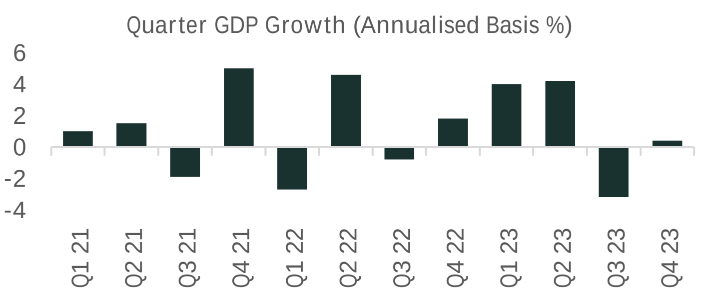
MAY 2024

Investment Navigator
Asia Edition

Japan: Still land of the rising stocks?

The Japan equities market has garnered a lot of attention since 2023, where we reiterated our positive call on Japan equities. We continue to be positive on Japan including small and mid caps despite Bank of Japan's potential future interest rate hike. Full year 2023 performance for the TOPIX was 25.3%. YTD the TOPIX gained 15.9%, and saw new highs in March, outperforming most markets in local currency.

JAPAN AVOIDED A TECHNICAL RECESSION



Source: Bloomberg, BNP Paribas (WM), as of 2 May 2024. Past performance is not indicative of current or future performance.

How is the Japanese economy faring?

The Japanese economy narrowly avoided a technical recession. The recently revised data shows gross domestic product (GDP) was 0.4% higher in the last three months of 2023 compared to a year earlier. Net trade remains a positive contribution, spurred likely by the weakness in the yen. Sentiments continue to improve, albeit domestic demand remains a concern. There are also growing doubts on whether inflation can stay near the 2% target.

Interestingly, March saw the largest ever wage hike in the spring wage negotiation. Rengo, the country's largest union group, confirmed that Japanese firms have agreed to raise pay by 5.25% on average this year. The wage rise could have a significant impact on inflation going forward.

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Bank of Japan remains accommodative

The unprecedented March wage negotiation allowed the BoJ to finally exit their negative interest rate policy (NIRP) and terminate the yield curve control (YCC) framework. The most recent April meeting unsurprisingly saw policymakers keep interest rate unchanged at 0% to 0.1%, while maintaining its current JGB purchase amounts.

The central bank also revised its forward guidance. CPI print for FY 2024 has been revised higher to 2.8%, from January's projection of 2.4%. This is largely due to the waning effects of higher import prices and fewer government support measures. The bank made it clear that it intends to raise rates further if the economy and inflation evolve as it expects.

BOJ QUARTERLY ECONOMIC FORECAST

% YoY	Real GDP	CPI (ex-fresh food)	CPI (ex-fresh food and energy)
Fiscal 2024 - 25 (FY2024)			
April	0.8	2.8	1.9
January	1.2	2.4	1.9
Fiscal 2025 - 26 (FY2025)			
April	1	1.9	1.9
January	1	1.8	1.9
Fiscal 2026 - 27 (FY2026)			
April	1	1.9	2.1

Source: Bloomberg, BNP Paribas (WM), as of 2 May 2024. Past performance is not indicative of current or future performance.

Our base case is still for the BoJ uncollateralised overnight call rate to be at around 0.75% by September 2025.

We still see a 15bp rate hike in September 2024, followed by 25bp hikes semi-annually, although the risk of a quicker than expected rate hikes is increasing.

What can cause the BoJ to hike quicker than expected?

Crucially, the yen would have to weaken further. As of now, Governor Ueda does not appear overly concerned. He noted that the yen depreciation has yet to materially influence their inflation outlook, although that sparked more selling pressure on the yen. Interestingly, there have been reports on suspected intervention as the USDJPY approached 160. This constant threat of MoF intervention likely implies that any further weakening of the yen will be gradual in nature.

The continuing yen weakness will be monitored for further fueling of import inflation. The BoJ will prefer to prevent any unexpected re-acceleration of inflation, and manage inflation around their 2% target level.

