

## EM Asia: Observing and understanding macro trends

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# Agenda

Longer-term themes: Low rates and the China anchor

COVID-19 impact

Regional forecasts

# Longer-term macro themes

## 1. Low rates and its drivers

- i. Core CPI and labor markets – some observations
- ii. Demographics and its longer-term implications; the other side of declining wages
- iii. US LVLVY – Low for very long policy

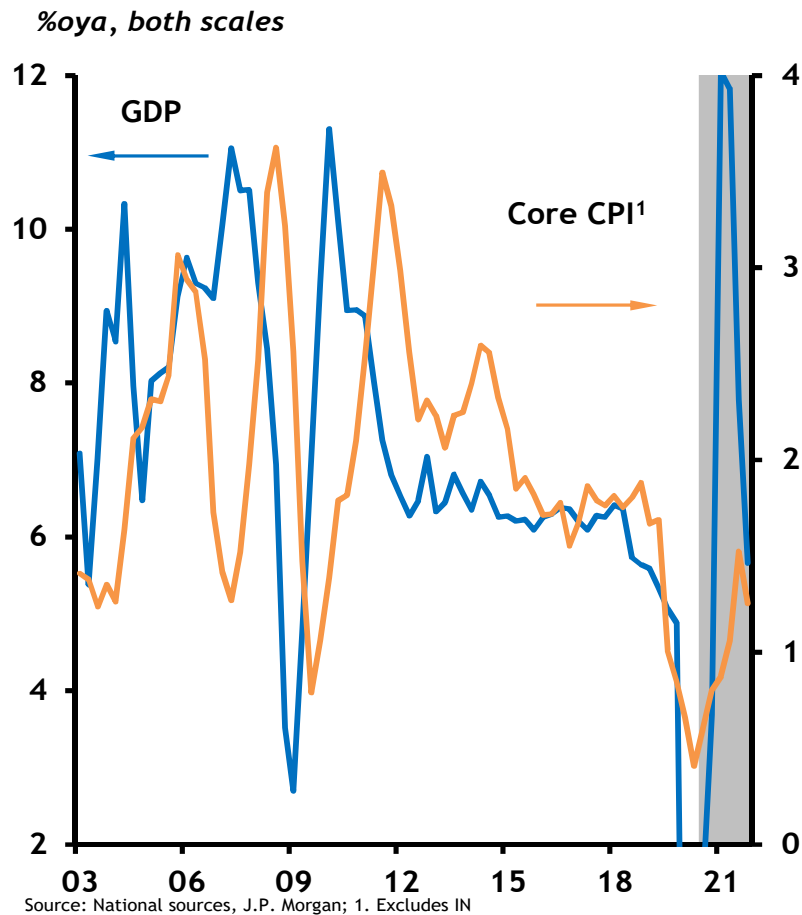
## 2. The China FX ballast

- i. Rising trade exposures
- ii. Opening up of capital account and implications

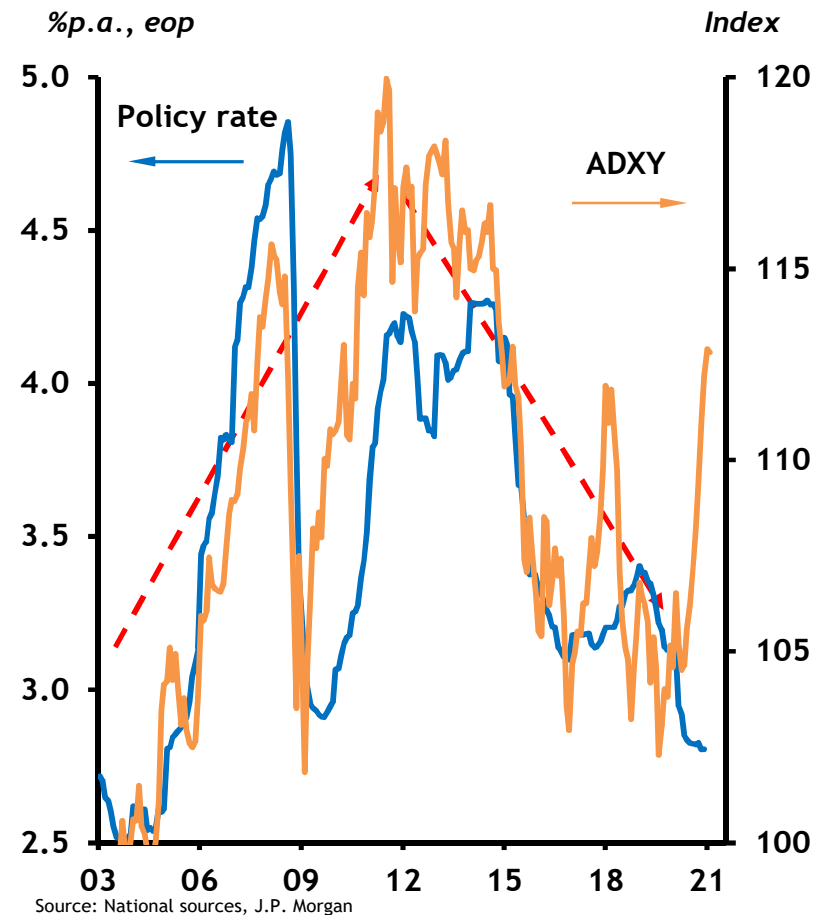
# 1.i. Framing the macro forces underlying some notable trends

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

### EM Asia real GDP and core CPI



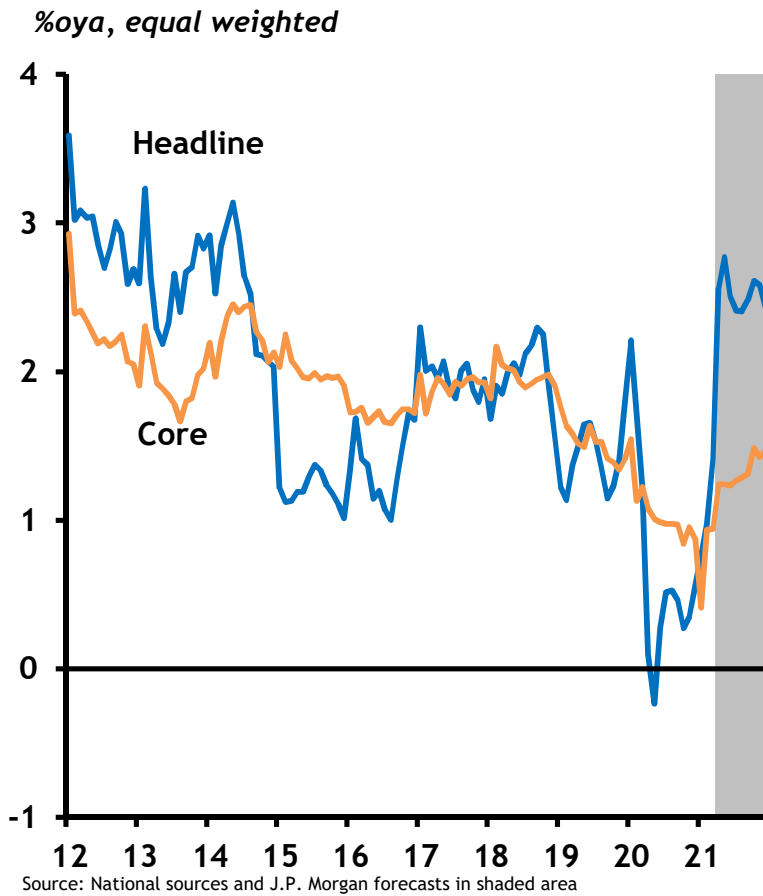
### EM Asia ADXY and policy rate



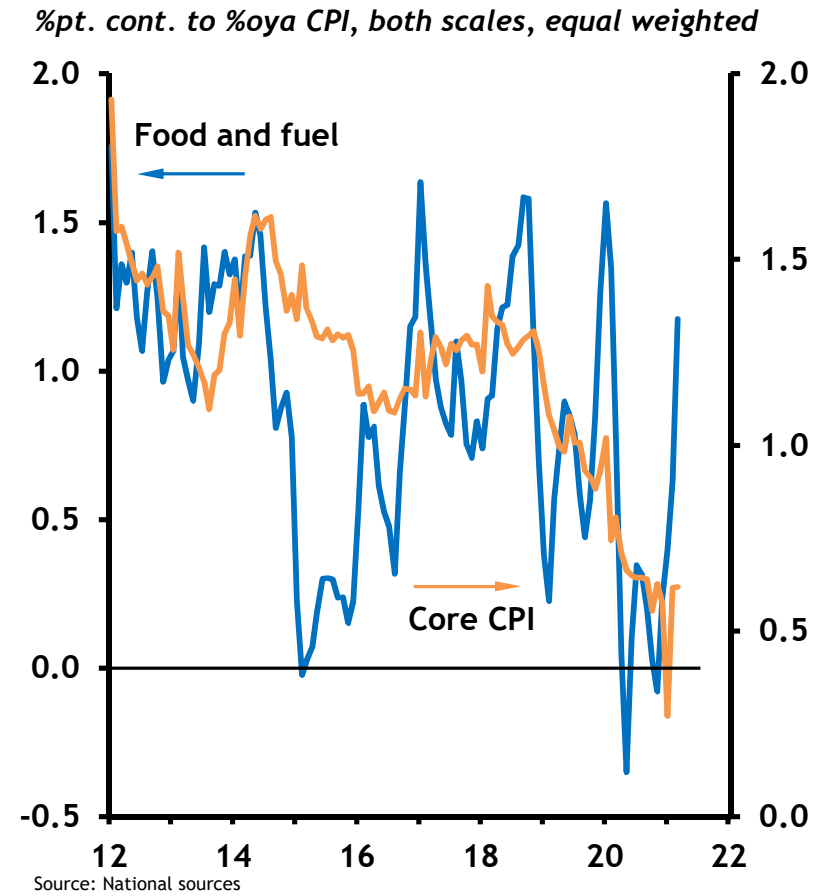
# Headline firm on costs; core in focus

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## EM Asia headline and core CPI



