



Asian growth assets and USD returns

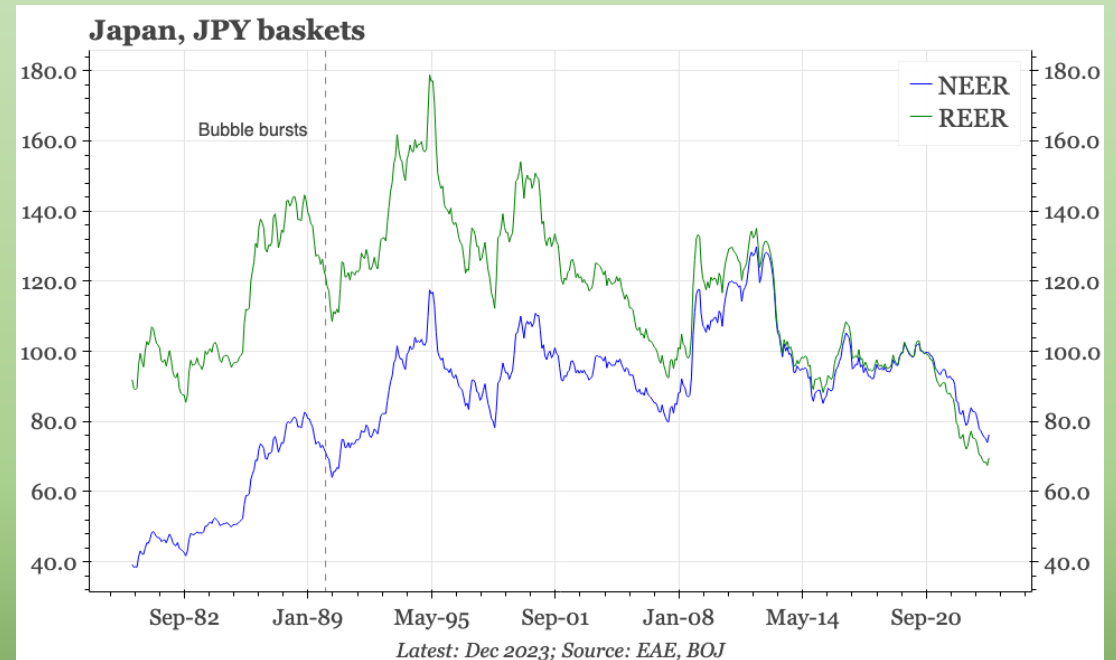
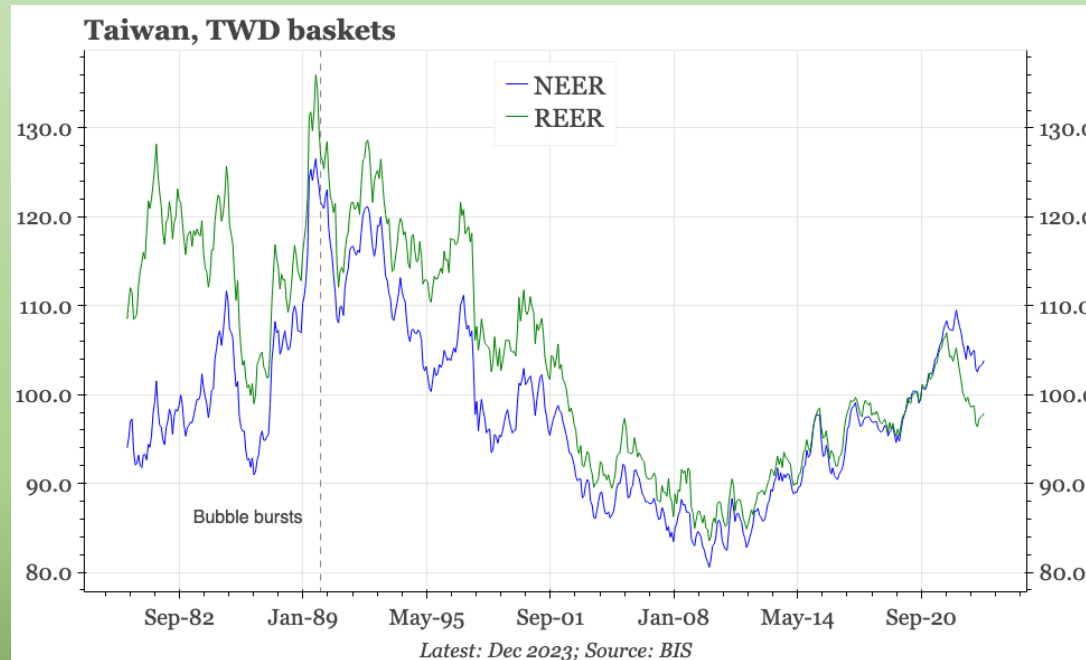
The end of the secular weakness of Asian currencies

**Paul Cavey
paul@eastasiaecon.com**

www.eastasiaecon.com

The East Asia currency model

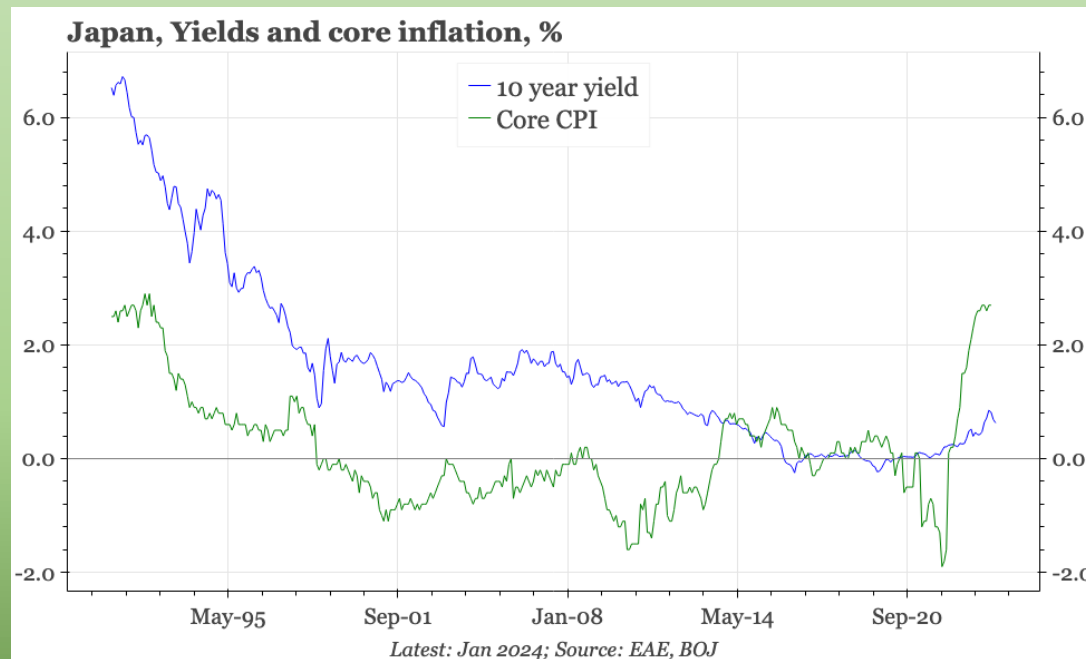
The East Asian currency model



Deflation

Falling inflation...

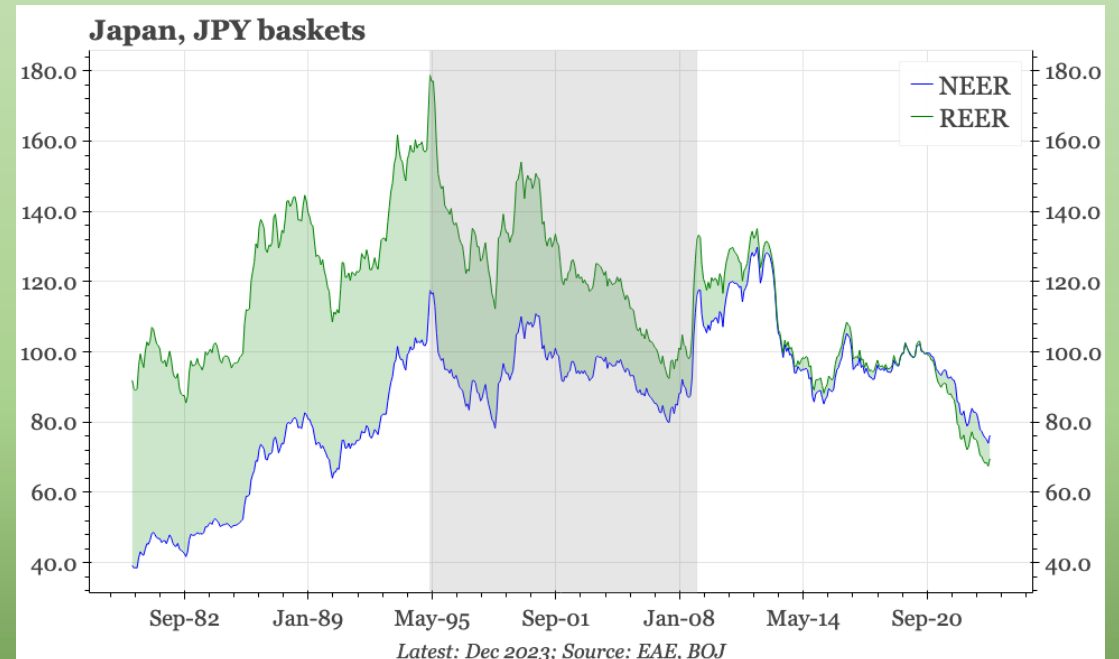
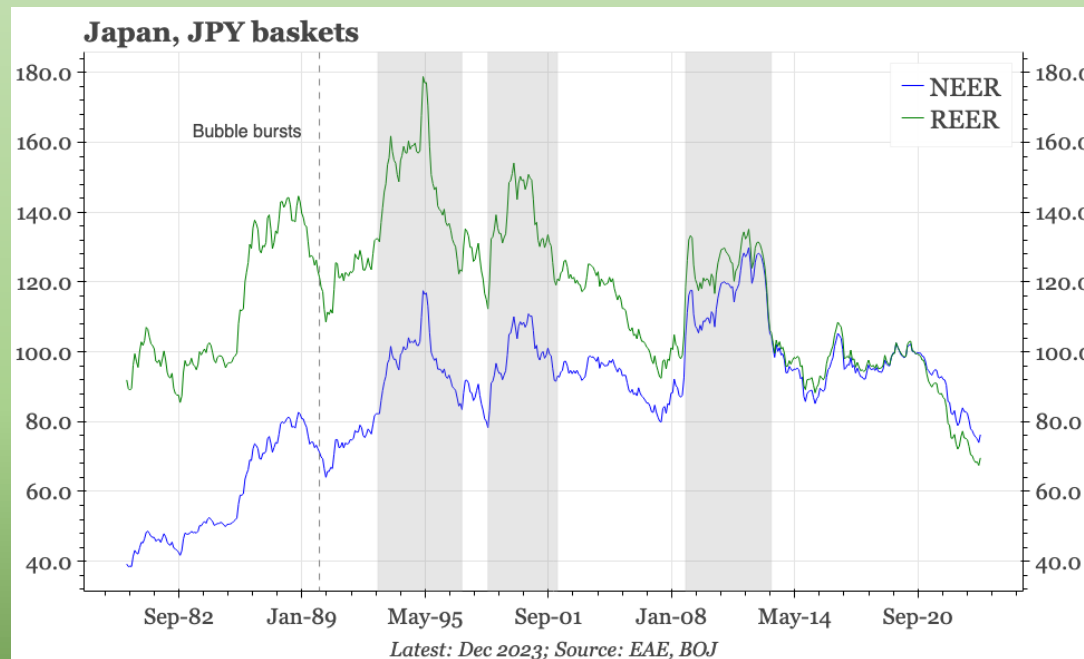
...means lower nominal rates



Deflation

Periods of *real* rates rising....