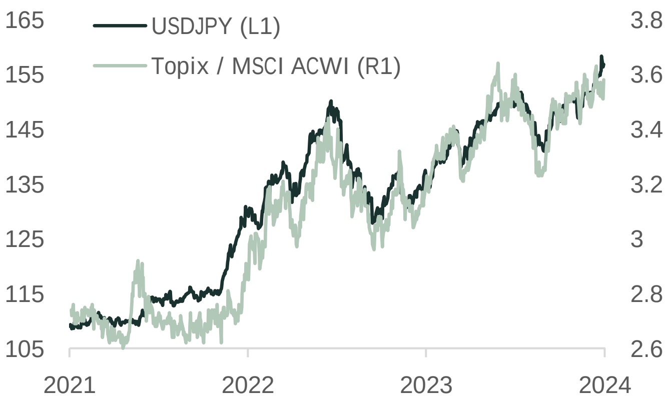
Ultimately, the BoJ will want to avoid the risk of an early rate hike. There is potential to cause a rapid repricing of the terminal rate and thereby causing instability in the JGB market.

BoJ impact on markets

The central bank stressed that they are merely reducing the amount of stimulus, instead of tightening its grip on the supply of money. The preference is still to move as gradually as possible, to minimise any shocks associated with the transition away from three decades of near-zero interest rates.

This accommodative message has been well-received by the market. Japanese stocks hit record highs for the first time in 34 years. The weak yen against the dollar also greatly benefitted Japanese exporters.

TOPIX BENEFITTED FROM THE ONGOING WEAKNESS IN THE JPY



Source: Bloomberg, BNP Paribas (WM), as of 2 May 2024. Past performance is not indicative of current or future performance.

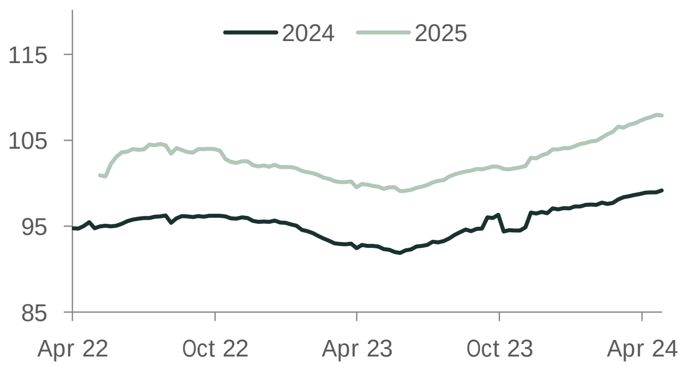
The market continues to challenge BoJ's narrative on rate hikes. However, we keep the view that the potential Fed rate cuts and the BoJ rate hikes should gradually increase the attractiveness of the JPY. However, the USD strength (with fewer cuts priced in this year) reduces the potential for yen strengthening. Hence, we adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140.

Japan Equity: Earnings

The earnings season has been pretty decent thus far. 14% of TOPIX companies have reported Q4 2024 results, and 59% beat EPS estimates. Overall EPS growth is +1% YoY, with 6 of 10 reporting sectors seeing positive growth. On the topline, 51% of the companies beat sales estimates, delivering +2% YoY revenue growth, with 9 out of 11 sectors are recording positive growth.

Additionally, the current weakness in the JPY is also pointing to a material upside for EPS growth in Japan. It is also no coincidence we are seeing positive FY2024 earnings revisions for MSCI Japan EPS.

MSCI JAPAN EPS ESTIMATES



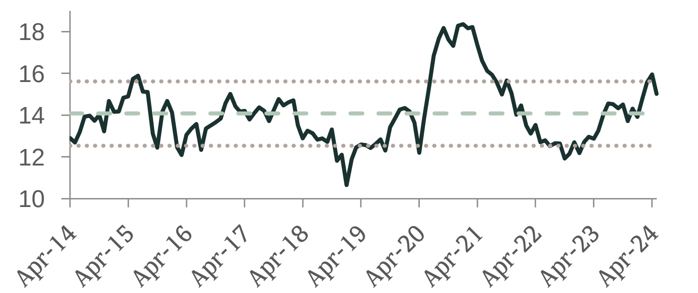
Source: Datasteam, BNP Paribas (WM), as of 2 May 2024. Past performance is not indicative of current or future performance.

Japan Equity: Other catalysts

For FY2023, TOPIX companies announced a record high of JPY10.1 trillion of share buybacks. Furthermore, the number of companies announcing YoY dividend increases is also much higher versus the same period of the previous year.

Valuation also remains fair. MSCI Japan is trading at 15.1x PE ratio (vs 15.0x 20y average), while also being within 1 standard deviation of the 10y average PE.

MSCI JAPAN PRICE-TO-EARNINGS RATIO



Source: Datastream, BNP Paribas (WM), as of 2 May 2024. Past performance is not indicative of current or future performance.