## EM Asia inflation by source

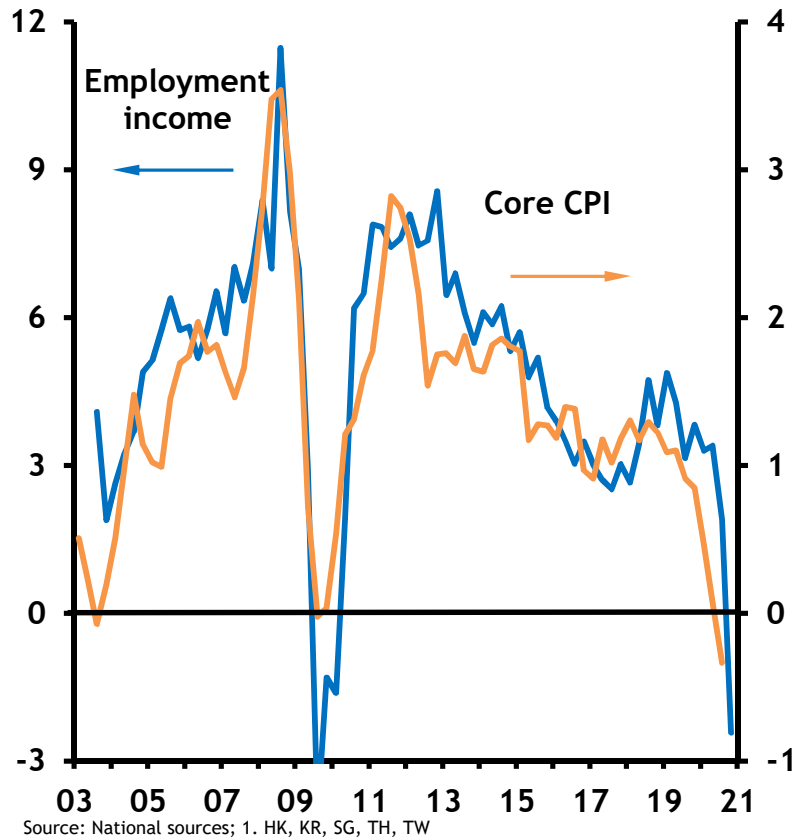


# The link between labor markets and core inflation

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

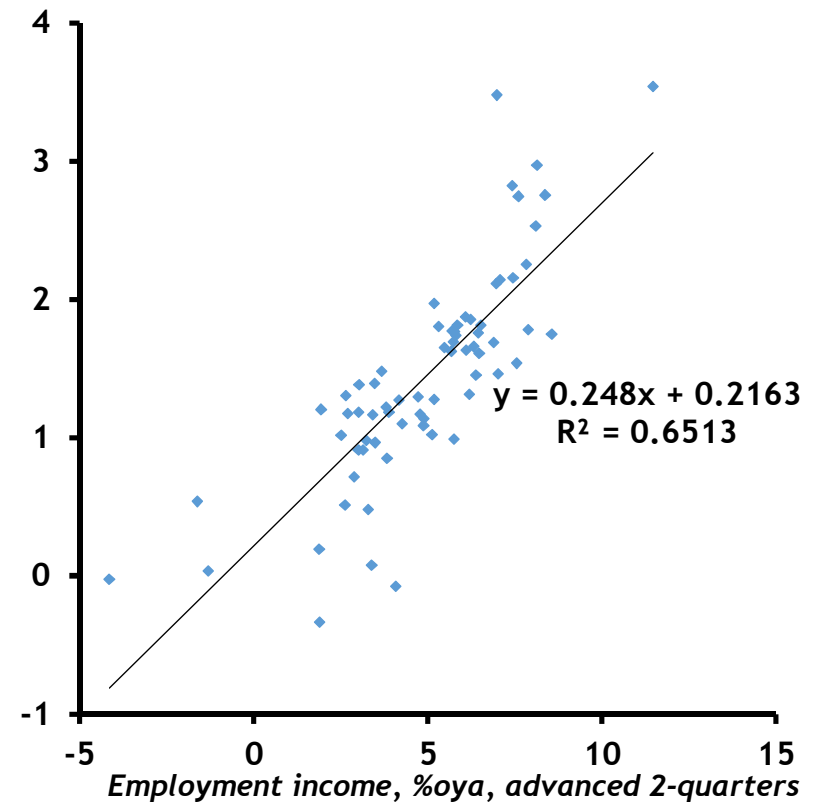
## EM Asia-5<sup>1</sup> labor income & core CPI

*%oya, both scales, local currency terms, equal weighted*



## EM Asia-5<sup>1</sup> labour income & core CPI

*Core CPI, %oya, 2003-3Q20, quarterly*



See [“EM Asia’s troubling convergence toward low rates,”](#) JPMM, 4 October 2019

# Unusually modest rise in employment and wages

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## EM Asia-5<sup>1</sup> real GDP and employment

*%oya, both scales, equal weighted*

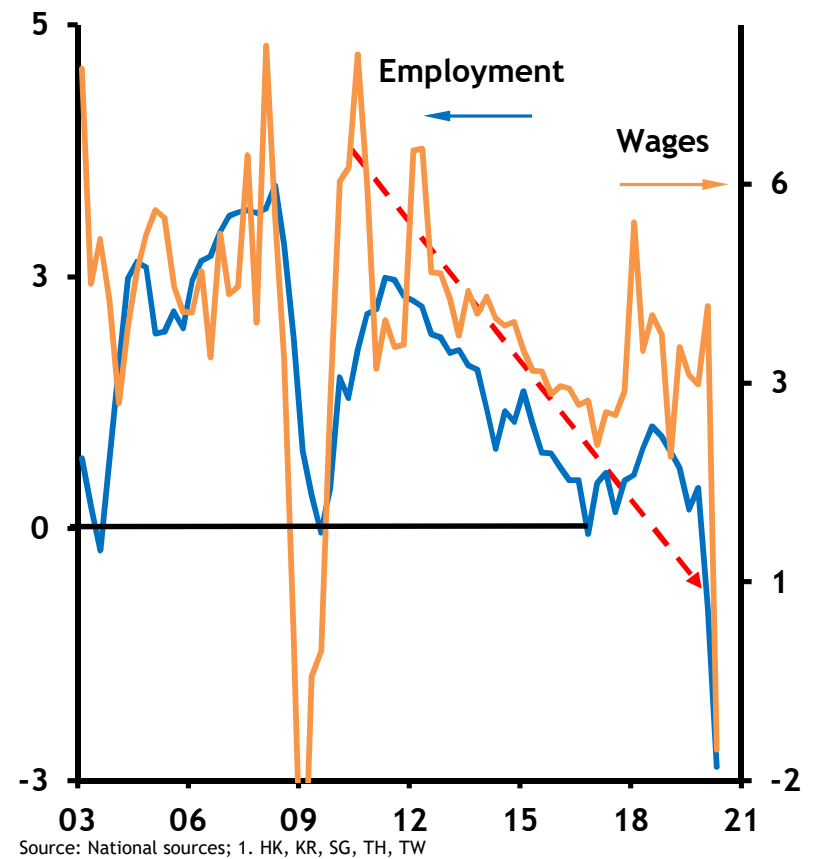


See ["EM Asia's jobless growth," JPMM, April 12, 2019](#)

## EM Asia-5<sup>1</sup> employment and wages

*%oya*

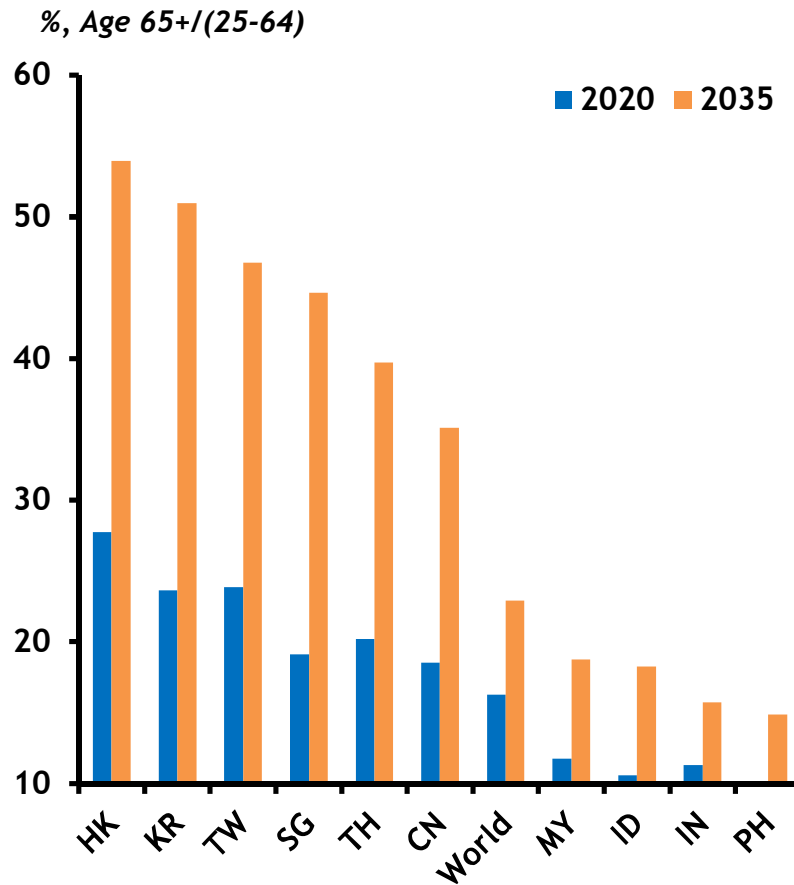
*%oya, LC terms*



# 1.ii. Demographics and pension replacement rates

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

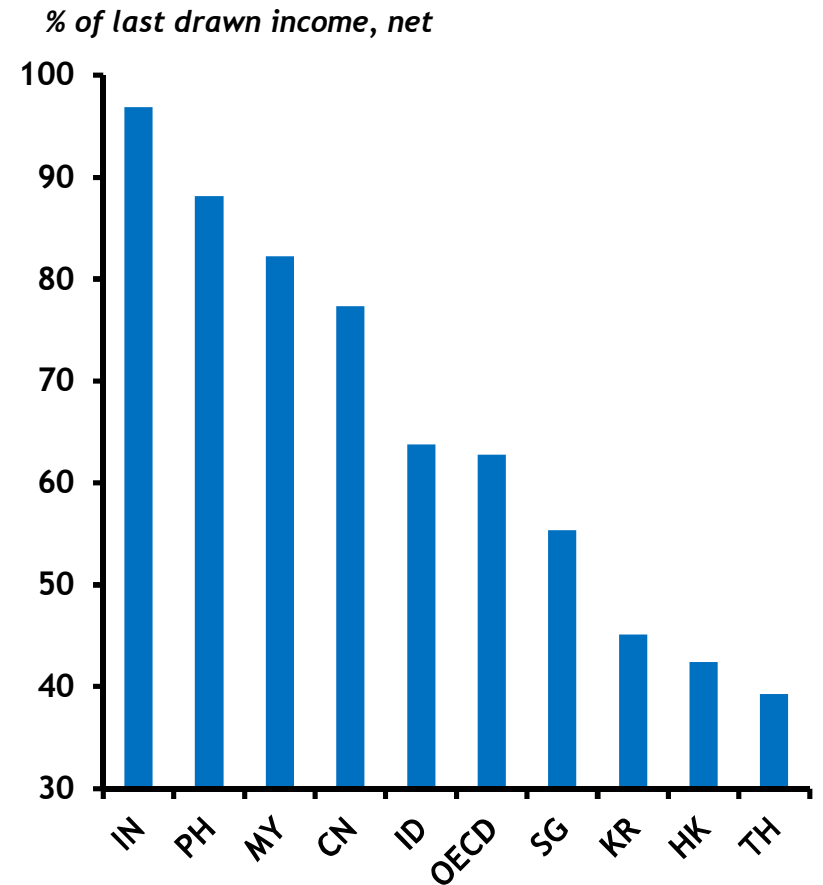
### EM Asia dependency ratios



Source: UNDESA

See [“EM Asia’s troubling convergence toward low rates,” JPMM, 4 October 2019](#)

### EM Asia pension replacement rates



Source: OECD

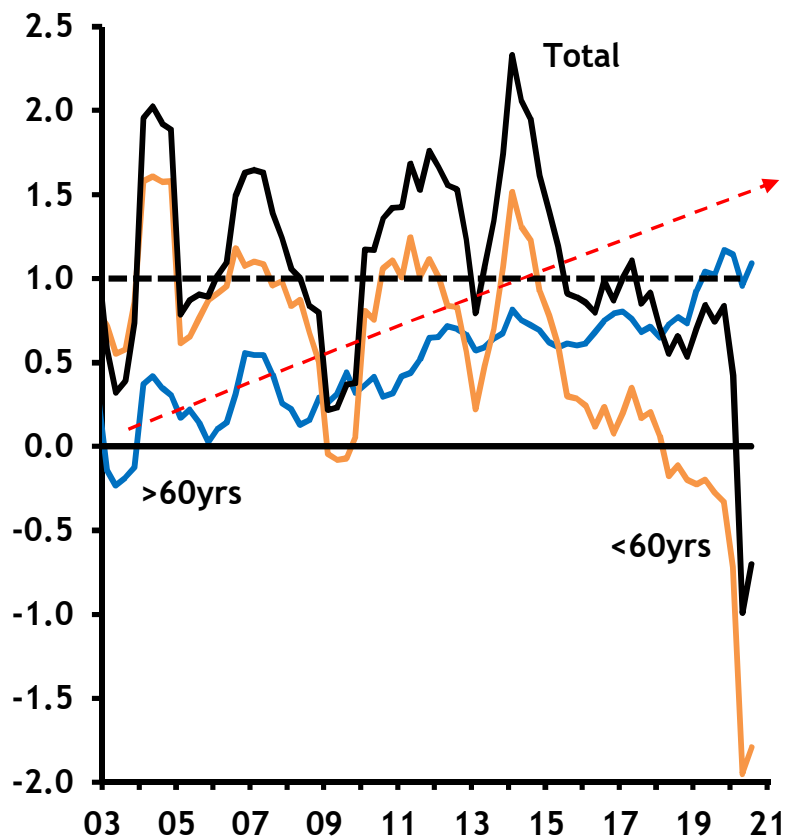


# Older worker participation up, with impact on wages

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## EM-Asia 3<sup>1</sup> labor force by age

