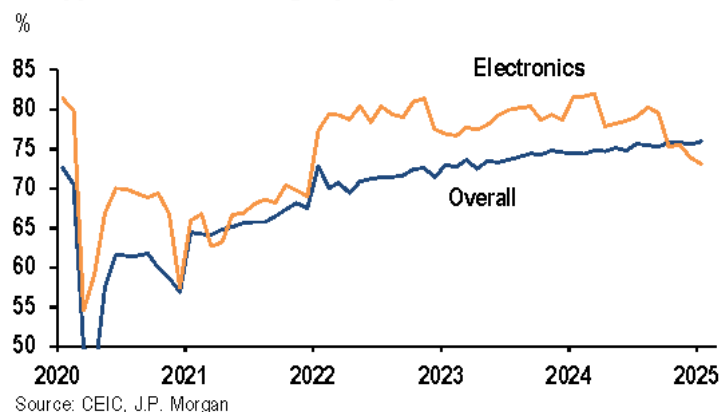
Philippines exports are sensitive to the US capex cycle, which will be slowing on trade policy uncertainty

Philippines exports vs. US capex intentions



Electronics (50% of total exports) is experiencing a supply overhang after a period of strong performance in 2022-23

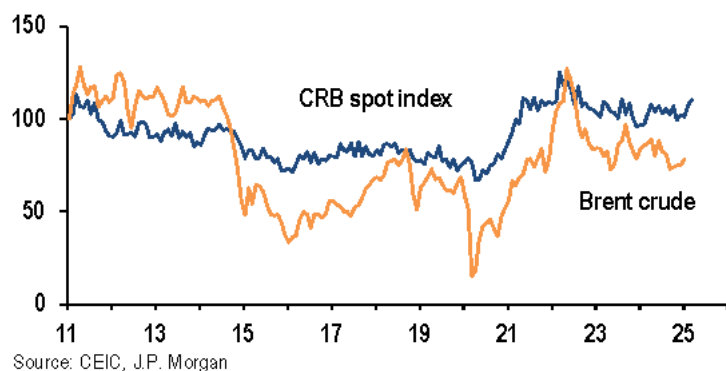
Philippines manufacturing capacity utilization



On the imports side, terms-of-trade remains rangebound but could improve if commodity prices fall later in the year

CRB spot index vs. Brent crude oil price

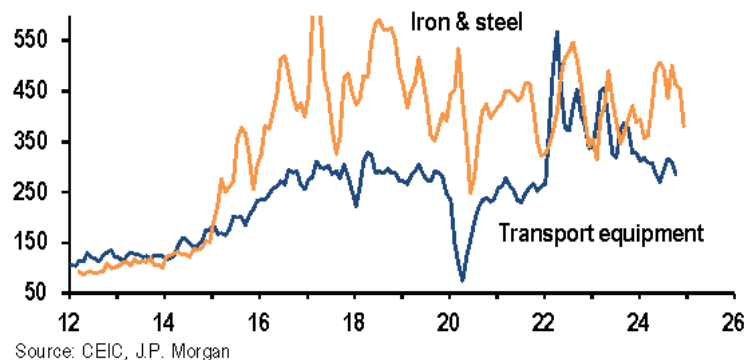
2011=100



Domestic capex cycle remains soft, looking at real imports of transport equipment and iron & steel

