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Session4.
Global Economy & FX Market Outlook in 2024

無人時代, 武人時代, Peak FED, Peak China

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Executive Summary

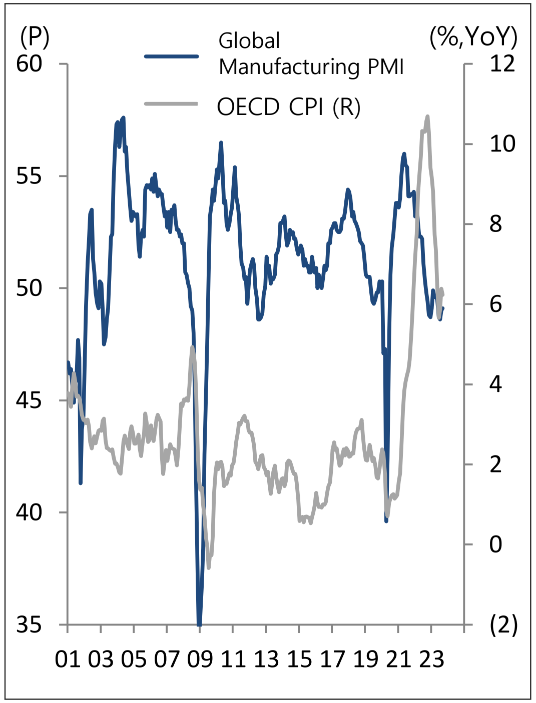
Despite US Stimulus, the Global Economy Remains on a Dark Path

The Fed Calls for Patience & Geopolitical Risks Are to Be Endured

- The US economy is holding up well but global recession and financial instability pressures are mounting, highlighting concerns about slowing growth in major major economies such as China. Under the impact of sticky inflation and tightening, advanced economies are growing at around 1% and additional contraction cannot be ruled out if credit risk spreads.

- Under the completion of the Fed's rate hikes, the extreme financial crisis is likely to be avoided with the central banks' independent liquidity supply. However, the Fed's rate cuts will be retreated after the second half of the year and may demand patience, and the year 2024 will be a year in which geopolitical risks need to be taken into account, coinciding with global election events.

Severe Depression Will Be Avoided, but Macro Environment Needs to Monitor Monetary / Fiscal Policy Uncertainties & Geopolitical Risks



		GDP			CPI			Policy Rate			Status & Implications
		22	23	24	22	23	24	22	23	24	
Bloomberg Consensus	Global	3.5	2.8	2.6	8.7	6.1	4.4	5.39	7.14	6.02	Economic growth is expected to be differentiated depending on the level of deleveraging due to monetary tightening, while there is a possibility of being affected by political and geopolitical risks.
	U.S.	2.1	2.2	1.0	8.0	4.1	2.7	4.50	5.55	4.45	As excess savings are depleted and commercial real estate declines, concerns about overheating are easing, and the Fed is expected to lower interest rates, albeit to a limited extent, in the second half of the year.
	Eurozone	3.3	0.5	0.8	8.4	5.6	2.7	2.50	4.00	3.30	Due to limited fiscal capacity, the economy is expected to continue to grow below 1% due to the prolonged Russia-Ukraine war, the impact of interest rate hikes, etc.
	Japan	1.1	1.8	1.0	2.5	3.1	1.9	-0.10	-0.10	-0.02	Relatively slow normalization of monetary policy highlights growth, but also poses the risk of a sudden policy shift if relative inflation pressure is highlighted.
	China	3.0	5.0	4.5	2.0	0.5	1.8	3.65	4.30	4.25	While the economic stimulus and liquidity expansion will mitigate concerns about the lack of policy, it is important to recognize the limitations of quantitative easing and supply-led growth structure.
S&T Center	S.Korea	2.6	1.2	1.8	5.1	3.5	2.2	3.25	3.50	3.00	Exports are expected to increase, led by semiconductors, following inventory reduction, but domestic demand is expected to decline due to household debt, resulting in a low growth that is difficult to be felt.

Resources : Refinitiv, Bloomberg, SHB S&T Center
*Bloomberg Consensus was used; global policy rate is average of developed & emerging countries' consensus. For South Korea, S&T Center outlook.

Executive Summary

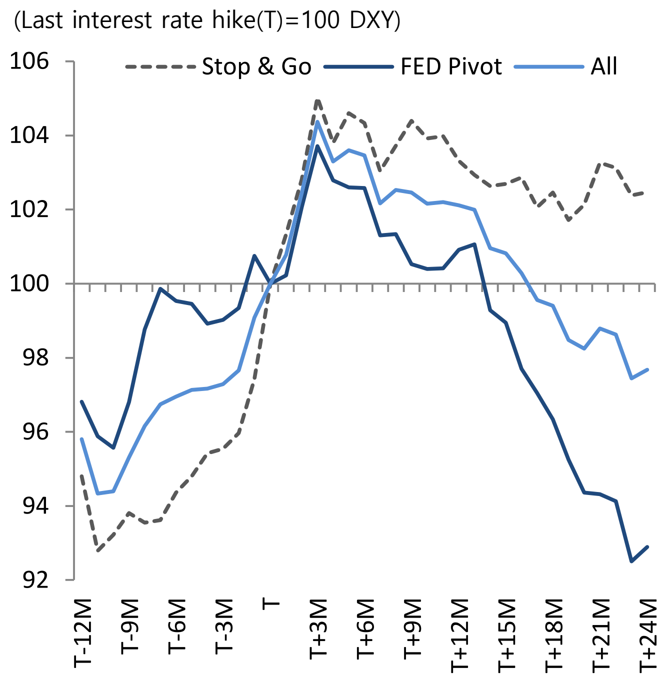
Peak Fed, Peak China and Peak Dollar?

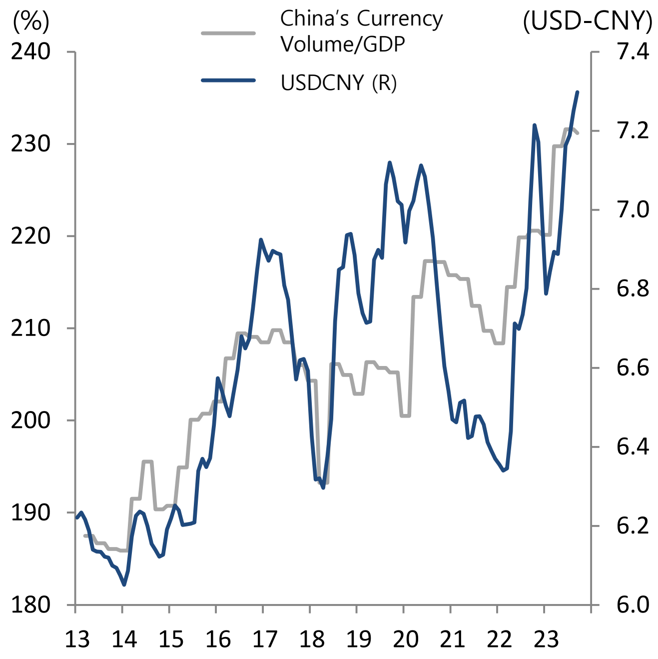
A Lonely Battle That Requires Both Composure and Stamina

- Technological innovation is advancing the convergence of service industries, and labor force merit is declining under productivity improvement. As a result, the preference for US-dollar assets is maintained. On the other hand, while the restructuring of the manufacturing supply chain is raising the incentive to replace production bases under relative advantages, the possibility of differentiated FDI in the region increases.
- For the time being, US dollar is likely to remain relatively strong due to the Fed's restrictive stance. However, the dollar is expected to weaken gradually in the medium to long term as the market anticipates rate cuts. While guarding against periodic geopolitical risks, FX rates are likely to be relatively sensitive due to the aftermath of deleveraging in China and other countries.

