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CREDITSIGHTS APAC OUTLOOK CONFERENCE

Rates, (Election) Results and Resilience

October 1st, 2024

APAC OUTLOOK CONFERENCE
SINGAPORE

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Global Macroeconomic Update

Emerging Markets: Caught Between US Risks & China Slowdown

Cedric Chehab: *Head of Country Risk*, BMI

9:40 a.m. – 10:05 a.m.

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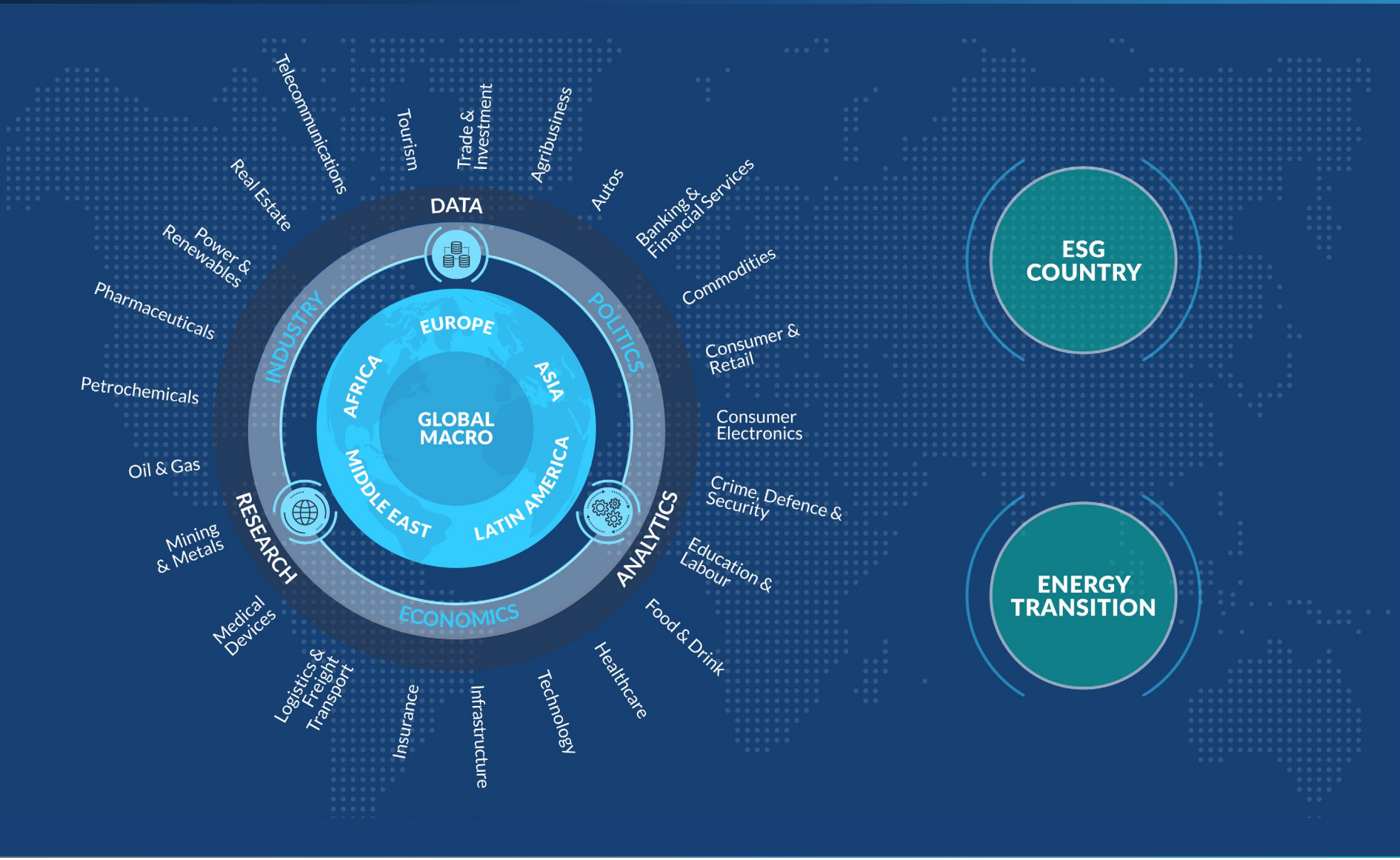
Connected Thinking Across Sectors and Markets



Source: BMI, a FitchSolutions Company

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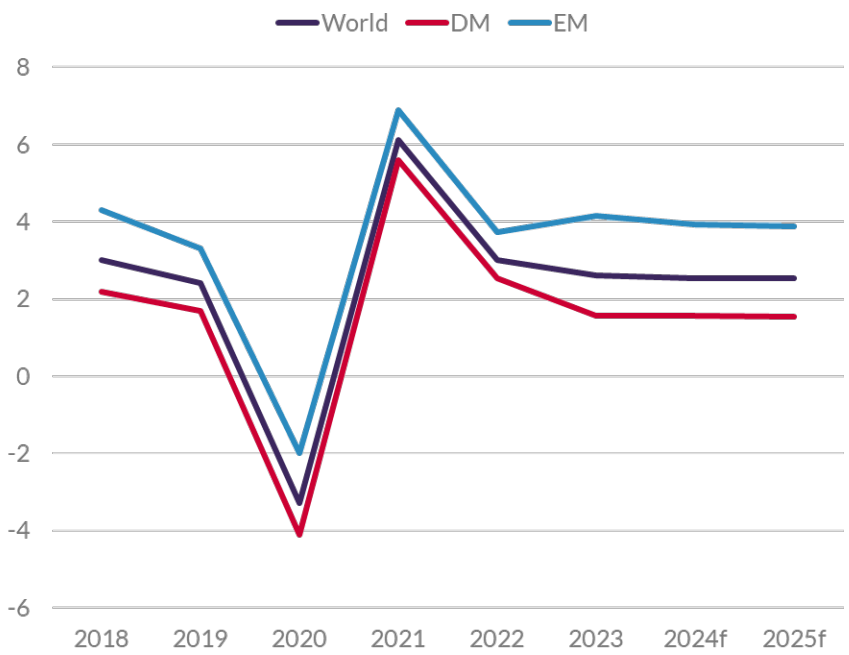
1