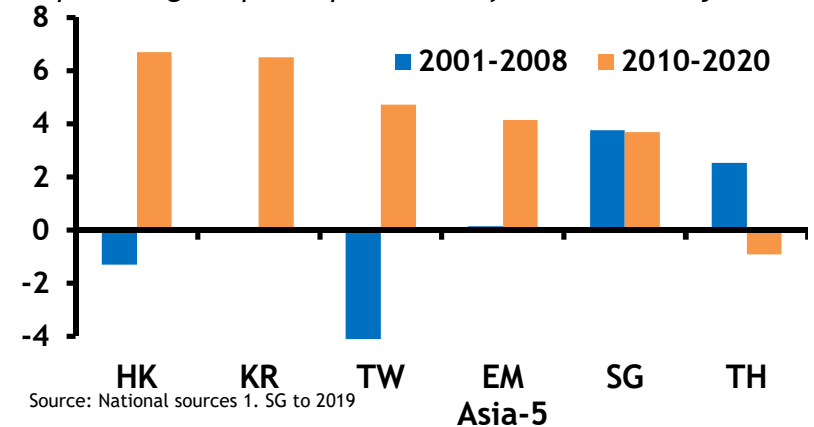
%pt. contribution to headline %y/y labor force growth



Source: National sources; 1. HK, KR, TW

## EM Asia-5 older worker participation rates

%pt. change in participation rate for workers >60yrs



Source: National sources 1. SG to 2019

## Estimates of Urate and older worker participation on wages

Dependent variable, nominal earnings, %/y, quarterly

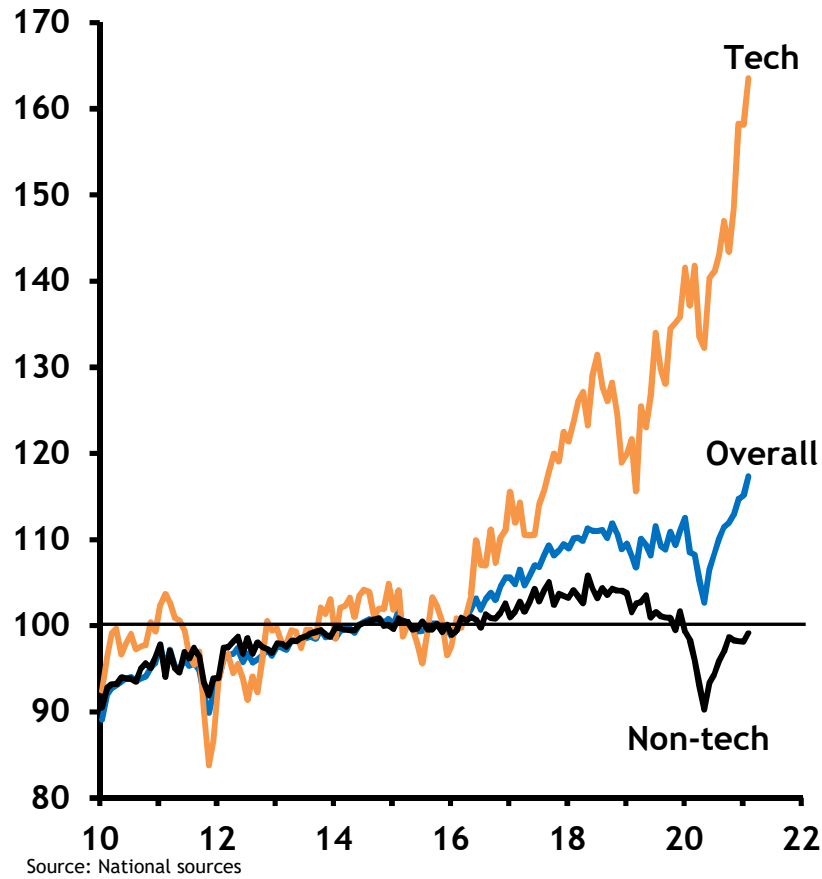
	U rate, %		Part. rate, % >60yrs		R <sup>2</sup>	S.E.R.
	Coeff.	P-val.	Coeff.	P-val.		
Hong Kong	-1.59	0.00	-0.12	0.24	72.0	1.5
2010-2019	-4.03	0.24	-0.88	0.00	58.7	1.1
Korea	-0.08	0.95	-0.51	0.03	6.5	2.9
2010-2019	1.41	0.24	-0.33	0.14	6.8	1.8
Singapore	-2.80	0.00	-0.56	0.00	45.4	1.8
2010-2019	0.37	0.76	-0.98	0.00	39.3	1.2
Taiwan	-2.63	0.00	-0.15	0.37	31.7	2.3
2010-2019	-3.88	0.00	-1.08	0.00	61.4	1.2
Thailand	-3.49	0.00	-0.87	0.38	18.5	4.1
2010-2019	-15.75	0.00	1.20	0.39	43.9	3.4