USD/KRW Fluctuates Between the Fed's Pivot and China's Deleveraging, While Keeping an Eye on Geopolitical Risks

Major Election Calendar (2024)	
January	Taiwan: Presidential/General Election(1/13)
February	Indonesia: Presidential/General Election(2/14)
March	Russia: Presidential Election(3/17)
April	S. Korea: Presidential Election(4/10)
June	Mexico: Presidential/General Election(6/2)
November	US: Presidential/General Election(11/5)
TBD	India: General Election Ukraine: Presidential Election U.K.: General Election





Sources : Wikipedia, Refinitiv, Bloomberg, SHB S&T Center

Major Issues in 2024

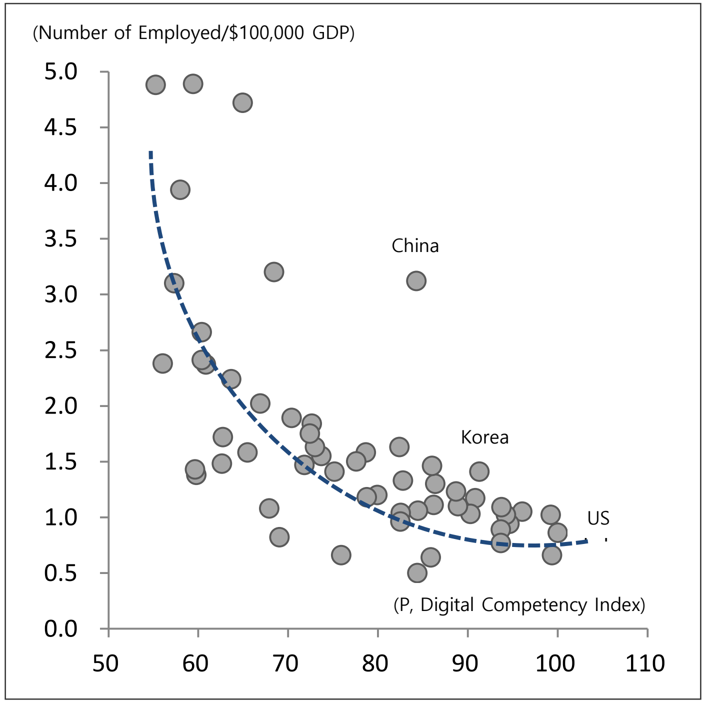
① Age of Automation (無人時代 I)

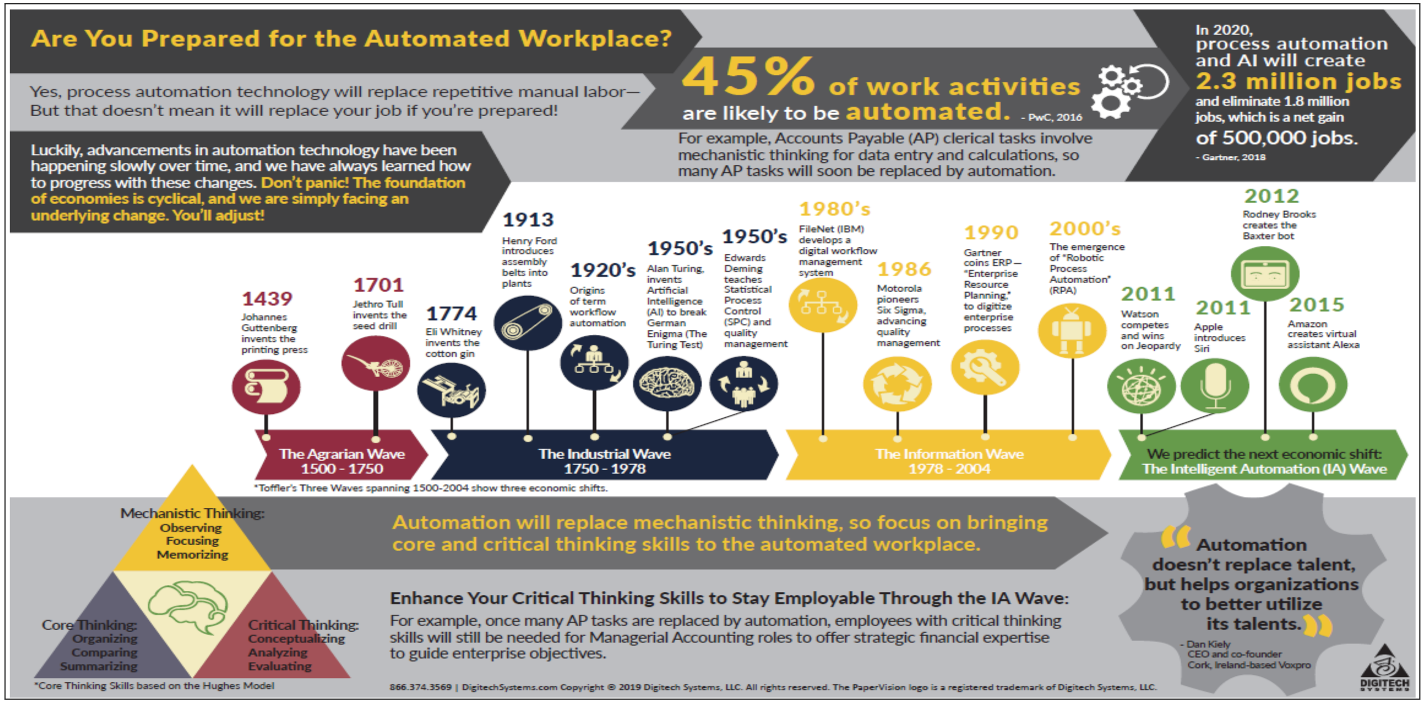
Rapid Spread of Technological Progress Through AI Is Inevitable

Labor Replacement Due to Automation May Be Accelerated

- AI technology such as Chat GPT is advancing and improving the convenience of work and daily life. Meanwhile, automation is spreading to service industries as well.
- Combined with robots, IoT, and computing, industrial AI is being widely applied to service industries such as retail, healthcare, and finance, in addition to manufacturing industries.
- As labor demand is decreasing due to automation, if AI technology spreads to all industries in the future, it is likely that a number of existing jobs will disappear in the medium to long term.

After Industrial Revolution, Technological Progress and Automation Has Expanded to Mining→Manufacturing→Service Industries





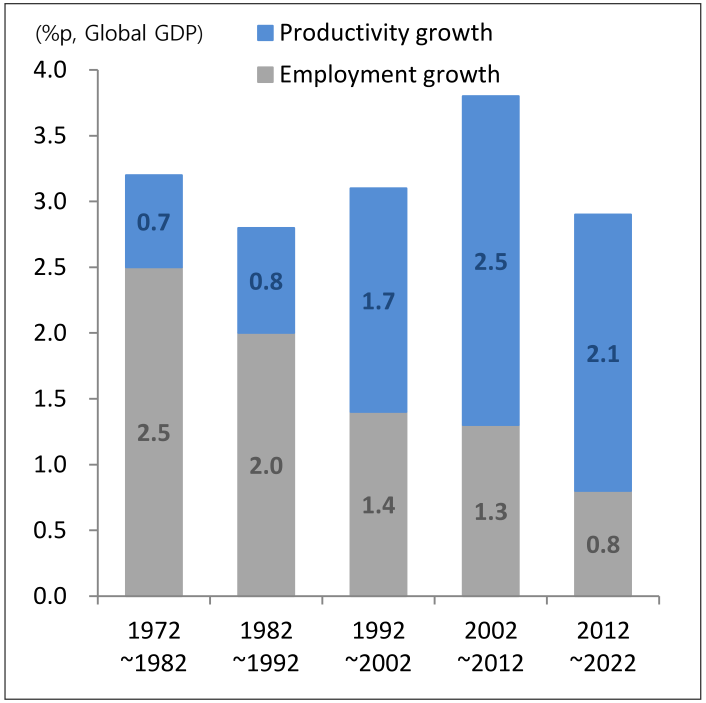
Sources: Google, IMD, Refinitiv, Bloomberg, SHB S&T Center

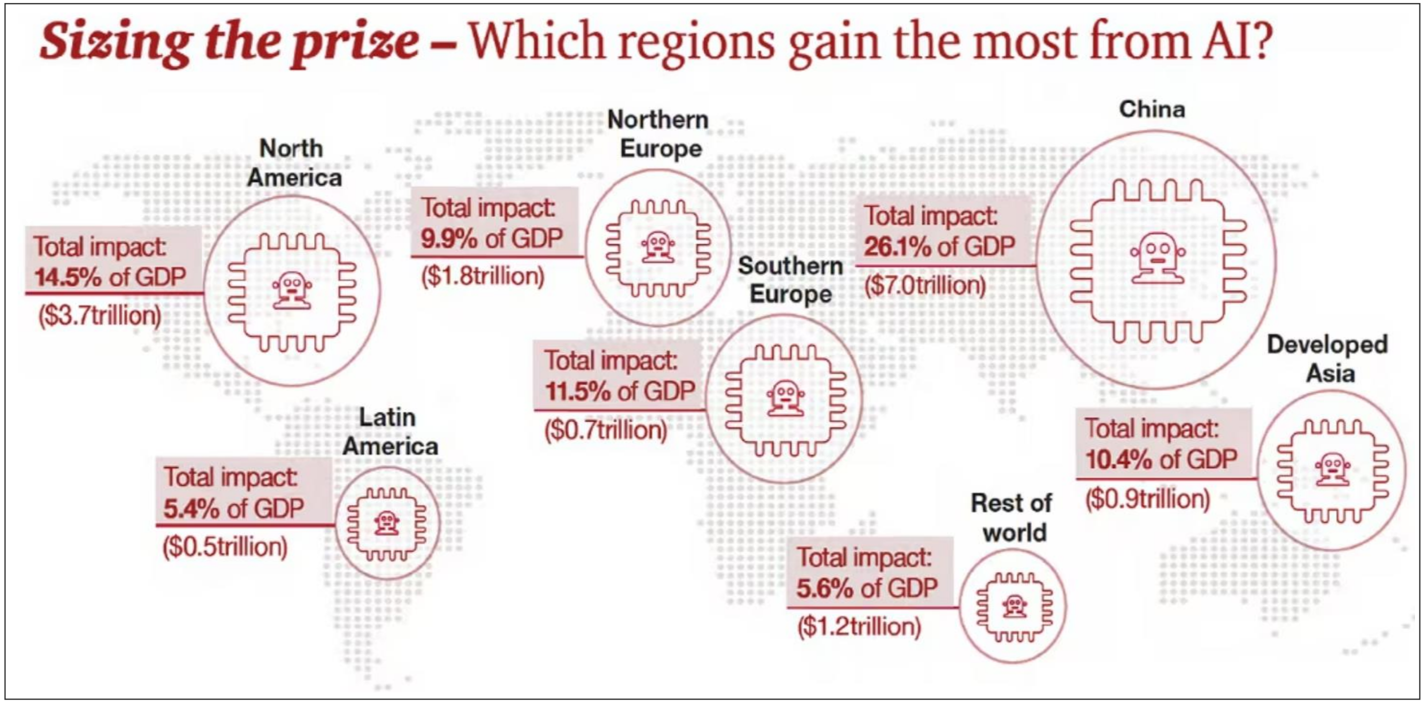
Productivity Improvement and Growth in Service Industry Is Expected