Philippines import volume

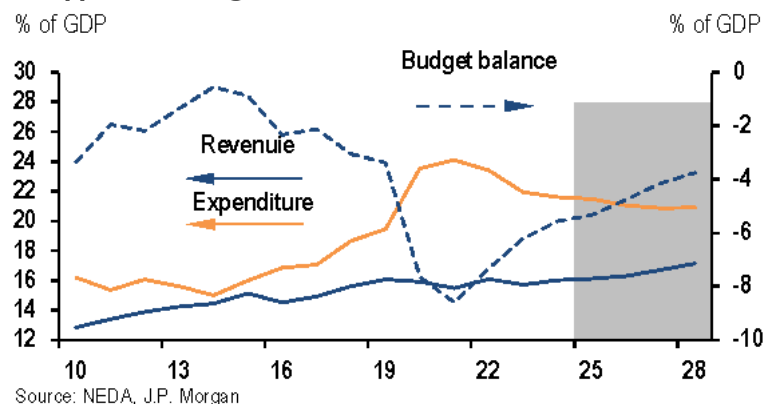
2012=100, 3mma



Delayed fiscal consolidation keeps bond supply elevated

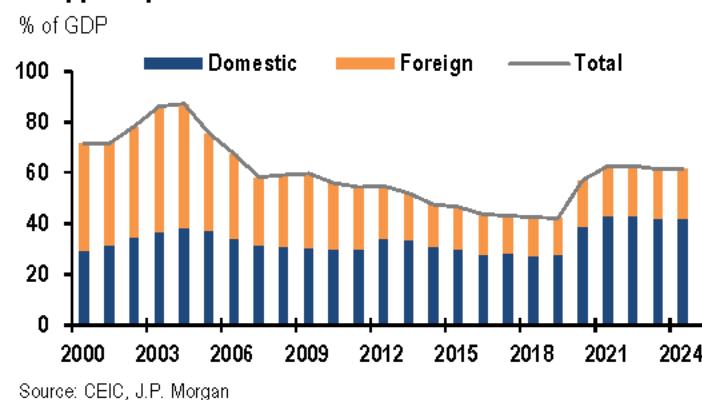
Gradual fiscal consolidation path relies on ambitious increase in tax revenues even as spending stays elevated

Philippines central government fiscal metrics



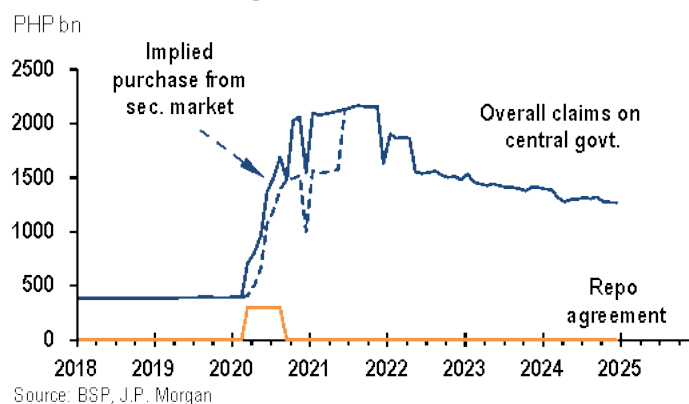
Over the years, fiscal financing has shifted towards domestic sources, specifically RPGB (local currency bonds)

Philippines public debt



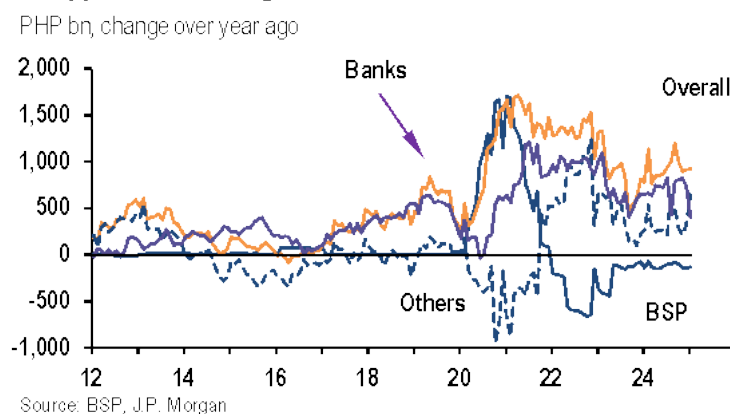
Central bank support for govt bonds is coming off at the margin ...

BSP claims on central government



... meaning that the domestic sector (banks, pension, insurance) has to pick up the slack to absorb new issuances