Source: National sources; Shaded area denotes full sample, 2001-2019

# Tech has been on a tear – Case of Engel’s pause?

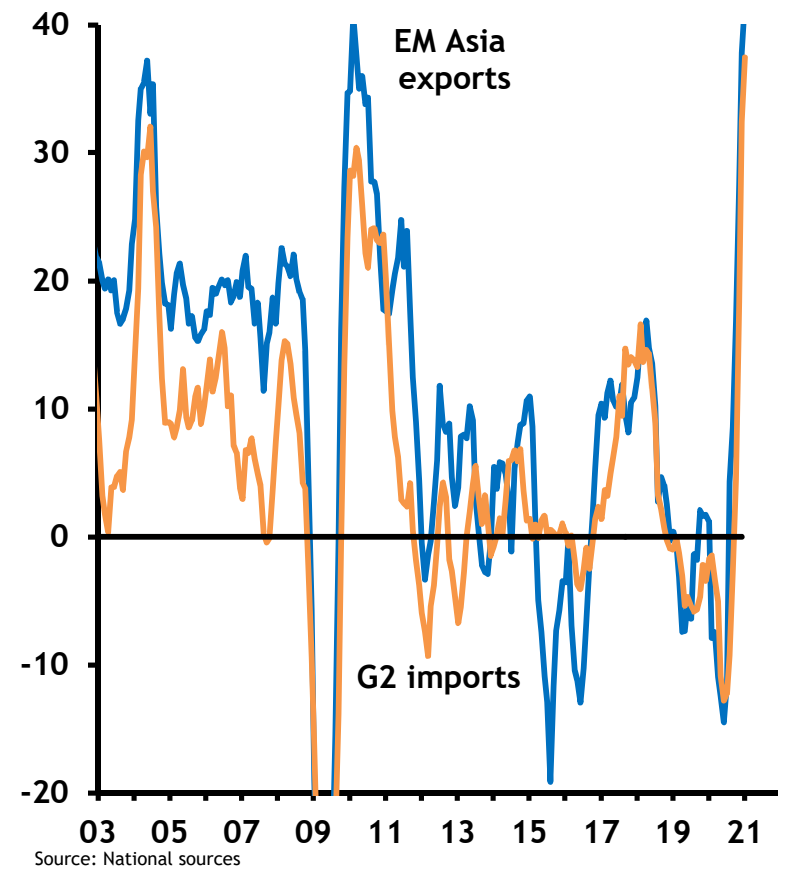
## EMAX industrial output

Index, 2015=100, sa



## EM Asia exports and G2 tech imports

%6m/6m, saar, US\$ terms

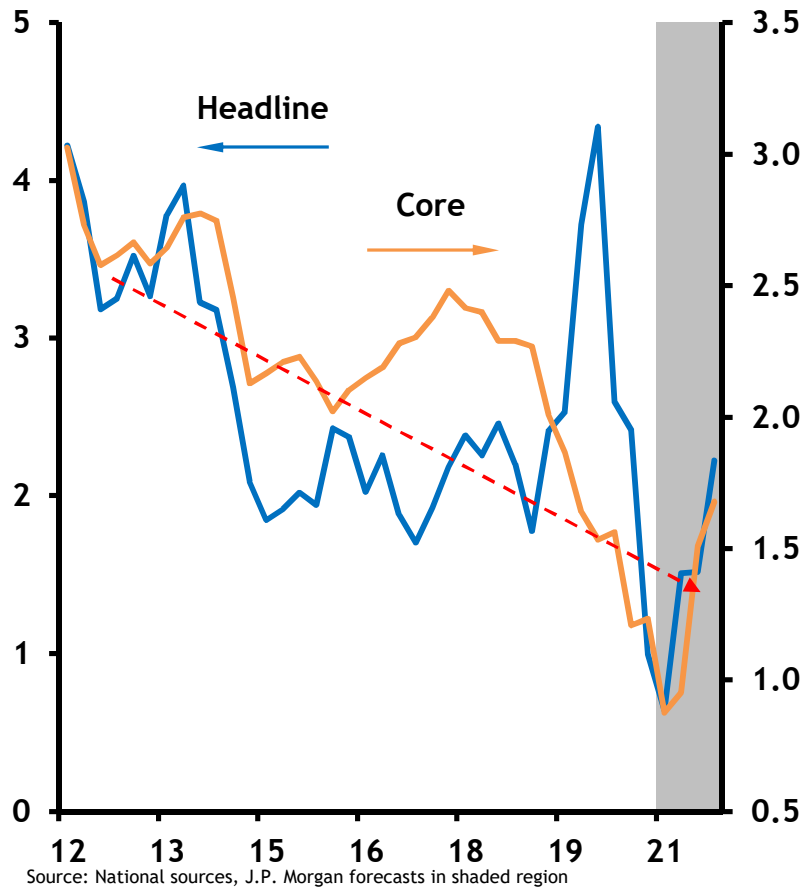


# 1.iii. Soft core CPI and Fed to keep rates low

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

### EM Asia CPI

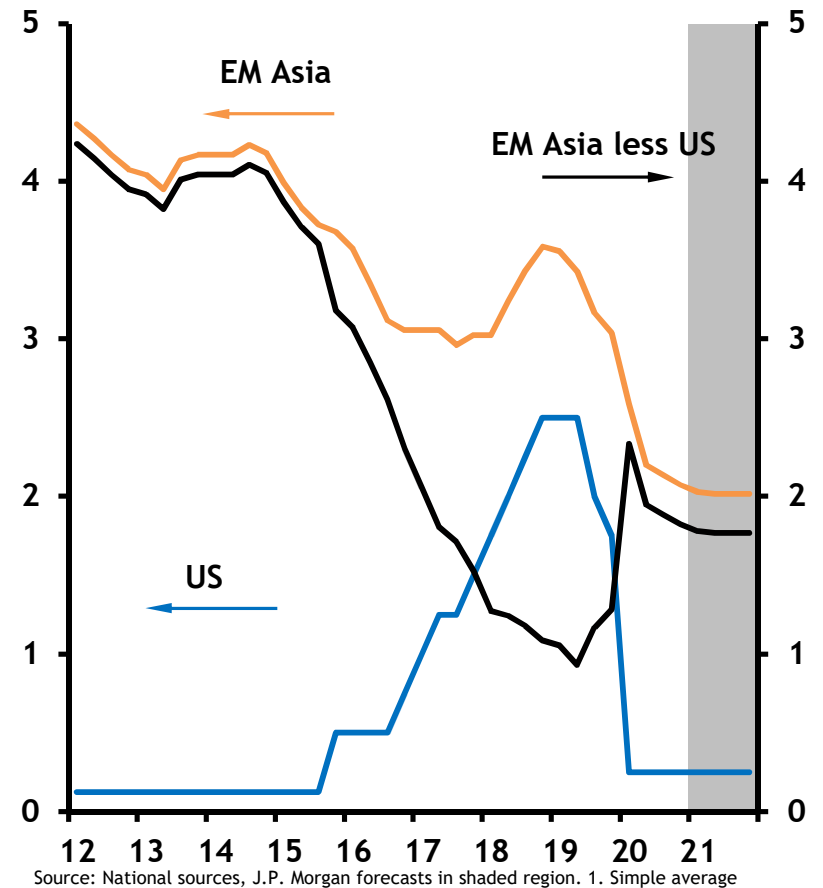
%oya, both scales



### EM Asia<sup>1</sup> and US policy rate

%p.a., eop

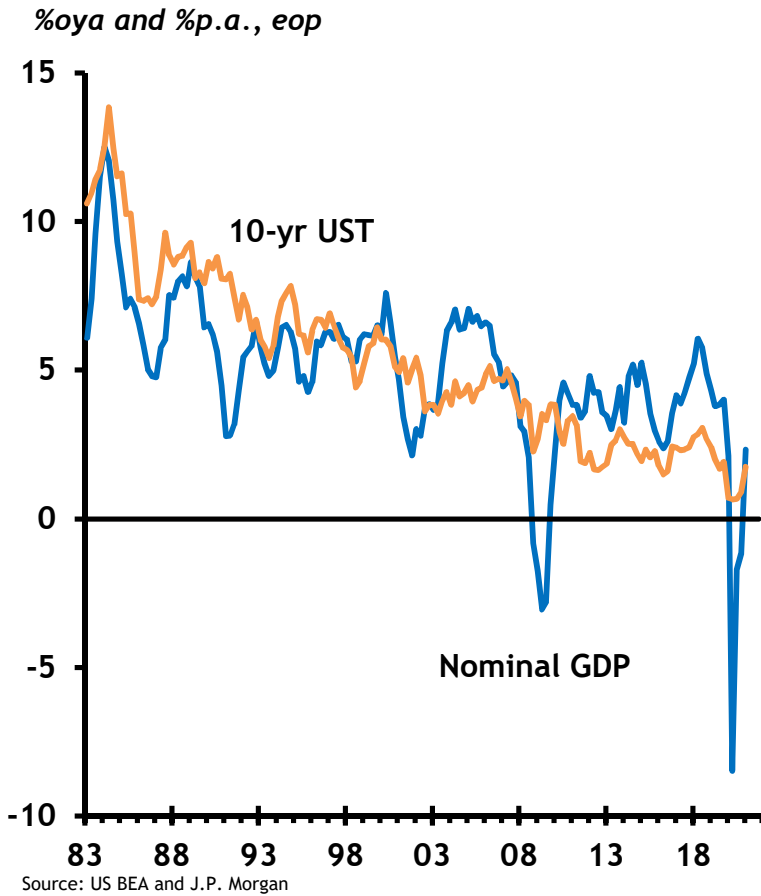
%-pt.



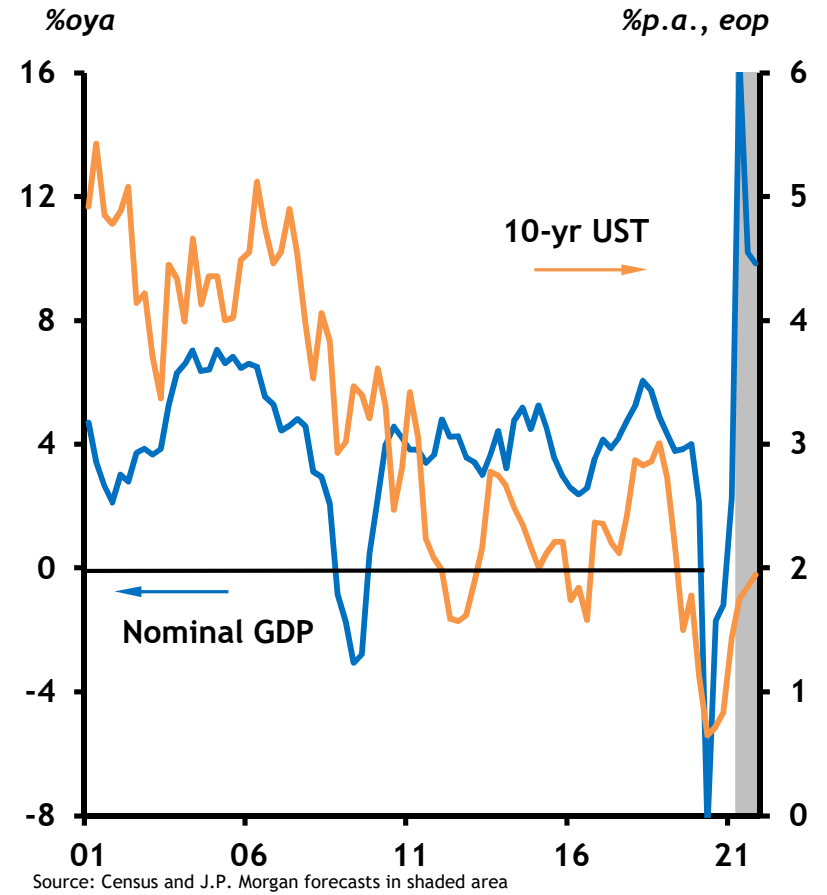
# Fed committing LVLY – Low for very long via AIT

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## US 10-yr UST and nominal GDP



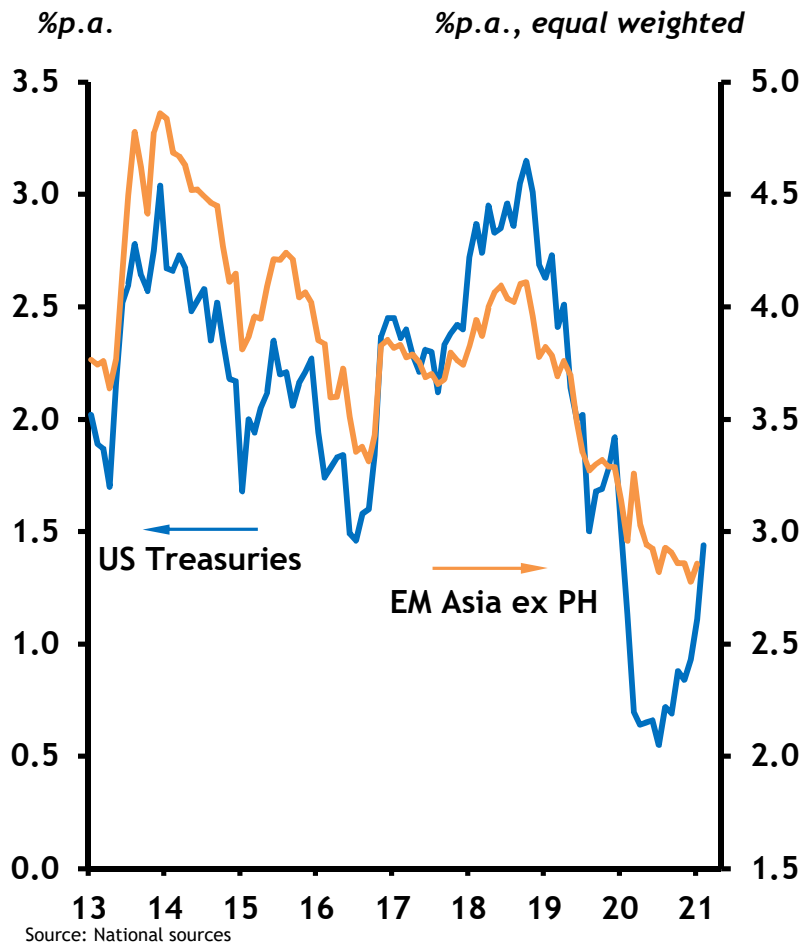
## US nominal GDP and 10-yr UST yields



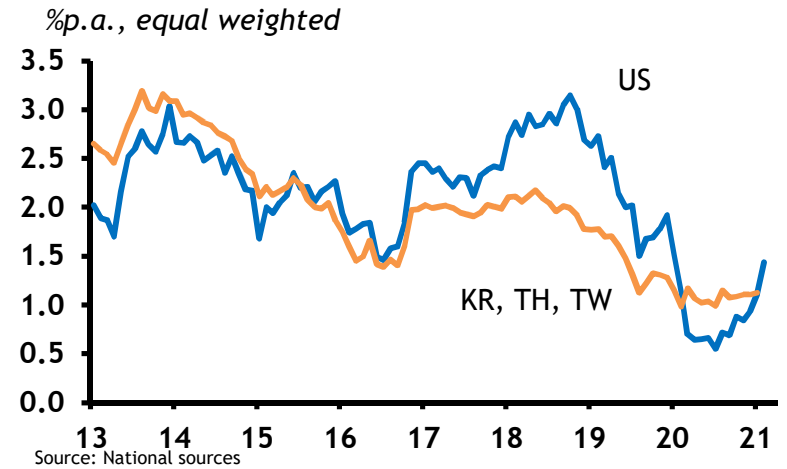
# Fed's LVLV should keep policy expectations dovish