Technological Progress Complements Labor Through Productivity Improvement

- In the future, if advanced AI is widely applied to manufacturing and service industries, efficiency and productivity will be improved through automation and optimization.
- Although there have been periodic fluctuations, due to technological progress in medium to long term, the global economy is expected to grow at around 3% as productivity improvement compensates for employment losses.
- Existing powers such as China, North America, and Europe are likely to enjoy the most of the benefits of AI-driven productivity improvement.

Technological Progress Triggers Tradeoff Between Decrease in Labor Demand & Increase in Productivity





Sources: McKinsey, PWC, Refinitiv, Bloomberg, SHB S&T Center

Major Issues in 2024

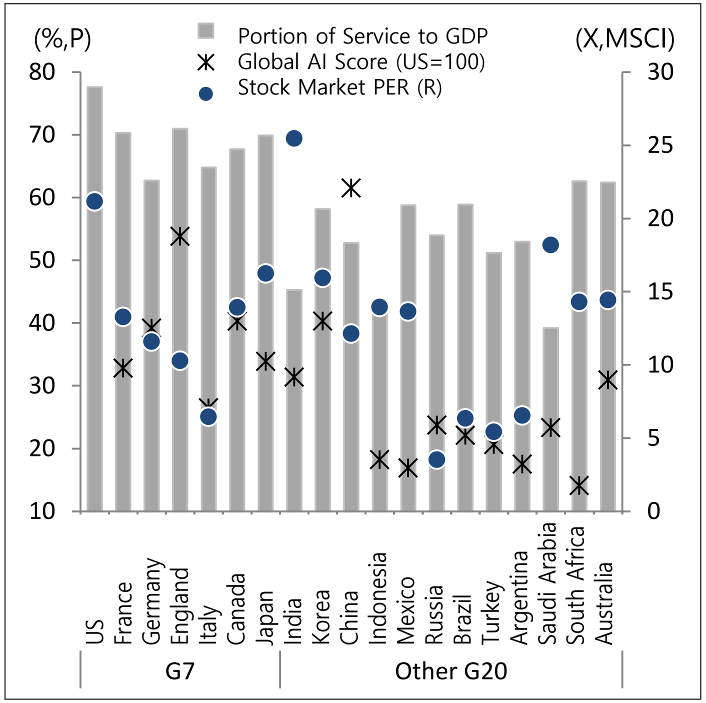
① Age of Automation (無人時代 I)

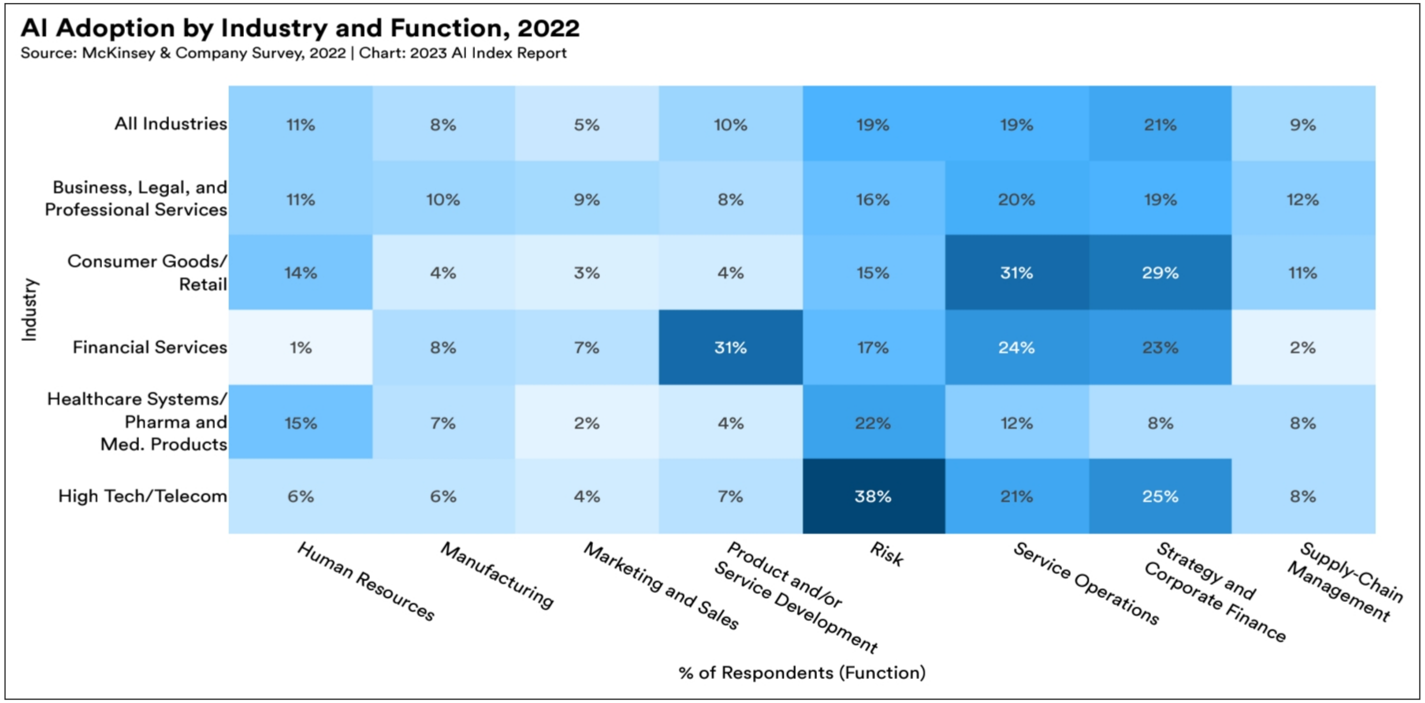
What Would Happen If Borderless Service and AI Meet?

Intensifying Competition for Technological Leadership & Possibility of Market Re-evaluation

- The application of AI to service industry, which has had relatively low trade barriers, is likely to trigger economic and social changes globally.
- AI is expected to be applied in various service sectors including consumer strategy, financial service product development, and technology and communications risk management.
- If AI and other technologies promote the advancement and growth of service industry, the market value of countries with relative advantages is likely to be re-evaluated.

The Importance of Service Industry Is Likely to Increase in the Future as the Possibility of AI Replacing Labor Increases





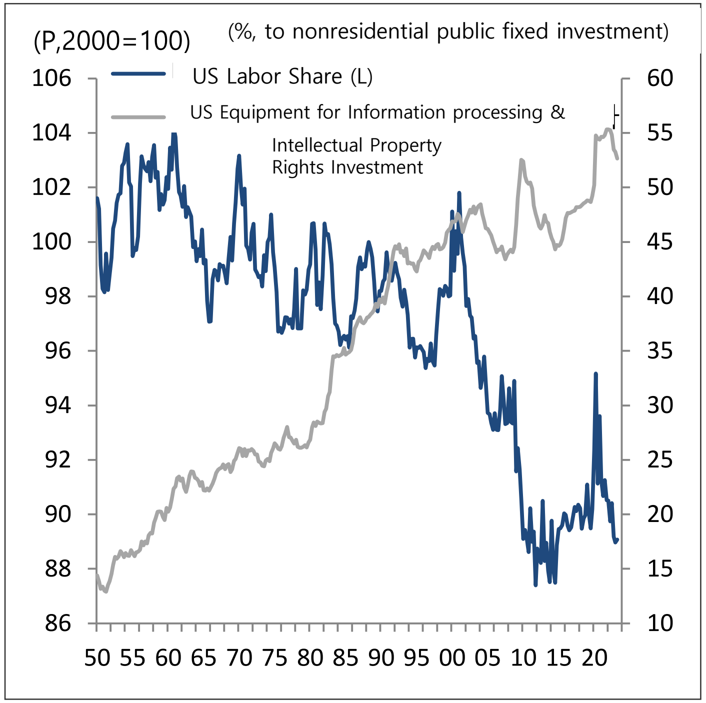
Sources : World Bank, McKinsey, Refinitiv, Bloomberg, SHB S&TCenter