Stable Growth Masking Changes Under The Hood

Stability Going Into 2025, But Composition Changing

Growth Stability Across DMs & Ems

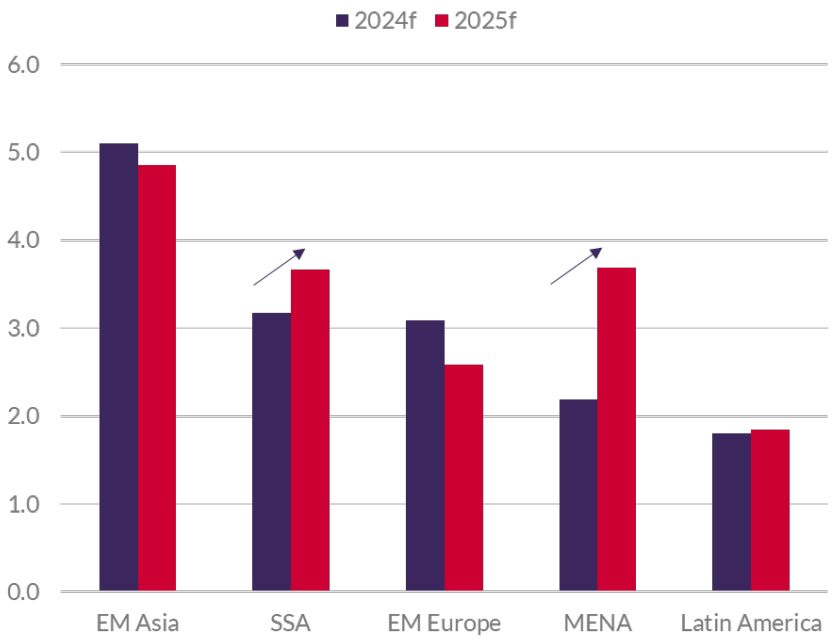
Global – Real GDP Growth, %



f = forecast Source: BMI

Asia Outperforming & Fast Pick Up In MENA

Global – Real GDP Growth, %

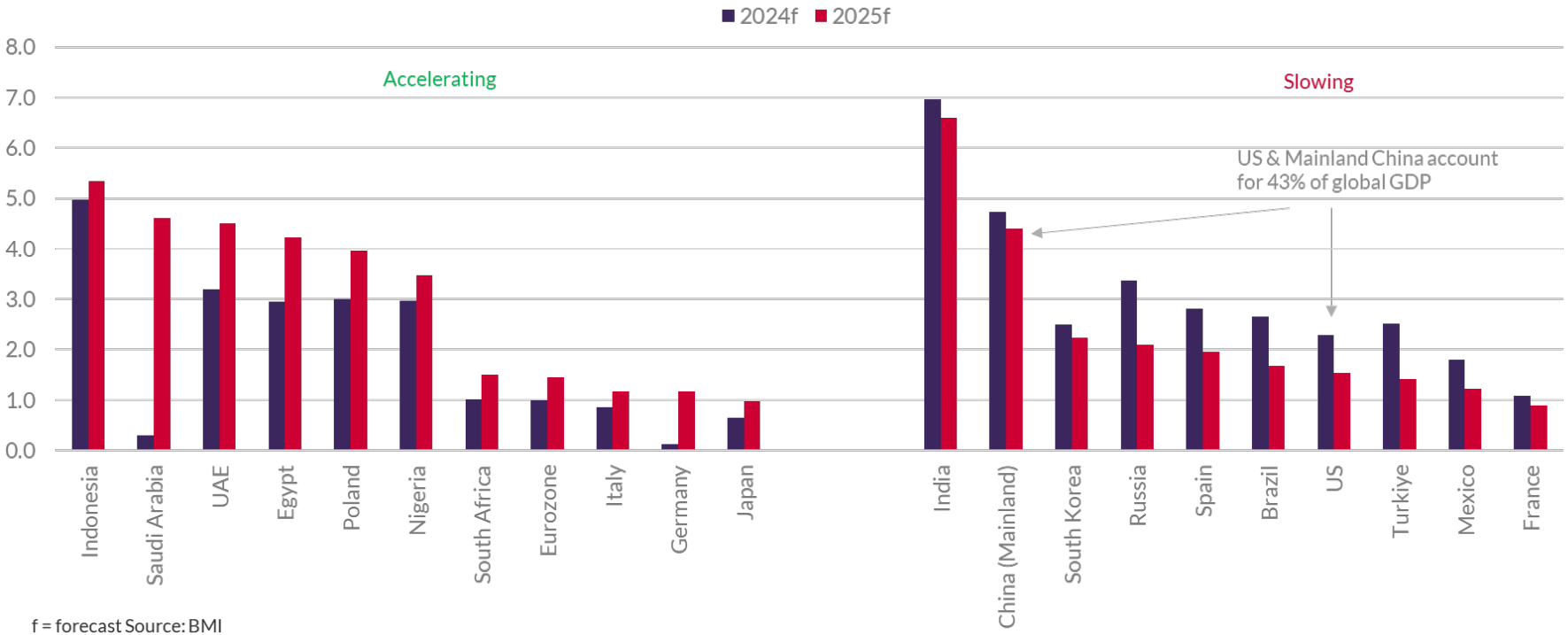


f = forecast Source: BMI

Composition Change Poses Some Risks For EMs

Divergence In Growth In 2025

Global – Real GDP Growth, %

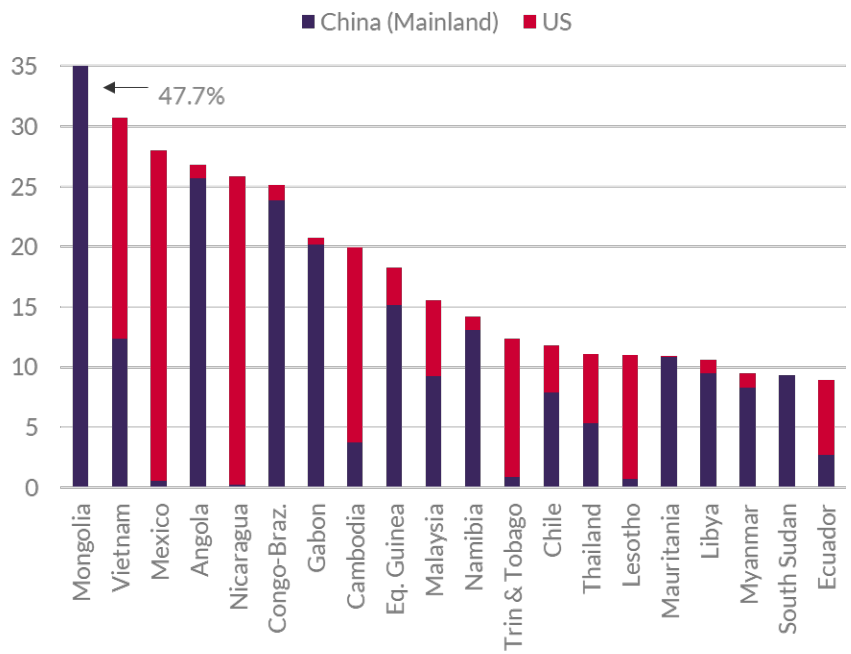


f = forecast Source: BMI

Many EMs Highly Exposed To Mainland China & US Slowdown

Most EMs Depend on One Superpower….

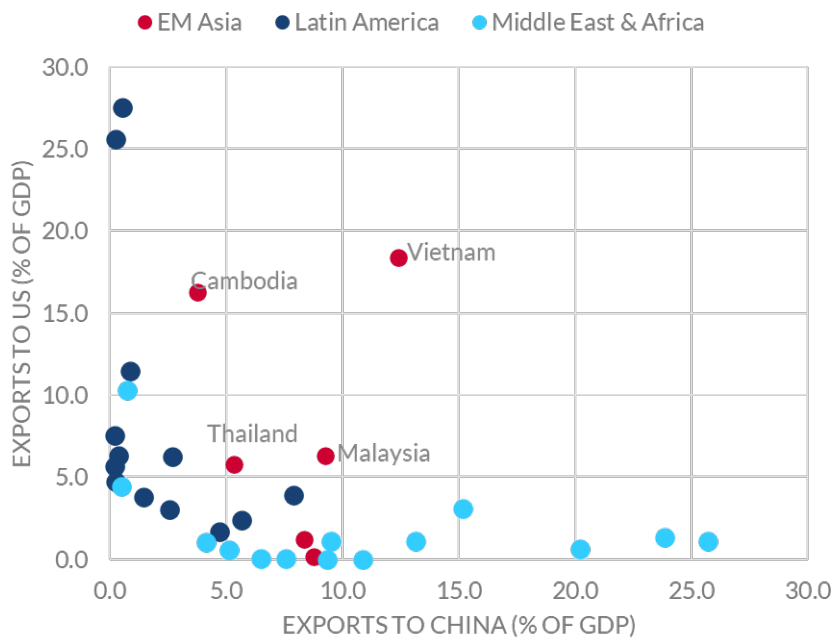
EMs – Exports to US & Mainland China, % of own GDP



Source: ITC, BMI

…But Southeast East Trades With Both

EMs – Exports to US & Mainland China, % of own GDP

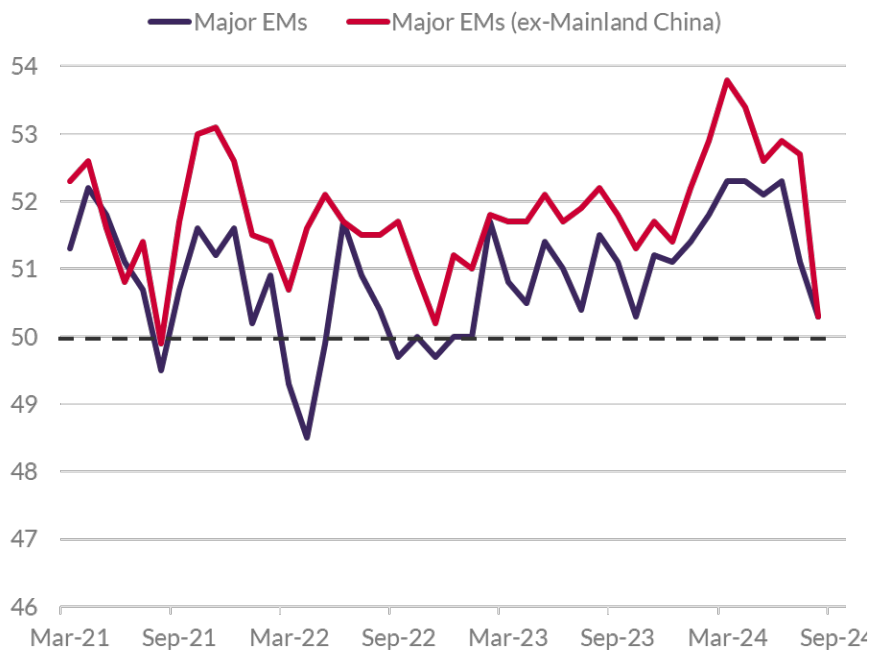


Source: ITC, BMI

More Signs of EM Weakness In Q3

PMIs Slipping

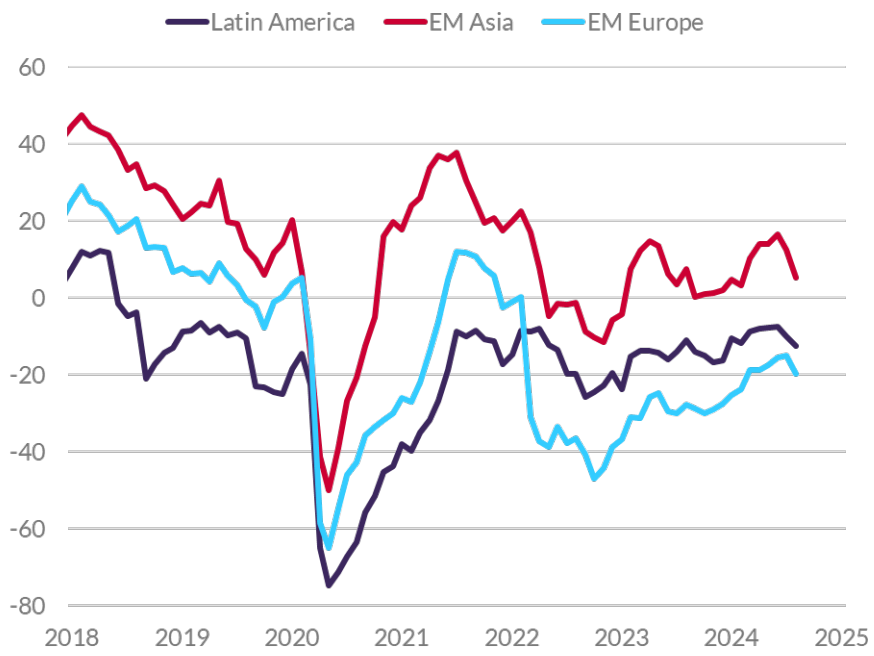
EMs – GDP-Weighted PMIs



Source: Haver, BMI

Sentiment Softening

EMs – Sentix Sentiment Measures



Source: Haver, BMI

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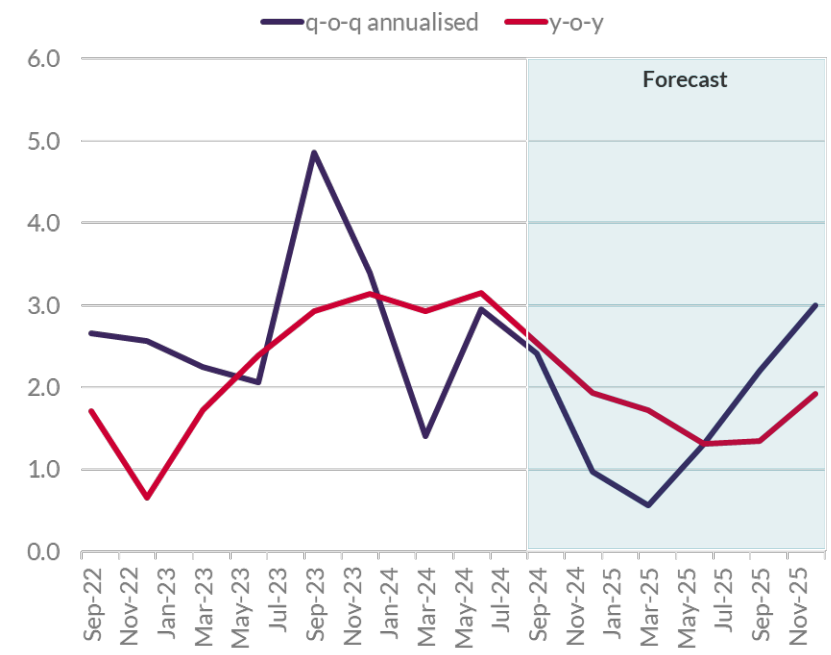
2