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

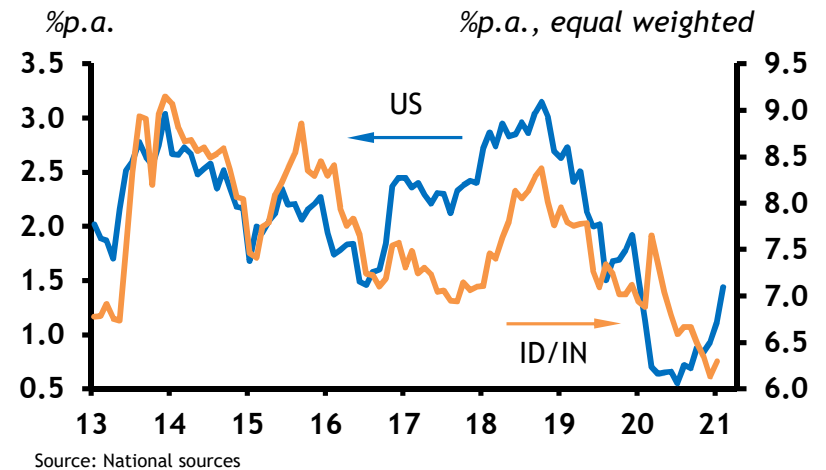
## US and EM Asia 10-yr bond yields



## US and EM Asia-3 10-yr bond yields



## US and ID/IN 10-yr bond yields

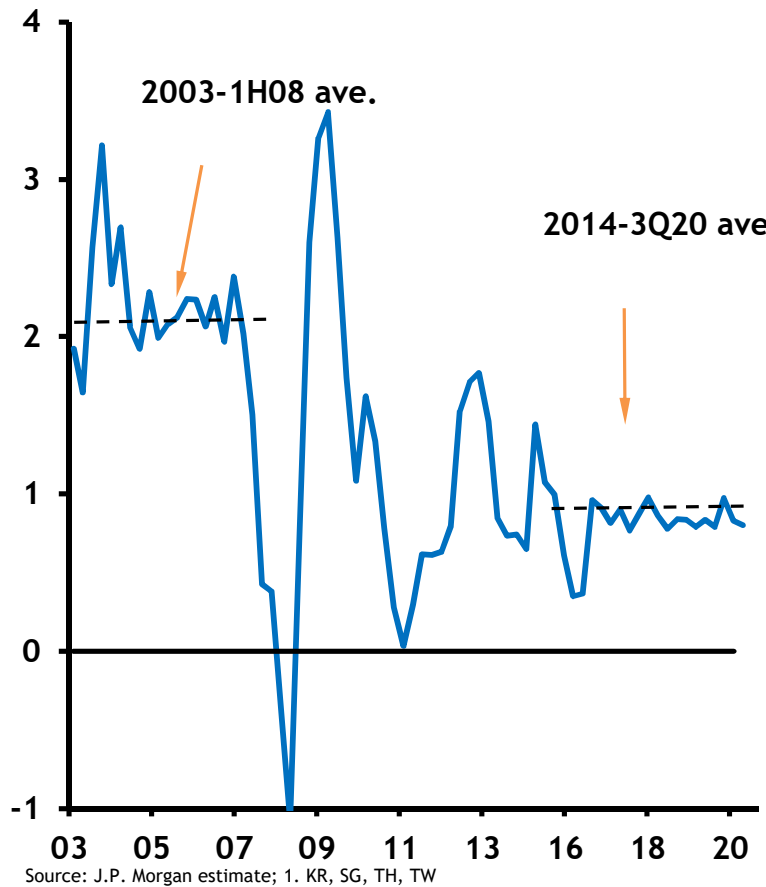


# Adding further downward pressure on yields

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

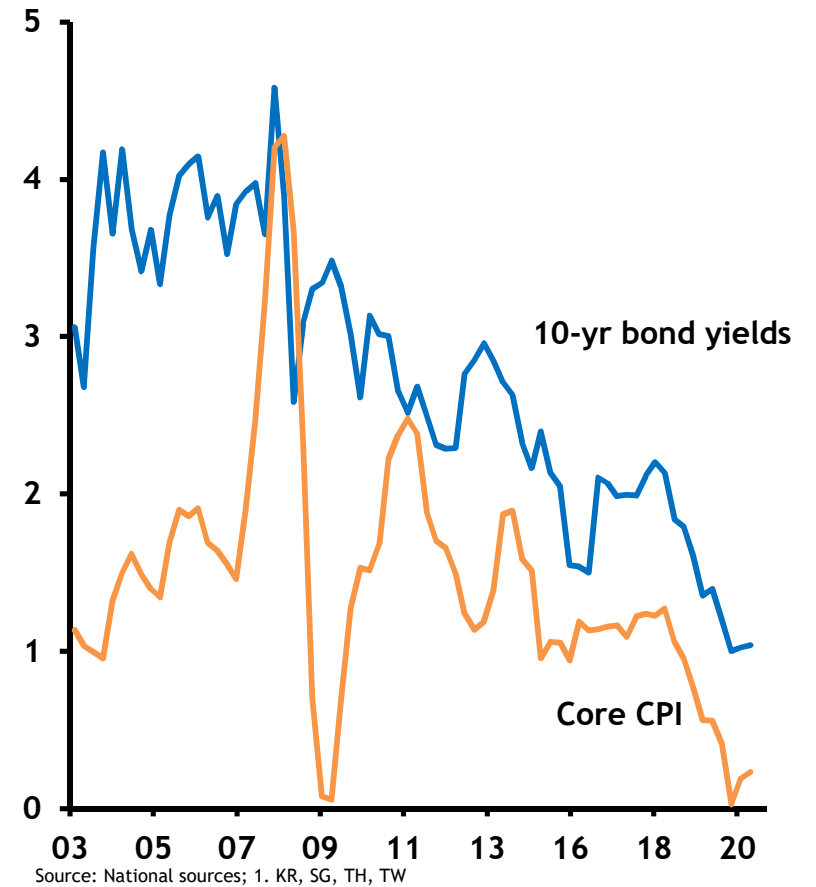
## EM Asia-4<sup>1</sup> real 10-yr yield

%p.a., 10-yr nominal less core CPI



## EM Asia-4<sup>1</sup> core CPI and 10-yr bond yields

%p.a. and %y/y CPI

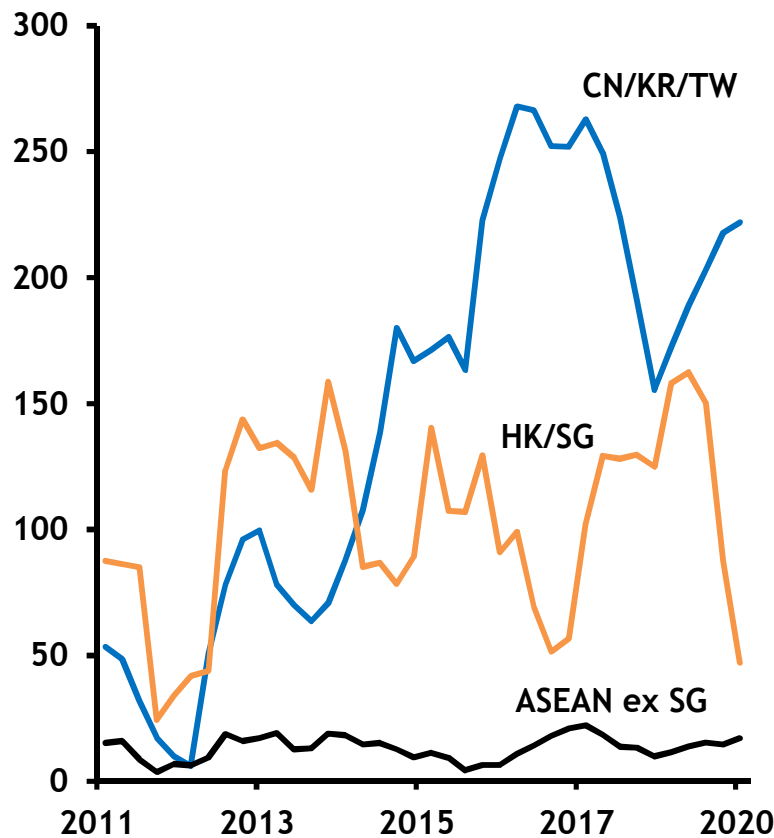


# Lower domestic returns prompting portfolio diversification

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## EM Asia resident portfolio outflows

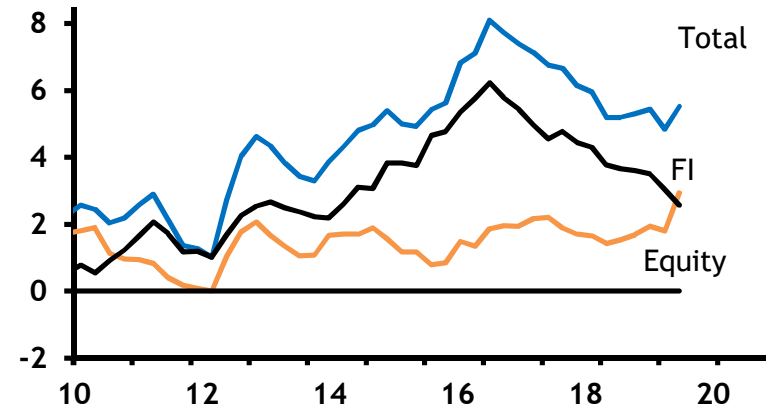
US\$ billion, annualized, BOP basis



Source: National sources

## KR & TW resident portfolio outflows

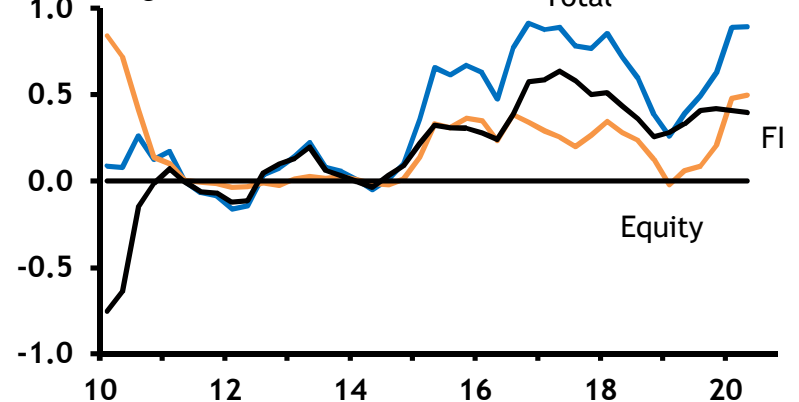
% GDP, gross terms



Source: National sources

## China resident portfolio flows

% GDP, gross terms



Source: National sources

See ["Asia Focus 0202: Outbound portfolio flows rising," JPMM, 17 November 2017](#)

## 2. China as a regional anchor

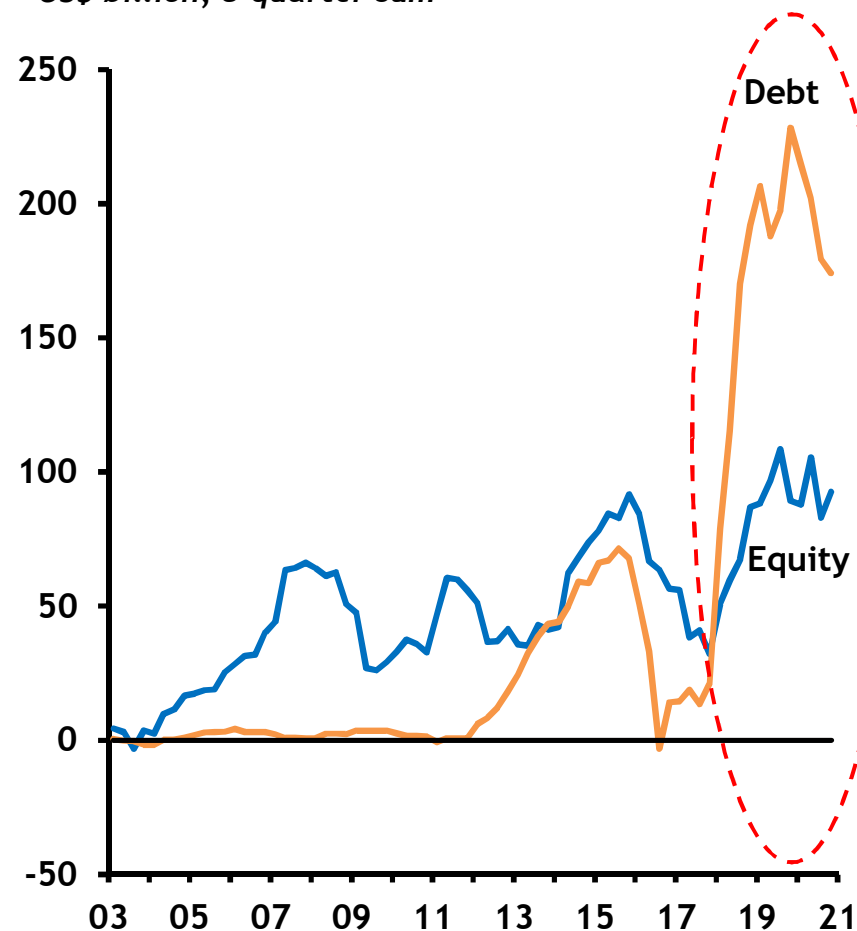
**Table 1: EM Asia trade with US and China**  
% GDP

	2000	2010	2019	3Q2020	Chg <sup>1</sup>
Hong Kong	46.6	114.4	88.5	83.7	-4.8
CN	31.4	100.9	78.8	74.3	-22.1
US	15.2	13.5	9.7	9.4	-3.8
India	3.9	6.8	6.5	9.4	2.8
CN	0.7	3.8	3.3	4.9	-0.5
US	3.2	3.0	3.2	4.5	0.2
Indonesia	11.5	8.8	9.6	9.7	0.1
CN	4.2	5.7	7.1	7.1	1.5
US	7.3	3.1	2.5	2.6	-0.6
Korea	17.8	25.8	25.4	38.2	12.7
CN	6.0	18.1	17.3	26.3	-0.8
US	11.8	7.7	8.1	11.8	0.5
Malaysia	48.0	44.7	48.8	54.2	5.5
CN	8.6	29.1	34.0	37.7	5.0
US	39.3	15.7	14.7	16.5	-0.9
Philippines	30.9	20.7	22.9	22.1	-0.8
CN	3.7	13.3	17.0	16.7	3.7
US	27.1	7.4	6.0	5.4	-1.4
Singapore	49.8	43.1	39.7	66.1	26.4
CN	11.3	23.7	24.2	39.3	0.5
US	38.5	19.3	15.5	26.9	-3.8
Taiwan	28.8	46.4	51.3	78.7	27.4
CN	9.2	32.6	37.3	58.0	4.7
US	19.6	13.9	14.0	20.7	0.1
Thailand	23.4	24.8	25.5	29.1	3.6
CN	5.2	15.5	16.9	19.4	1.4
US	18.2	9.3	8.6	9.7	-0.7
Vietnam	11.7	42.0	91.5	108.7	17.3
CN	7.9	26.0	61.9	72.9	35.9
US	3.8	16.0	29.6	35.8	13.6