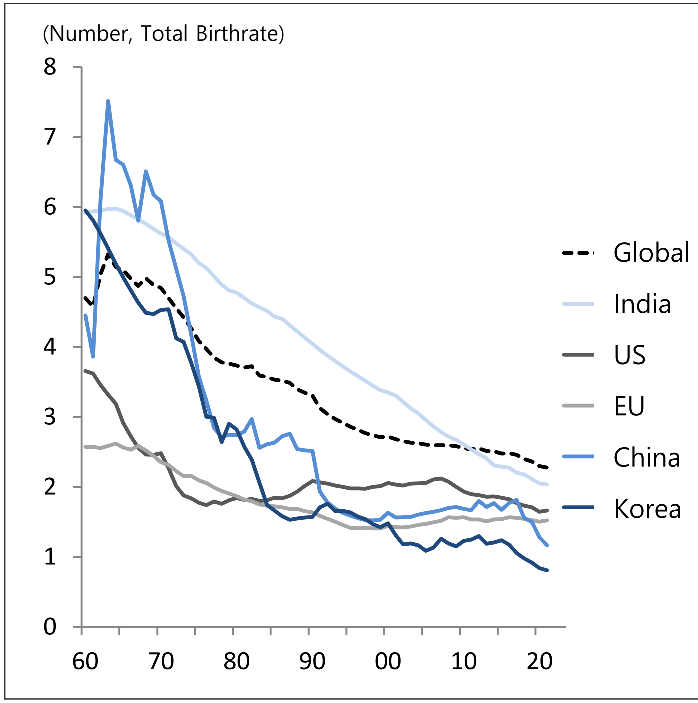
Productivity Would Increase, but Does the Machines Consume?

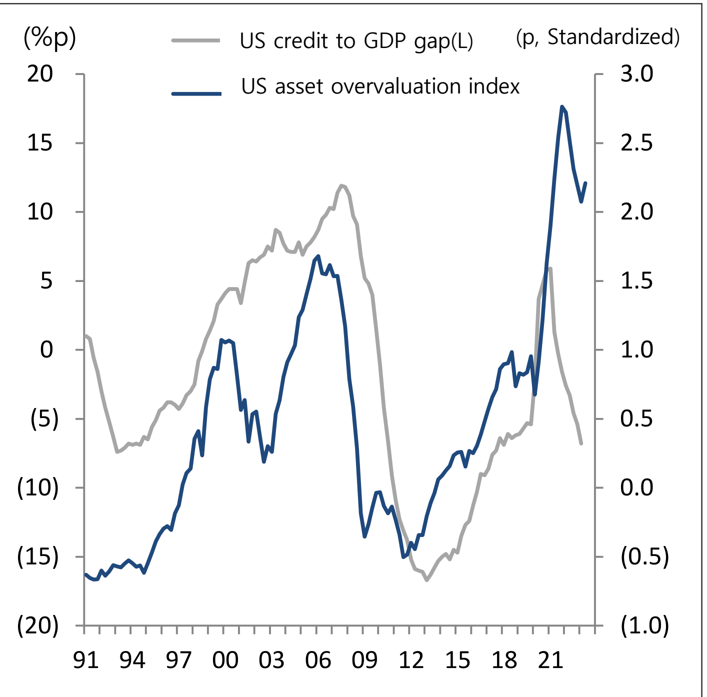
Population Merit Declines & Global Growth Disparity Widens

- Manufacturing-centered economic growth, based on population and fixed investment, is relatively marginalized, while quantitative expansions and the aftermath of excessive investment are induced.
- While the incentives for investment in intangible assets such as R&D is increasing, polarization and protection of domestic industries may be triggered as labor demand and population decline.
- The productivity improvement in service industry is positive, but widening gap between economies and asset market overheating due to capital inflow pose concern.

The Shift of Growth Drivers to Intangible Assets Also Implies the Possibility of Asset Market Overheating







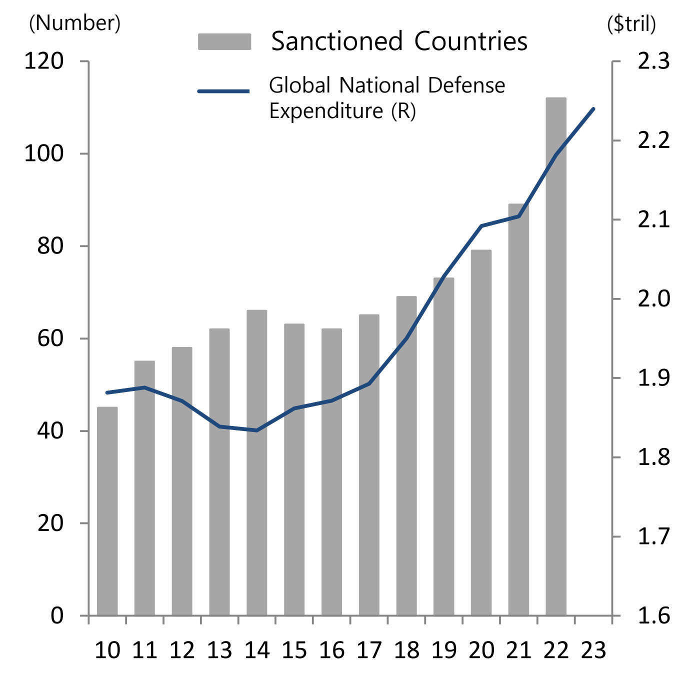
Sources: World Bank, BIS, FRED, Refinitiv, Bloomberg, SHB S&TCenter
*US asset is a weighted average of equity, bond, housing prices

A Divided World: Weapons for Defense, Trade for Offense

Cautious Moves Between National Security and Economy

- The US's efforts to check China's technology industry, such as semiconductors, in order to reduce inflationary pressure and seize global dominance, are periodically met with Chinese resistance.
- While the Cold War in the past was mainly about ideological confrontation, the emerging Cold War is centered around technological and financial competition between the G2, attempting to reorganize Asia related supply chains.
- Especially, as the possibility of Trump-Biden rematch at the 2024 presidential election increases, checking China in terms of military and economy would prolong.

Direct Military Conflict May Be Avoided, but Economic Rivalry and Competition Between the G2 Are Likely to Intensify Ahead of the US Presidential Election



	Cold War	New Cold War	
		Republican Party (Trump)	Democratic Party (Biden)
Goals	Collapse of the other side	US VS other countries	Keep China and Russia in check
Core Elements	Ideology	Economic benefits	Economic benefits & values
Factional Conflict	Bloc confrontation	US first	Alliance-centered bloc formation
Economic Integration	Strong bond	Breaking away from alliance	Regional and technological integration
Major Competing Fields	Politics, military	Old economic areas	New economic areas
Economic Sanctions	Almost no economic dependence	Protective trade (ex. tariffs)	De-risking including regulations
Possibility of Military Conflict	Exist	Limited	Limited

Sources: IMF, Global Finance Center, Refinitiv, Bloomberg, SHB S&T Center

Major Issues in 2024

② Age of Worriers

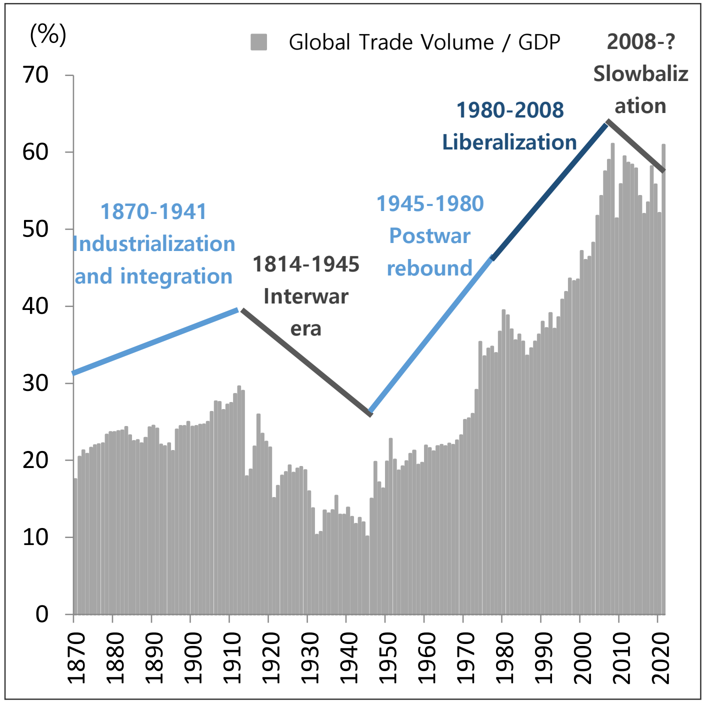
(武人時代 II)