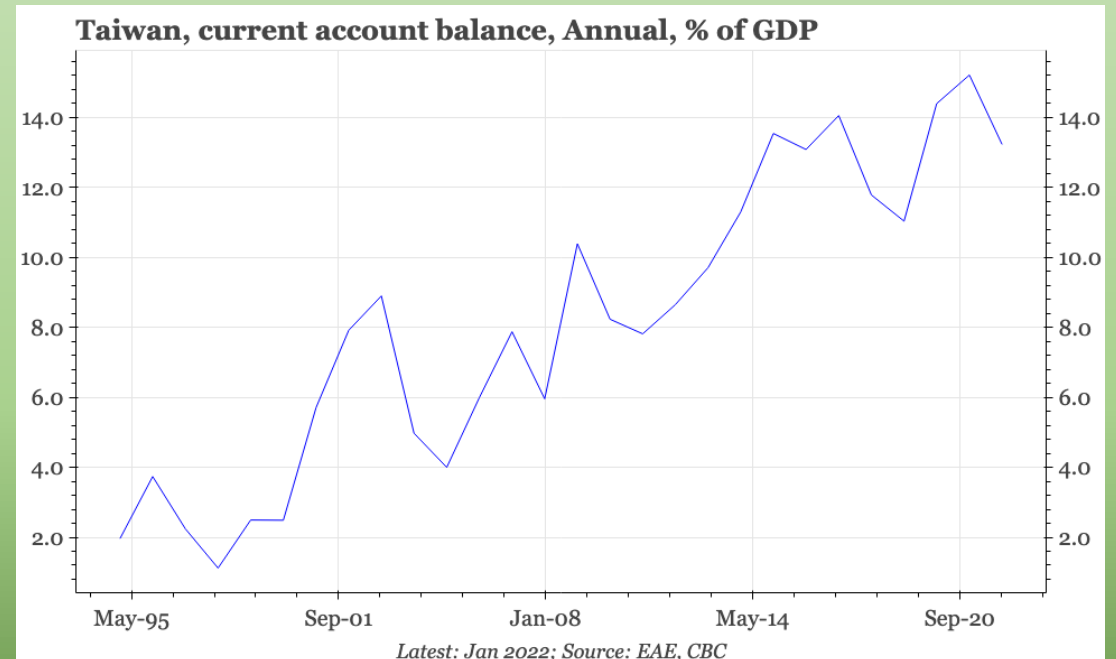
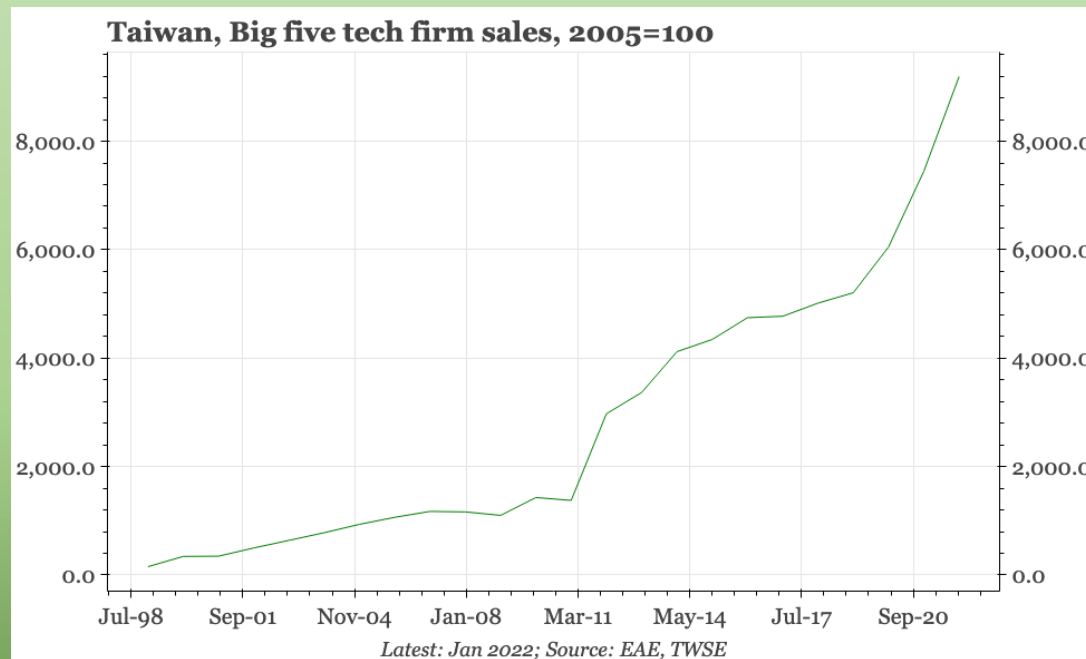
...and underlying competitiveness



Manufacturing and external strength: Success

Taiwan's corporate competitiveness...

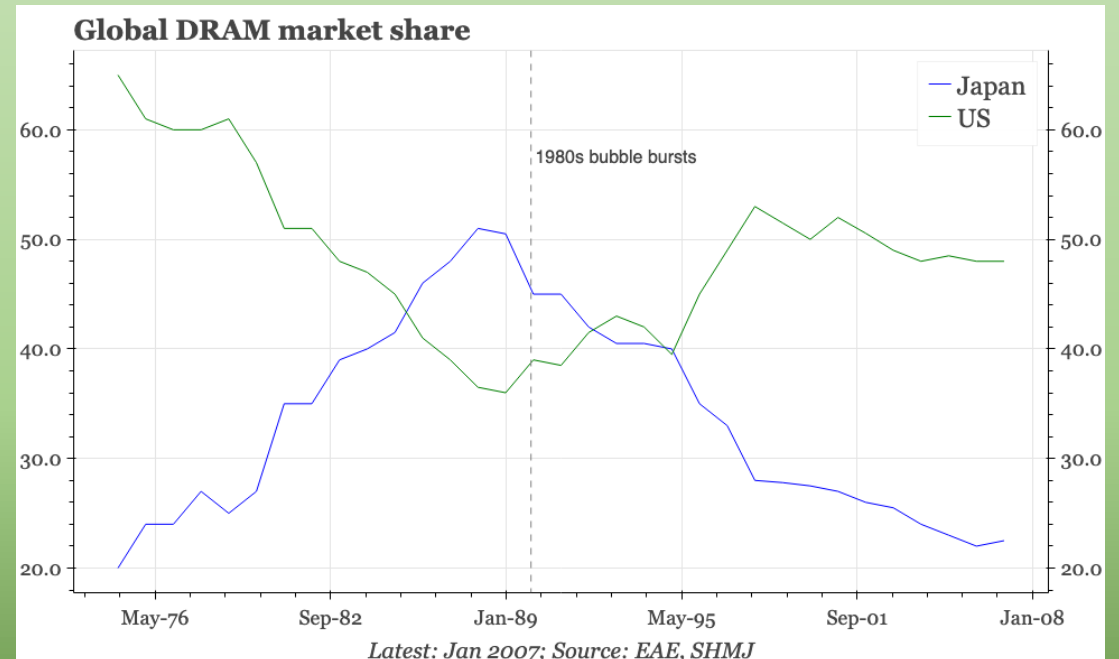
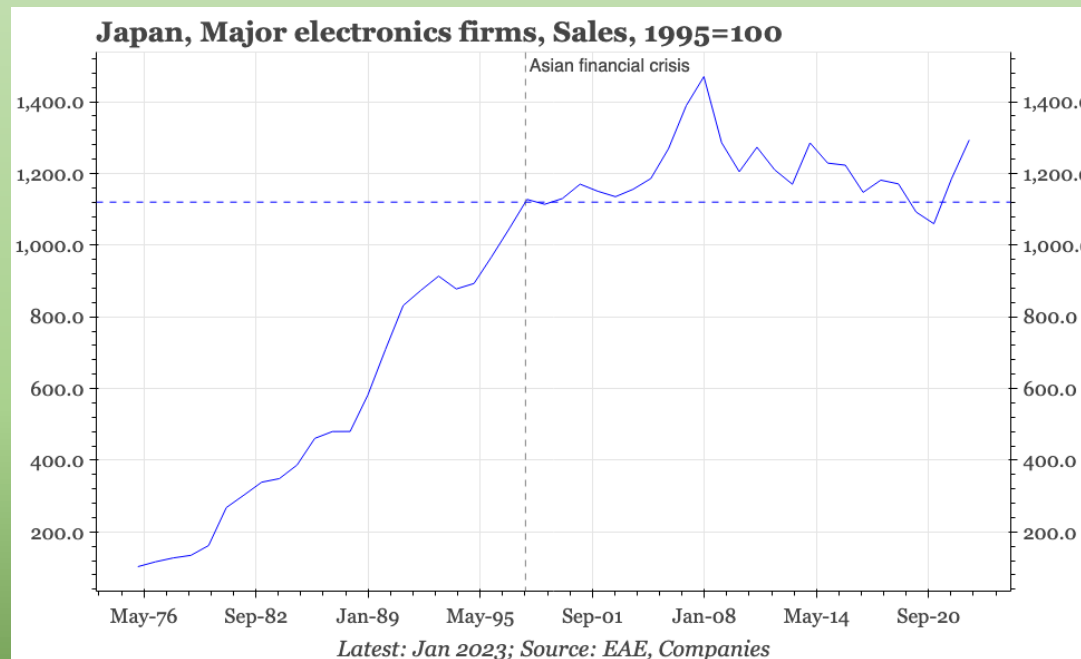
...and enormous external surpluses



Manufacturing and external strength: Failure

Japanese tech hits a wall....

