JUNE 2024

Investment Navigator
Asia Edition

Trade war 2.0 reinforces the reshoring trend

Impact of latest US tariffs is symbolic but insubstantial

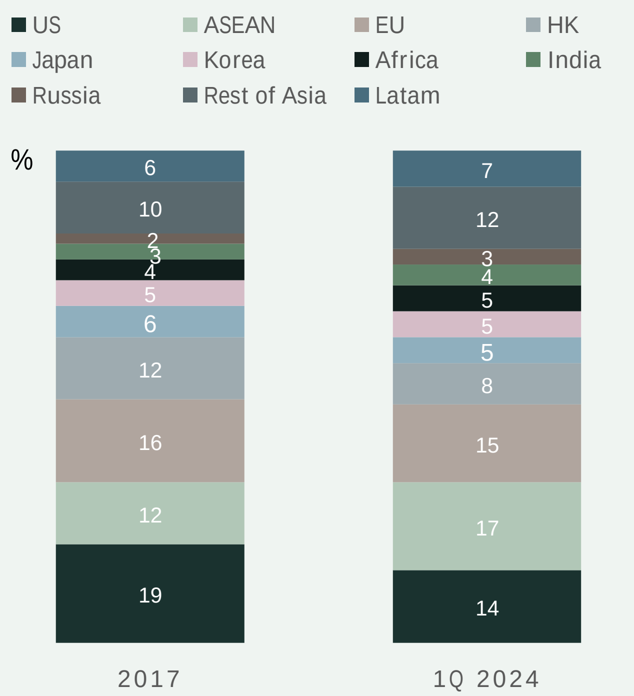
The impact of the new round of US tariffs on China's imports, including electric vehicles (EVs), batteries, solar cells, semiconductors, selected materials and medical products, is more symbolic than substantial. The direct impact on China's economy is likely to be limited as the USD 18bn of affected exports only account for less than 5% of China's exports to the US and less than 1% of China's 2023 total exports.

ASEAN has replaced US as China's largest export partner

ASEAN countries account for 17% of China's total exports in 1Q 2024 and up from 12% in 2017, while US share of China exports declined from 19% in 2017 to 14% in 1Q 2024.

ASEAN IS CHINA'S LARGEST EXPORT MARKET

China's export share by key market



Source: World Bank, China Customs, BNP Paribas (WM), as of 31 May 2024.
Past performance is not indicative of current or future performance.

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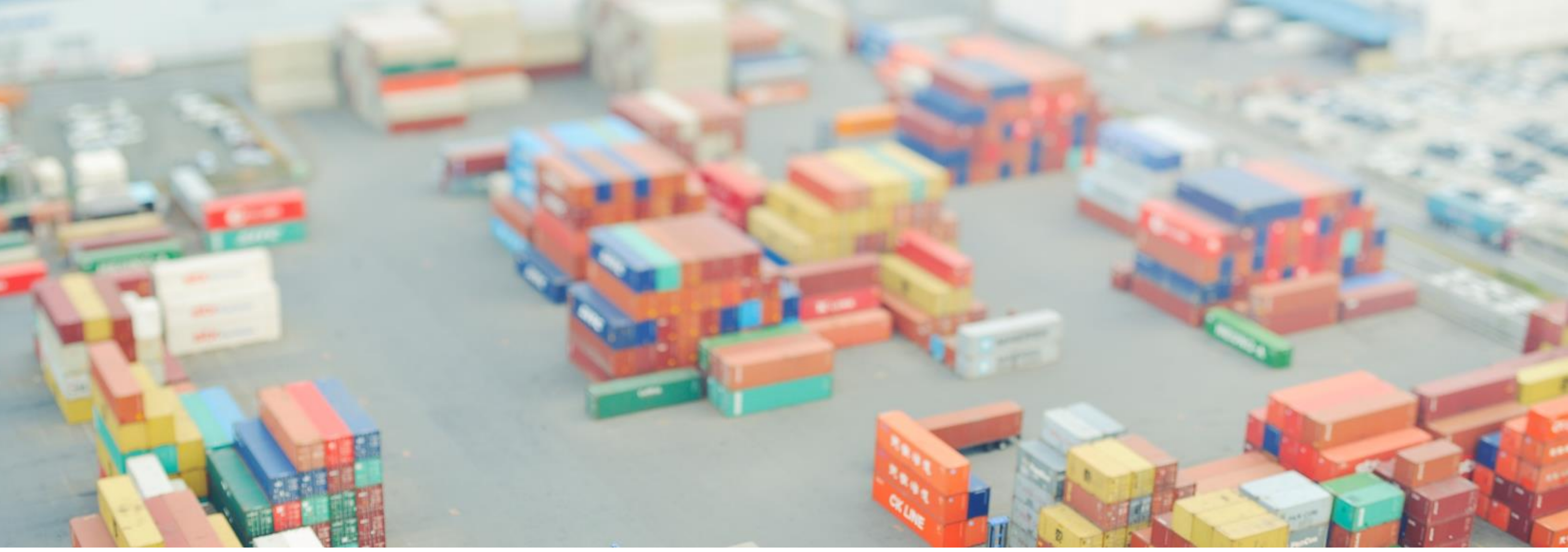