Source: National sources; 1. 3Q2020 less 2019

## China foreign portfolio inflows

US\$ billion, 8-quarter sum



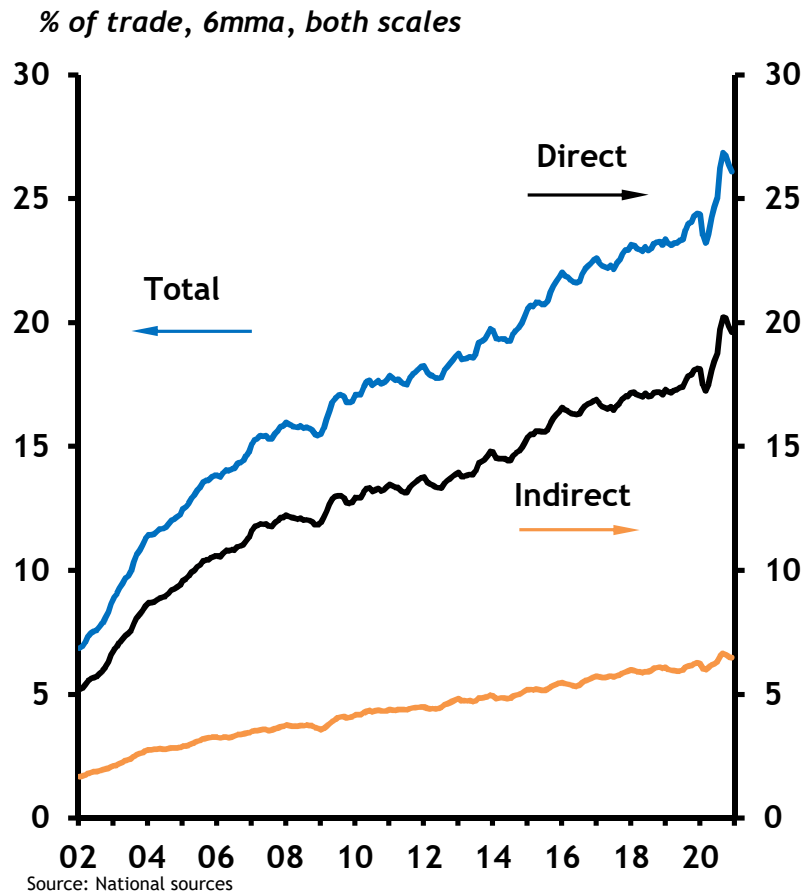
Source: SAFE



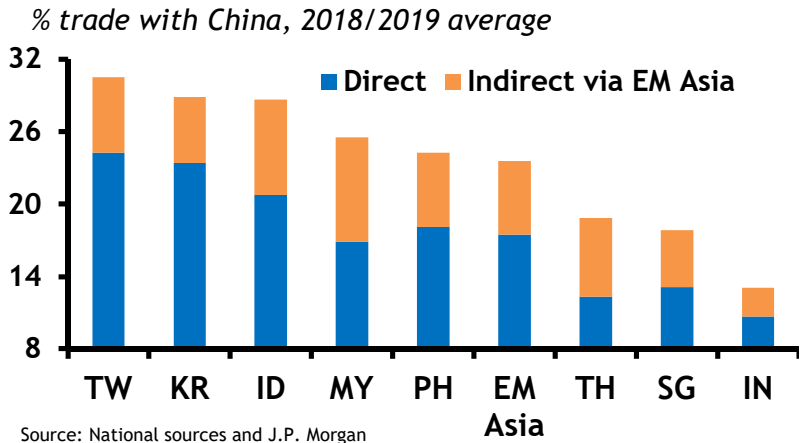
# As rising EM Asia trade integration...

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

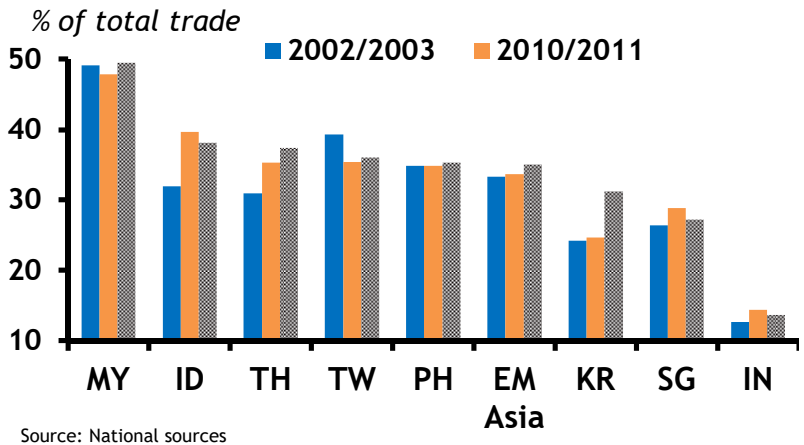
## EM Asia trade with China



## EM Asia trade exposure to China



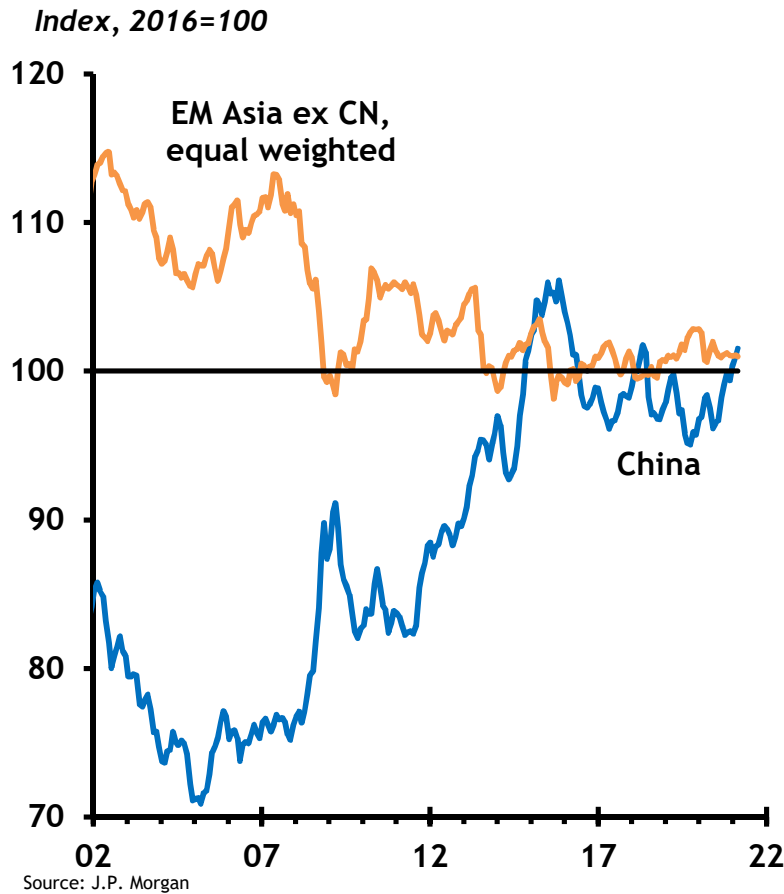
## Share of intra-EM Asia ex. China trade



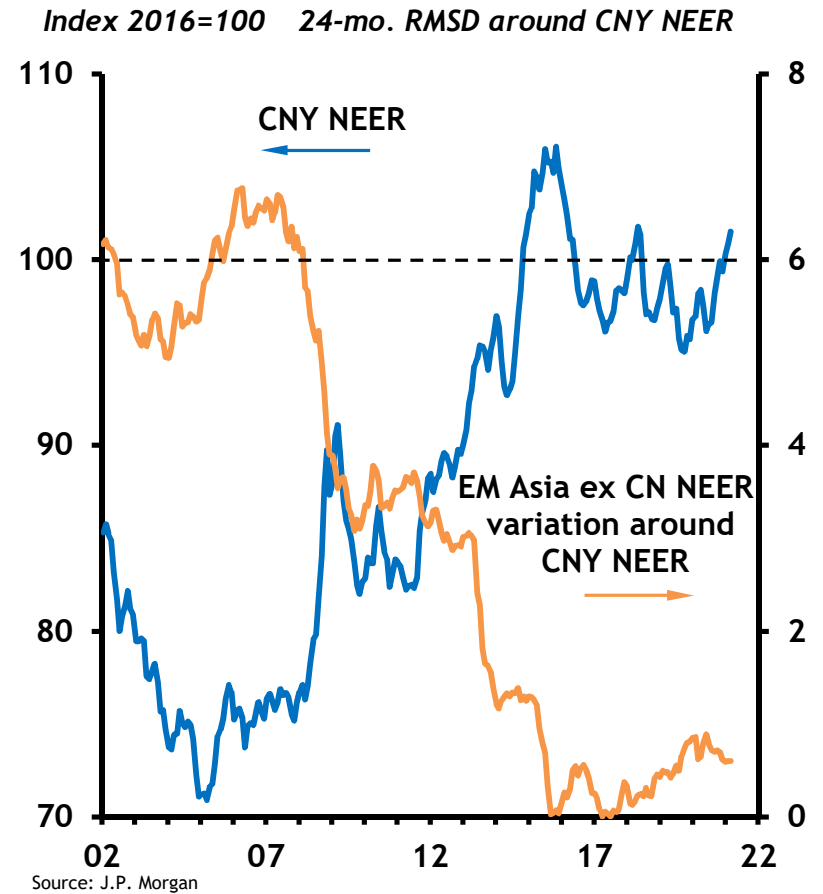
# ...leads to a de facto NEER accord around China

LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## China NEER and EM Asia ex CN NEER



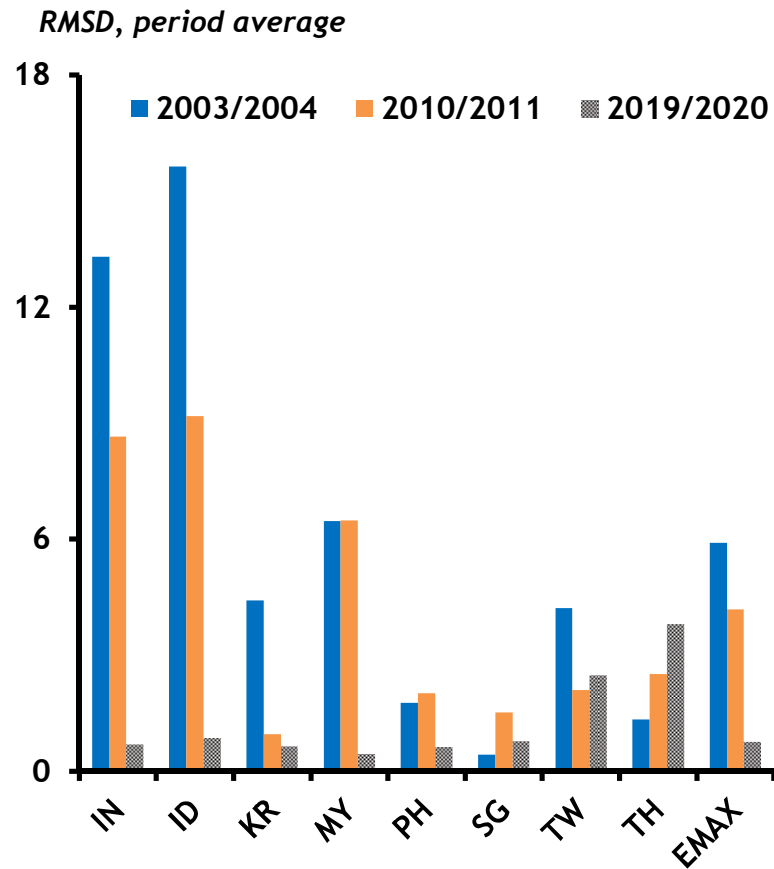
## China NEER and EM Asia NEER variation