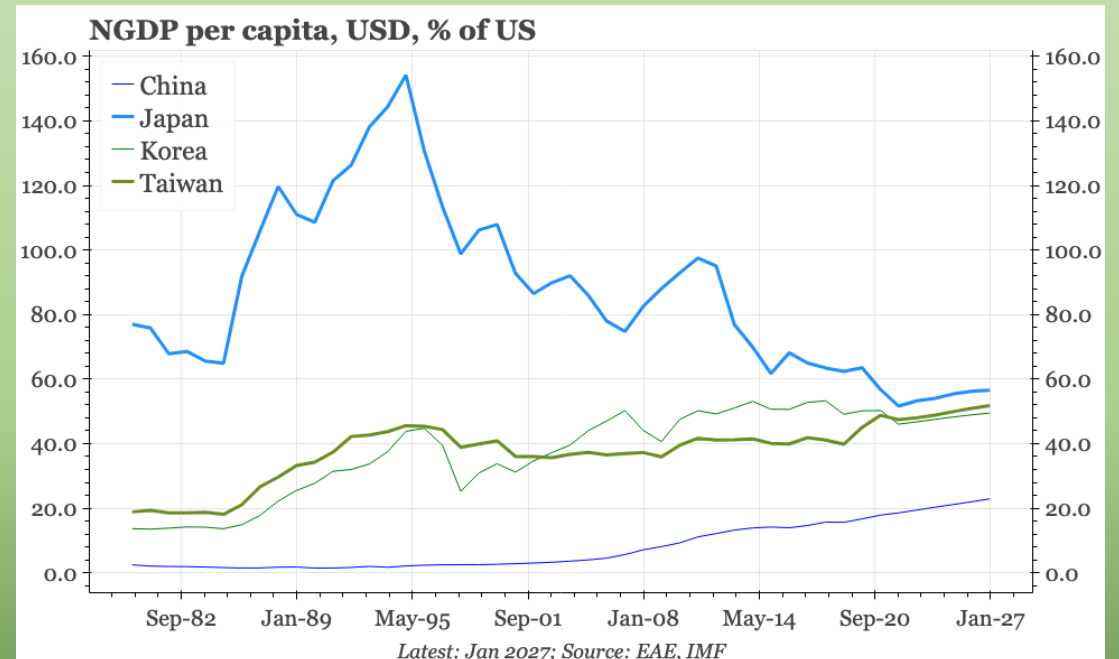
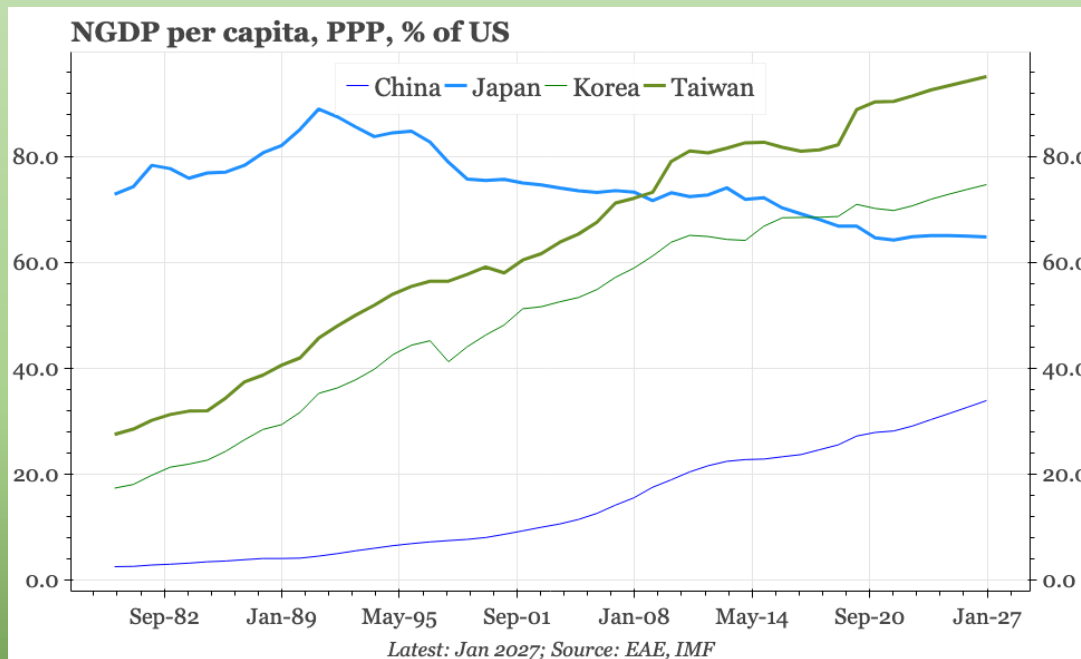
...and Japan loses market share



Household sector pain: Structure

Great in PPP terms...

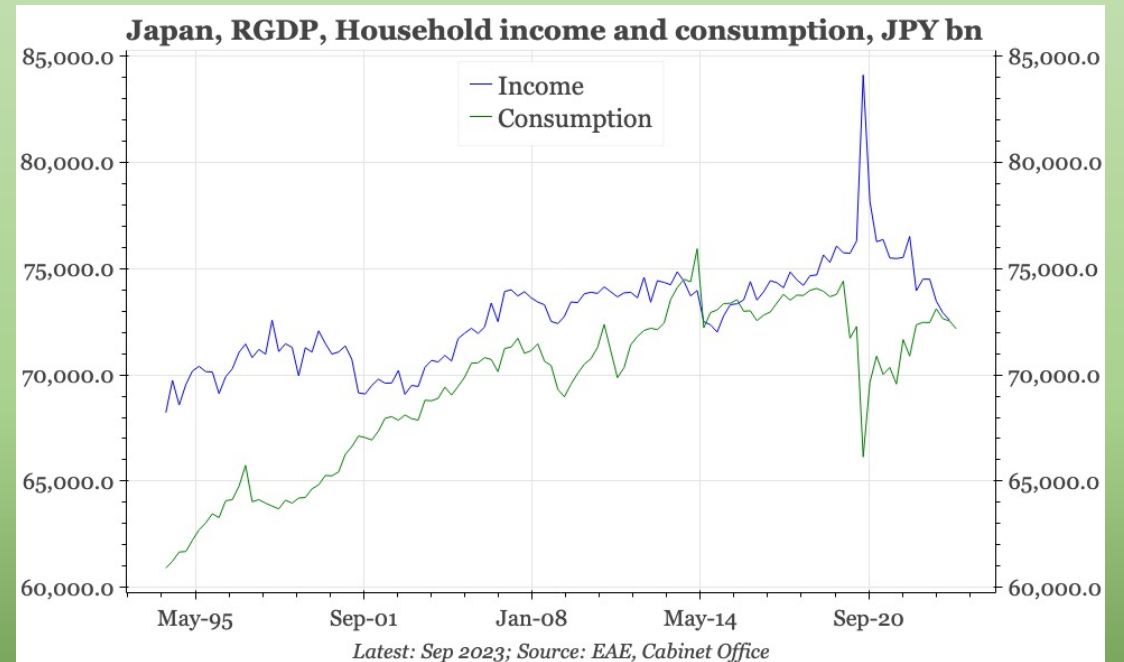
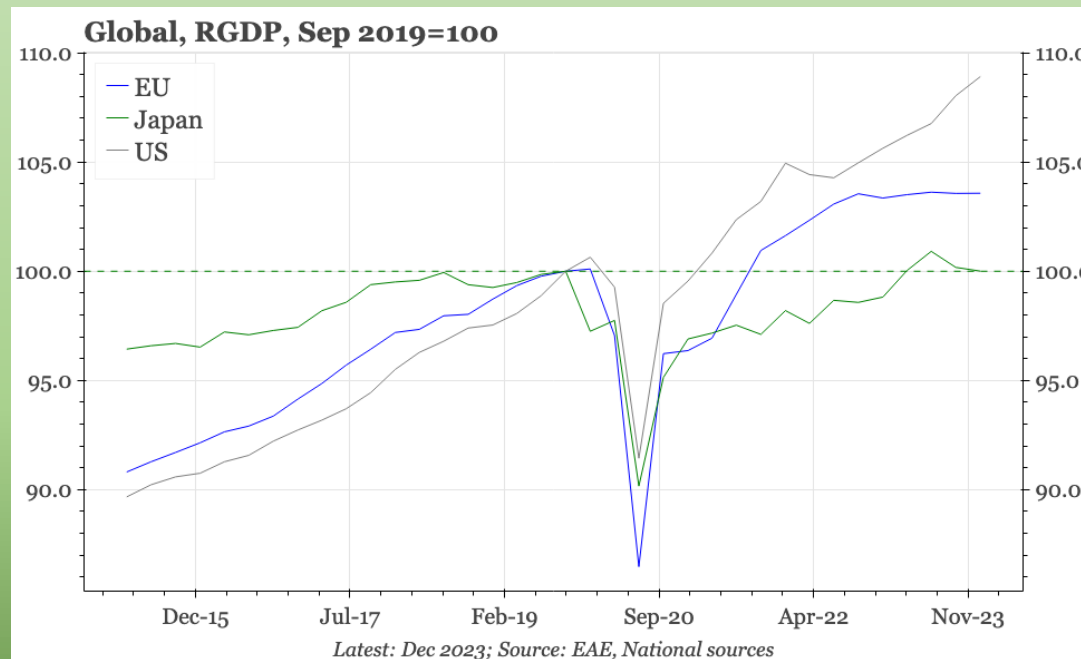
...terrible in USD terms



Household sector pain: Cycle

No economic recovery....

...as prices erode incomes



China and the CNY

Deflation

Falling inflation...