The structural trends of economic reflation and corporate governance reform are still on track. Although rising rates tend to be perceived as headwinds for equities, we see Japan's exit from negative interest rates a tailwind.

We continue to stay positive on Japan including small and mid caps. Stock price reactions to earnings announcements had a somewhat negative bias, as profit-taking became apparent following a >15% 1Q return. Overall, the current pullback in Japan equity market can represent a good opportunity for accumulation.

CONCLUSION

BoJ continues to act in an accommodative fashion, despite moving out from NIRP. They are likely to stay flexible/data-dependent, and hike gradually, although the fast depreciation of JPY may force them to move quicker.

We continue to favour Japan on its economic reflation and corporate governance reform story. Earnings and shareholder returns reinforce the attractiveness of Japan equity. Softer JPY is also a tailwind for the land of the rising sun. Pullbacks represent opportunities to accumulate.

KEY RISK

While BoJ remains accommodative to minimise the impact of transiting away from negative rates, further weakening of the yen may pressure the central bank to hike earlier than expected.

Overview of our CIO Asset Allocation for May 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 also like EU financials, tech & REITs.
			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 revised up to 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 Battery metals	■ Gold - positive: target range $2200-2400. ■ 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	2.8	1.8	4.1	3.4	2.8
	Japan	1.9	0.4	0.9	3.2	2.9	2.3
	Eurozone	0.5	0.7	1.7	5.4	2.4	2.1
	UK	0.1	0.1	1.2	7.4	2.5	2.1
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	1.2	1.9	2.1	3.7	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 30 April 2024
* IMF data and forecasts as of 30 April 2024

GROWTH

- US real GDP growth increased at 1.6% QoQ annualised in 1Q 2024, below consensus expectations of 2.4%. We maintain our 2024 US GDP growth forecast at 2.8%
- The stronger-than-expected preliminary Eurozone 1Q 2024 GDP at 0.3% QoQ suggested that the economy started the year on a solid footing.
- We revised our **China's** 2024 GDP growth forecast to 5.2% from prior 4.5%, by incorporating a better-than-expected 1Q 2024 GDP print.

INFLATION

- Our forecast for the first Fed rate cut is delayed to September 2024 (from June) after 4 consecutive months of hotter-than-expected US CPI numbers.
- Eurozone inflation held steady at 2.4% as expected in April 2024, suggesting a strong case for the ECB to cut rate in June 2024.
- **China's** headline CPI inflation slowed to 0.1% YoY in March from 0.7% in February 2024 amid ongoing deflation concerns.

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 remain positive on equities. US growth is running above trend, while other geographies are improving.
- We continue to remain bullish on Japan and recommend accumulating if there are pullbacks. The yen weakness provides some tailwinds for Japanese companies' EPS growth.
- China had a clear pro-growth tone in the latest Politburo Meeting, acknowledging weak domestic demand as well as corporate operating difficulties, and pointing to faster issuance of special government bonds and warning against late implementation of fiscal support.
- China's Ministry of Finance's proposal to support the PBoC in gradually increasing government bond trading to boost liquidity led investors to positive expectations on China's style of QE.

		1-month (%)	YTD (%)	2023 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2024f	EPS Growth (%) 2024f	EPS Growth (%) 2025f	ROE (%) 2024f
Developed	US	-4.2	5.4	25.0	20.4	4.5	1.8	9.5	14.5	18.3
	Japan	-1.1	17.0	25.9	15.0	1.7	2.0	14.0	8.8	8.8
	Eurozone	-2.5	7.2	16.0	13.2	1.8	3.1	3.3	10.3	13.0
	UK	2.5	5.4	3.3	11.3	1.8	3.8	1.2	8.4	14.1
	Asia Ex-Japan	1.1	3.2	3.6	12.6	1.5	2.8	23.7	16.3	10.6
North Asia	China	6.4	4.5	-12.8	9.3	1.1	3.4	14.2	13.5	10.1
	China A-shares	1.9	5.1	-11.4	12.2	1.4	3.2	12.7	11.3	11.4
	Hong Kong	5.0	-7.6	-17.8	10.9	0.8	4.9	13.4	10.5	6.9
	South Korea	-3.3	2.1	23.9	10.5	1.0	2.1	92.5	26.6	9.3
	Taiwan	-0.6	16.1	26.7	16.5	2.7	2.9	22.4	20.4	14.3
South Asia	India	2.4	8.6	20.3	22.1	4.0	1.1	12.7	15.2	15.6
	Indonesia	-6.2	-3.4	2.2	12.1	2.3	5.4	3.0	8.4	16.3
	Malaysia	2.3	6.7	-3.2	13.9	1.4	3.8	12.8	8.0	9.6
	Philippines	-3.2	3.3	1.1	11.6	1.8	2.0	11.5	10.7	13.1
	Singapore	1.2	4.2	-3.9	12.2	1.3	5.1	4.0	7.5	9.9
	Thailand	-0.2	-3.1	-13.8	15.9	1.7	3.1	13.1	14.9	9.6

