US Fed, Elections and China Property Woes Dominate Asia Trip Discussions

Takeaways from my trip to Hong Kong and Singapore

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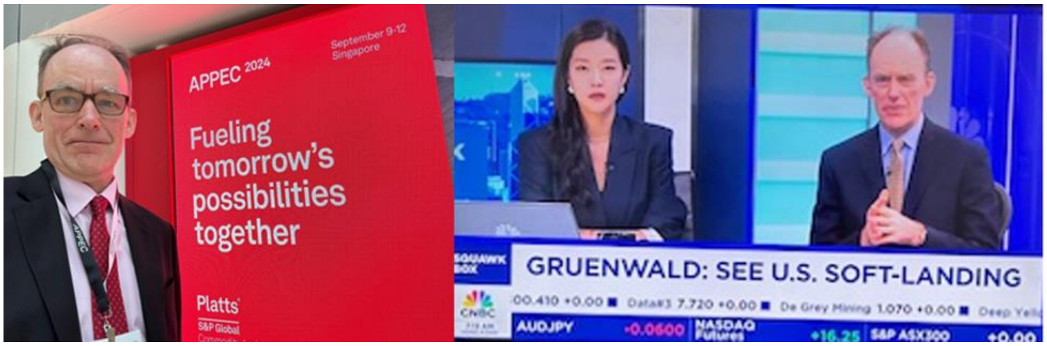
My trip to Hong Kong and Singapore featured a typically packed agenda and lots of learnings. The itinerary included two conference presentations, four media appearances, two town halls, a couple of round tables, and a swath of meetings with clients, counterparts, and other contacts.

Discussions focused on three key issues: the Federal Reserve's rate path, the U.S. elections and implications for Asia, and China's property sector woes and structural oversupply problem.



Federal Reserve Rate Path

The outlooks for the paths of the U.S. economy and the Federal Reserve's policy rates were top of mind. There was widespread agreement that the U.S. economy has continued to outperform, though growth has softened. The time has come for the rate-cutting cycle to begin.

Most agreed with S&P Global Ratings' "soft landing" scenario, based on strong labor demand and the expectation that the Fed will proceed gradually (see "A Cooling U.S. Labor Market Sets Up A September Start For Rate Cuts" August 6, 2024). A few observers thought the Fed might want to be more aggressive. We discussed the terminal point for rate-cutting in most meetings, and the overall view was that the Fed would stop at around 3%.

The Fed's path was the key factor in our discussion of regional central banks' policy rates. Asian central banks seem to be following the Fed more closely than banks in other regions. Lower U.S. rates, combined with somewhat slower U.S. growth, would create space for regional central banks to lower rates. So far, many have been reluctant to cut, hoping to avoid excessive depreciation of their local currencies against the U.S. dollar.

U.S. Election And U.S.-China Relations

Interest also ran high in the U.S. presidential election, including the implications for U.S. growth prospects and for Asia.

While the economic platforms of the two candidates are not entirely clear, most participants agreed that any differences for U.S. growth would likely be modest. Both candidates seem to favor strong fiscal spending with little attention to deficits. Also, both candidates are considered supportive of industry and likely to continue the Inflation Reduction Act and related public spending on energy transition.

On the implications for Asia, while Trump was a known commodity, there was considerable discussion about what a Harris administration would mean for U.S.-China and overall U.S.-Asia relations. While much remains to be seen, the consensus was that the overall "tough" stance against China would continue, with an emphasis on reshoring the production of sensitive goods and services. However, a Trump administration was seen as more likely to be transactional and to work less with U.S. allies--as well as more likely to use tariffs and sanctions in an attempt to rectify trade imbalances.

China's Property Struggles And Structural Surplus

Views on China's property sector were gloomy overall. One analyst in Singapore told us that views are even more negative on the mainland. China's measured and targeted approach to resolving the overhang will likely be a multiyear endeavor (see "China Property Watch: Searching For A Bottom" May 7, 2024). Several times the question arose of when the bottom would be reached, underscoring this preoccupation with subdued growth and deflation. Price data from China that was released during our trip showing growing deflation pressures.

We had numerous discussions on China's oversupply problem and related high savings challenges Weak domestic demand and absorption, stemming mainly from the property downturn, are contributing to growing Chinese exports. This will likely intensify trade frictions, and not just with the U.S. On the specific issue of electric vehicles, all parties agreed that the contrasting approaches of the U.S. (bans) and Europe (restricted access, including through countervailing duties) bear watching.

All Must Add Up Globally

In summarizing discussions, I made my long-standing case that if China adjusts, it cannot do so unilaterally. Macro accounting identities stipulate that global trade and current accounts must balance (or equivalent global savings must equal global investment). Any reduction in China's surplus must be offset by lower deficits elsewhere, and such an offset almost certainly includes the U.S.