China has limited exposure to the "strategic" goods subject to new tariffs

For this latest round of tariffs, there may be relatively higher impact on China's EV battery, while impact on China's EVs is minimal despite a 100% tariff given the country's almost negligible direct US exposure.

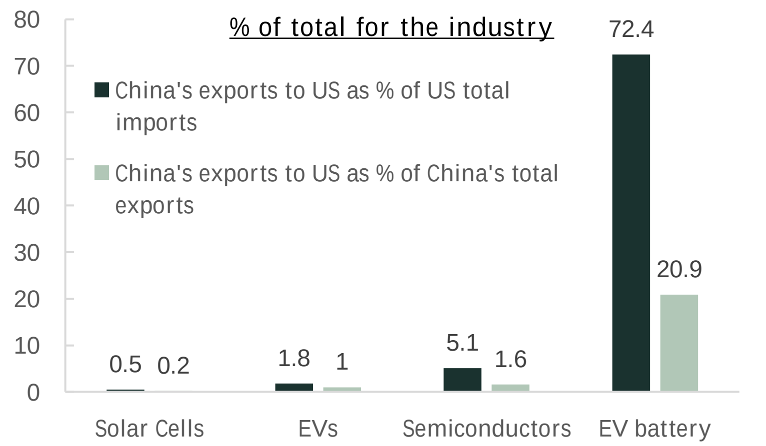
China's solar products are largely traded through ASEAN markets to the US, with 28% of US solar products importing from Vietnam, 22% from Thailand, 17% from Malaysia and 12% from Cambodia. However, solar equipment imported from these four countries may be subject to additional duties of as much as 271% once a two-year moratorium expires in June 2024. Some Chinese solar companies are halting their production at their Southeast Asia factories, as a result.

The EU has announced new additional tariffs of up to 38% on China's EV imports, which is probably high enough to weigh on some Chinese EVs exports to the EU and increase risk of China's retaliation on EU-made cars. The latest actions only reinforce the supply chains reshoring theme.

A gradual supply chains diversification from China is in motion

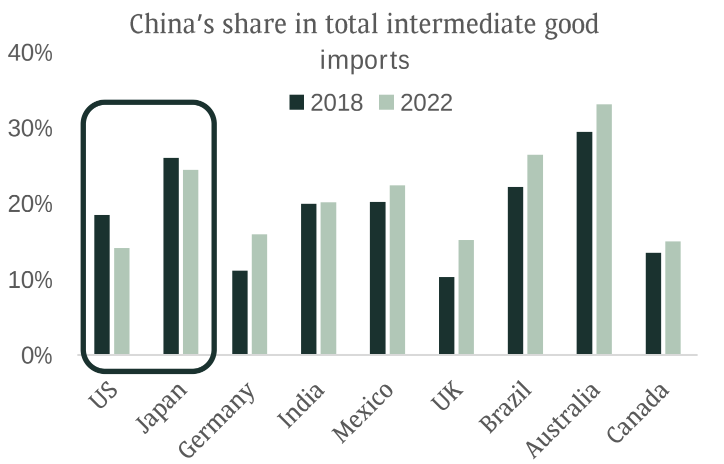
Increasing geopolitical conflicts and rivalries have pushed major economies and multi-national companies to re-think supply chains and their trading partners, leaning towards a more diversified model to minimise reliance and avoid a single point of failure.

CHINA IS A SMALL DIRECT SUPPLIER OF "STRATEGIC" GOODS TO THE US EXCEPT EV BATTERY



Source: UNCTAD, HSBC, BNP Paribas (WM), as of 31 May 2024.
Past performance is not indicative of current or future performance.