# Becoming a de facto CNY block

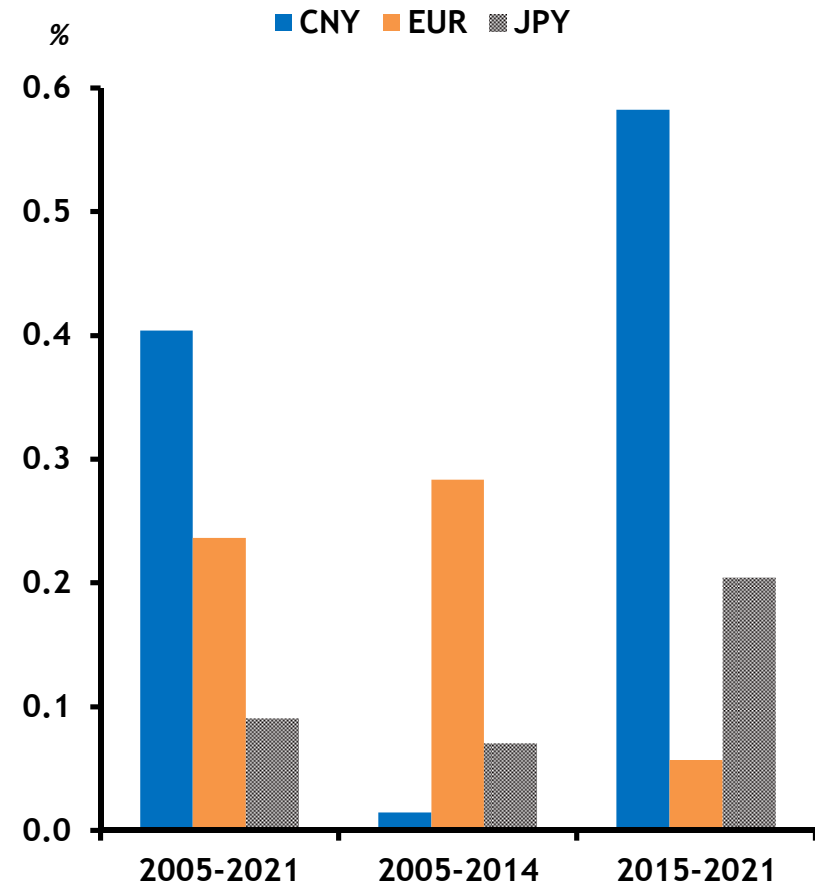
LONGER-TERM THEMES: LOW RATES AND THE CHINA ANCHOR

## EM Asia NEER deviation from CNY NEER



Source: J.P. Morgan

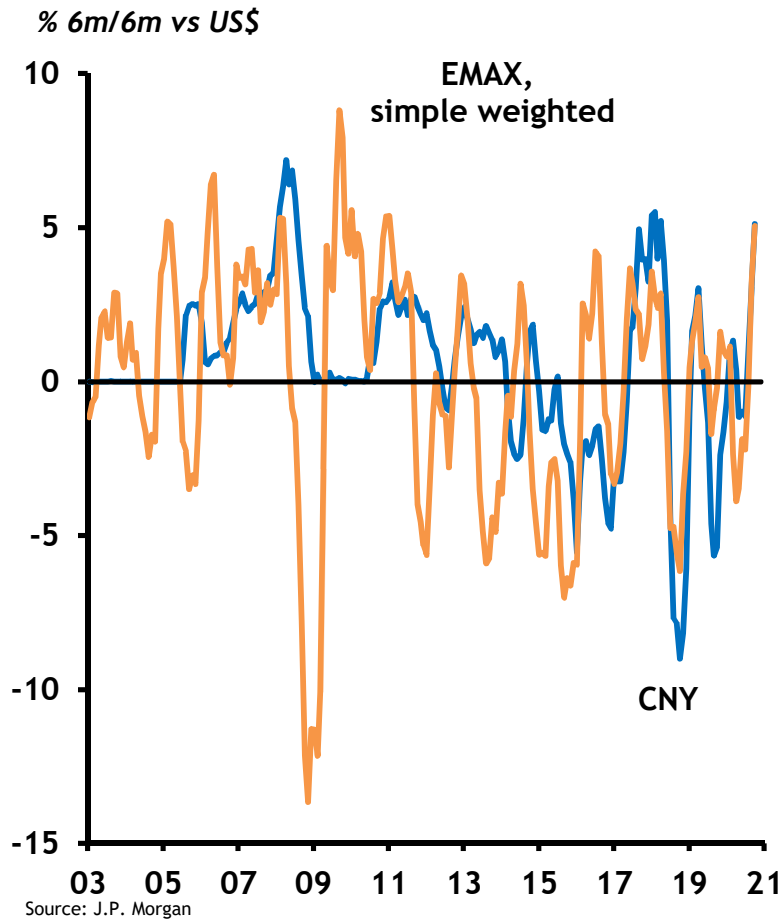
## EM Asia FX coefficients



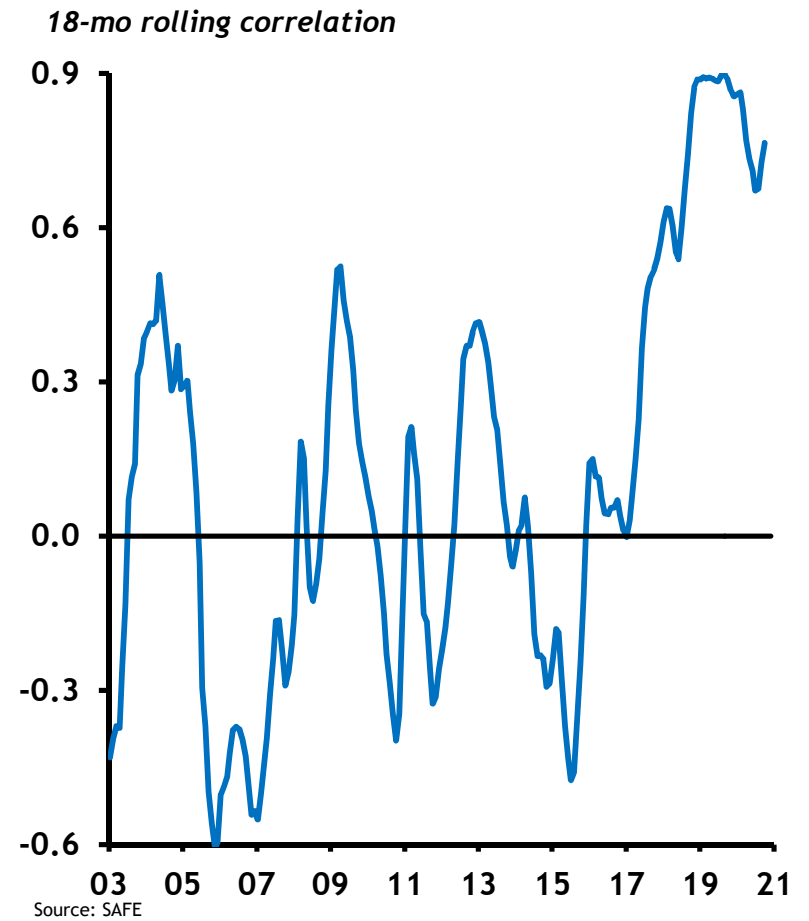
Source: J.P. Morgan estimates

# Notable rise in FX correlations with CNY since 2016

## CNY and EMAX FX movement



## CNY and EMAX FX correlations



# Agenda

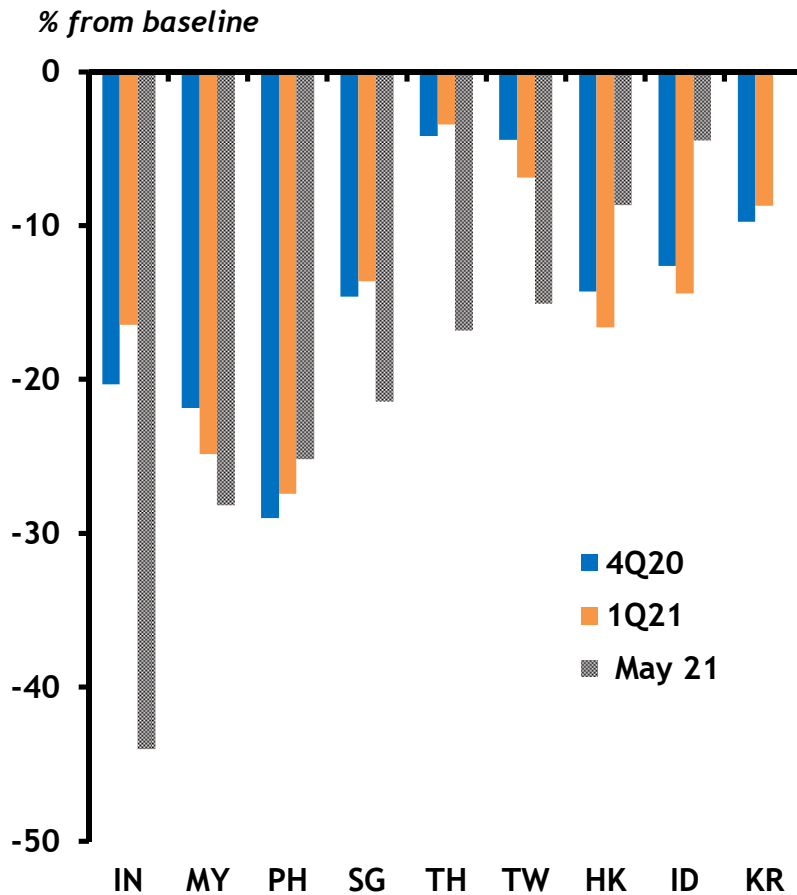
Longer-term themes: Low rates and the China anchor

**COVID-19 impact**

Regional forecasts

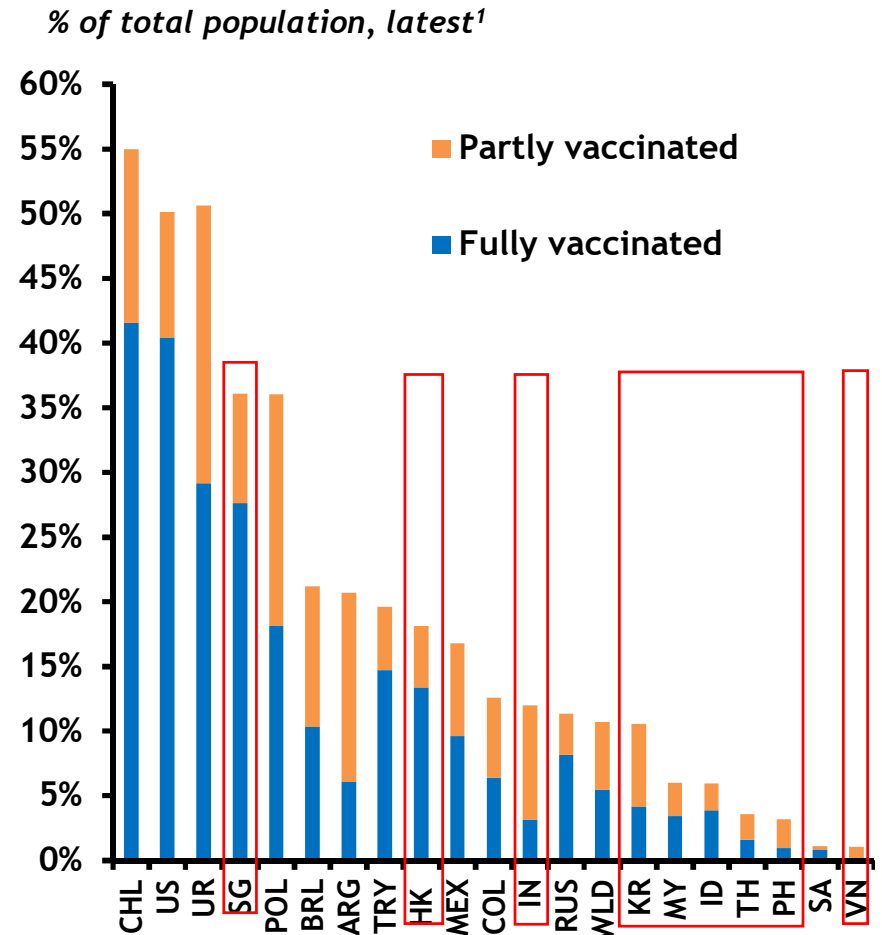
# Mobility differs reflecting different vaccination trends