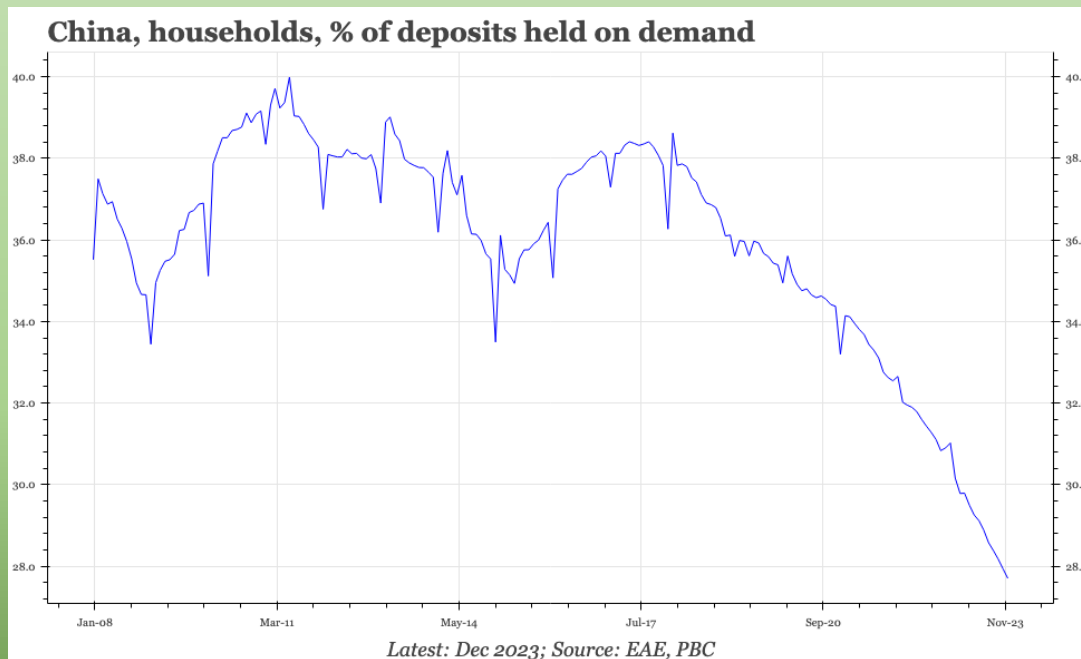
...means lower nominal rates



Deflation

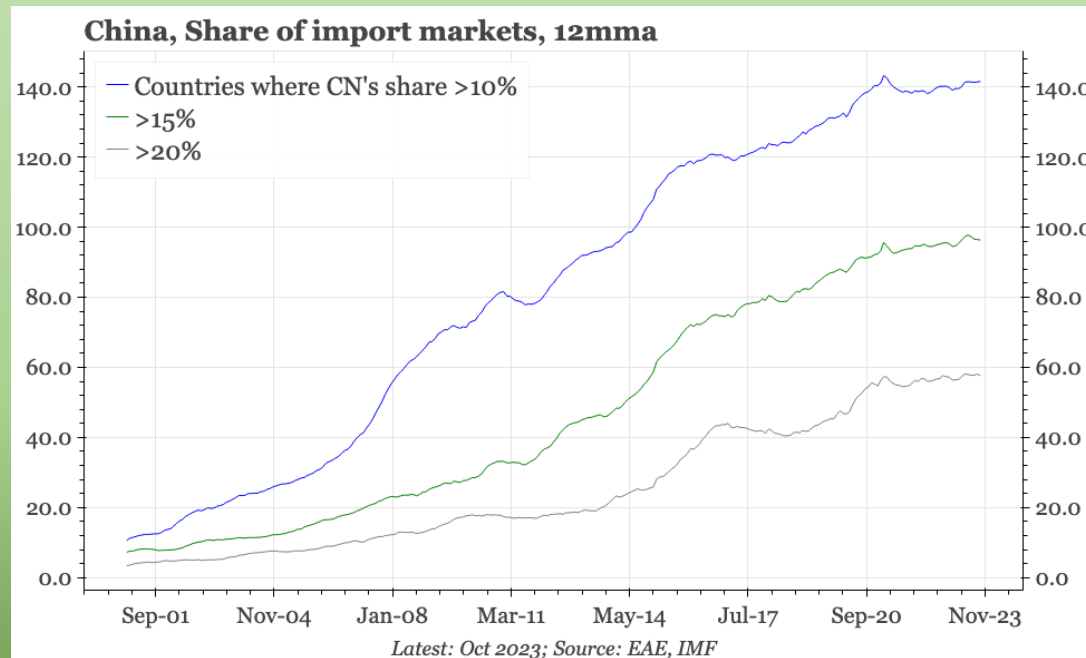
Signs of rising real rates rising...

...and underlying competitiveness

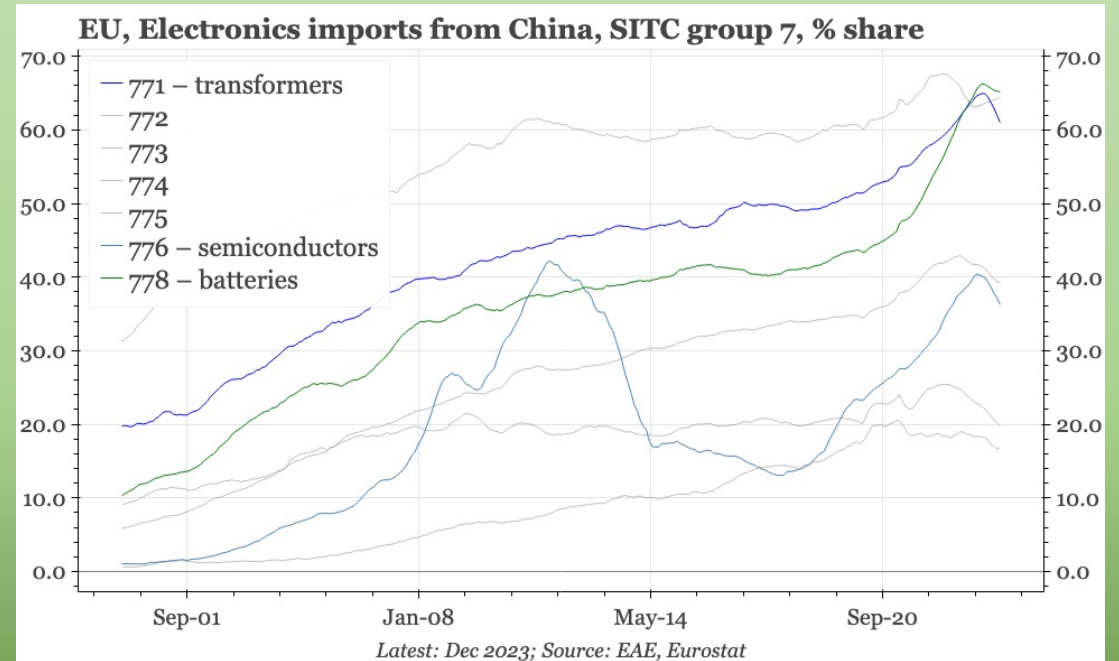


Manufacturing and external strength

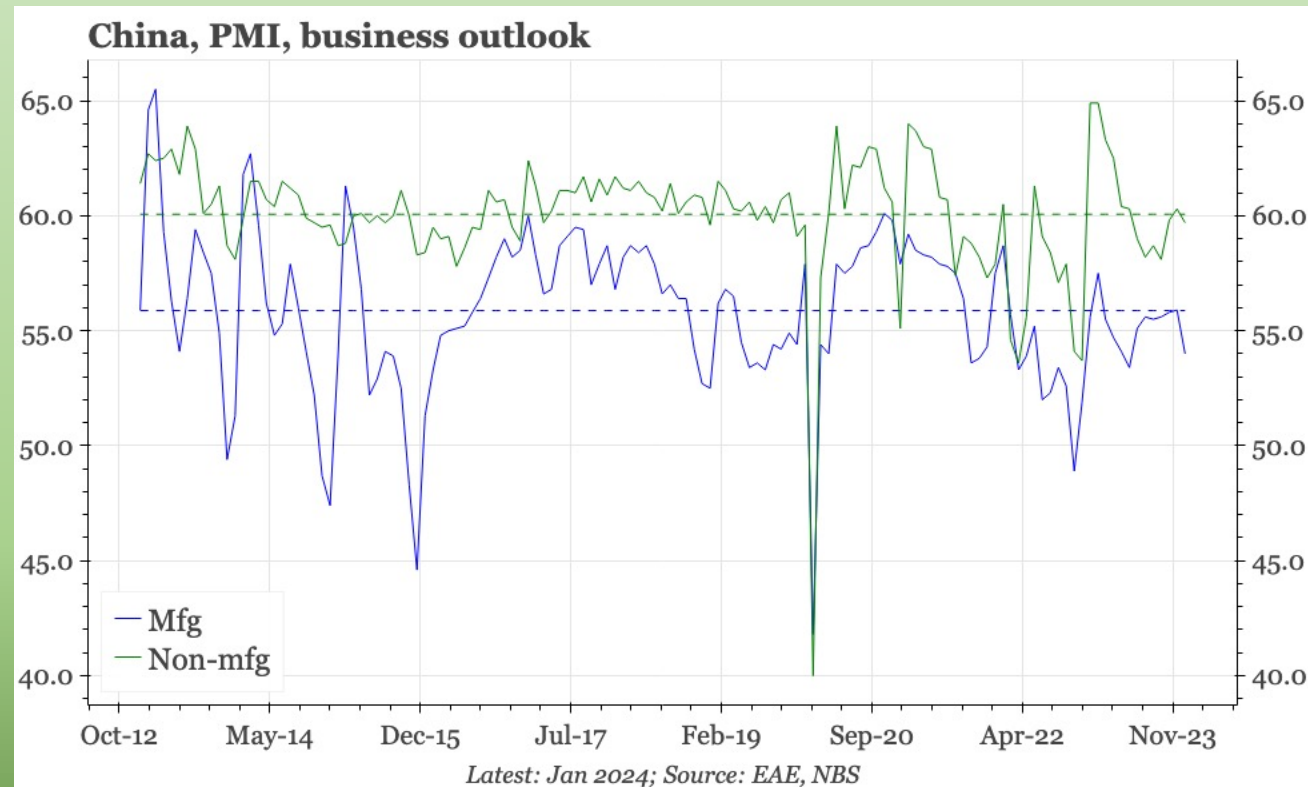
Across countries...



...and across markets



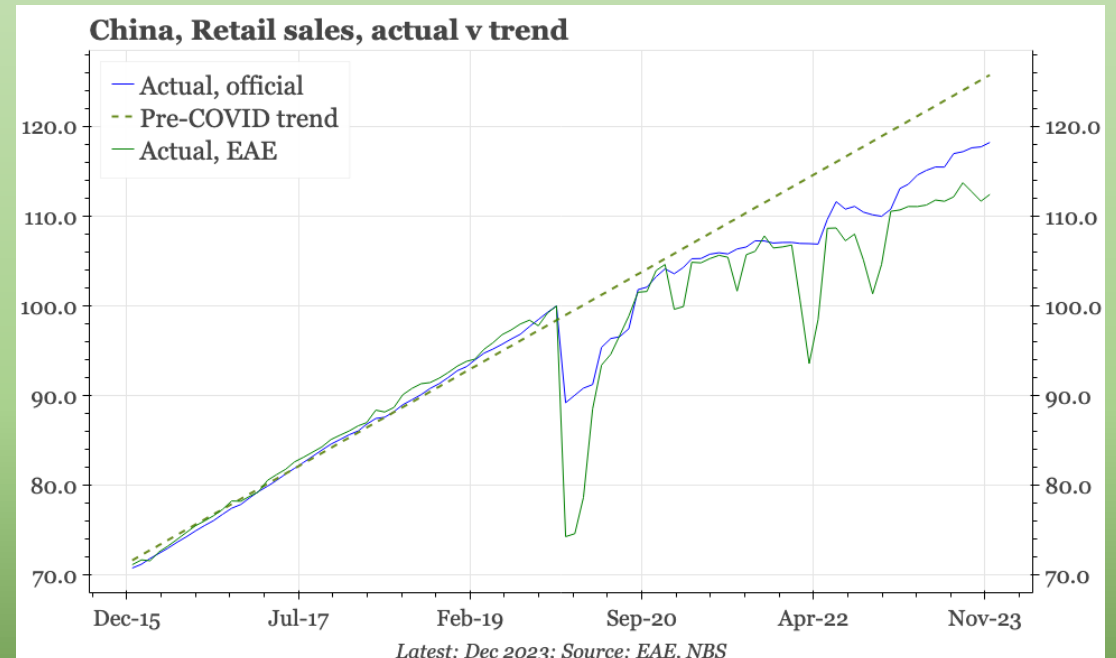
Manufacturing and external strength



Household sector pain

Terrible consumer confidence...