DE-RISKING FROM CHINA IS HAPPENING FOR US & JAPANESE COMPANIES



Source: Oxford Economics, BNP Paribas (WM), as of 31 May 2024.
Past performance is not indicative of current or future performance.

Who are the potential winners in the reshoring trend?

BENEFICIARIES BY COUNTRY

Key question: Which countries are most likely to be targets for supply chain diversification?

- **India:** Rivals China in scale and wages, with support from major policy reforms
- **Japan:** A major hardware producer and the perfect choice for more cutting-edge operations
- **Vietnam:** An established early mover with strong infrastructure and geographical advantage
- **Malaysia & Thailand:** Winners in certain niches (semiconductors and auto respectively)
- **Mexico:** A major beneficiary as it takes a large chunk of China's export share to the US
- **Brazil:** A great alternative for both energy and food imports

It is a zero-sum game as export demand and foreign direct investment (FDI) will eventually be allocated elsewhere. Reshoring and supply chain resilience have also been at the forefront of corporate planning.

Global policy announcements to de-couple trade and de-risk investment have increased significantly in recent years. At the same time, some countries have been proactively enacting reforms and incentives measures to attract manufacturing friend-shoring and relocation.

BENEFICIARIES BY SECTOR

"Concentration" of key products as a driver of government support

- **Semi-conductors** → Is critical to the continuity of digitalisation and AI development, and "concentration" is making governments pour billions into the subsector
- **Renewable Energy** → Can help alleviate risk from the current "concentration" in energy production

Other subsectors may also benefit indirectly from the government push

- **Robotics & Automation** and **Cybersecurity** → Are Beneficiaries as newer, more modern factories are built on the back of the supply chain diversification push
- **EV & its Batteries** → "Concentration" is high and governments support is strong, though recent setbacks make selectiveness the key in playing the theme

"Concentration" arises as a certain key products are sourced from only relatively few economies, and therefore, those subsectors become potential winners in the reshoring trend.

Overview of our CIO Asset Allocation for June 2024

	Views Current	Views Prior	Constituents	We like	Comments
EQUITIES	+	+	Markets	Eurozone, UK, Japan, Latin America, China, South Korea, Singapore & Indonesia	■ We maintain our positive view on non-US equities. ■ We are positive on DM Small Caps.
			Sectors	Healthcare, Materials, Industrials	■ We downgrade EU Automobiles to underweight, and downgrade Basic Resources to neutral.
			Styles/ Themes	Megatrend themes	■ Security, AI, circular economy, electrification & income themes.
BONDS	=	=	Govies	US government bonds (prefer shorter duration) US inflation-indexed bonds	■ Our 12-month target for the US 10-year Treasury yield is maintained at 4.25%
	+	+	Segments	Investment grade, Emerging markets (EM) bonds (USD + local currency)	■ We remain positive on US (up to 7-year maturity) and Euro (up to 10-year maturity) investment grade corporate bonds.
CASH	-	-			
COMMO-DITIES	+	+		Gold Oil Base metals	■ Gold - positive: target of $2600/oz in 2025 ■ Oil - positive: Brent's target range $85-95. ■ Base metals – positive
FOREX			USDJPY		■ USDJPY 3- and 12-month targets at 150 and 140 respectively.
ALTER-NATIVE	+	+		Hedge funds (event driven, long-short equities, relative value)	■ Neutral on global macro

Note: + Positve / = Neutral / - Negative

GDP & CPI Forecasts

		GDP (YoY%)			CPI (YoY%)		
		2023	2024f	2025f	2023	2024f	2025f
Developed	US	2.5	2.5	1.8	4.1	3.4	2.9
	Japan	1.9	0.3	1.0	3.2	2.9	2.3
	Eurozone	0.5	0.8	1.7	5.4	2.4	2.1
	UK	0.1	0.6	1.2	7.4	2.6	2.2
North Asia	China	5.2	5.2	4.3	0.2	-0.1	1.2
	Hong Kong*	3.2	2.9	2.7	2.1	2.3	2.3
	South Korea	1.4	2.5	2.0	3.6	2.5	2.1
	Taiwan*	1.4	3.1	2.7	2.5	1.9	1.6
South Asia	India	7.6	6.5	6.4	5.4	4.7	4.3
	Indonesia	5.0	4.9	5.1	3.7	3.0	2.4
	Malaysia	3.7	3.7	4.3	2.5	2.8	2.2
	Philippines*	5.6	6.2	6.2	6.0	3.6	3.0
	Singapore*	1.1	2.1	2.3	4.8	3.0	2.5
	Thailand	1.9	2.7	3.1	1.3	1.0	1.9

