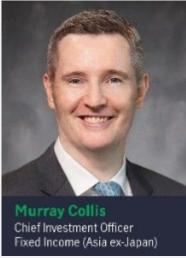

The US presidential election concluded with a victory for Donald J. Trump. Uncertainty surrounding the new administration's trade policies should initially pressure Asia; however, we are also likely to see resilience and opportunities across Asian fixed income markets, while China's monetary and fiscal stimulus package could become a key macro offset. In this investment note, our Asia Fixed Income Team analyses how the US election and other recent major events could impact the region's fixed income markets.

How might the US election and China's stimulus package impact Asian fixed income?[1]

Donald Trump's election win will initially pressure Asian economies due to uncertainty around his trade policies, including the likely escalation of tariffs, in our view. For now, the size of tariff policy changes and potential "deals" that can be made to mitigate such moves remain to be seen.

Nevertheless, since the end of September, China has proactively launched pro-growth policies. Further announcements were made at the National People's Congress (NPC) meeting, which concluded on 8 November, including a 10 trillion yuan package aimed at refinancing local government debt. The much-anticipated restructuring package featured: 1) raising the local-government debt ceiling by 6 trillion yuan in total (2 trillion yuan each year from 2024-26) and 2) allocating 800 billion out of the annual local-government special-bond (LGSB) issuance quota for debt resolution from 2024-28, totalling RMB 4 trillion.

While the magnitude of local government debt resolution is higher than expected, the market was slightly disappointed with the package, given elevated expectations prior to the NPC meeting. In particular, detailed plans around additional policy support for bank recapitalisation, consumption and the property sector are still in the works.

Despite this, we believe the authorities have clearly signalled that more forthright fiscal stimulus should be introduced in 2025. China credit markets are expected to trade in a relatively stable range going into the year-end, especially given the overall reaction to the US election results has been relatively contained.

We believe these latest measures illustrate that combating deflation is becoming a priority and should be sufficient to lift China's gross domestic product (GDP) growth closer to its 5% target for 2024.

Looking ahead to the "Two Sessions" meeting in March next year, the Chinese government, with a better assessment of the potential impact of the incoming administration's China/Trade policies, will be in a stronger position to muster sufficient fiscal-monetary measures to anchor macro stability.

Overall, we believe such policies should help to mitigate potential risks in China and benefit the region more broadly.

Outside of China, the region's central banks have been easing their respective monetary policies in line with the US Federal Reserve (Fed). The pace of such easing will likely be more cautious, given the desire to maintain currency stability. Looking ahead, we see the expansion in fiscal policy from China and the US, together with a potential resolution of the Russia-Ukraine conflict, should be growth-positive in 2025.

Asian markets reacted to the US election result with some spread tightening in investment-grade (IG)

[1] All data are as of 13 November 2024. Source: Bloomberg.

credit, driven by all-in yield buyers to partially offset higher US Treasury yields. Asia high yield (HY) traded with a mildly weaker tone in November (after an exceptionally strong performance year-to-date (YTD). JP Morgan Asia Credit Index (JACI) Index was down 0.15% month-to-date (with HY slightly underperforming IG), which is reasonable given the backup in yields over this period. Asian local markets are underperforming, given greater pressure from a stronger US dollar (USD) combined with higher local yields.

Despite the potential for increased volatility, we believe Asia's fixed-income markets will likely be resilient and present opportunities as they weather through the incoming US administration's policy approach to the region. Within the US economy, risks for additional fiscal stimulus, tax cuts and tariffs, and immigration policies have been priced into markets during recent weeks (yields on the benchmark 10-year yield rose by 80 basis points (bps) from their lows in September).

The back-up in yields offers attractive entry points, particularly for all-in-yield investors. Meanwhile, economies such as India and China could present alpha opportunities from step-up policy response and the structural growth story, as highlighted in the previous report Asian Credit: Three themes should propel returns in 2H 2024.