Philippines claims on govt



Vietnam: Calm before a potential storm

Vietnam macro highlights

- **2025 GDP target at material risk due to US tariff:** Since the peak tariff shock of Liberation Day, US has progressively de-escalated with trading partners by imposing a 90-day détente on reciprocal tariffs to allow for bilateral negotiations. We mark up 2025 GDP forecast from 3.4% to 4.4% to factor in near-term front-loading dynamics but still assume for now that the full 46% tariff will come into play after the 90-day pause. GDP growth faces risks not only from weaker exports but also from the investment and sentiment channels, which will be heavily impacted by the U.S. request for Vietnam to halt transshipment activities for tariff relief. This situation effectively trades a demand shock from the U.S. for a supply shock from China, presenting a complex challenge to navigate.
- **Inflation remains comfortably below 4.5% ceiling:** Inflation is currently trending around 3.5% annualized, with energy prices stabilized by the steady range of global oil prices, and food price pressures continue to ease. However, there is a downside risk from trade disruptions caused by tariffs, which could negatively impact domestic demand.
- **Strong CA/basic surpluses, but all depends on resident dollarization pressure:** Vietnam's current account (CA) has improved to an annualized rate of US\$21.5 billion (4.6% of GDP), fueled by stronger tech-related trade surpluses and a recovery in tourism, alongside robust FDI inflows, resulting in a basic surplus exceeding 9% of GDP. However, the CA surplus is expected to shrink to 3.1% in 2025, mainly due to decreased export activity. Foreign reserves continue to decline as most of these surpluses have been converted into dollars by residents through retail investments in crypto and gold, and by non-residents through tight FX liquidity management, leading to banking sector outflows.
- **SBV to pivot from its neutral stance.** Given the weak GDP in 1Q25 and the subdued inflation data so far, along with the potential risk of a US/global recession, we foresee the central bank prioritizing growth over FX stability. Thus, we now pencil two 25bp rate cuts in 3Q25 and 4Q25. The SBV is expected to permit some FX depreciation to facilitate financial conditions and bolster the external sector, as indicated by the recent increase in the reference rate and the lack of reserve intervention. Nonetheless, due to Vietnam's status on the US Treasury Department's currency manipulation monitoring list, any FX adjustments will be handled with caution.

Front-loading to support 2Q growth but tariff threats loom

Key macro forecasts

Vietnam economic indicators

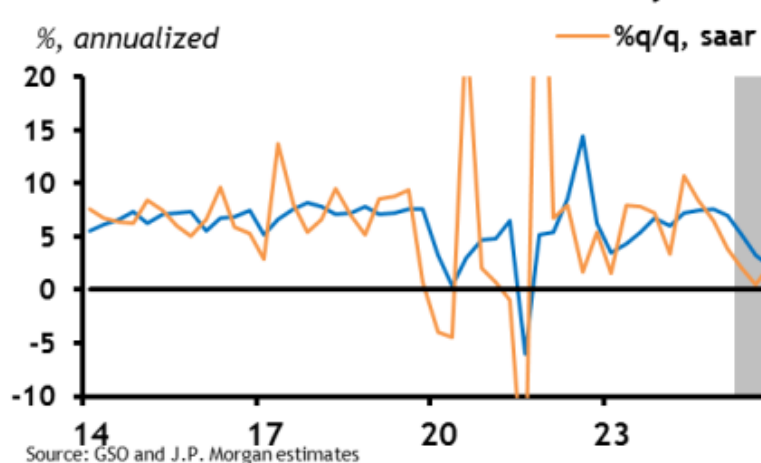
	Average				
	2015-21	2022	2023	2024	2025f
Real GDP, %y/y	5.8	8.5	5.1	7.1	4.4
Consumption*	3.7	4.7	2.3	4.2	2.7
Investment*	2.5	1.2	0.8	3.3	1.9
Net trade*	-0.4	2.6	2.0	-0.4	-0.2
Consumer prices, %y/y	2.6	3.2	3.3	3.6	3.4
Government balance, % of GDP	-2.3	0.7	-2.1	-3.6	-4.5
Goods trade balance, US\$ bn	16.2	25.7	42.2	42.9	31.4
Current account balance, US\$ bn	3.1	-1.1	28.2	26.1	15.7
% of GDP	0.9	-0.3	6.6	5.6	3.1
International reserves, US\$ bn	65.0	87.1	92.9	83.9	80.4

* Contribution to GDP growth, investment includes statistical discrepancy.