Source: BNP Paribas Group Economic Research, BNP Paribas Global Markets forecasts as of 31 May 2024
* IMF data and forecasts as of 31 May 2024

GROWTH

- The second estimate for Q1 2024 GDP shows the US economy expanded 1.3% QoQ. This is below the initial estimate of 1.6%, and is mainly due to a downward revision in consumer spending. We now see the US economy expanding 2.5% for the full year 2024.
- China's economy continues to give mixed signals. The private Caixin manufacturing PMI painted a rosier outlook, in contrast with the official manufacturing PMI which dipped below into the contractionary level at 49.5 for May. Nonetheless, our 2024 forecast for **China's** GDP growth remains at 5.2%, after the better-than-expected Q1 and possibly more stimulus.

INFLATION

- US inflation shows encouraging signs as headline PCE prices steadied, while core PCE prices for April slowed more than expected by 0.2% MoM.
- Inflation rose more than expected in Europe, with headline annual inflation at 2.6%. Nonetheless, a rate cut in the June ECB meeting is delivered as widely anticipated, given the steady decline in inflation so far.
- In Asia, **China's** headline CPI inflation stayed unchanged at 0.3% YoY in May 2024. Meanwhile, **Japan's** cooler-than-expected inflation print was welcomed by the BoJ.

Equities

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: POSITIVE

Positive	Neutral	Negative
COUNTRY		
UK Japan Emerging Mkt Eurozone	US	-
SECTOR		
Healthcare Materials Industrials	Energy Comms., Real Estate Technology Financials Utilities	Consumer Staples Consu. Discre.

OVERALL ASIA: POSITIVE

Positive	Neutral	Negative
COUNTRY		
China Singapore South Korea Indonesia	Taiwan India, Thailand Malaysia Philippines	-
SECTOR		
Comms. Consu. Discre. Consumer Staples Technology	Energy Materials Real Estate Financials Healthcare Utilities	Industrials

- We stay positive on equities, even as rate cut expectations continue to get pushed further out. We prefer non-US equities as the value theme starts to gain more footing.
- We continue to remain bullish on Japan, which has seen two months of consolidation so far. Further yen weakness can continue to provide some tailwinds for Japanese **companies'** EPS growth.
- We remain cautiously positive on China. The Chinese government recently announced a series of policy measures aiming at propping up the property sectors. However, the re-lending program with RMB 300 bn to help local governments / SoEs buy housing inventory fell short of expectations. As a result, offshore China/Hong Kong equities saw profit-taking after the strong rally.
- Taiwan and **Korea's** semiconductors had a strong run in May amid the AI mania and stronger-than-expected earnings results of Nvidia.

		1-month (%)	YTD (%)	2023 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2024f	EPS Growth (%) 2024f	EPS Growth (%) 2025f	ROE (%) 2024f
Developed	US	4.6	10.3	25.0	21.0	4.7	1.6	10.5	14.4	18.3
	Japan	1.1	18.3	25.9	15.5	1.5	2.0	17.1	5.7	8.9
	Eurozone	1.7	9.0	16.0	13.4	1.8	3.0	3.6	10.4	13.2
	UK	1.2	6.8	3.3	11.8	1.9	3.7	2.4	8.3	14.2
	Asia Ex-Japan	1.3	4.5	3.6	13.3	1.6	2.6	24.9	16.0	11.2
North Asia	China	2.1	6.8	-12.8	10.4	1.3	3.0	15.4	12.5	10.9
	China A-shares	-0.7	4.3	-11.4	12.6	1.5	3.1	11.6	11.1	11.5
	Hong Kong	1.2	-6.5	-17.8	12.6	1.0	4.2	12.6	11.6	6.9
	South Korea	-3.4	-1.4	23.9	10.2	1.0	2.1	101.1	27.4	9.7
	Taiwan	4.8	21.7	26.7	17.9	2.9	2.7	22.8	19.8	14.7
South Asia	India	0.6	9.3	20.3	22.5	4.1	1.1	9.9	15.9	15.3
	Indonesia	-7.4	-10.5	2.2	11.6	2.1	5.3	1.0	8.2	16.3
	Malaysia	1.5	8.2	-3.2	14.3	1.5	3.7	12.3	8.3	9.4
	Philippines	-5.1	-1.9	1.1	11.7	1.8	2.0	12.1	10.6	13.3
	Singapore	1.1	5.3	-3.9	12.2	1.4	5.1	8.8	5.0	9.9
	Thailand	-2.6	-5.6	-13.8	15.9	1.7	3.1	13.1	14.9	9.3