...and very weak consumption



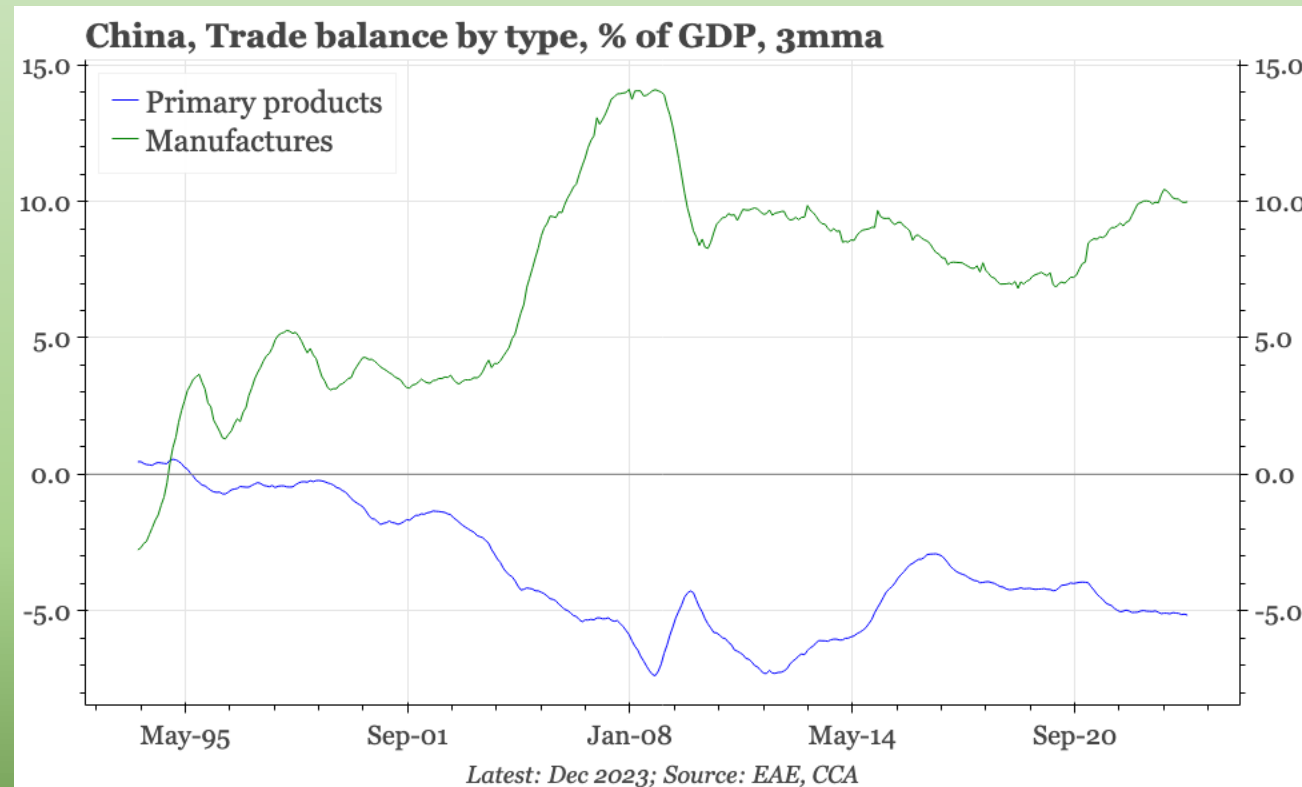
Implications

Even against nominal rates, the CNY isn't expensive...



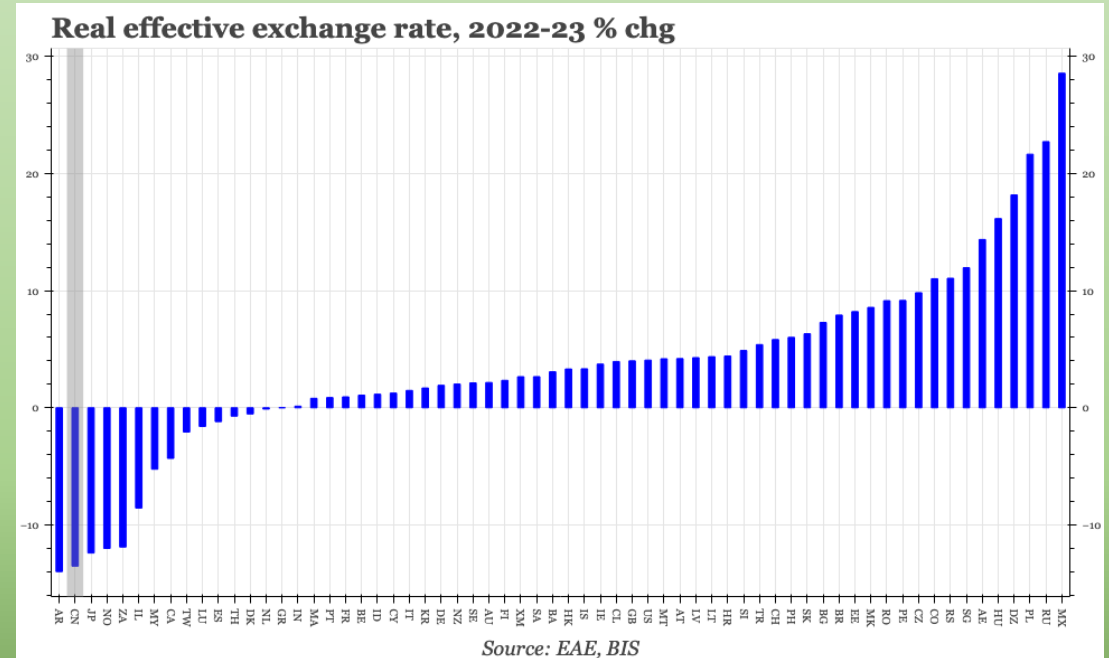
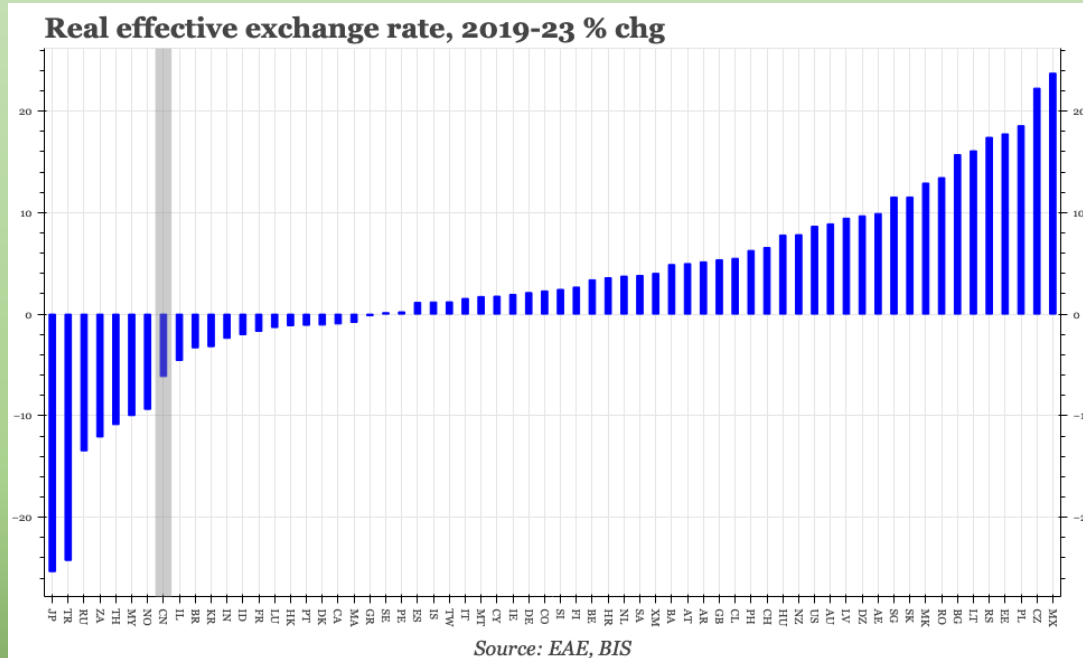
Implications

...and given manufacturing competitiveness...



Implications

...structurally, the CNY is cheap



Implications

China is too big to copy Taiwan



Implications

..and some (at least) are arguing it shouldn't try to

Based on the experience of Japan and Germany, in the 16 years after incomes reached USD10,000, they experienced periods of medium-speed economic growth and **rapid real exchange rate appreciation.**

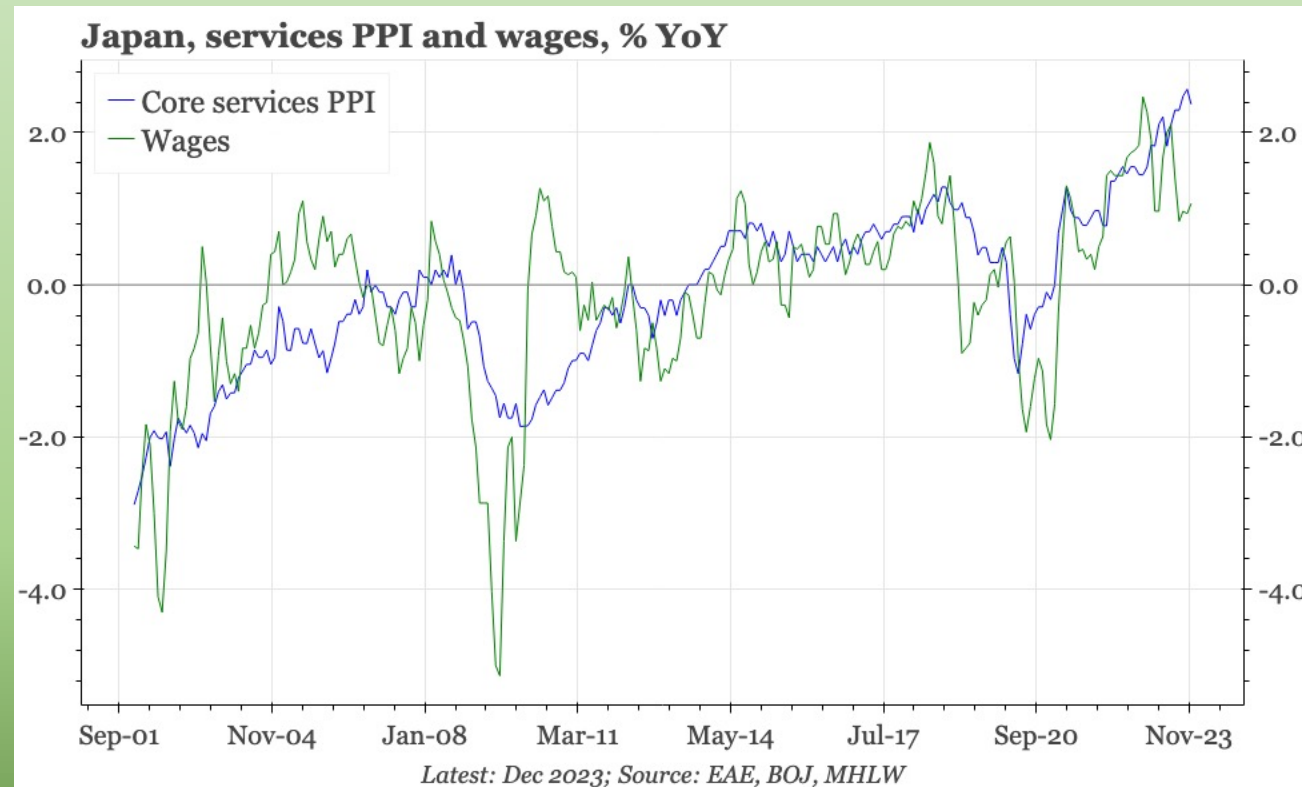
Per capita incomes in USD terms rose quickly, **with the contribution of exchange rates much bigger than that of actual growth.**