Source: National sources and J.P. Morgan

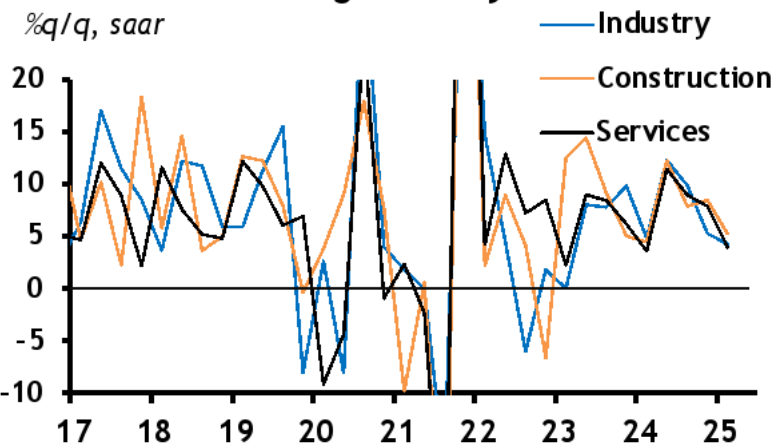
Vietnam GDP growth forecasts

Vietnam real GDP growth



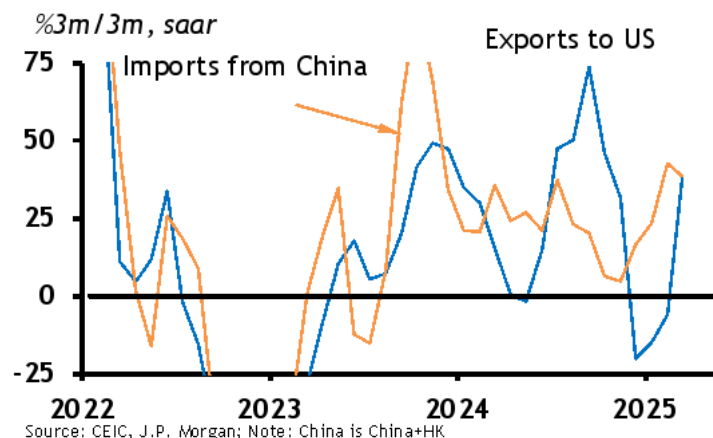
GDP slowing across sectors

Vietnam real GDP growth by sector



Near-term growth maybe supported by front-loading activity as US suspends reciprocal tariffs for trade negotiations

Vietnam exp. to US & imp. from China*

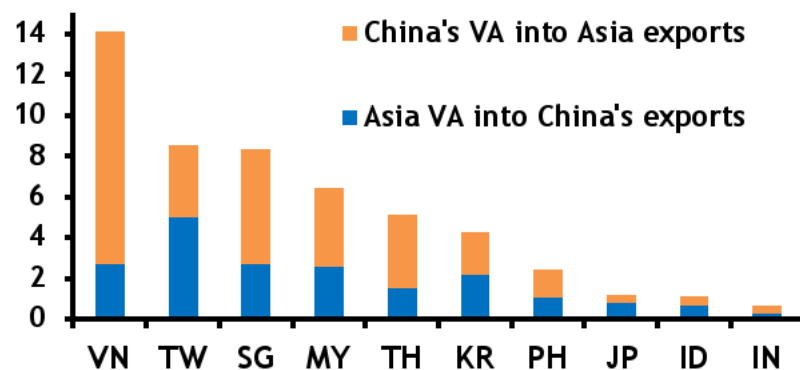


Stuck between two colliding global giants

Vietnam has the deepest trade linkages with China in Asia

Value add into gross exports

% of Asia GDP

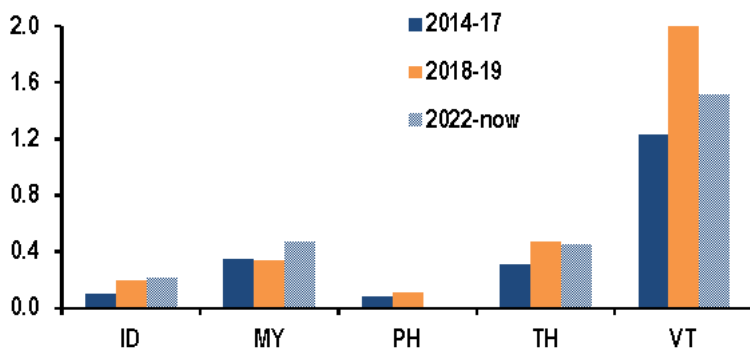


Source: OECD TiVA database, J.P. Morgan estimates

Vietnam benefits disproportionately from the so-called "China plus One" supply-chain relocation trend