## EM Asia mobility



Source: J.P. Morgan derived from Google Mobility Data

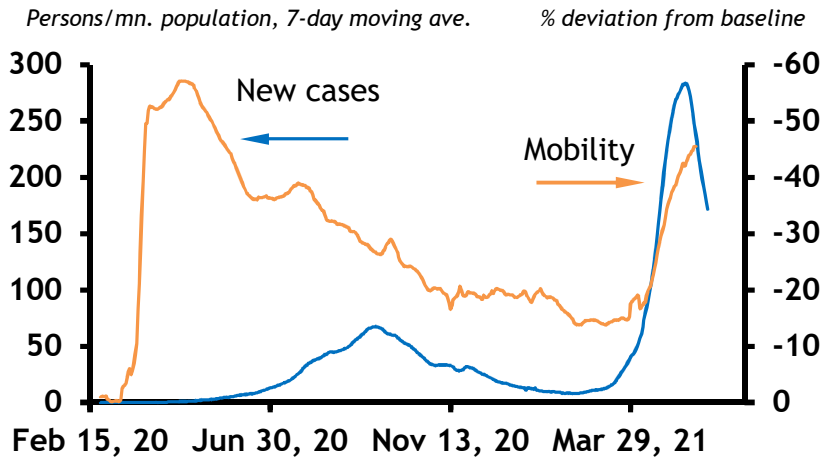
## DM and EM share of vaccinated population



Source: Ourworldindata.1. May 24; ex. UK, MEX, ID: May 21; CHL & COL: May 20; VN: May 18

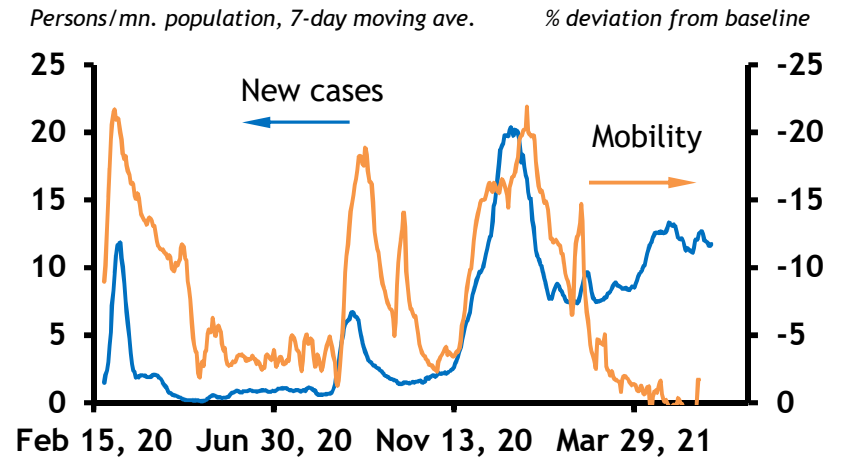
# New COVID-19 cases and mobility: Not a linear path

## India new COVID-19 cases & mobility



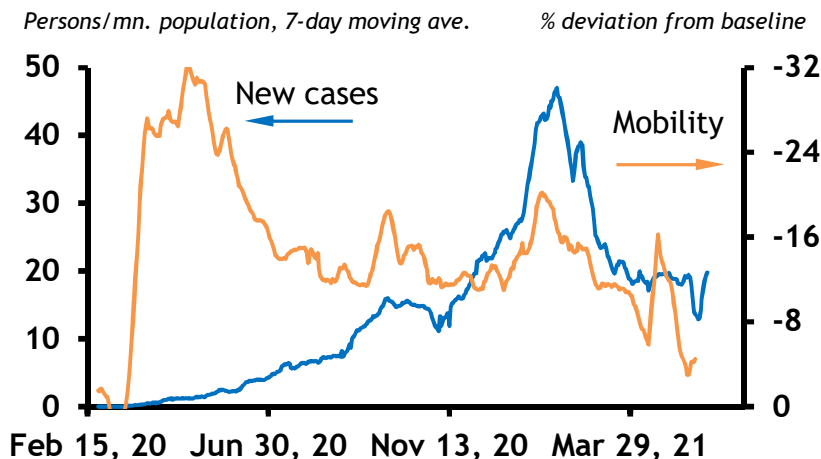
Source: WHO, J.P. Morgan derived from Google Mobility data

## South Korea new COVID-19 cases and mobility



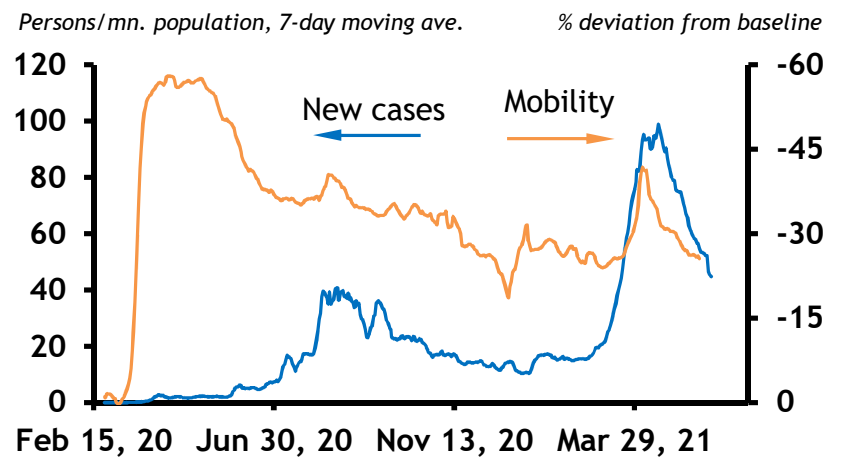
Source: WHO, J.P. Morgan derived from Google Mobility data

## Indonesia new COVID-19 cases and mobility



Source: WHO, J.P. Morgan derived from Google Mobility data

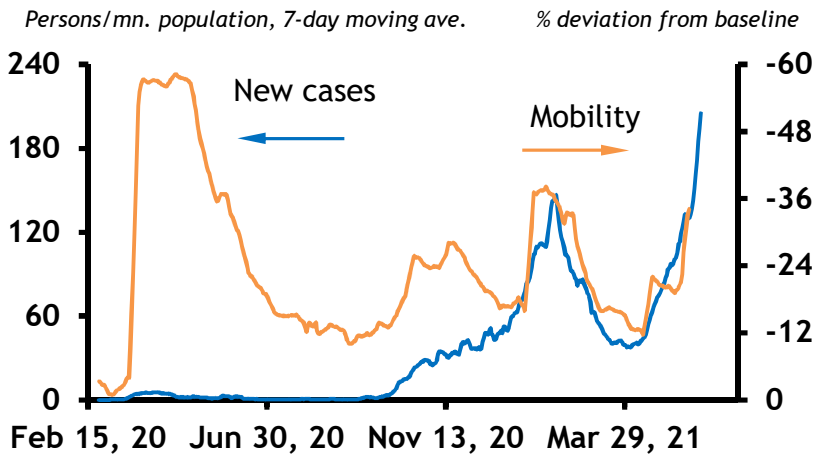
## Philippines new COVID-19 cases & mobility



Source: WHO, J.P. Morgan derived from Google Mobility data

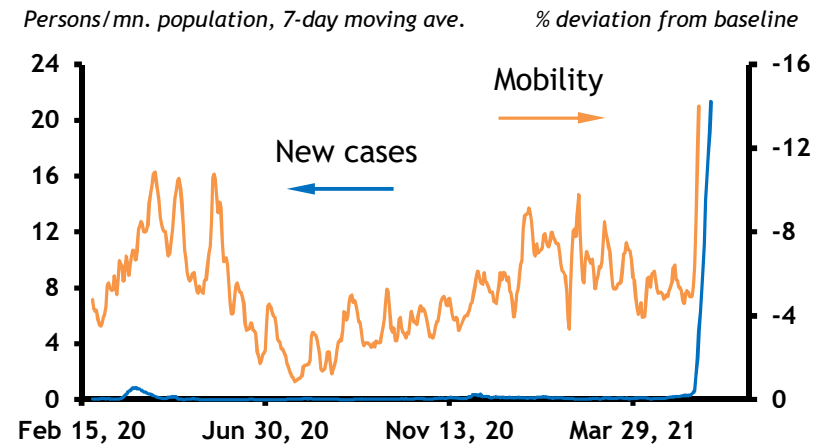
# New COVID-19 cases rising again in parts of EM Asia

## Malaysia new COVID-19 cases and mobility



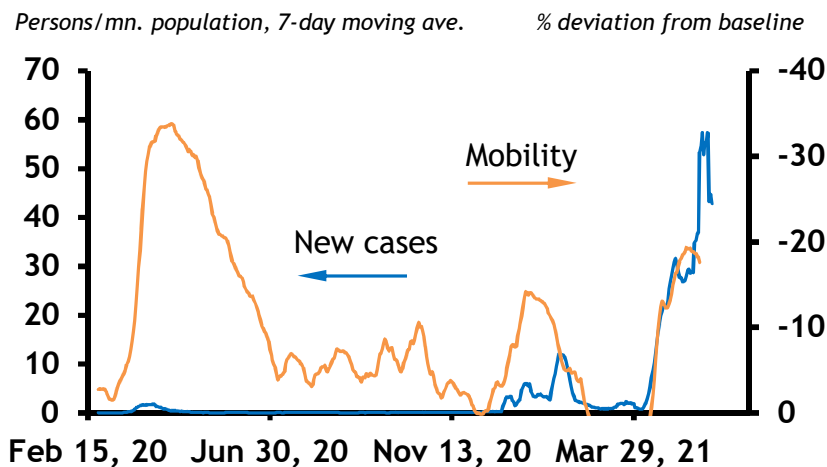
Source: WHO, J.P. Morgan derived from Google Mobility data

## Taiwan new COVID-19 cases and mobility



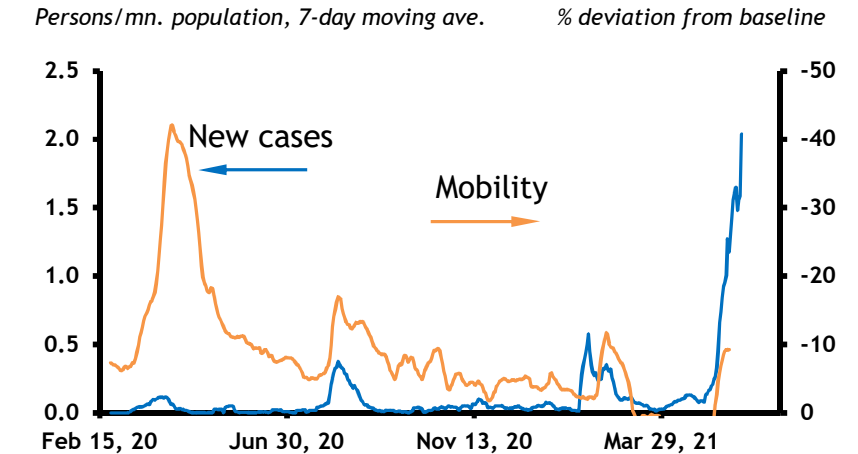
Source: WHO, J.P. Morgan derived from Google Mobility data

## Thailand new COVID-19 cases & mobility



Source: WHO, J.P. Morgan derived from Google Mobility data

## Vietnam new COVID-19 cases & mobility



Source: WHO, J.P. Morgan derived from Google Mobility data



# Agenda

Longer-term themes: Low rates and the China anchor

COVID-19 impact

**Regional forecasts**

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