Source: MSCI indices in local currency terms, Bloomberg, Datastream, BNP Paribas (WM), as of 30 April 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	-1.5	-0.8	7.3	6.0
	Asia Local Currency Bond	-3.6	-6.6	7.2	4.5
	China	-0.9	0.2	5.0	6.2
	Hong Kong	-1.6	-0.8	7.7	5.9
	India	-1.4	0.6	9.5	7.0
	Indonesia	-2.9	-4.1	9.9	5.9
	Singapore	-1.4	-1.3	6.6	5.4
	South Korea	-0.9	-0.4	6.6	5.6
	Philippines	-2.6	-3.4	8.3	5.8
Other Regions	US 10-year Treasuries	-2.6	-3.6	3.8	4.6
	US Investment Grades (IG)	-2.5	-3.3	5.5	5.3
	US High Yield (HY)	-0.9	0.5	13.4	8.1
	Emerging Market USD Bond	-1.4	-0.3	7.1	6.6

Source: Barclays indices, Bloomberg, BNP Paribas (WM) as of 30 April 2024

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

- We expect the Fed to cut rates only once this year (25bps in September) as inflation kept surprising to the upside and growth is holding up, and 4 cuts in 2025.
- The ECB is likely to lead the rate-cutting cycle with 3 rates cuts this year, the first one in June, in our view.
- We are positive on US government bonds (we prefer short maturities 3-5 years) and US TIPS with maturities up to 10 years.
- Spreads are low, and even more so in the US, but investors focus on all-in yields. Investment Grade bonds offer a good risk-reward profile. 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 KRW SGD THB	CNY TWD INR IDR MYR PHP	USD

COMMODITIES

Positive	Neutral	Negative
Gold Oil Base metal	-	-

- EUR: We now see the Fed cutting only once this year and only in September while keeping our outlook for the ECB unchanged. The ECB should start cutting rates in June with 75bp cuts this year. The expected differential in policy rate justifies less depreciation potential for the USD relative to the EUR over the next 12 months. We maintain our 3-month target for EURUSD at 1.06 and we adjust our 12-month target from 1.15 to 1.12.
- JPY: We keep the view that the end of Japan's negative interest rate policy in March should gradually increase the attractiveness of the Yen but the fact that the US Fed will cut less over the coming year reduces the potential for Yen strengthening. We adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140.

- GOLD: We are tactically neutral in the short term and expect a consolidation in the $2200-2400/oz range before a break above as EM central banks continue their strategic purchases.
- OIL: We keep our $85-95 target 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: Production shortfalls and demand revival hopes are boosting prices. But the path to the new secular bull market driven by decarbonisation demand could be bumpy if manufacturing PMI and China disappoint again.

Forex Forecasts

		Spot	3-month		12-month	
		As of 30 Apr 2024	View	Target	View	Target
Developed	USD Index*	106.22	=	105.5	-	100.0
	Japan	157.4	+	150	+	140
	Eurozone	1.069	=	1.06	+	1.12
	UK	1.252	=	1.23	+	1.30
	Australia	0.649	+	0.68	+	0.70
	New Zealand	0.596	=	0.60	+	0.63
	Canada	1.374	+	1.32	+	1.30
Asia Ex-Japan	China	7.242	=	7.20	=	7.20
	South Korea*	1,382	=	1,410	=	1,380
	Taiwan*	32.56	=	33.0	=	32.5
	India	83.44	=	82.0	=	82.0
	Indonesia*	16,260	=	16,500	=	16,200
	Malaysia*	4.773	=	4.84	=	4.80
	Philippines*	57.77	=	57.8	=	57.4
	Singapore*	1.364	=	1.37	=	1.35
	Thailand*	37.06	=	37.50	=	36.90

Source: BNP Paribas (WM) as of 30 April 2024
*BNP Paribas Global Markets forecast as of 30 April 2024

Note: + Positve / = Neutral / - Negative

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