China FDI to ASEAN as % GDP

% GDP

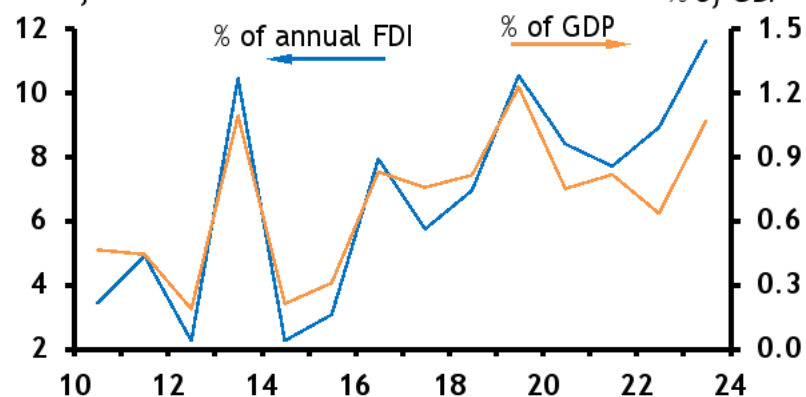


Source: CEIC, J.P. Morgan estimates

Chinese FDI into Vietnam has surged in recent years

Chinese FDI into Vietnam

% of annual FDI

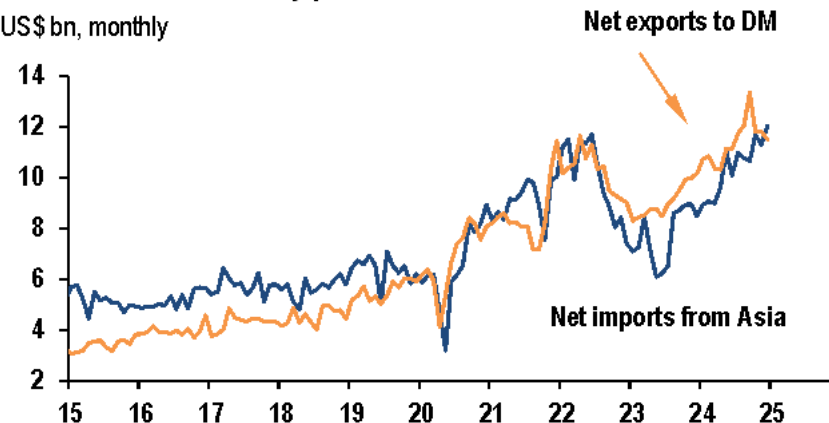


Source: CEIC, J.P. Morgan

Value-add from China, whether via trans-shipment or manufacturing relocation, directly sustains exports to US

Vietnam trade balance by partners

US\$ bn, monthly



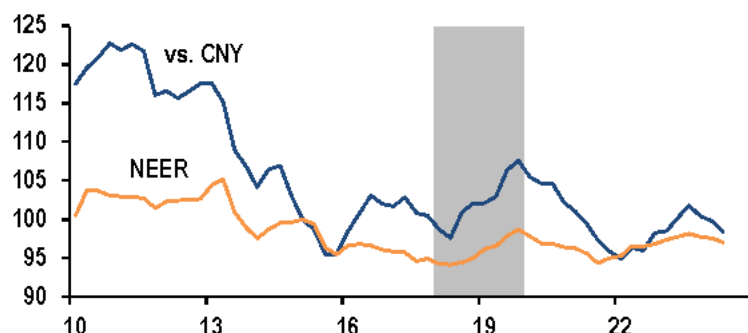
Source: GSO and J.P. Morgan. DM = US & Europe-6; Asia = CN, HK, JP, KR, TW, & ASEAN-5.

Secondary impact from FX outperformance vis-à-vis CNY

During the first trade war episode, ASEAN FX adjusted less than CNY, leading to outright NEER appreciation

ASEAN-5 FX

2015=100

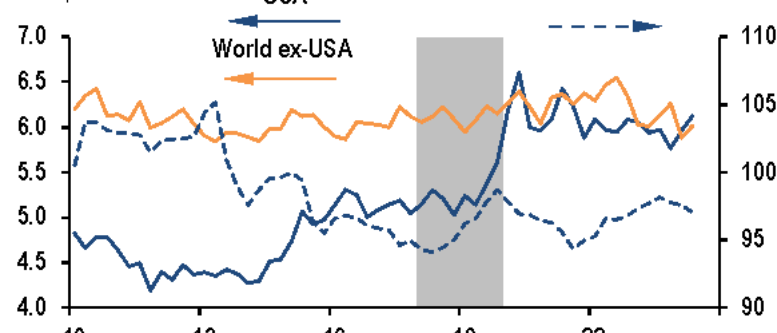


Source: CEIC, J.P. Morgan 1. Shaded region denotes first trade war episode

Export market share to US jumped due to trans-shipment, but stronger NEER did not affect competitiveness in non-US markets