Liu Shijin

Taiwan, Japan and Korea

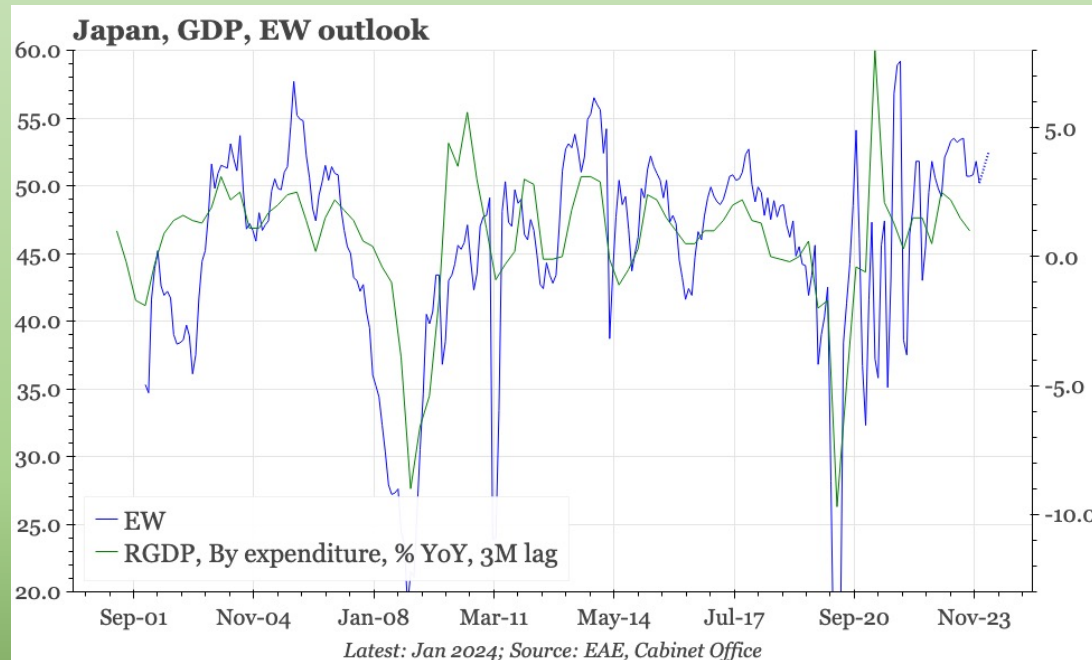
Japan

Structurally, exiting deflation



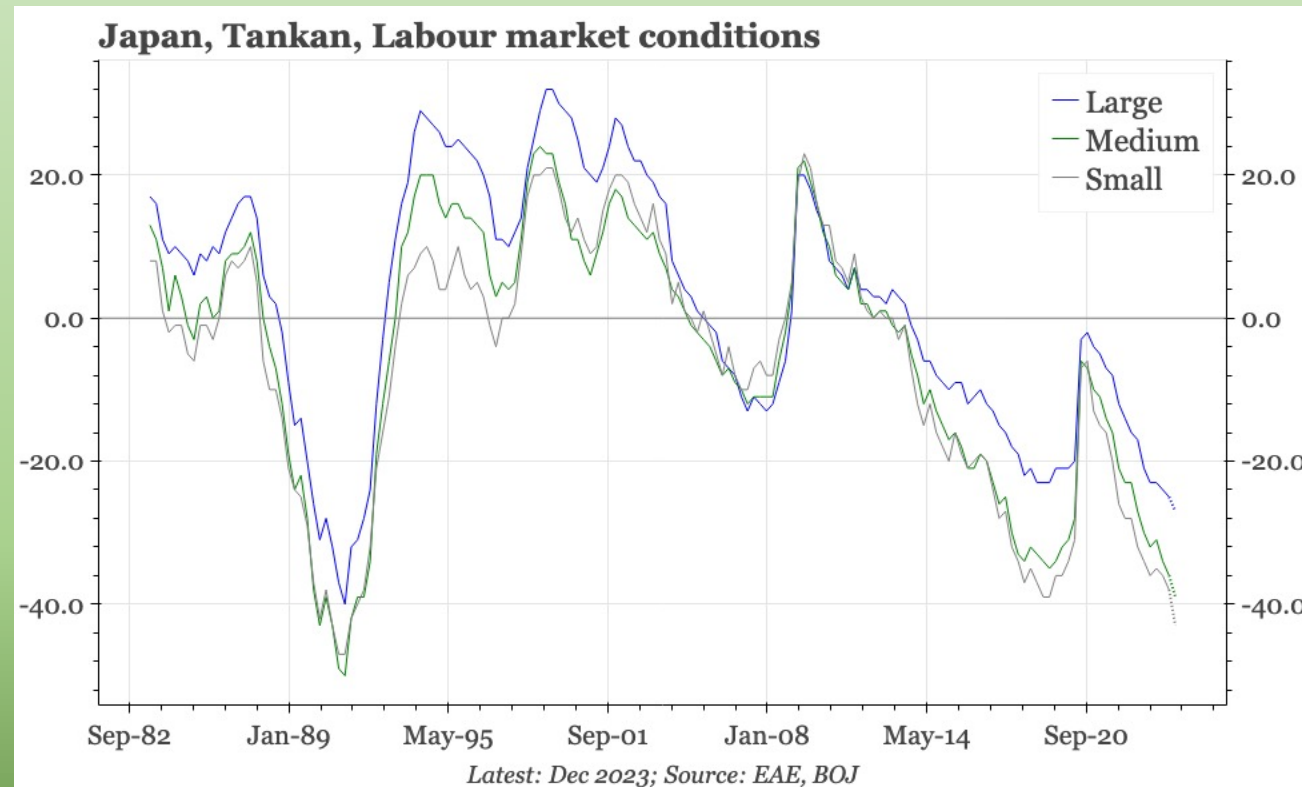
Japan

Cycle has good momentum into 2024...



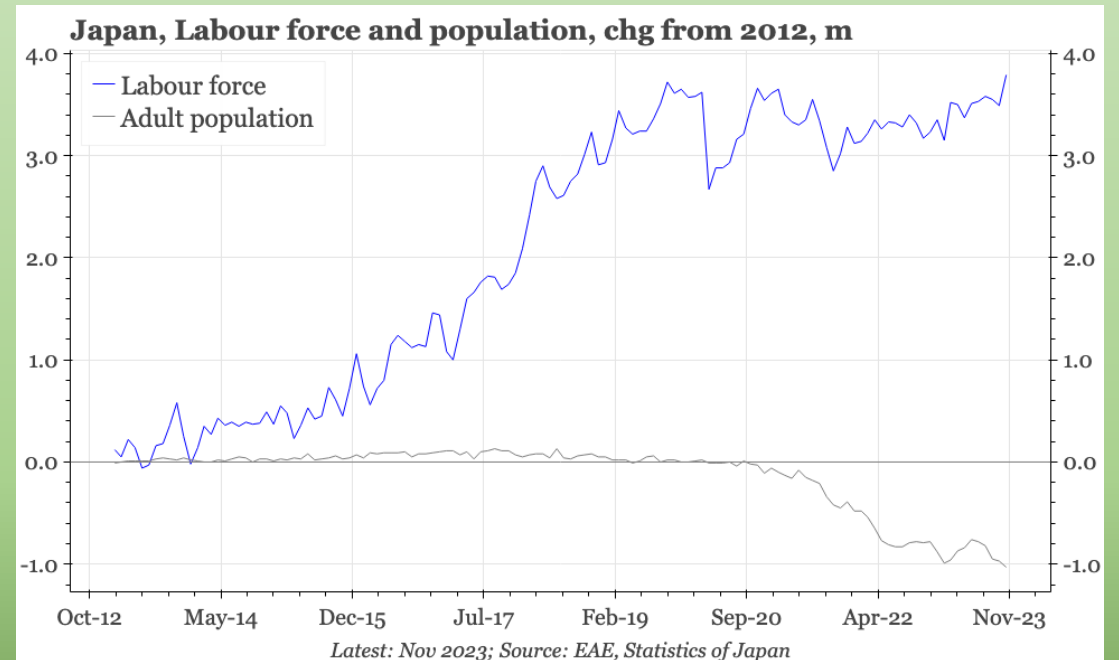
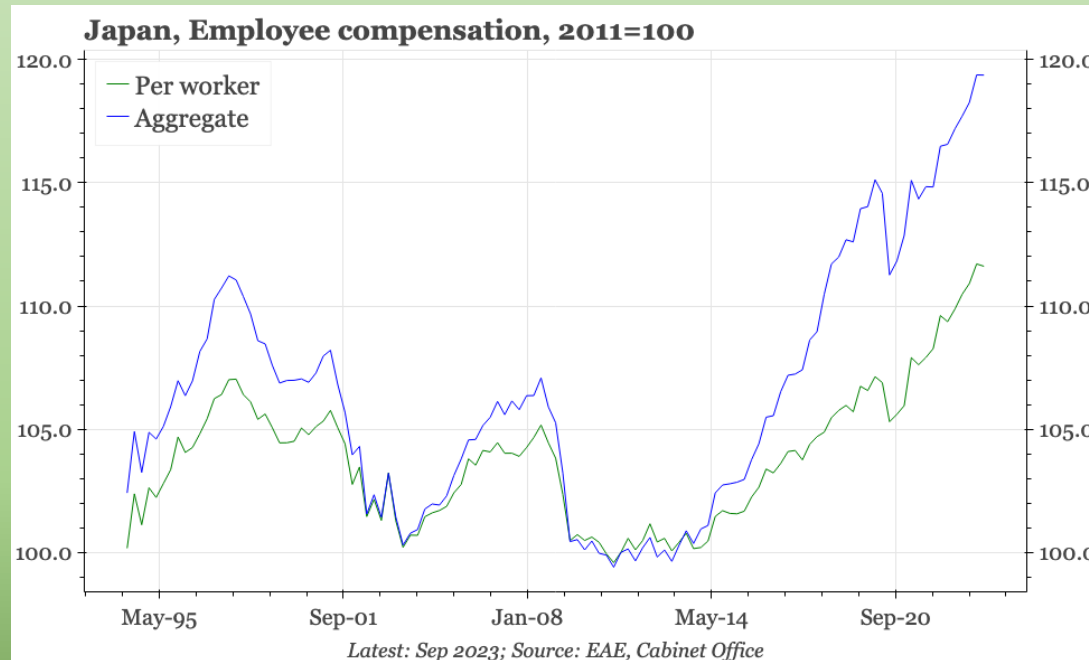
Japan