Asian credit markets continue to hold value

Asia IG spreads remain expensive from a historical viewpoint and relative to US IG credit. However, the lack of supply in Asia and the net-redemption trend of the market will remain key drivers of demand for Asia IG in the coming year. This theme should continue into 2025 to support demand.

We continue to see value in Asia HY, even after strong YTD performance. However, the Asia HY market will likely be more sensitive to developments from China NPC meetings and whether Chinese policymakers respond with a stronger fiscal stimulus package to offset the potential impact of higher US tariffs.

Fundamentally, most Asia-based global corporations should be more prepared for geopolitical risk after experiencing the Republicans' previous administration by adjusting their global supply chains to mitigate the impact of higher tariffs. Demand for Asia credit is predominately driven by regional and local investors that should moderate volatility induced by any potential US-led investment sanctions.

More cautious on Asian local rates

In local rates/currency markets, we are more cautious given the outlook for a stronger USD and upward pressure on US Treasury yields feeding back into Asia. On the other hand, there will be relative value opportunities in markets like India. Since India is more politically aligned with the US, and its economy is not as export-dependent as most other Asian economies, it is likely to be more insulated from potential US tariffs.

Mainland China and Hong Kong markets remain resilient

The impact of the US election result in Chinese markets was more muted than feared. As investors were defensively positioned in the run-up to the election and kept large amounts of cash on the sidelines, market technicals remain constructive into year-end. With more diversified sales and supply chains, China's economy is less reliant on the US market compared to the China-US Trade War 1.0.

China onshore bonds yields have rallied (bull-steepening) and outperformed global rates year to October. The People's Bank of China is expected to ease rates by a further 20bps into the year-end, subject to policy effects and the Fed's interest rate path. A steep or stable Chinse Government Bond (CGB) yield curve offers investors strong carry and positive roll-down returns. We maintain a positive duration view and expect the 10-year CGB to range between 2-2.25% into year-end. We also maintain a constructive view on China credit beta on the back of expansionary policy from China and the US and the potential upside from stabilising global conflicts.

CNH has weakened by around 1% to 7.2 in recent days, broadly tracking moves in the US Dollar Index (DXY) and US rates and showing no signs of significant disruptions. In our view, the Chinese Yuan Offshore (CNH) is expected to remain in the broad range of 7.10 – 7.30 against the USD until the first quarter when the US trade policies become clearer. We remain neutral on CNH.

Impact on the Hong Kong Dollar (HKD) rates going forward will likely come from market expectations around the path of US inflation and Fed rate cuts. Nevertheless, HKD rates outperformed the US rates

YTD, driven primarily by local factors, such as local liquidity and demand-supply dynamics.

Singapore local markets brace for potential tariff hikes

Singapore has a very open economy, which makes it vulnerable to any increase in US tariffs. At its October policy meeting, the Monetary Authority of Singapore (MAS) highlighted that “a sharp escalation in geopolitical and trade conflicts could exert sizable drags on global and domestic investment and trade”. If the economy experiences increased external pressure and uncertainty, there is a high likelihood that the MAS will make a dovish pivot in January 2025.

10-year US Treasuries and Singapore Government Securities (SGS) differentials were range-bound for most of 2024. The back-up in yields after the election result saw the differential widen to almost 2023 levels. In the short term, we think SGS yields should continue to move in tandem with US Treasury yields but with a lower beta, and US Treasury and SGS differentials could narrow when the MAS turns more accommodative on policy.

In currency terms, considering that MAS policy targets the Singapore Dollar Nominal Effective Exchange Rate (SGDNEER), and China is Singapore’s biggest trading partner, we expect broad USD strength and investors' expectation of RMB depreciation could put pressure on the SGD as investors often view the latter as a proxy.

India local markets keep going strong

India remains attractive in terms of fundamentals and relative value across the region. The government is committed to fiscal discipline, and the current account and fiscal deficits remain stable. Any easing in energy prices following the policies of the incoming administration would be positive for India. For now, the Reserve Bank of India (RBI) remains cautious about reducing benchmark rates.