Major Economy Outlook

US Broad Policy Continuity Under Harris, But Slowdown Ahead

Sharp Slowdown In H2 2024, Before 2025 Recovery

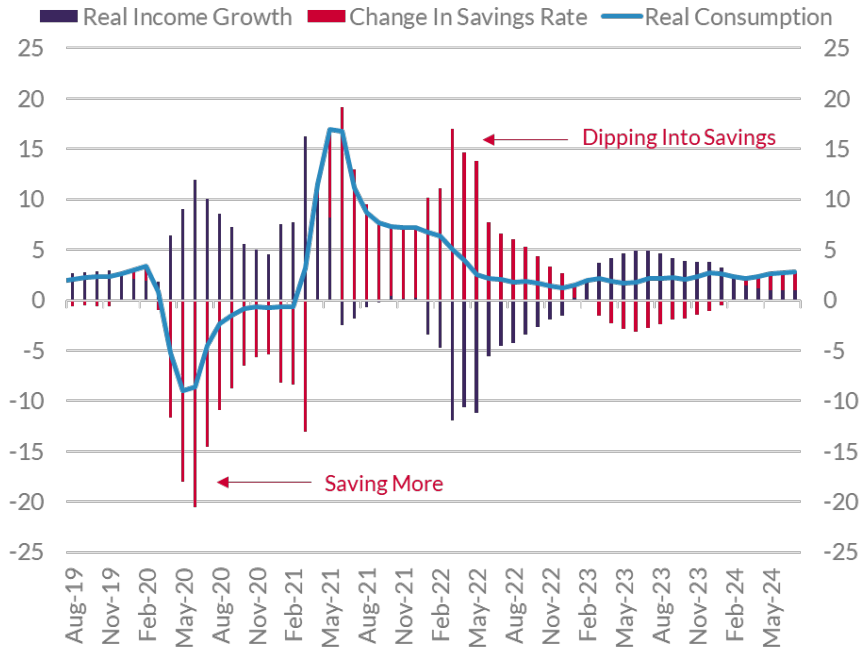
US – Real GDP Growth & BMI Forecasts, %



Source: Haver, BMI

Consumer Spending Driven By A Decline In The Savings Rate

US – Contribution To Annual Growth In Consumer Spending, pp

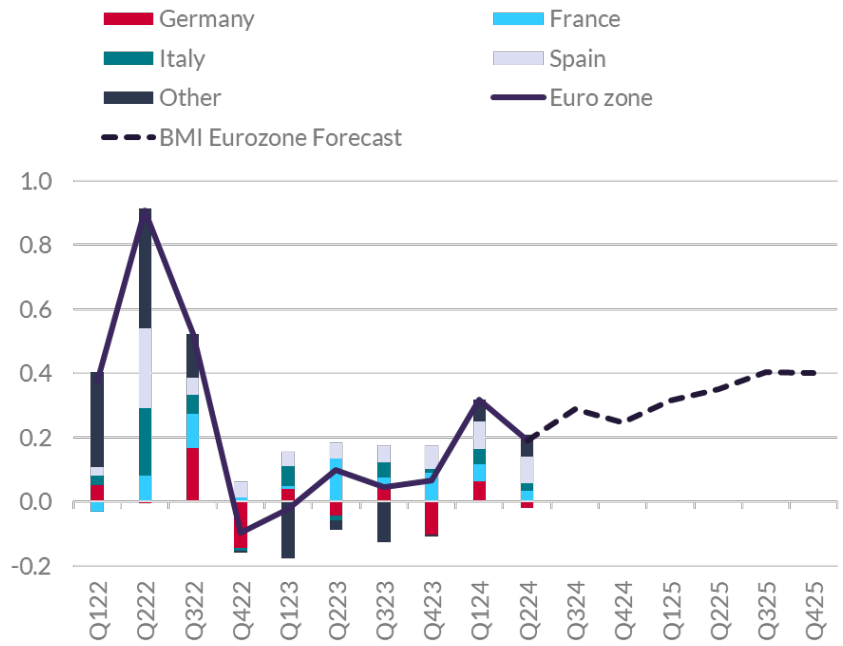


Source: Haver, BMI

Mixed Eurozone Outlook Underpinned By Strength In Spain

Strong Spanish Economy To Pull Eurozone GDP Higher

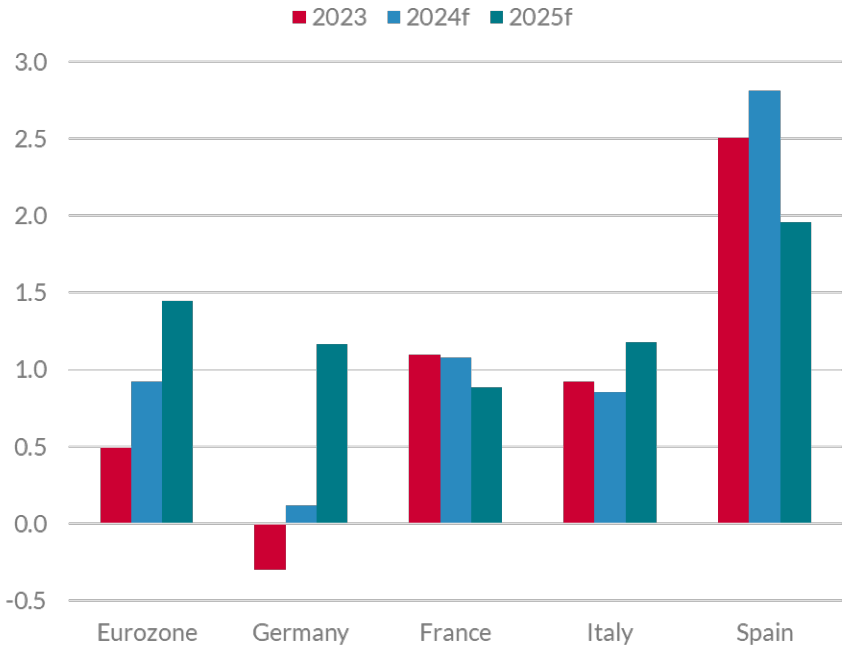
Eurozone – Real GDP Growth, % chg q-o-q, & Component Contributions, pp