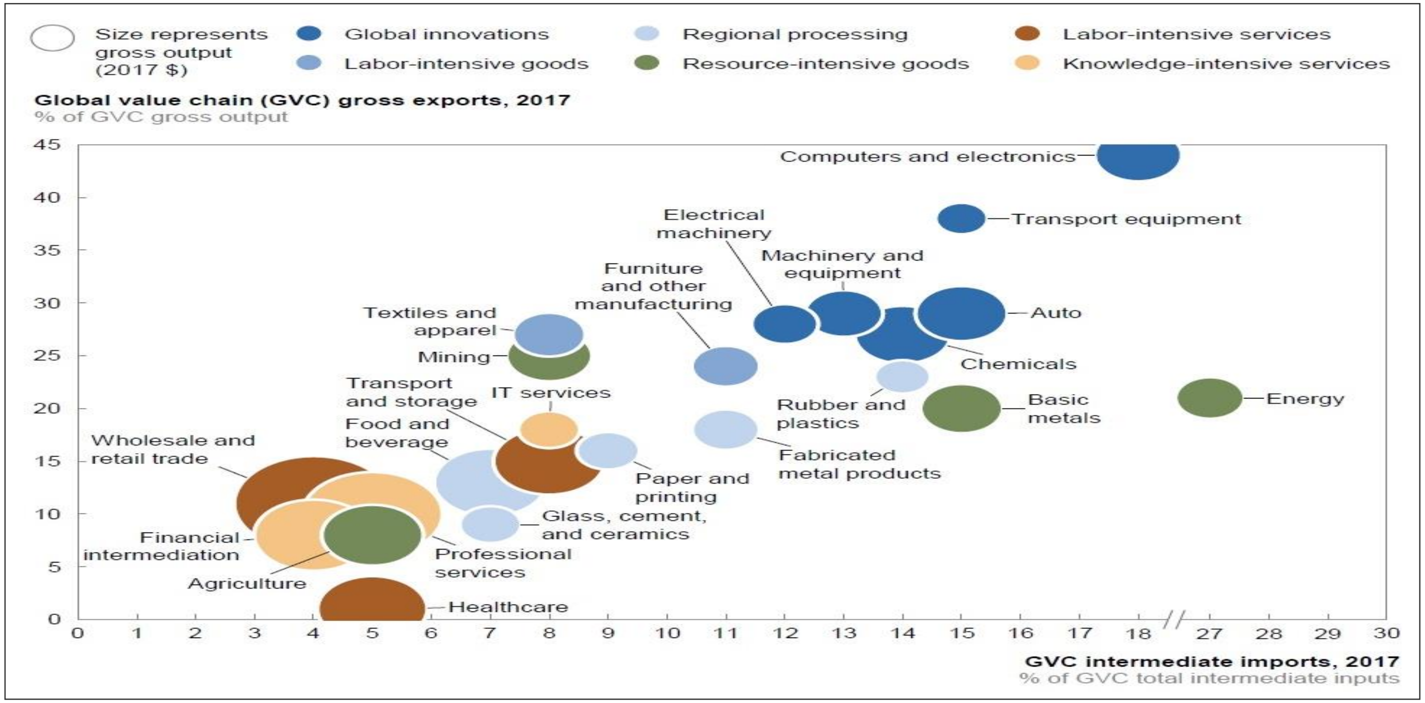
Decline of Globalization Triggers Disruption & Fragmentation of Global Supply Chains

Ahead of US Presidential Election, Raw Materials and Technology Sectors Are Relatively More Vulnerable

- The global supply chain, which had been firmly built up in the 1990s through trade liberalization and specialization, is being damaged by the US-China conflict and is becoming a risk.
- Latin America and EMEA are focused on raw materials, EM countries in Asia and Europe on manufacturing, and developed countries on services.
- Production division system is intertwined globally and supply chain and geopolitical risks are concentrated on the technology industry, energy, and raw materials sectors.

While Supply Chains Are Becoming Tighter Due to Production Specialization and Globalization, Technology and Raw Materials Sectors May Become More Sensitive





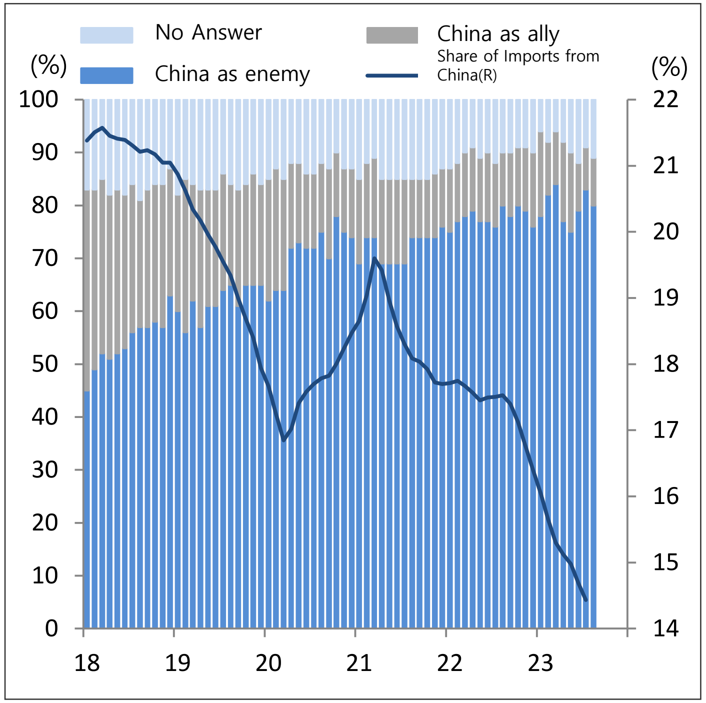
Sources: Google, OECD, Refinitiv, Bloomberg, SHB S&T Center

Possibility of Change in Production-Trade Landscape in Asia

US's De-risking of China and Fragmentation of Supply Chains

- The supply chain realignment in the manufacturing and technology sectors is likely to continue while keeping China in check, though may slightly change depending on the result of the US presidential election.
- While China's labor cost advantage has been reduced due to automation, the US supply chain realignment stimulates relocation of production and supply chains in China to neighboring countries.
- Although infrastructure and other factors should be considered, should keep in mind the possibility of relocating production capacity to industries that can replace Chinese goods in terms of export comparative advantage.

US-China Decoupling Is Reshaping the Asian Supply Chain and This Could Lead to Increased Importance of Regional Export Substitutes



	China		S. Korea		India		Vietnam		Indonesia	
	2011	2021	2011	2021	2011	2021	2011	2021	2011	2021
Raw Materials	0.10	0.09	0.06	0.05	0.62	0.59	1.33	0.37	1.96	**1.83**
Intermediary Goods	0.68	0.67	1.15	**1.04**	1.39	**1.66**	0.53	0.50	1.17	**1.39**
Capital Goods	1.66	1.64	1.72	**1.68**	0.38	0.48	0.69	**1.56**	0.34	0.29
Consumer Goods	1.18	1.02	0.78	0.70	1.30	**1.32**	1.53	**1.07**	1.04	**1.16**
Industrial Products	1.47	1.38	1.32	**1.29**	0.98	**1.06**	0.55	0.66	0.55	0.66
Textile	2.74	1.94	0.65	0.42	3.18	**2.70**	4.62	**2.99**	1.71	**1.51**
Machine Transportation	1.58	1.58	1.63	**1.66**	0.41	0.48	0.68	**1.48**	0.37	0.38
Steel	0.94	0.95	1.27	**1.05**	0.97	**1.67**	0.49	0.64	0.76	**1.65**
Chemicals	0.53	0.63	0.73	0.95	1.24	**1.56**	0.21	0.15	0.46	0.44
Electronics	2.02	1.91	1.66	**1.88**	0.36	0.44	0.86	**1.88**	0.40	0.35

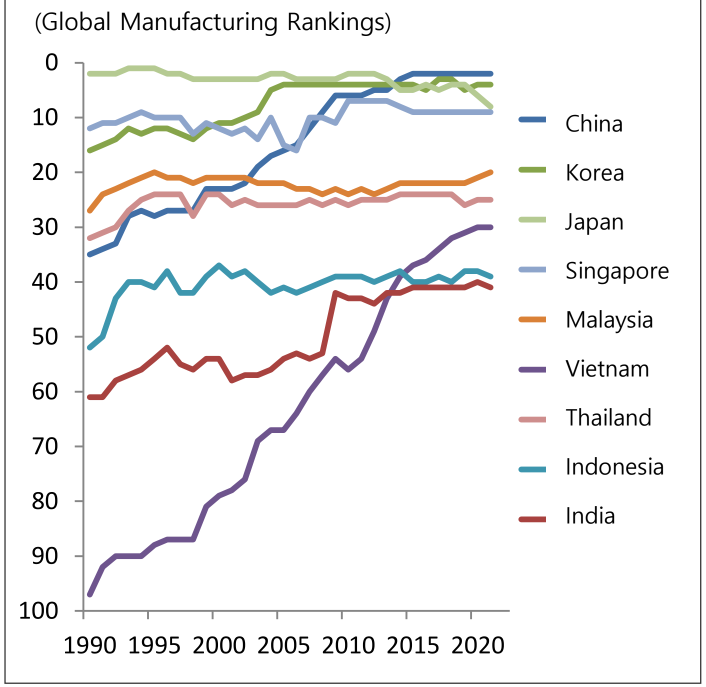
Sources: WITS, YouGov, Refinitiv, Bloomberg, SHB S&TCenter
*Table on the right shows RCA of major export goods. Higher number indicates higher degree of comparative specialization of the good.