ASEAN-5 export market share vs. NEER

% export share



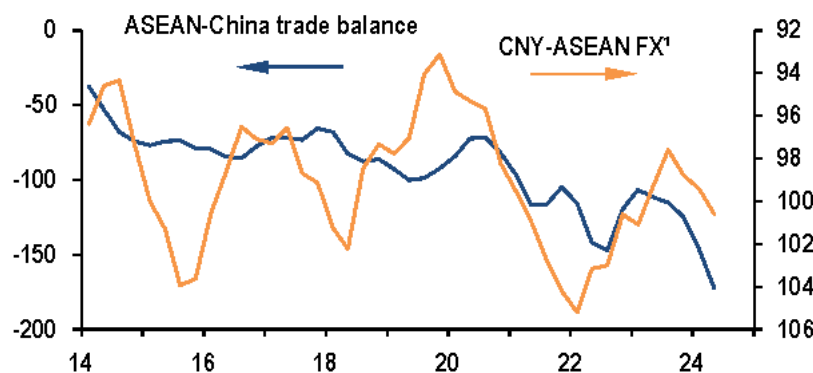
Source: CEIC, J.P. Morgan estimates 1. Shaded region denotes first trade war episode

Instead, stronger FX relative to CNY facilitated imports from China and led to deeper bilateral trade deficits

ASEAN-China trade balance vs. FX

US\$bn, 6mma, ar

2015=100, inverse



Source: CEIC, J.P. Morgan estimates 1. Simple average of IDR, MYR, PHP, SGD, THB, VND

For Vietnam, FX does not explain export performance but is a key driver of imports

Drivers of Vietnam's goods trade

Sample: 15Q1-19Q4, real % oya growth

Dependent variable:	Exports		Imports	
	Coeff.	P-val	Coeff.	P-val
<i>Explanatory variables:</i>				
Lagged dependent var.	0.42	0.05**	0.24	0.08*
Retail sales	0.34	0.46	0.30	0.52
Investment	0.22	0.60	0.76	0.09*
DM's gross imports	1.76	0.03**	2.88	0.00**
Vietnam REER	0.30	0.40	1.85	0.00**
R-squared	0.65		0.87	

** Significant at 5% level; * ... at 10% level. Source: J.P. Morgan

Strong CA surpluses offset by resident outflows

BOP deficit to widen on weaker exports and persistent resident financial outflows