f = BMI forecast. Source: Eurostat, BMI

Growth Accelerates From A Low Base In 2025

Eurozone – Real GDP Growth, %

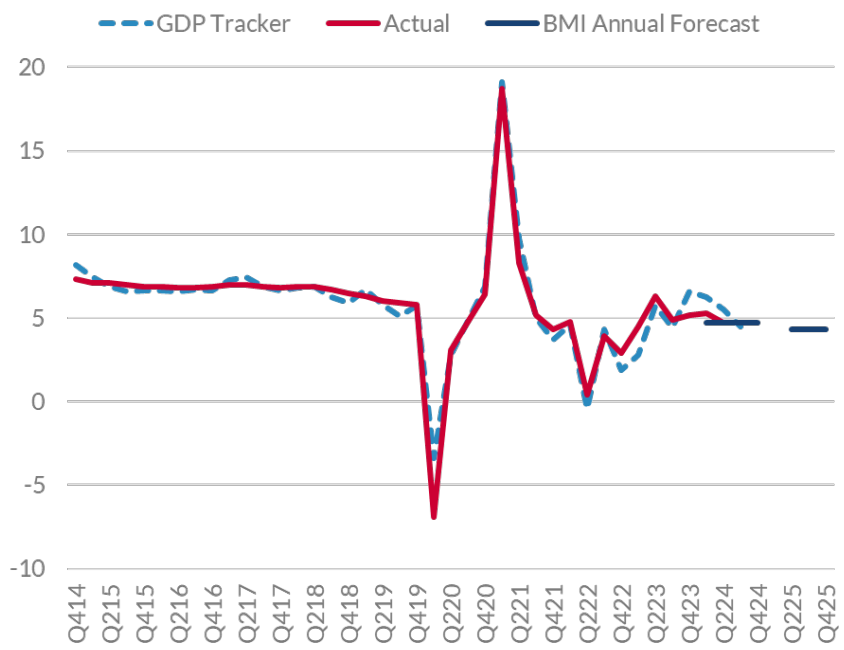


f = BMI forecast. Source: Eurostat, BMI

Mainland China's Economy Still Under Pressure

GDP Tracker Points To Softer Growth

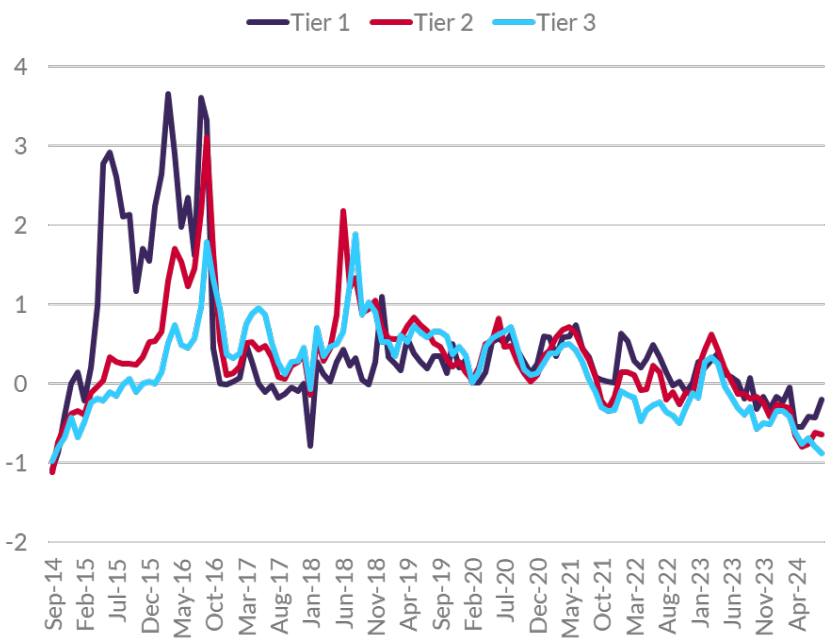
Mainland China – Real GDP Growth, %



Source: Haver, BMI

House Prices Still Falling

Mainland China – House Prices, % m-o-m

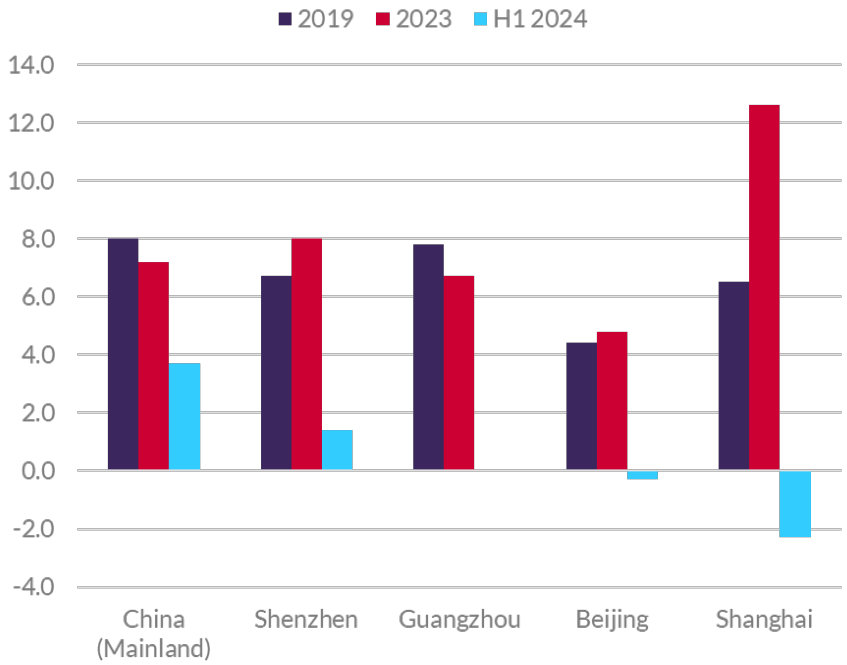


Source: Haver, BMI

Weak Consumption & Investment Remains A Major Challenge

Consumption Slowdown To Persist In Large Cities

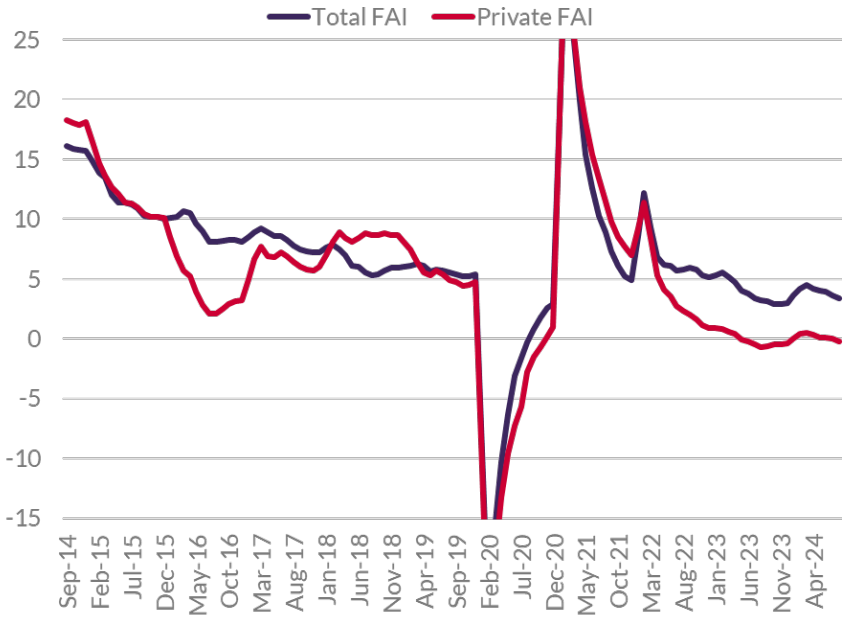
Mainland China – Retail Sales In Major Cities, % chg



Source: Haver, BMI

Consumption Slowdown To Persist In Large Cities

Mainland China – Fixed Asset Investment ytd, % y-o-y

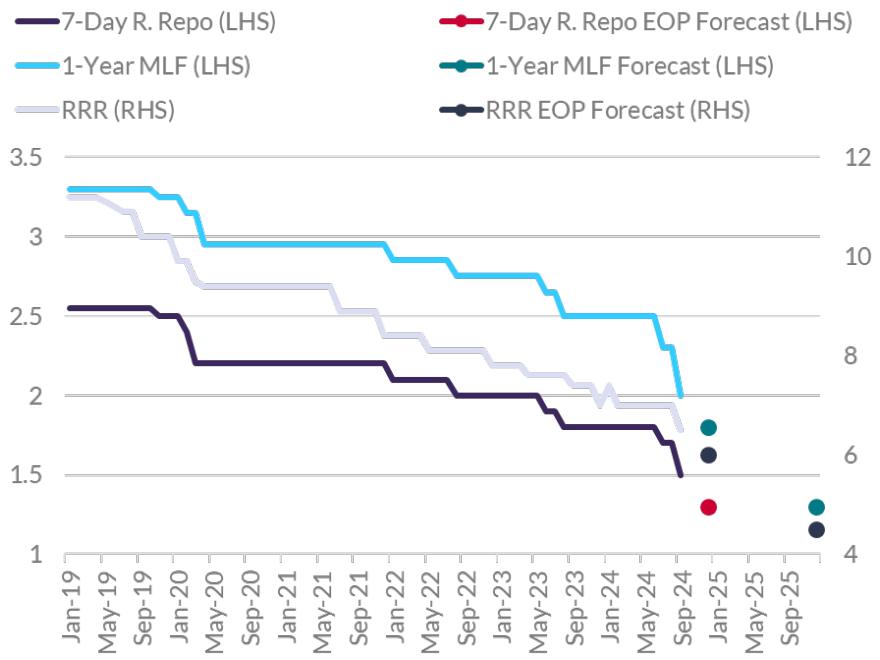


Source: Haver, BMI

Further Monetary Policy Easing To Come

We Forecast Interest Rates To Fall Further…

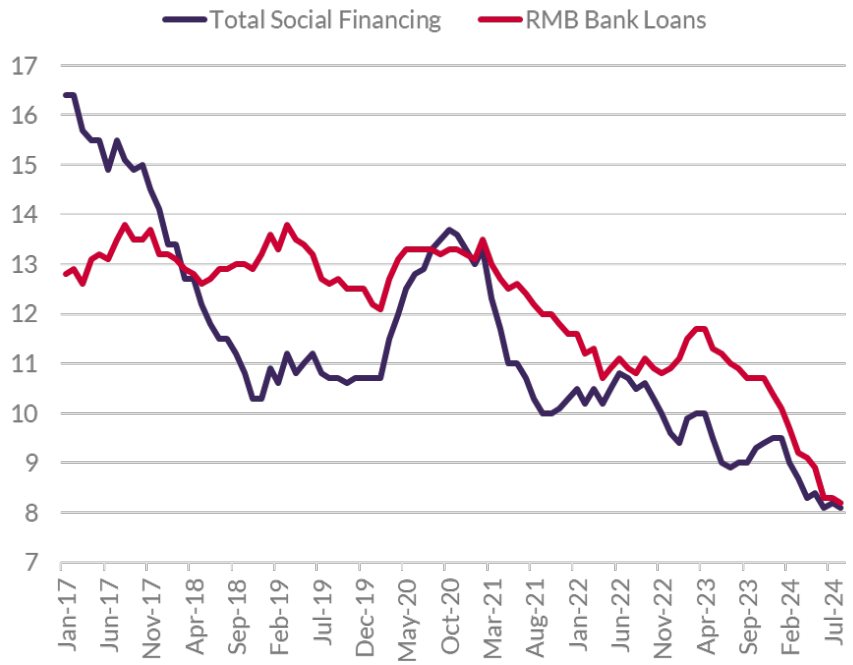
Mainland China – 7-Day Reverse Repurchase Rate, %



Source: Haver, BMI

… But Not Likely To Boost Credit Demand Significantly

Mainland China – Outstanding Credit, ytd % chg



Source: Haver, BMI

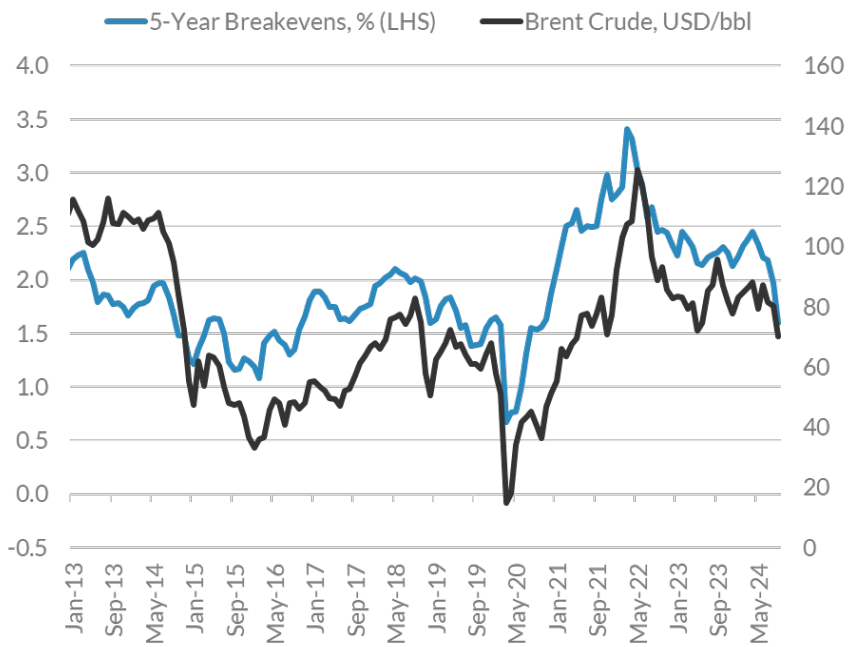
3

Monetary Policy To Ease Further

Inflation Expectations Anchored, Set To Move Lower

Falling Oil Prices Further Anchors Inflation Expectations

Global – Inflation Expectations & Oil Prices



Inflation Coming Down, But Still Above Target

Global – Inflation, BMI Forecasts & Central Bank Targets, %

	Latest Inflation	End-2024	Target*
Australia	3.6	3.0	2.0
Brazil	4.2	4.5	3.0
Eurozone	2.1	2.3	2.0
India	3.7	5.0	4.0
Indonesia	2.1	2.1	3.0
Japan	3.1	2.6	2.0
China (Mainland)	0.7	1.5	3.0
Malaysia	1.9	2.3	NA
Mexico	5.0	4.5	3.0
Philippines	3.3	2.8	3.0
Poland	4.5	5.1	2.5
Russia	9.0	7.7	4.0
South Africa	4.4	4.1	4.5
South Korea	2.0	2.2	2.0
Thailand	0.3	2.5	2.0
Turkiye	52.0	38.6	5.0
UK	3.1	2.4	2.0
US	2.6	2.5	2.0