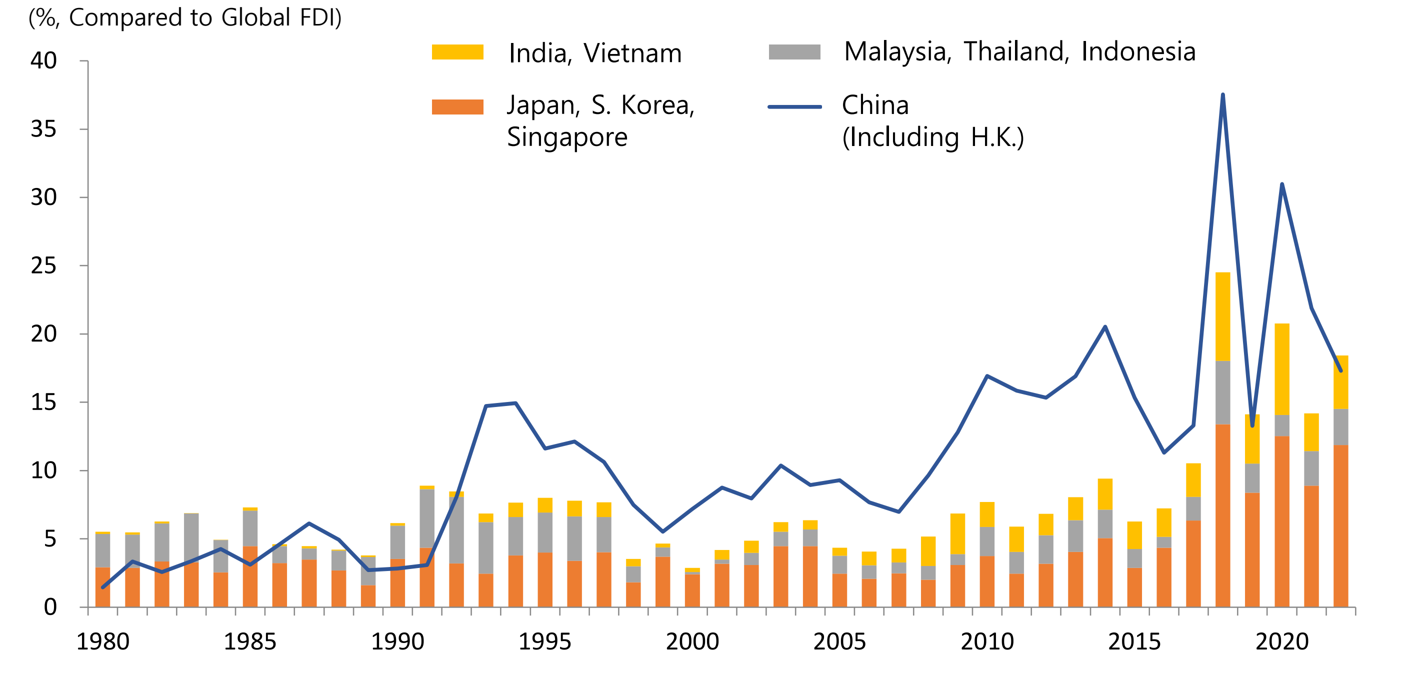
Restructuring of Manufacturing Supply Chains May Be Accompanied by FDI

Beware of Emerging Countries That Seek to Replace China as a Manufacturing Base

- China maintains its top ranking in global manufacturing competitiveness, but it is facing competition from South Korea and Japan. Emerging countries are also catching up.
- If we apply the geese-like growth model proposed in Japan, the regional industrial sophistication can be done through technology transfer and overseas investment between developed and developing countries.
- While China and South Korea are leading FDI in Asia, it is also expanding in India, Vietnam, and Southeast Asia.

As Asian Manufacturing Industry Is Becoming Increasingly Sophisticated, Asian FDI Is Also Showing Signs of Sequential Moves





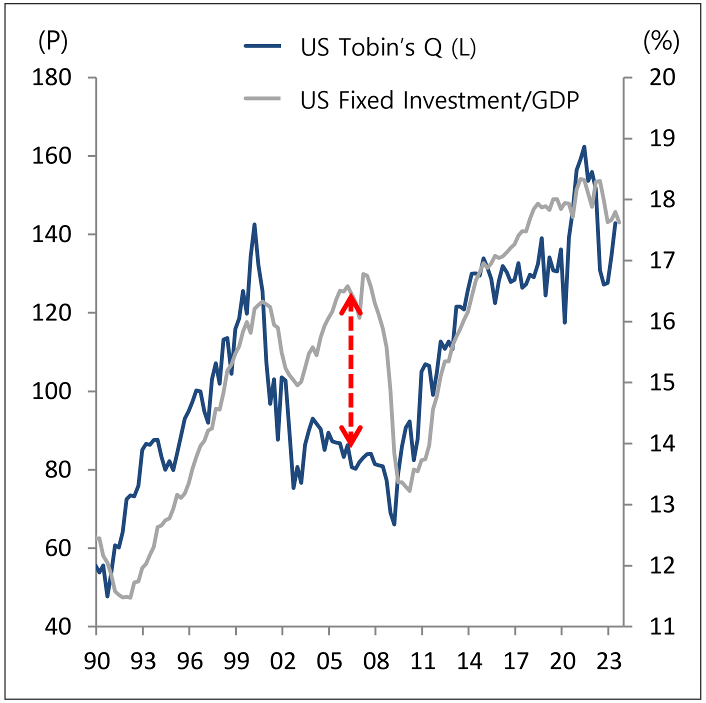
Sources: UN, World Bank, Refinitiv, Bloomberg, SHB S&TCenter

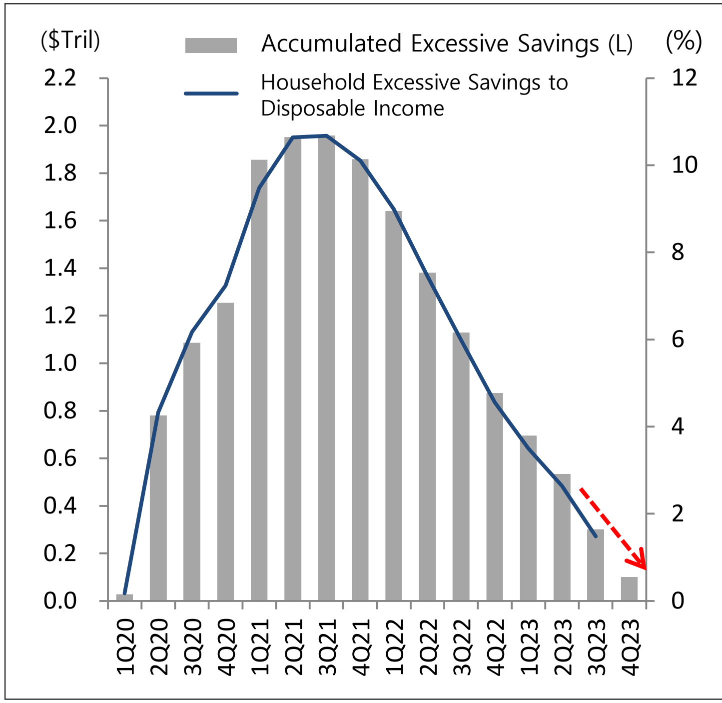
The US Economy Isn't Cooling Down, While the Fed Remains Silent

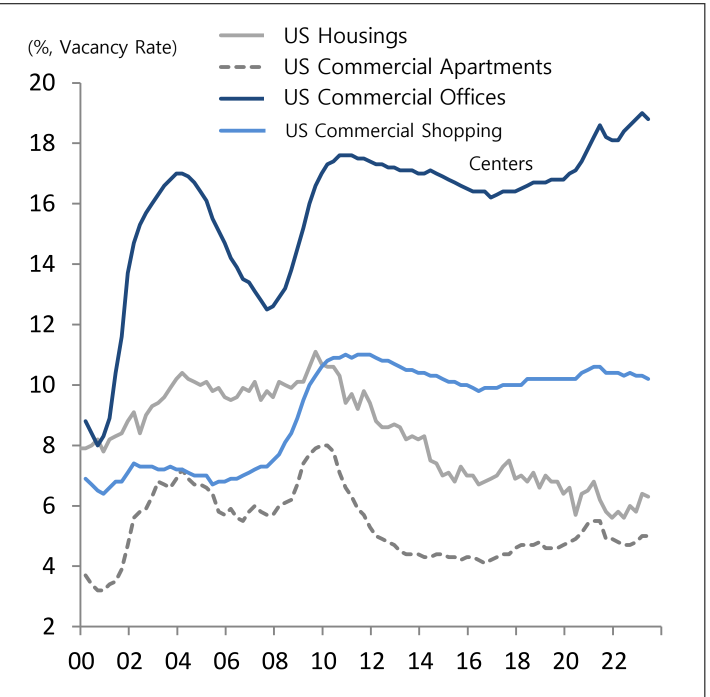
Consumption & Commercial Real Estate Are Slowing Down with a Lag

- Coinciding with the depletion of excessive household savings, the impact of rate hikes will be gradually felt and the risk of US recession is likely to be realized.
- However, given the stable labor market and household debt, the risk of overinvestment by companies with cash reserves is low and economic slowdown will be developed rather than recession.
- Even if the recession may be shallow, growth will decline with a lag due to the depletion of excess private savings and risks from China.