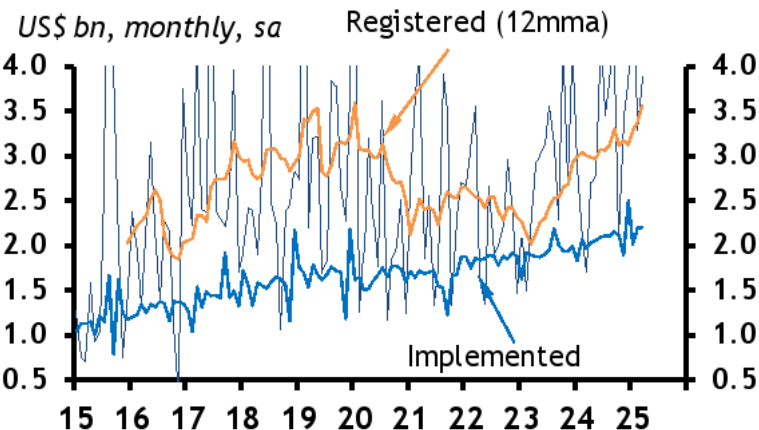
Vietnam balance of payments
US\$ bn

	Average							
	2015-18	2019	2020	2021	2022	2023	2024	2025F
Current account (CA)	0.7	12.2	15.1	-8.1	-1.1	28.2	26.1	15.7
Goods trade	11.5	21.2	30.7	15.7	25.7	42.2	42.9	31.4
Exports	199.4	264.2	282.6	336.2	371.3	353.9	404.9	417.1
Imports	187.9	243.0	251.9	320.5	345.6	311.8	361.9	385.7
Invisibles	-10.8	-9.1	-15.6	-23.8	-26.8	-14.0	-16.8	-23.1
Financial account								
FDI	12.7	15.7	15.4	15.3	15.2	19.5	19.5	14.0
Portfolio	1.3	3.0	-1.3	0.3	1.5	-1.2	-5.1	-2.0
Other	-4.0	0.3	-5.7	15.3	-7.3	-21.7	-21.1	-16.6
Errors and omissions	-5.5	-7.9	-6.9	-8.4	-31.1	-19.1	-28.6	-24.0
Overall BOP	5.2	23.3	16.6	14.3	-22.7	5.6	-9.2	-12.9
FX reserves		78.8	95.4	109.7	87.1	92.9	83.7	70.8

Source: SBV and J.P. Morgan forecasts. BPM5 (directional) sign convention.

FDI inflows remain resilient but could be susceptible to trade war 2.0 and threat to “China plus One” model

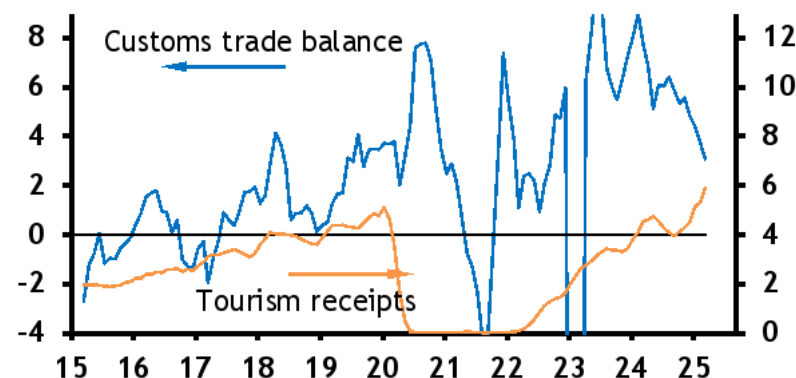
Vietnam inward FDI



Trade surplus is already narrowing even as tourism inflows exceed pre-pandemic levels

Vietnam monthly proxy for current account

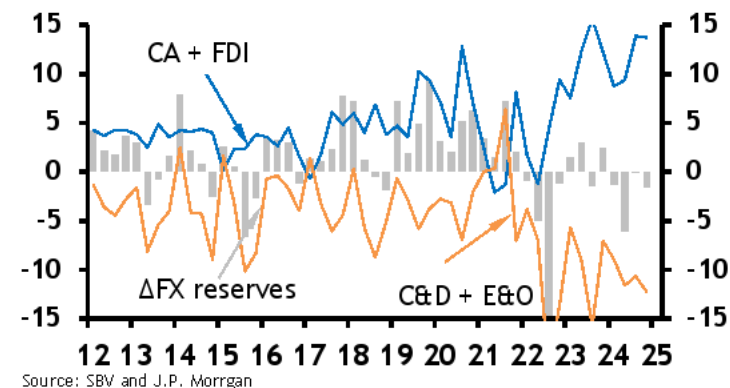
US\$ bn, sa, 3-month sum, both axes



Despite record basic surpluses, reserves have declined due to significant dollarization pressures

Vietnam balance of payments

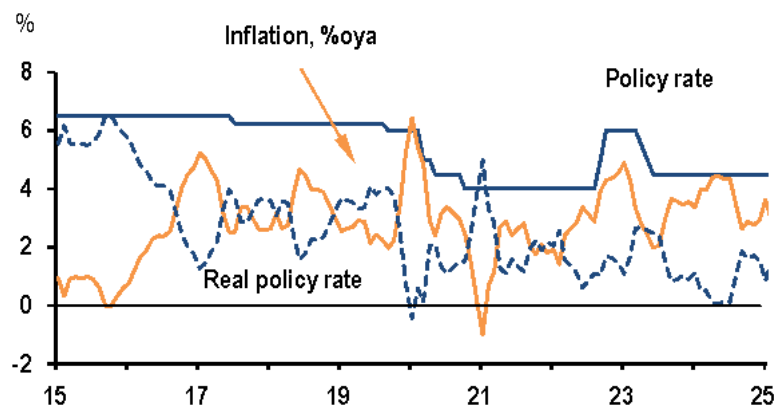
USD bn, quarterly, 4Q24 is the latest available