...when the labour market is already tight



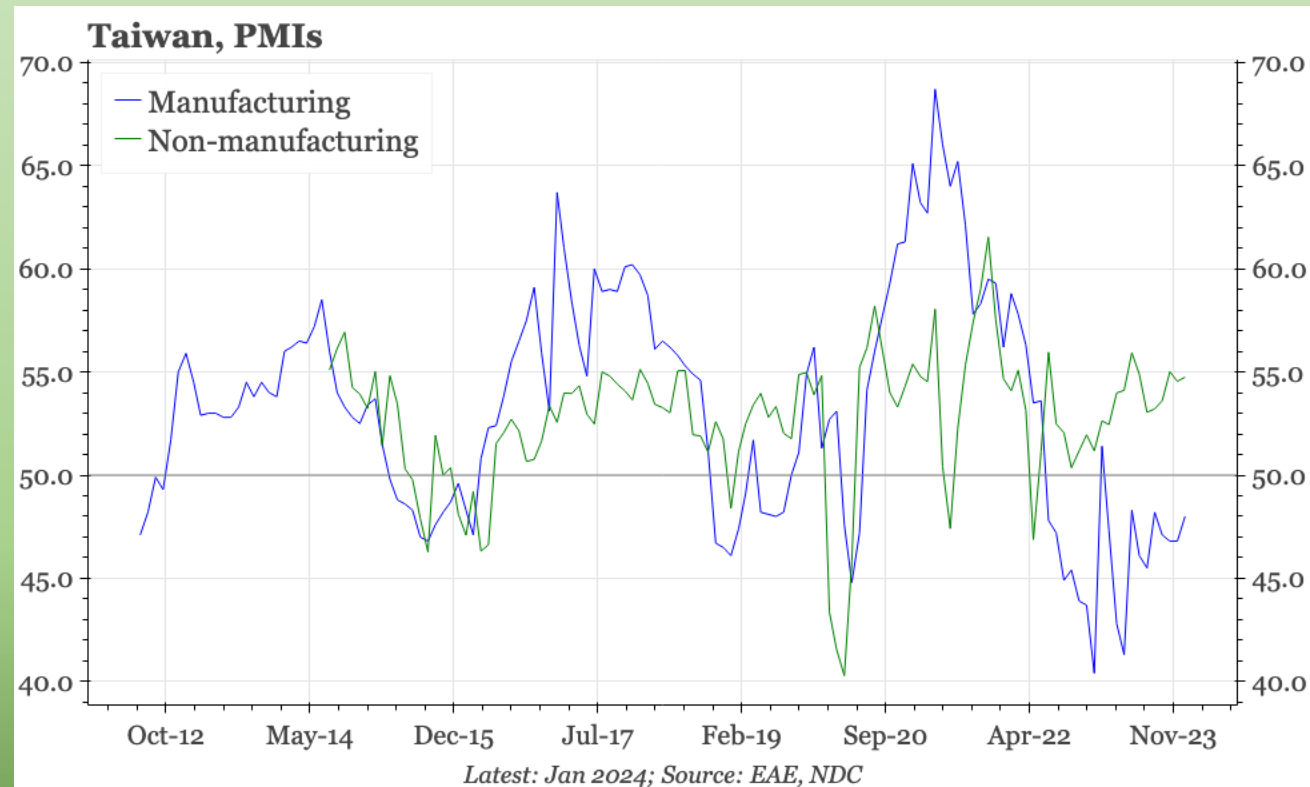
Japan

Implication: Consumption recovery at last



Taiwan

2023: Services strength...



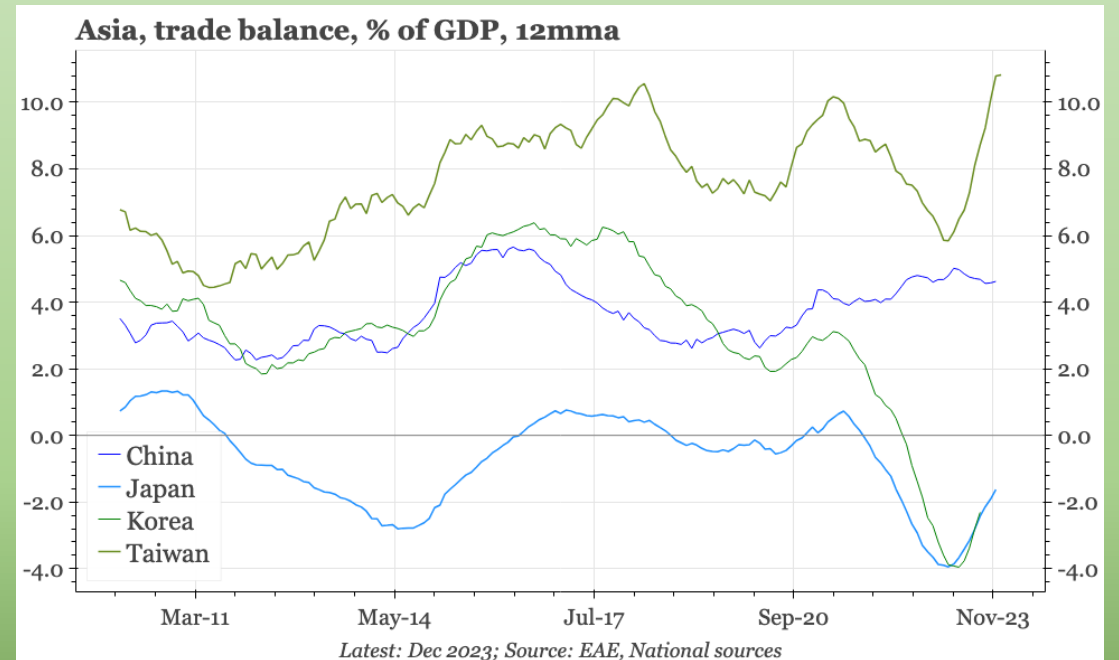
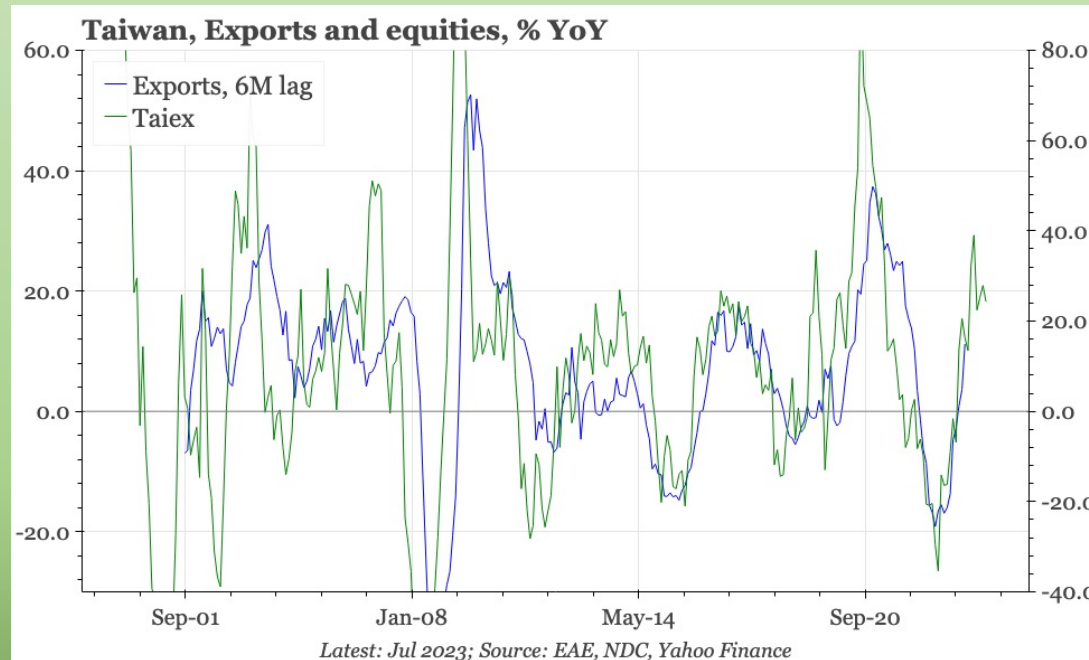
Taiwan

...meant no slack despite weak manufacturing



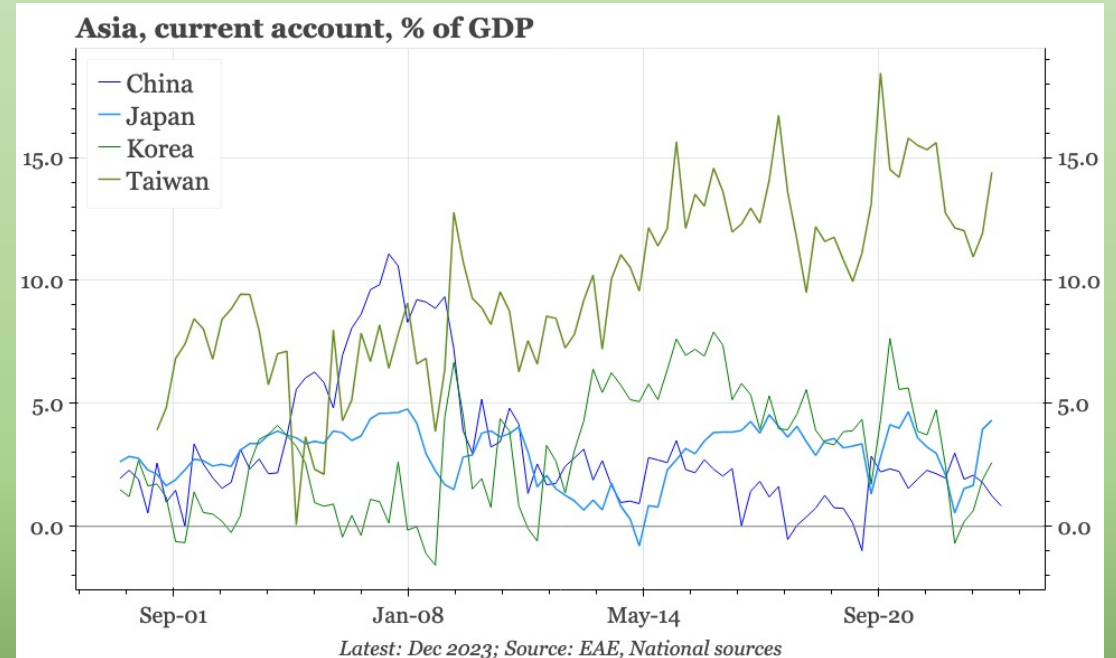
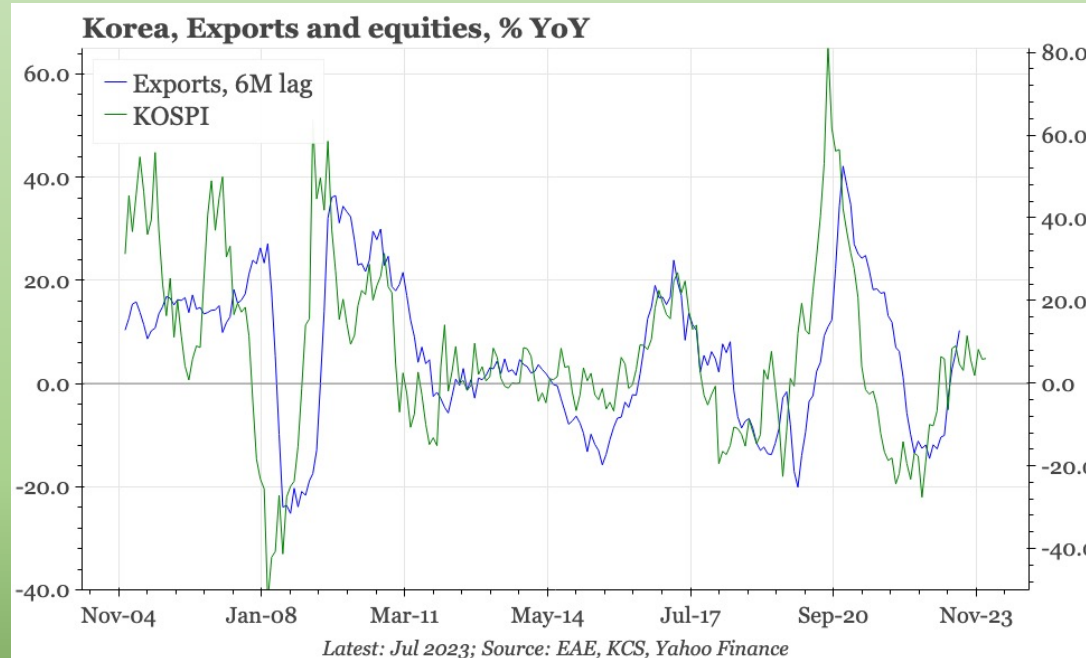
Taiwan