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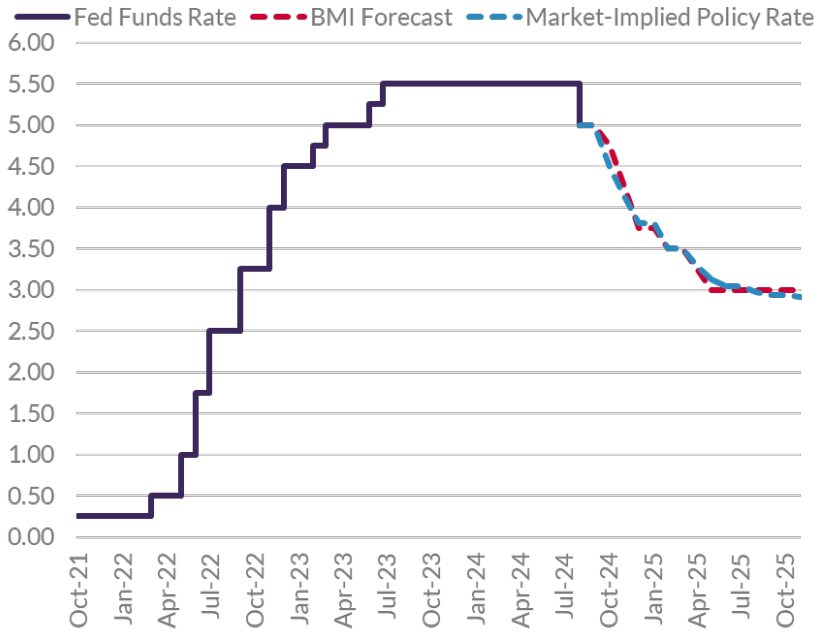
Fed Started Easing With A Bang

Fed Went For A Bigger Start

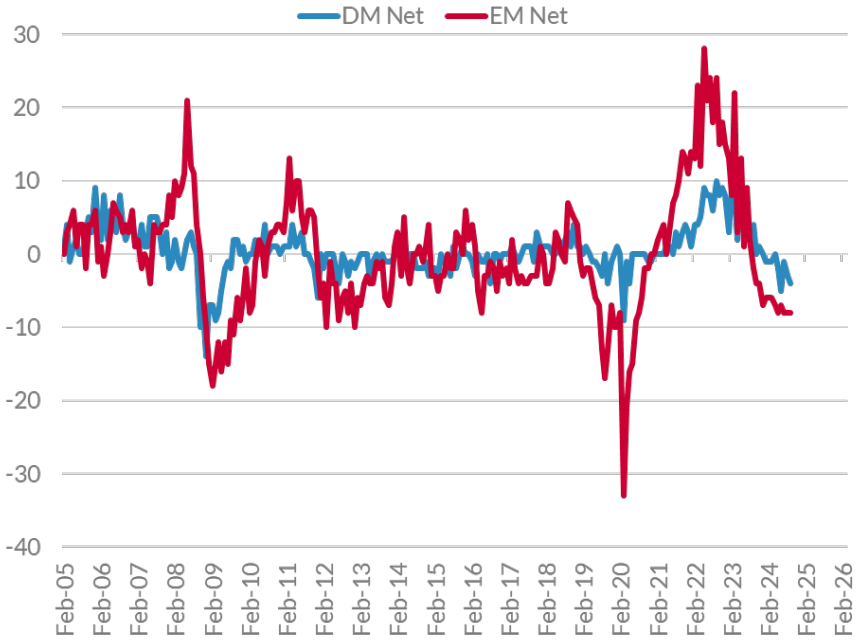
US – Fed Funds Rate, % & Expectations



Source: Bloomberg, BMI

EMs Ahead of DMs For Now…

Global – Monetary Policy Diffusion Index

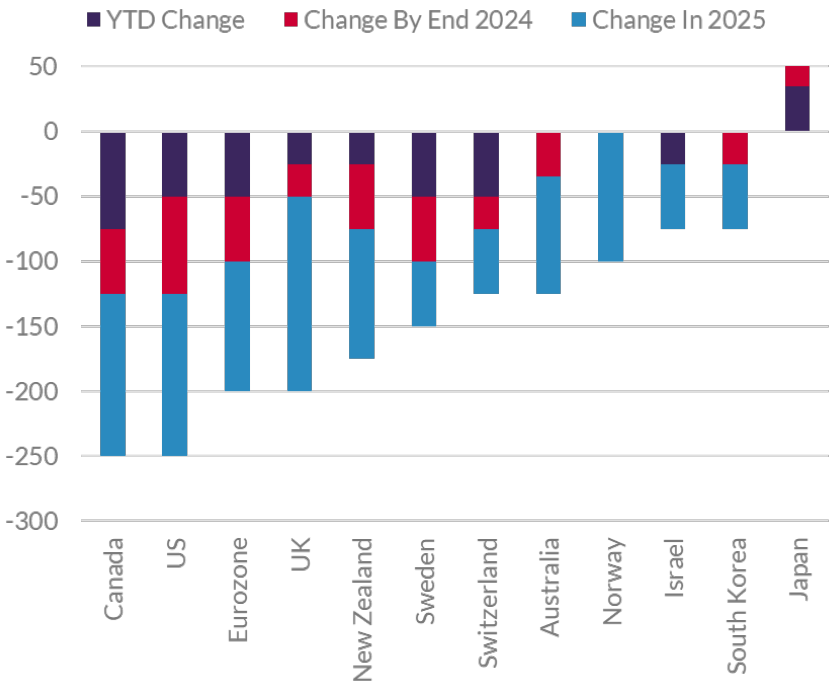


Source: Haver, BMI

More Cuts From Central Banks Around The World

DM Markets To Cut Moderately

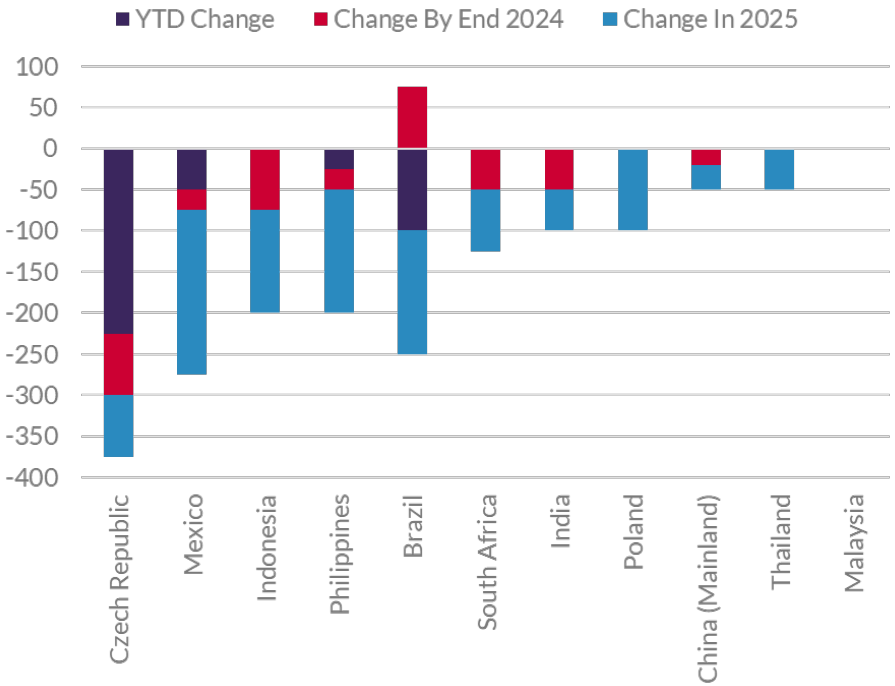
Global – Change In Policy Rates, bps



Source: Haver, BMI

Some Emerging Markets Going Full Steam

Global – Change In Policy Rates, bps

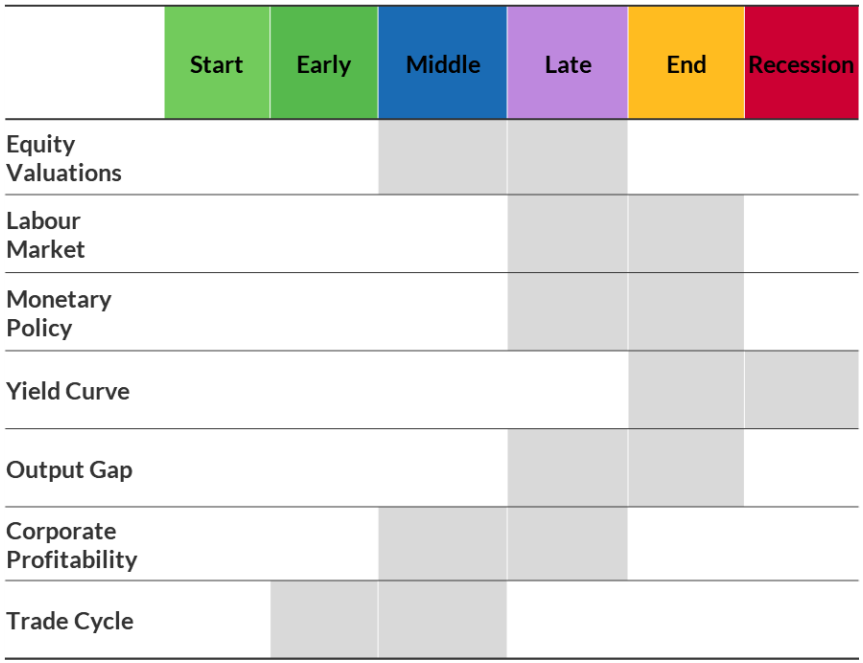


Source: Haver, BMI

We Are Getting To Late Cycle, Which Comes With Risks

Economic Cycle Tracker

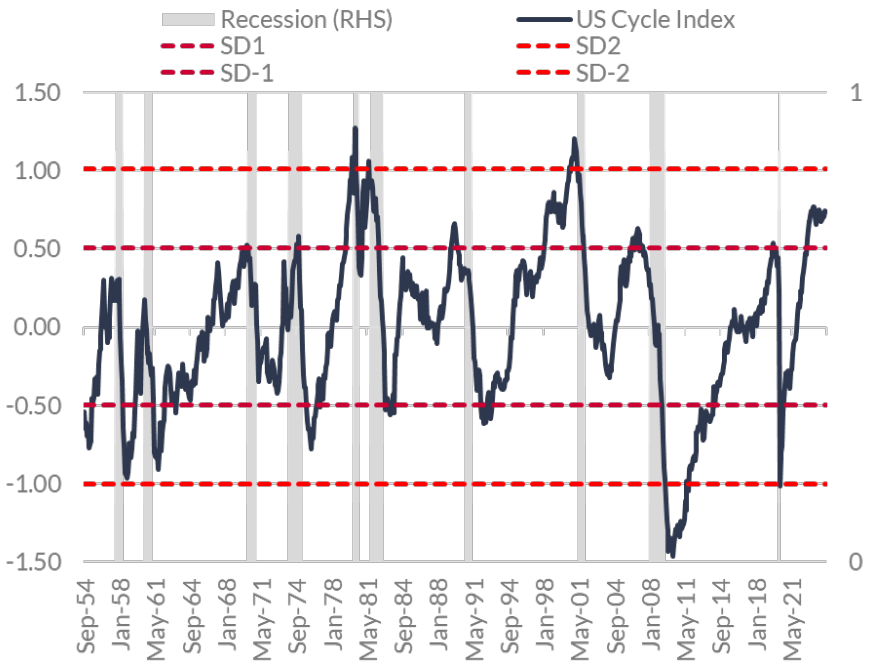
US – Assessment of Where We Are In The Economic Cycle