As Excess Savings Diminish, the US Economy Is Likely to Slow Down Gradually but the Possibility of a Sharp Slowdown in the Short Term Is Limited







Sources: Refinitiv, Bloomberg, SHB S&TCenter
*Tobin's Q is calculated by a company's market value/assets' replacement cost. If higher than 100, investment incentive occurs.

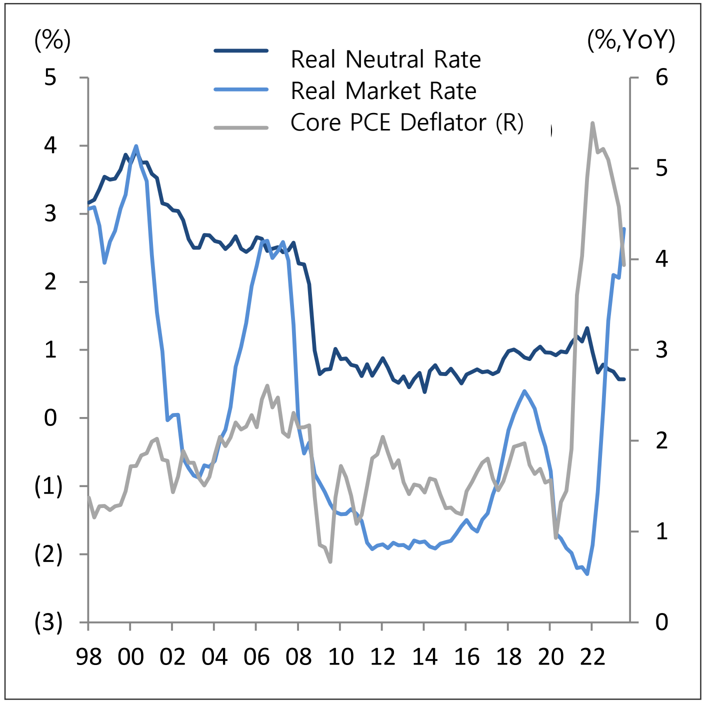
Major Issues in 2024
③Peak FED?

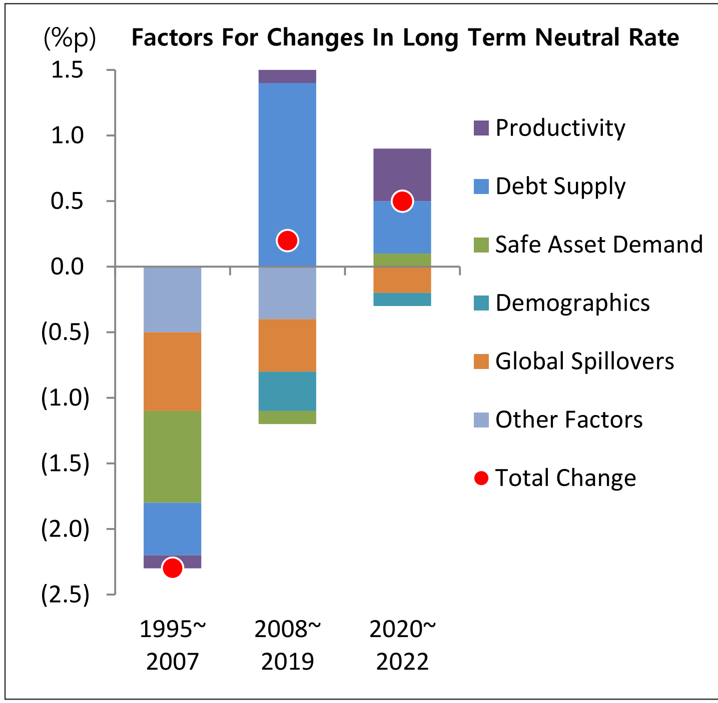
Debate Over Neutral Rates Within Fed Is Likely to Rise

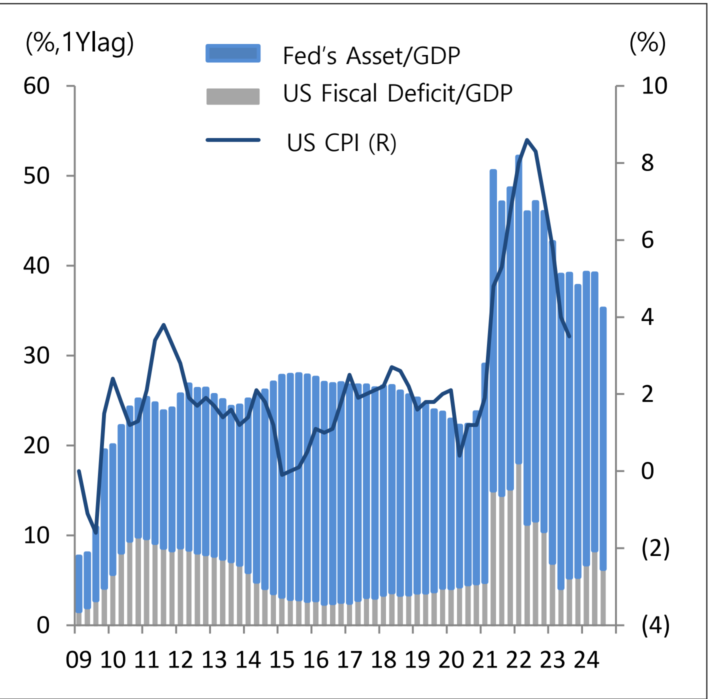
It Seems Difficult to Return to the Low-Interest Rate Era Before the Pandemic

- The debate over neutral rates within the Fed is likely to become serious due to higher-than-expected US economic growth and stabilized inflation.
- There is a great deal of disagreement about the real neutral rate, which is the theoretical equilibrium point that does not overheat the economy, but the possibility of it rising above the current 0.5% is increasing.
- If the real neutral rate is 1.5%, even if the target inflation rate of 2.0% is achieved, it will not be easy for the Fed's long-term funds rate to fall below 3.5%.

The Upward Pressure on Inflation and Neutral Rates Is Rising, Which Is the Aftereffects of Excessive Policies Due to COVID-19







Sources : FRB, Refinitiv, Bloomberg, SHB S&T Center

Major Issues in 2024

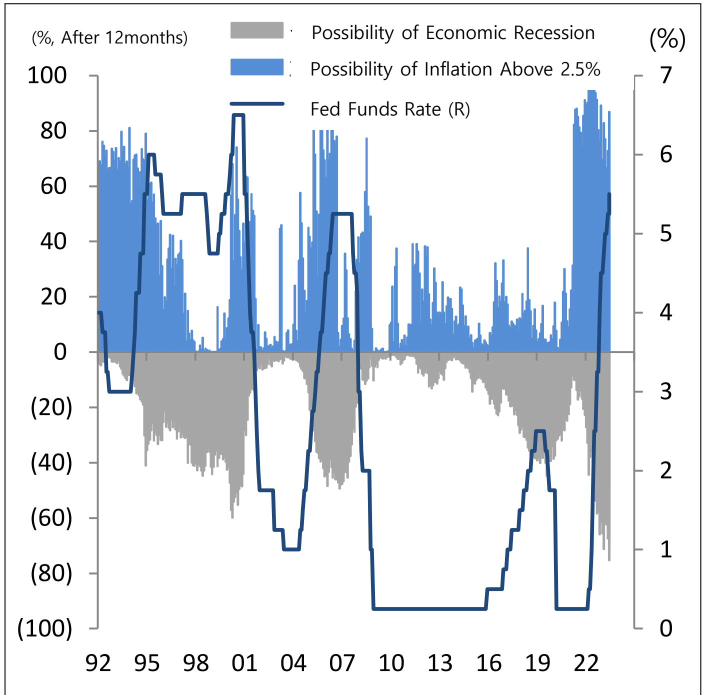
③Peak FED?