Despite FX constraints, SBV may resort to policy easing

Despite softer inflation, real policy rate (1.5%) is still way below historical average (2015-19: 3.7%)

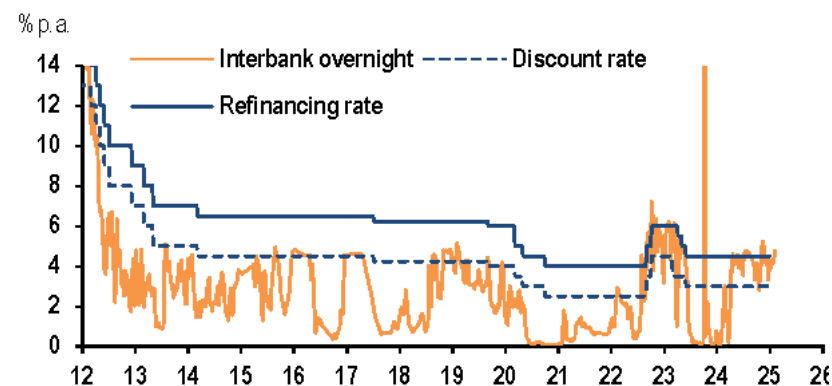
Vietnam real policy rate



Source: CEIC, J.P. Morgan

Onshore liquidity remains tight, with the overnight interbank rate constantly on the upper bound of interest rate corridor

Vietnam short-term interest rates

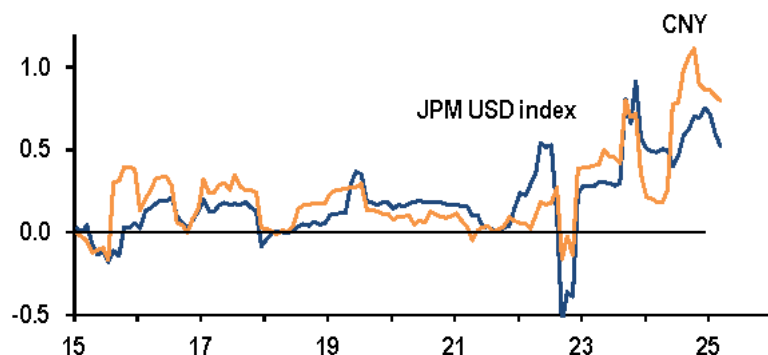


Source: SBV and J.P. Morgan

VND is also under increasing pressure from persistent dollarization outflows and CNY devaluation risks

VND beta sensitivity to JPM USD index and CNY

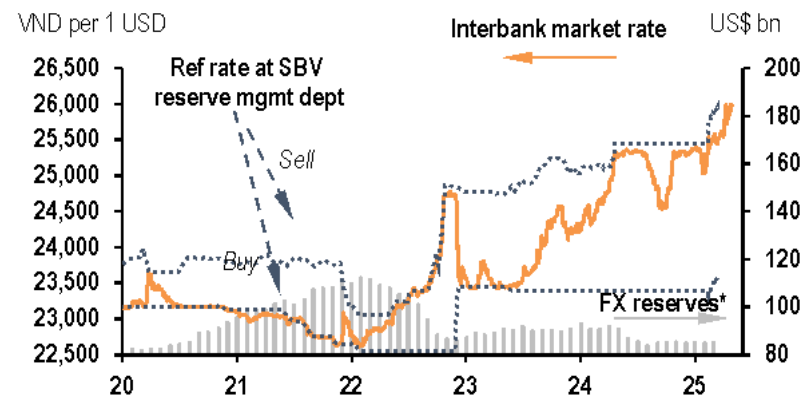
Rolling 12-month beta of monthly returns



Source: Bloomberg Finance L.P., J.P. Morgan estimates

In the face of dwindling reserves, SBV has allowed FX to adjust, and may consider outright policy rate cuts to address fallout of global trade war

USDVND exchange rate



Source: SBV, Vietcombank, IMF and J.P. Morgan. * Latest actual: Nov-23, JPMc onwards.

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