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 31 May 2024

Fixed Income

POSITIVE NEUTRAL NEGATIVE

OVERALL GLOBAL: NEUTRAL		
Positive	Neutral	Negative
EMD (LC) EMD (HC) IG UST	High Yield	-

OVERALL ASIA (USD): NEUTRAL		
Positive	Neutral	Negative
-	India Philippines Singapore Indonesia	Hong Kong China

		Total Return (%)			Yield-to-Worst (%)
		1-Month	YTD	2023	
Asia	Asia USD Bond	1.6	0.8	7.3	5.7
	Asia Local Currency Bond	1.4	-5.3	7.2	4.4
	China	1.5	1.7	5.0	5.9
	Hong Kong	1.5	0.7	7.7	5.6
	India	1.9	2.6	9.5	6.6
	Indonesia	2.2	-2.0	9.9	5.7
	Singapore	1.2	-0.2	6.6	5.2
	South Korea	1.2	0.8	6.6	5.4
	Philippines	1.7	-1.7	8.3	5.6
Other Regions	US 10-year Treasuries	1.4	-2.2	3.8	4.4
	US Investment Grades (IG)	1.7	-1.6	5.5	5.1
	US High Yield (HY)	1.1	1.6	13.4	8.0
	Emerging Market USD Bond	1.7	1.4	7.1	6.2

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 31 May 2024

US Treasury 12-month Yield Targets (%)	2Y	5Y	10Y	30Y
	4.25	4.25	4.25	4.4

- The ECB cut rate in June and is expected to cut further in September and December this year. For the US Federal Reserve, we expect only one rate cut in September this year. We estimate the terminal rates to be 2.5% in 2025 in the Eurozone and 3.75% in 2026 in the US.
- We stay positive on US government bonds (we prefer short maturities 3-5 years) and US TIPS with maturities up to 10 years. As for corporate IG bonds, spreads are tight but not extreme. Corporate fundamentals are sound, and the rating drift is positive. All-in yields are high. We prefer maturities up to 7 years in the US and up to 10 years in the eurozone.
- We still exercise caution overall on Hong Kong and China credit, but there are some exceptions we find valuable. While we have concerns about China's property sector and potential delays in rate cuts, which could be challenging for high-yield or high-beta companies, there are opportunities in the China A-rated tech space and selective names within the Macau gaming industry.

Forex & Commodities

POSITIVE NEUTRAL NEGATIVE

12-MONTH FOREX VIEW		
Positive	Neutral	Negative
JPY EUR GBP AUD NZD CAD	CNY KRW MYR INR IDR THB PHP SGD	USD

COMMODITIES		
Positive	Neutral	Negative
Gold Oil Base metal	-	-

- EUR: We expect the Fed to cut rates only once this year (25bps in September) as some components of inflation remain sticky. We see 3 rate cuts for the ECB this year starting in June. The expected differential in policy rates will become less in favor of the US dollar. We maintain our 3-month target at 1.06 and our 12-month target at 1.12.
- JPY: The yield differential supported the USD over recent months. Support for the JPY should come later this year as the Fed is set to cut rates and the BoJ to gradually increase their policy rate (we expect next hike in September). We maintain our USDJPY 3-month target at 150 and our 12-month target at 140 (value of one US dollar).
- GOLD: We move our rating back to positive as the expected correction proves to be very mild. EM central banks should continue their strategic purchases. Gold could reach $2600/oz next year.
- OIL: We keep our $85-95 expected price range for the Brent as the OPEC+ production cuts help balancing the market in a context of high geopolitical risks, rising demand and slower non-OPEC production growth.
- BASE METALS: After the recent rally, we expect a few months of consolidation for copper and other base metals before they resume their uptrend as demand growth outpaces supply. Any dip should be bought.