Source: BMI

US Cycle Long In The Tooth

US – BMI Business Cycle Index



Source: Haver, BMI

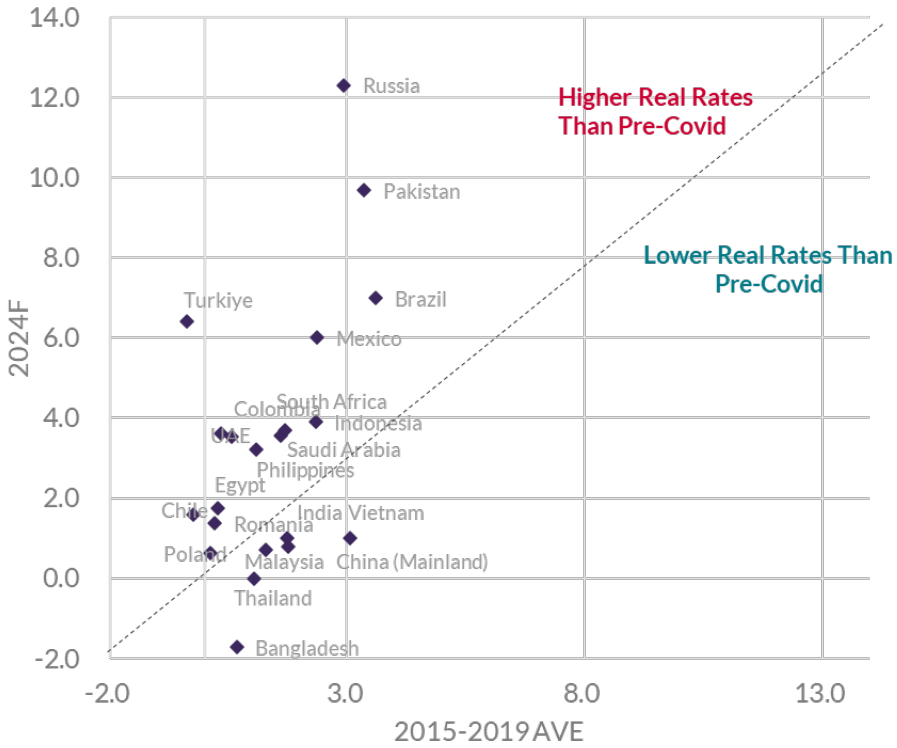
4

Weaker Fundamentals Than Before

EM Fundamentals: Higher Borrowing Costs & More Debt

Higher Real Interest Rates In Most EMs

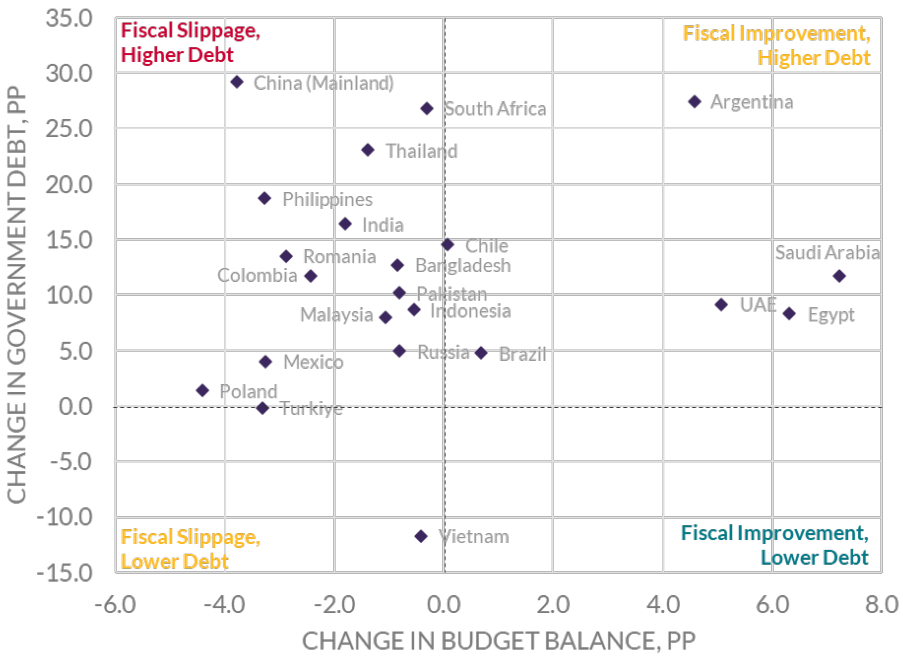
Select EMs – Real Interest Rates, %



Note: BMI forecasts. Source: Haver, BMI

More Debt And Worse Fiscal Balances For Most EMs In 2024

Select EMs – Difference Between 2024 Forecasts & 2015-2019 Average, pp

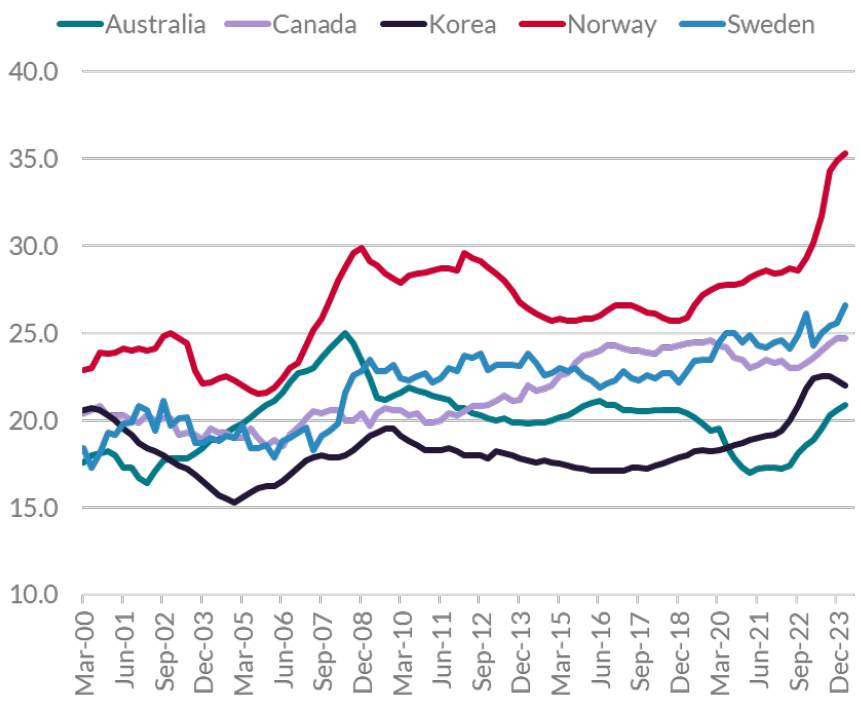


Note: BMI forecasts. Source: Haver, BMI

Higher Financing Costs Raising Private Debt Servicing Burden

What The Average Recession Looks Like

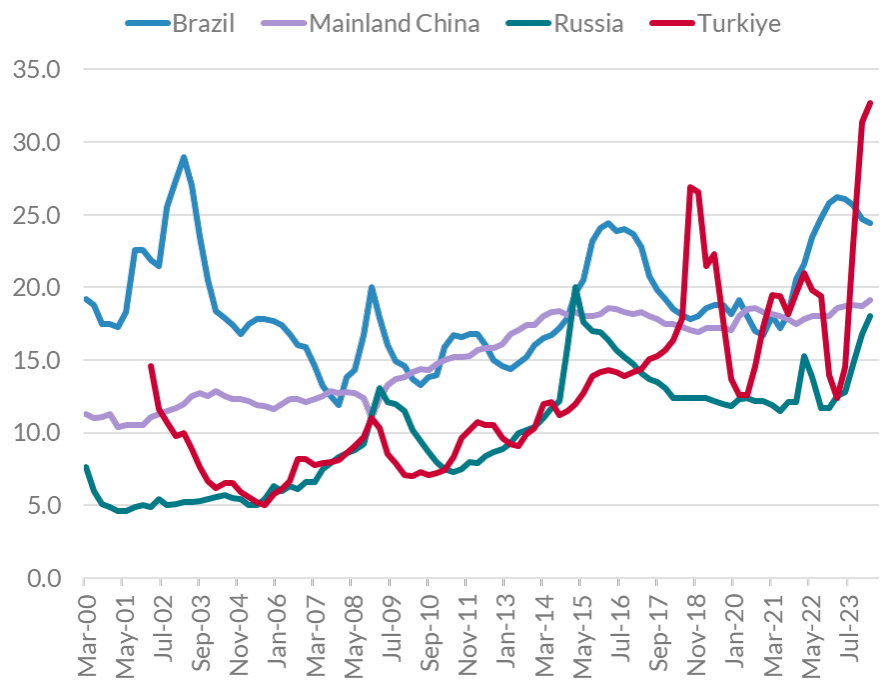
DMs – Debt Service Ratios, %



Source: Haver, BIS, BMI

Average Recession Lasts About 10 Months

EMs – Debt Service Ratios, %



Source: Haver, BIS, BMI

La Niña: Upside For SEA And Southern Africa, Worse For LatAm

El Niño/La Niña Shift Will Benefit South East Asia And Southern Africa

Selected Markets - La Niña Vulnerabilities

		Natural Disaster Risk	Agriculture, % GDP	Food Spending, % of total	Hydropower, % of power generation	Insurance Cover (non-life premiums as % of GDP)	Likely aggregate impact of La Nina in Q424/2025
Upside from La Nina	Australia	25.5	2.5	10.0	6.2	3.4	Positive
	India	41.0	14.7	30.2	9.1	0.9	Positive
	South Africa	43.5	2.4	16.5	1.3	2.7	Positive
	Zambia	65.2	2.2	31.4	87.2	0.9	Positive
	China	27.4	7.6	26.6	14.2	1.9	Slightly positive
	Malaysia	42.8	9.1	27.0	16.9	1.1	Slightly positive
	Vietnam	44.5	11.8	21.2	28.3	0.8	Slightly positive
	Indonesia	48.6	12.4	34.5	6.3	0.5	Slightly positive
	Colombia	48.1	8.8	22.6	60.1	2.2	Slightly positive
	Philippines	50.9	9.4	36.9	8.7	0.5	Slightly positive
	Japan	24.8	0.8	17.2	7.9	1.8	Neutral
	Thailand	36.7	9.8	25.0	3.7	1.6	Neutral