Indonesia local markets face currency risks

The Indonesian market reacted negatively to the US election result. While some yield moves had already occurred in the weeks before the election, both 5-year/10-year bonds saw a further spike in yields as investors turned more cautious post-election.

The primary factor behind the bond yield movements was the Indonesian rupiah (IDR) – the IDR depreciated to 15,850 levels before stabilising back below 15,800 vs the USD. Bank Indonesia (BI) stated that it monitors the currency move closely, indicating that any significant depreciation could delay rate cuts in the fourth quarter and result in elevated short-end yields. However, we think BI should cut rates whenever possible with benign inflation and slower GDP growth in the third quarter.

Malaysia local markets remain neutral

Economic fundamentals for Malaysia have remained unchanged since the middle of the year, with expectations for robust growth and moderate inflation in 2025. Against this backdrop, we expect the Overnight Policy Rate (OPR) to remain flat (at around 3.00%) for the rest of 2024 and most of 2025.

Given the lack of local catalysts, US Treasury sentiment mainly influenced Malaysian Government Securities (MGS) yield movements. The recent back-up in MGS yields translates to improved valuations and better entry points for investors, particularly given the flat OPR outlook for 2024 and 2025. We maintain a neutral view on MYR bond market over the medium term with short-term volatility.

Malaysian ringgit (MYR) movements are also driven primarily by external factors (especially USD rates). The MYR depreciated against the USD 6.6% from 4.12 as of end-September to 4.45 as of 13 November (after the US elections. Domestic economic reforms and restructuring still support the MYR's longer-term outlook, though we expect short-term volatility and some degree of drag from Chinese RMB depreciation.

Philippine local markets sell off and turn cautious

Philippine bond yields rose along with US Treasury yields MTD. As expected, market volatility was elevated yesterday, with the market selling off as soon as it opened as Republicans held the lead throughout the day.

The US yield curve steepened while the PH local yield curve flattened, with the 5- to 7-year tenors taking the biggest hit for local bonds. Selling interest was dominated by local dealers and some offshore real money accounts. Furthermore, the market is likely getting anxious about additional supply from a

looming Retail Treasury Bond (RTB) auction. Government bond spreads have substantially narrowed since the massive US Treasury sell-off since September as local inflation continues to ease.

The primary catalyst for global markets remains the direction of Fed interest-rate cuts. Investors will watch for any hawkish rhetoric, which could send global and local yields another leg higher. Although weaker-than-expected GDP growth may urge the Bangko Sentral ng Pilipinas (BSP) to continue easing monetary policy, there is a risk of the cut being delayed if a weaker peso persists following US election result.

Conclusion

We continue to see value in Asia HY but are more cautious on Asian local rates in the near-term given upward pressure on the US dollar following the US election result.

Due to the Chinese government's fiscal and monetary stimulus package, we believe that markets in mainland China and Hong Kong will remain resilient. While Singapore braces for potential tariff hikes, we think SGS yields should continue to move in tandem with US Treasury yields but with a lower beta. India remains attractive in terms of fundamentals and relative value across the region. The Indonesian market saw bond yields rise, driven by a depreciating IDR, as investors turned more cautious. Philippine local bonds similarly saw higher volatility, while further monetary easing may be delayed if a weaker peso persists.

Overall, the reaction of Asia fixed income markets to the US election result has been broadly contained, particularly in the Asian credit market. Looking ahead, Asian governments appear ready to stabilise economies with pro-growth monetary and fiscal policies to counter possible changes to US trade policy. We expect the US Fed to persist with its interest rate easing cycle in the near term and Asian fixed income markets should remain resilient, on the whole. At the same time, we remain vigilant against potential US policy shifts and their impact on global growth and inflation and will closely monitor and hedge against risks of higher bond yields and increasing market volatility across our portfolios where appropriate.

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