Forex Forecasts

		Spot	3-month		12-month	
		As of 31 May 2024	View	Target	View	Target
Developed	USD Index*	104.67	=	105.5	-	100.0
	Japan	157.1	+	150	+	140
	Eurozone	1.086	=	1.06	+	1.12
	UK	1.273	-	1.23	+	1.30
	Australia	0.665	+	0.68	+	0.70
	New Zealand	0.612	=	0.60	+	0.63
	Canada	1.363	+	1.32	+	1.30
Asia Ex-Japan	China	7.244	=	7.20	=	7.20
	South Korea*	1,385	=	1,400	=	1,370
	India	83.47	=	82.0	=	82.0
	Indonesia*	16,250	=	16,500	=	16,200
	Malaysia*	4.707	=	4.84	=	4.79
	Philippines*	58.52	=	57.8	=	57.3
	Singapore*	1.352	=	1.37	=	1.34
	Thailand*	36.79	=	37.5	=	36.6

Source: BNP Paribas (WM) as of 31 May 2024
*BNP Paribas Global Markets forecast as of 31 May 2024

Note: + Positve / = Neutral / - Negative

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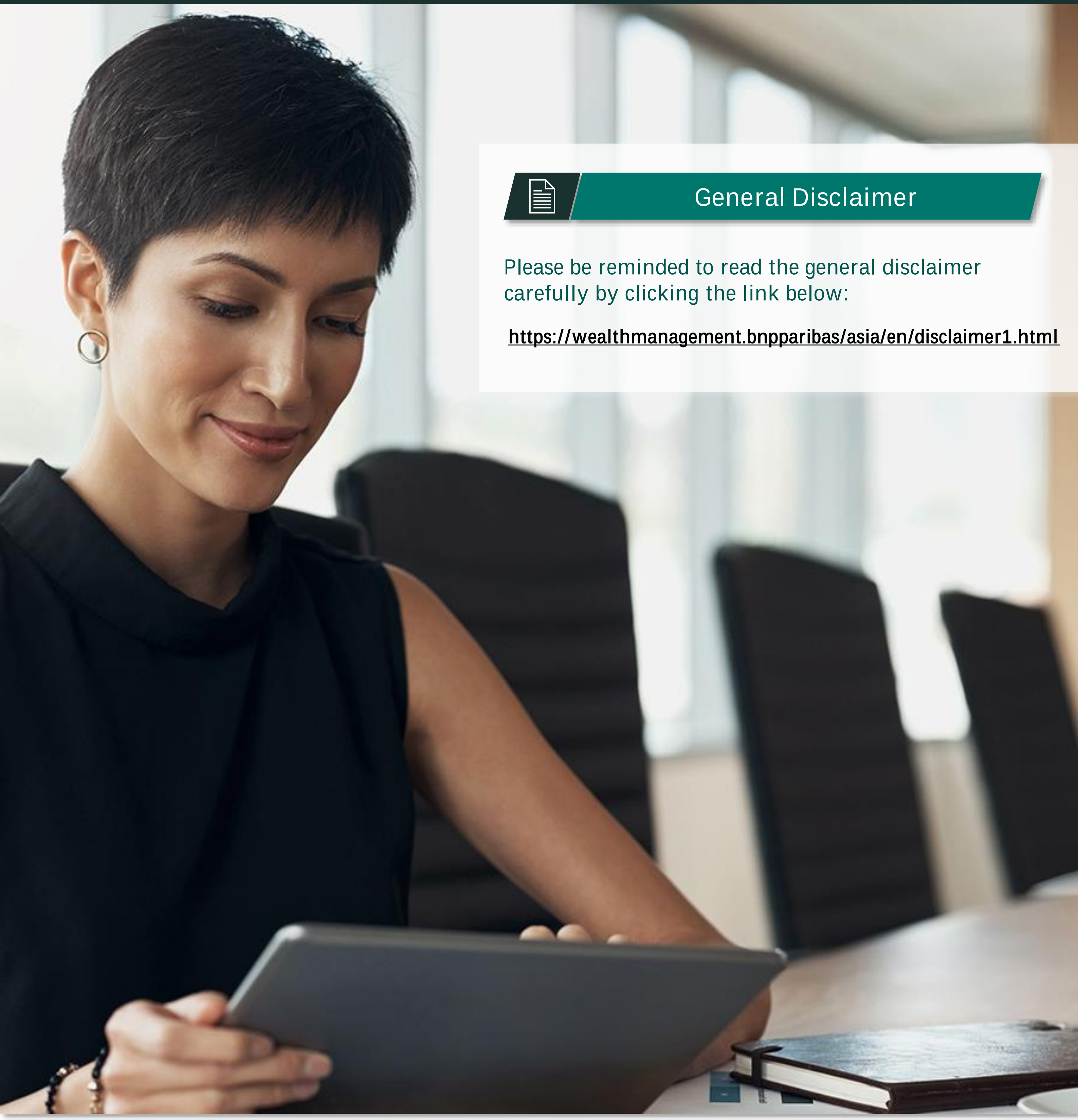

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