	Turkiye	42.0	5.8	23.4	17.7	1.3	Neutral
	Egypt	46.5	10.0	35.2	5.7	0.3	Neutral
	Peru	57.9	7.0	28.0	51.3	1.0	Neutral
	United States	24.7	0.9	6.9	5.8	4.2	Slightly negative
	Spain	26.9	2.0	12.3	9.2	2.9	Slightly negative
	Greece	42.0	5.8	23.4	17.7	1.3	Slightly negative
	Chile	41.8	3.6	18.8	27.9	1.9	Slightly negative
	Mexico	51.2	4.3	24.2	5.4	1.2	Slightly negative
	Argentina	34.9	6.0	27.9	23.1	1.3	Negative
Downside from La Nina	Brazil	49.5	6.9	19.6	57.3	3.9	Negative
	Kenya	54.9	21.2	39.8	22.9	1.3	Negative
	Ethiopia	71.0	31.7	44.5	95.3	0.2	Negative

Note: Red colouring implies greater vulnerability to more variable ENSO patterns. Source: BMI

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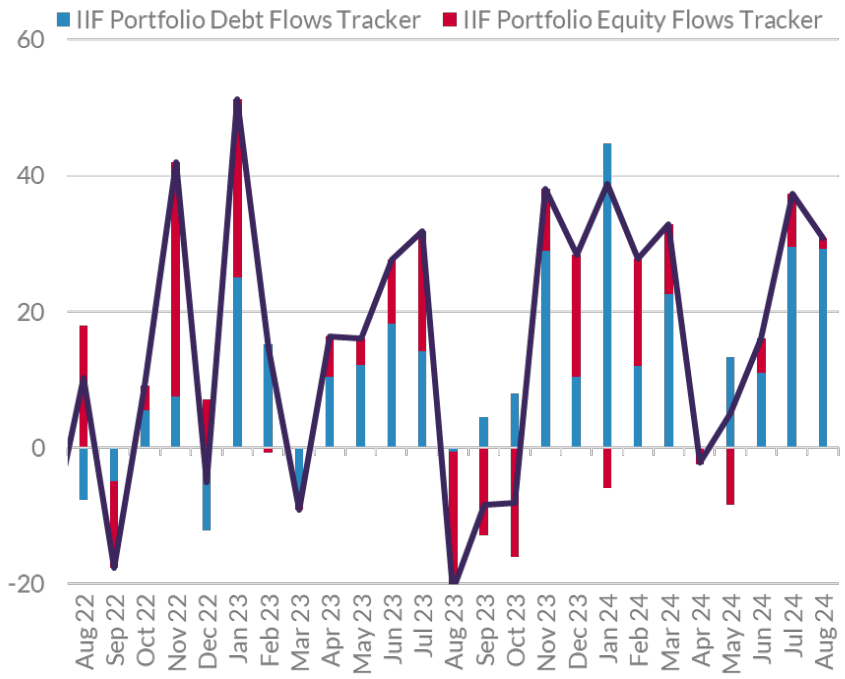
Capital Flows Picking Up

Capital Flows Coming Back To EMs, Mostly Debt

Majority of Inflows Are Debt

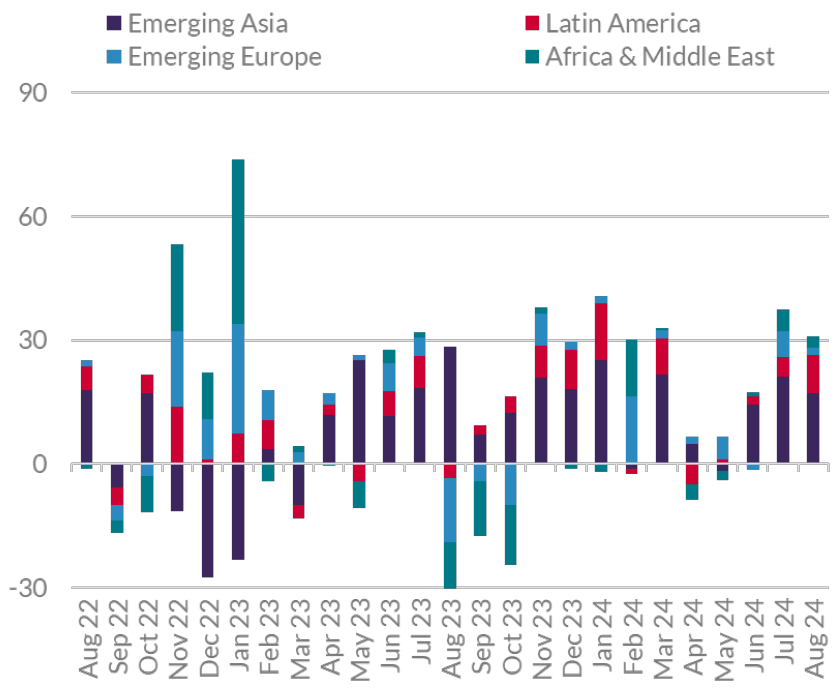
EM - Total Portfolio Flows into Emerging Markets, USDbn



Source: IIF Tracker

Asia & LatAm Getting The Bulk of Inflows

EM - Total Portfolio Flows into Emerging Markets, USDbn



Source: IIF Tracker

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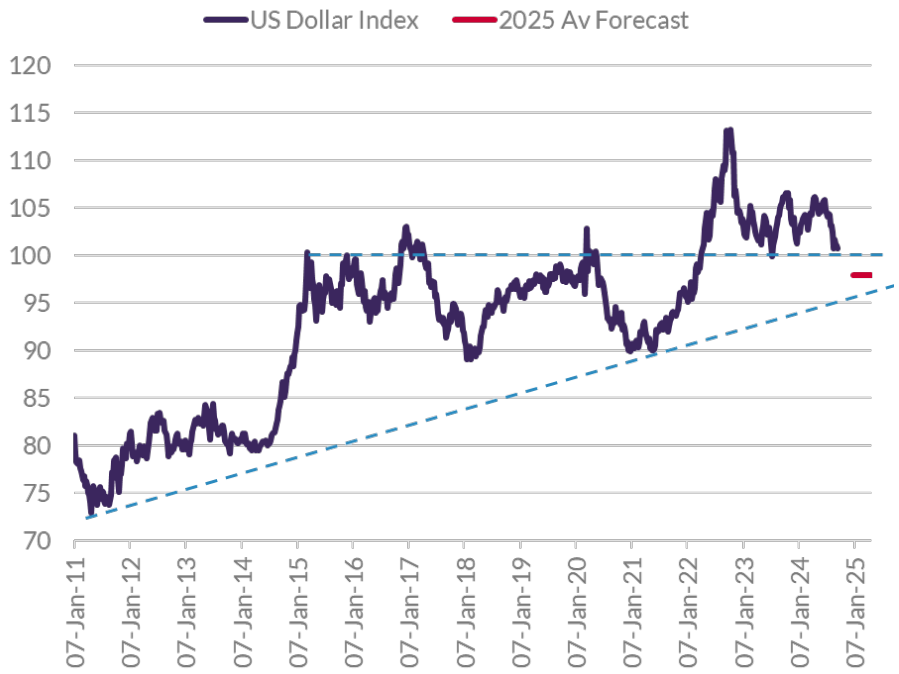
Slightly Weaker USD Is Helpful For EMs

US Dollar Losing Pillars of Support

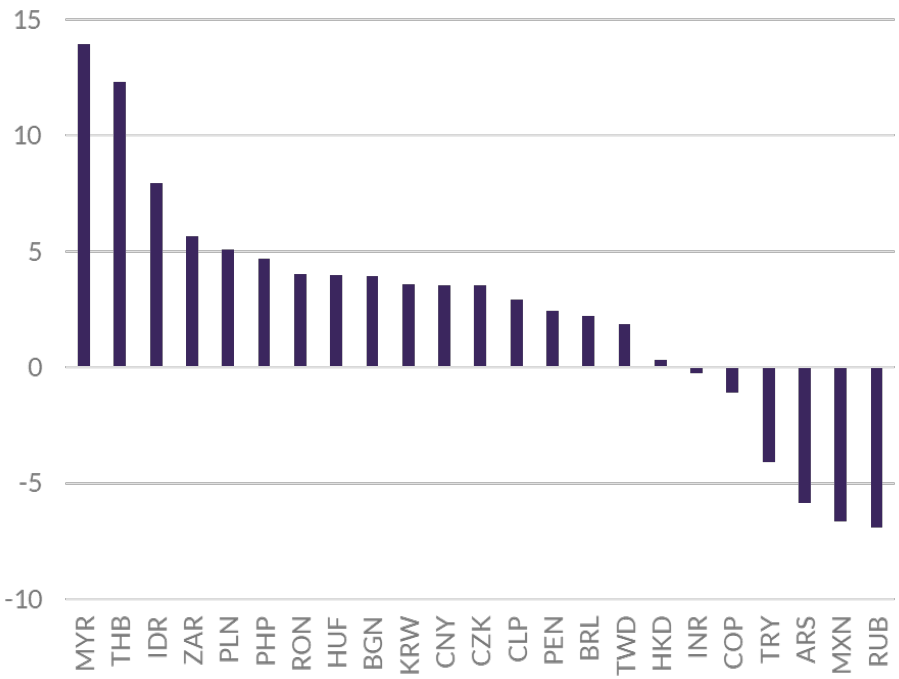
US – Dollar Index



Source: Bloomberg, BMI

Asia Outperforming

EM – Currency Returns vs USD, 3M



Source: Bloomberg, BMI

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6

US Election Outlook & Global Risks

Core View And Recent Developments

- **We believe that Kamala Harris will narrowly win** the November election, though this is a low conviction forecast (55%).
  - Harris is more popular with female & suburban voters.
  - Republicans have disappointed since 2020 due to MAGA politics.
  - Perceptions of the economy are slightly better.