And now, tech is picking up



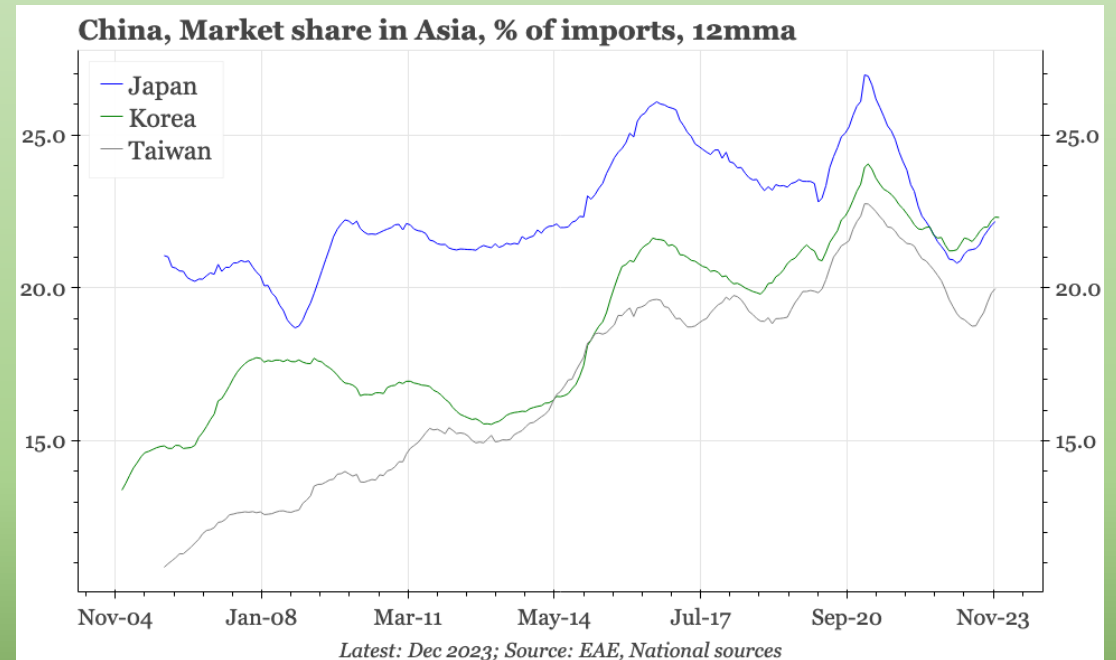
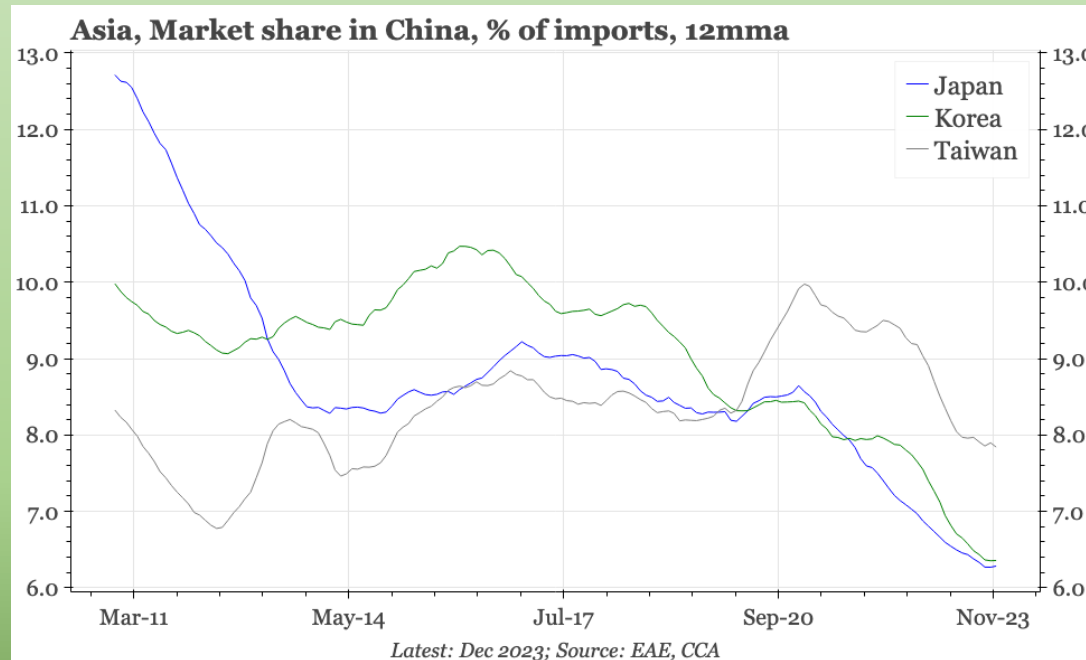
Korea

Less external strength...



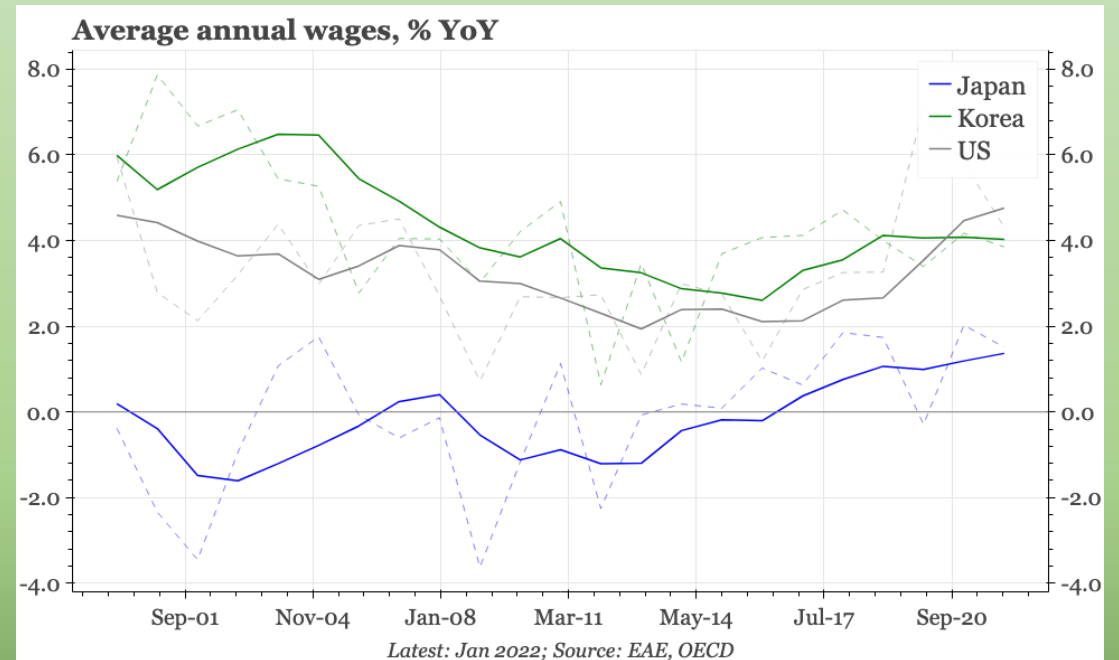
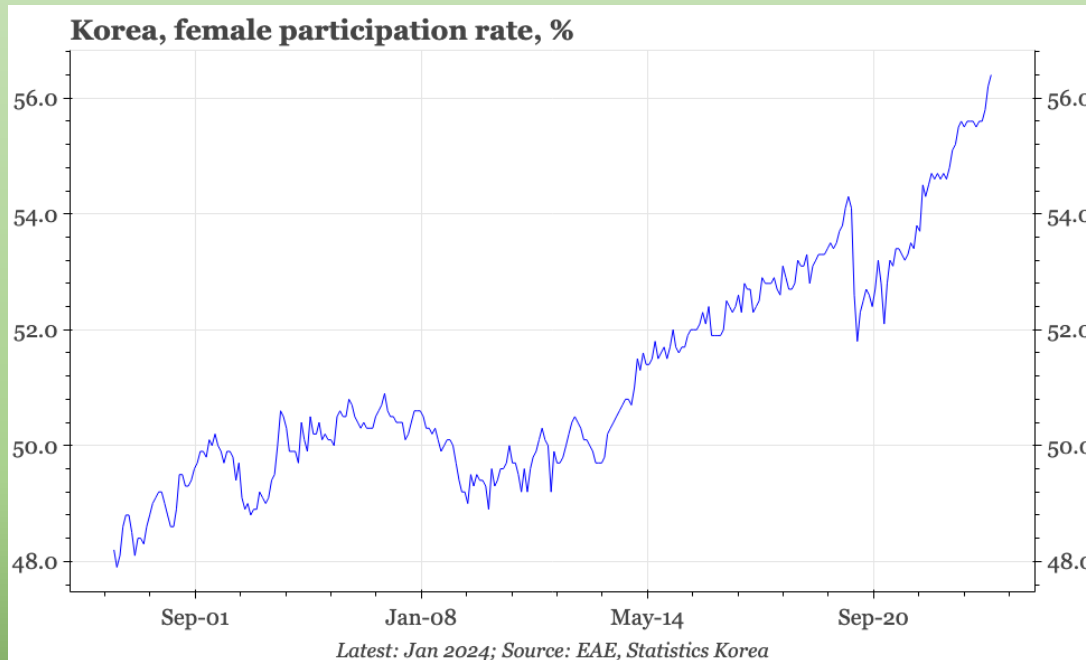
Korea

...partly because of China



Korea

Signs of positive supply-side shock in labour





East Asia Econ

Macro and market analysis of the world's largest
economic region

www.eastasiaecon.com

paul@eastasiaecon.com