- **Harris has remained more popular than Trump,** but her lead falls within the margin of error.

- **The Electoral College voting system** exacerbates the difficulty of calling US presidential elections. Several swing states will determine the election.

- **We see significant risks to our view.** Several factors could change the direction of the race.
  - Deterioration in the labour market
  - Harris still linked to current administration
  - Manufacturing weakness important for 'Blue Wall'
  - Polling understates Trump's support

Outcome	Probability	Presidency	Senate	House	Thoughts
Harris Win, Divided Congress	40%	D	R	D	Highest probability scenario, but still below 50%.
Harris Win, Blue Sweep	10%	D	D	D	Very low probability given that Democrats are defending about 24 seats in the Senate
Harris Win, Republican Congress	5%	D	R	R	Unlikely that the House does not go the way of the Presidential results, but historically, it has happened.
Trump Win, Red Sweep	35%	R	R	R	Second highest probability scenario. A Trump victory is likely to lead to a sweep.
Trump Win, Divided Congress	9%	R	D	R	There is a chance that Democrats defend the Senate, but this is unlikely.
Trump Win, Democratic Congress	1%	R	D	D	Very unlikely of Trump victory, with Democratic controlled Congress

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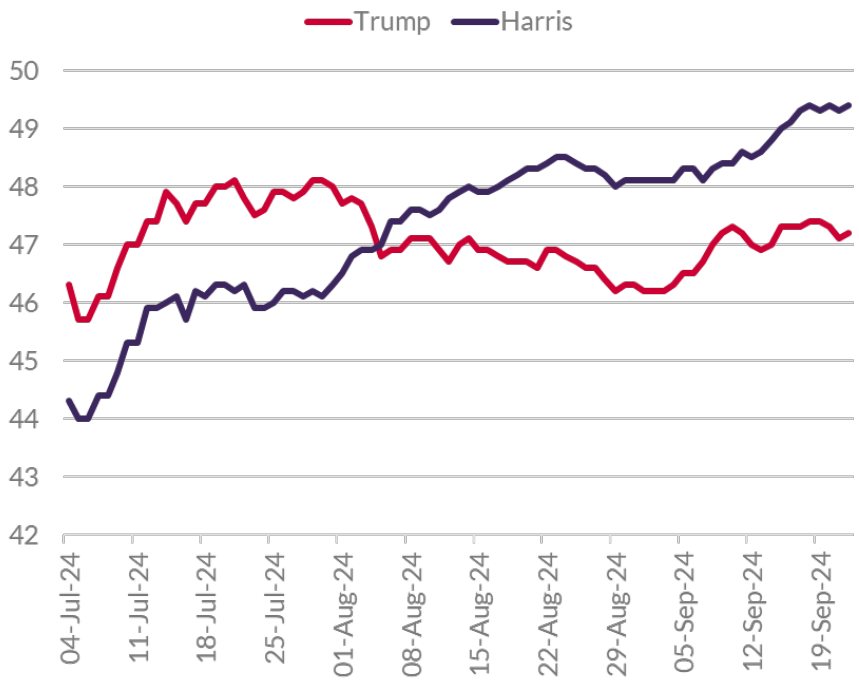
Harris Leads In The National Polls

Harris Leads In The National Polls…

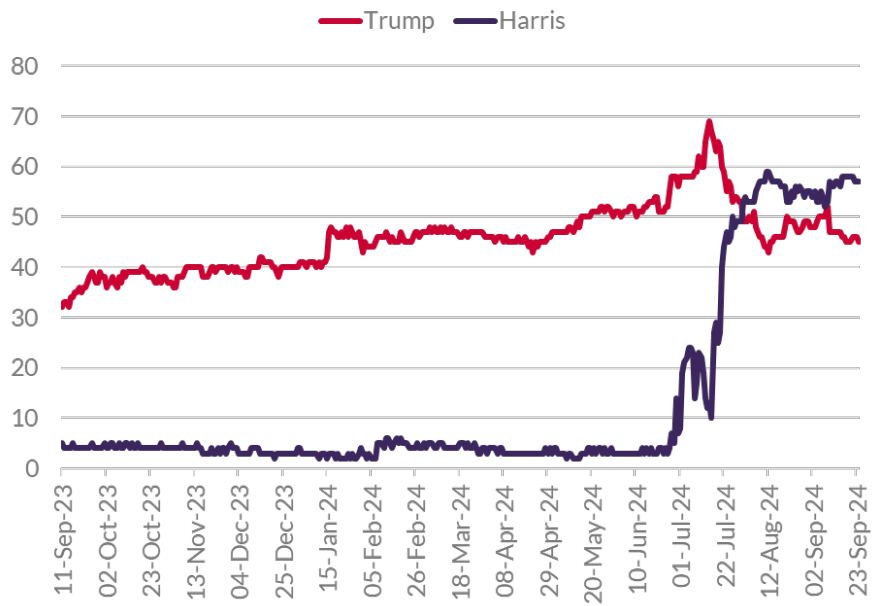
US – National Polling Averages, %



Source: Real Clear Politics, BMI

… And Betting Markets Put Harris In Lead

US – Predictit Betting Market, outcome of presidential election, %



Source: Predictit, Bloomberg, BMI

Harris Leads In The National Polls

	Trump	Harris
General	Greater trade tensions & potential for more volatility across currencies due to the likelihood of higher Fed Funds rate and stronger US dollar. Geopolitical risks to rise due to confrontational stance.	Broad policy continuity, with a continued focus on strengthening geopolitical alliances. Potential for greater macroeconomic stability due to fewer policy changes.
Asia	Increase in tariffs on goods from Mainland China. The potential for secondary sanctions on Vietnam. Pressure for a stronger yen and greater military spending by key allies that benefit from US military including Japan, Korea, Australia and Taiwan, China. Continued focus on India as a counterweight to Beijing.	Continued targeted pressure on Beijing, and a focus on building up the QUAD alliance with increased spending on military. Military support for Taipei, and continued investment in military bases in the Philippines. Potential for stronger economic and military relations with India.
MENA	Unwavering support for Israel, and stronger ties with Saudi Arabia, with potential for security alliance to counterbalance Beijing's regional influence. Tougher stance on Iran, compared to Harris.	Support for Israel, and push for normalisation of ties between Israel and Saudi Arabia. Potential for rapprochement with Iran and balance Beijing's influence. Reduce troops in the region.
Sub-Saharan Africa	Would put pressure on key currencies in the region, especially the rand and the naira, which would keep inflation elevated in Nigeria. Angola would still benefit from investment in the Lobito Corridor.	South Africa, Angola and Kenya would benefit from continuity as AGOA would remain in place. Balancing of Mainland China's influence would remain a policy anchor, and trade and aid flows would continue.
Americas	Trade policy would be highly transactional and protectionist in nature, posing headwinds to economic growth. Mexico has most in terms of trade and tighter border security. Less immigration would impact social risks and remittances for Central America. US dollar strength could also result in significant FX volatility.	Deepen existing nearshoring and green transition trends, supporting growth and FDI in the region. Mexico will benefit most and will generate some knock-on positive effects on Central America. Room for tighter immigration as well as strained ties with some Central American leaders.
Europe	Risks of tariffs would likely impact Germany and the UK the most, while relations would likely remain challenging with Turkiye. Potential for less support for NATO could impact the region significantly. Less support for Ukraine and lower risks of secondary sanctions for Russia.	Continuity that would benefit key economies such as Germany and the UK. Ukraine to continue receiving support, while less favourable relations with Turkiye and Russia will remain.

Source: BMI

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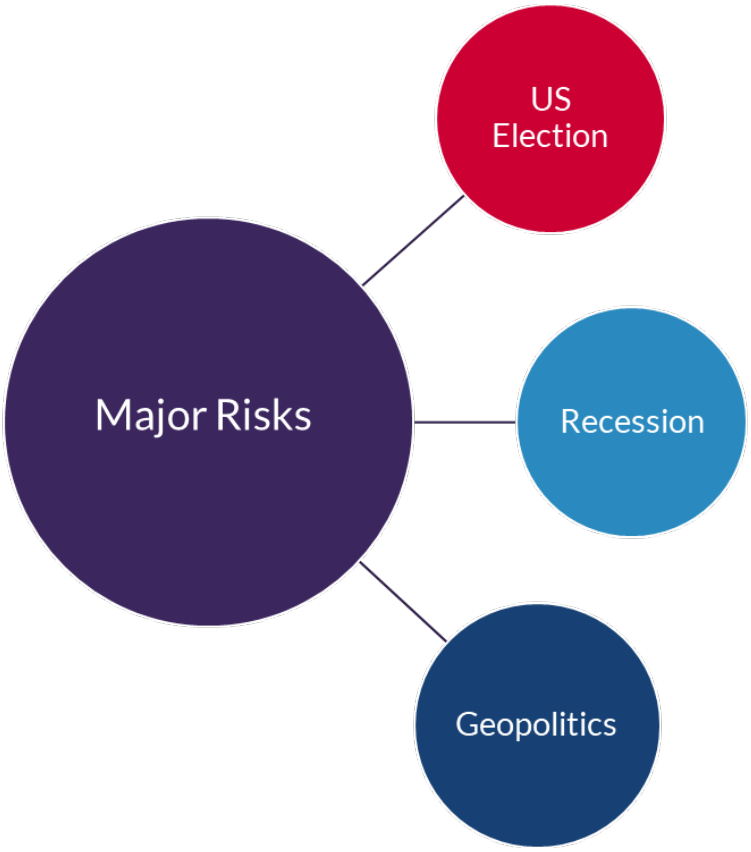
Key Global Risks To Watch

Multiplicity of Risks On The Horizon



- **US Election**
  - Recount in a swing states like in 2000
  - Certain states do not certify the electoral results
  - An electoral tie with 269 votes each
- **Recession Risks**
  - Labour market weakness which turns into a recession
  - A policy mistake if central banks do not cut quickly enough
- **Geopolitics**
  - Escalation of Russia-Ukraine war
  - Middle East tensions spread regionally involving a direct confrontation between Iran and Israel
  - Risks in the Taiwan Strait

Source: BMI

Learn More

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