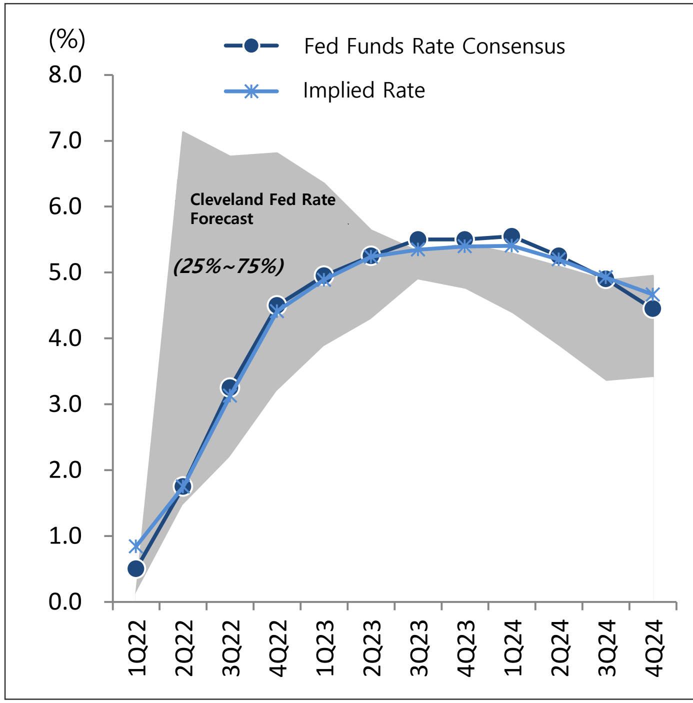
The Fed Expects to Get Used to 5% Interest Rate Level

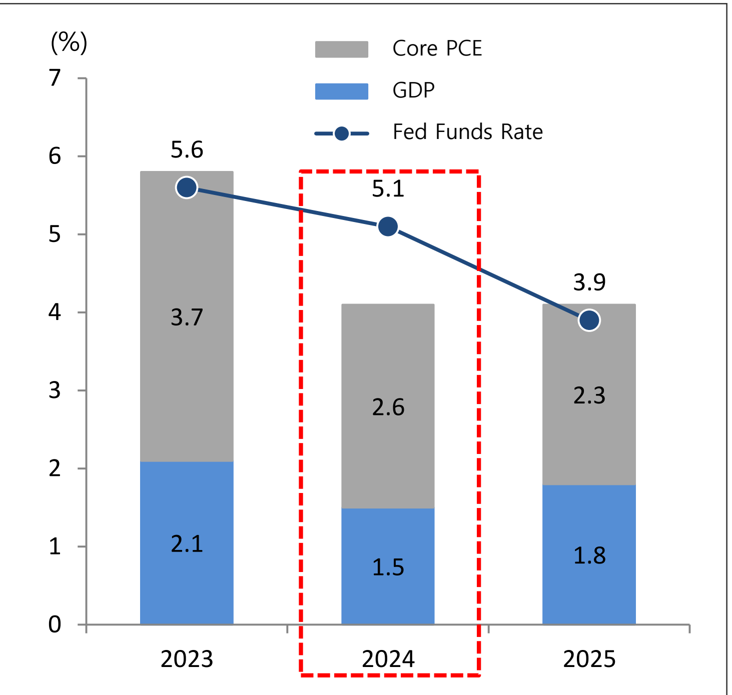
The Rate Hike Will End At Around 5.50%, with a Potential for Cuts After 2024 2H

- Under ‘inflation’ slowdown, the Fed is likely to adjust its policy stance in a way that balances ‘economic’ downturn and ‘financial’ instability but rather at a slower pace than the market anticipates.
- Additional rate hike can’t be ruled out but the tightening cycle is coming to an end. While maintaining tight interest rate level, 2~3 rate cuts are expected after 2024 2H.
- In the medium to long term, the Fed's pivot is favorable to market sentiment. However, the Fed is likely to maintain high interest rates for a while.

The Fed Isn’t Rushing to Pivot, Mindful of the 1970s and 1980s, and Rate Cut Is Delayed to After 2024 2H







Sources : Refinitiv, Bloomberg, SHB S&T Center
*For the picture on the left, reverse series was applied for possibility of recession. Picture on the right shows Sep. 2023 Fed dot plot

Major Issues in 2024

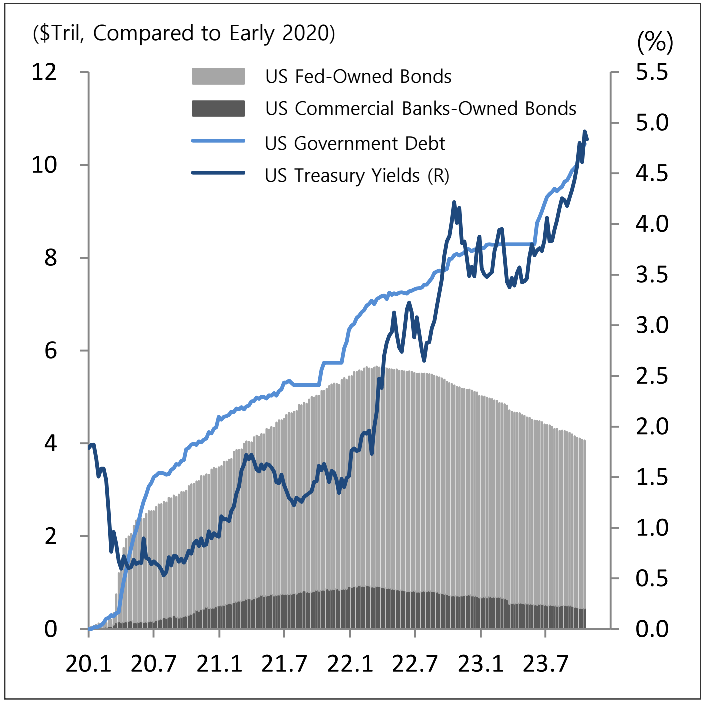
③Peak FED?

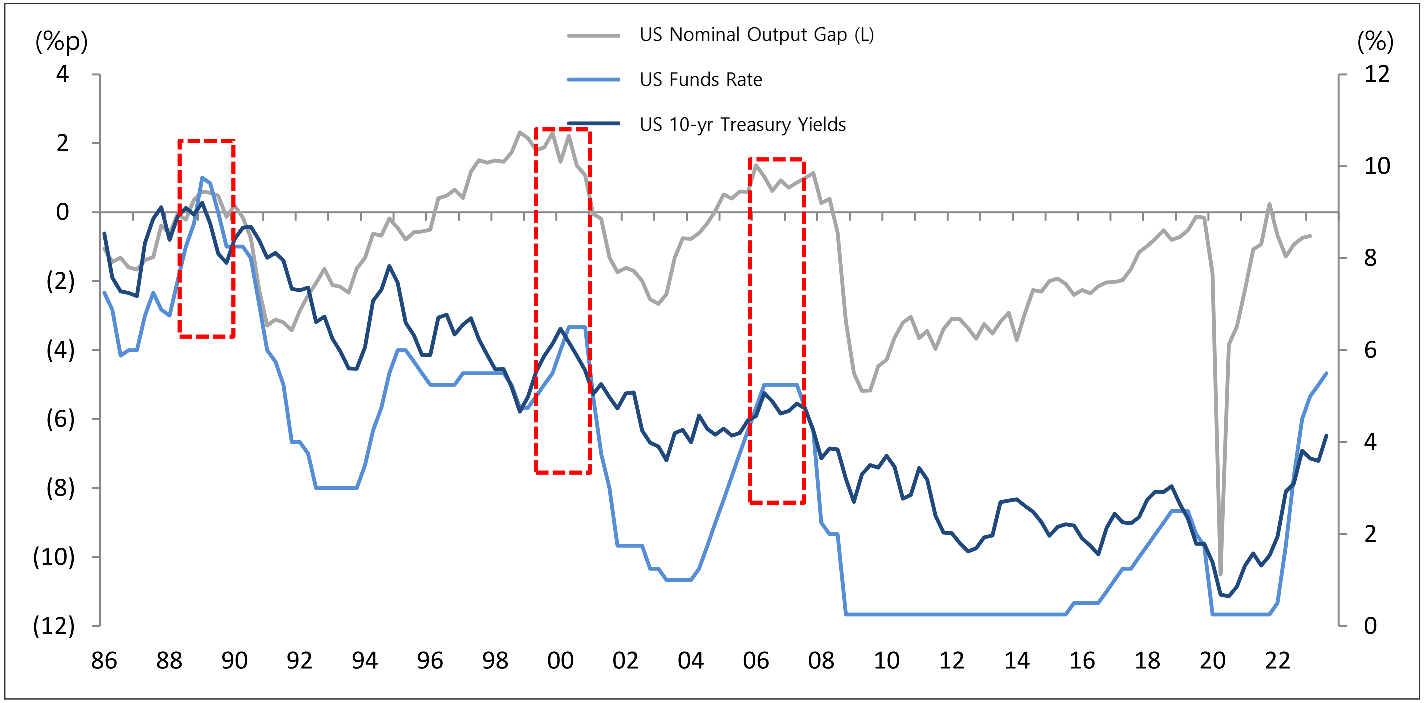
The Market Rate Is Exposed to Upward Pressure Due to Fiscal Burdens

The US Dollar Is Likely to Be Supported Until the Fed and Political Authorities Give Clear Signals

- Amid the Fed's commitment to high interest rates, upward pressure on the market rate is unavoidable for the time being due to delay in fiscal tightening by both parties ahead of the election.
- The technical resistance at 5% is likely to limit the pace of rate hike, but the underlying supply-demand dynamics could weaken as the Fed withdraws its support for the monetization of debt.
- If the economy is overheated longer than expected, due to factors such as strong productivity growth in the service sector, the market interest rate could attempt to re-enter the 5% range by narrowing the gap with the Fed funds rate.

If the US Government Debt Increases and Concerns About Overheating the Economy Grow, 5% Treasury Yields May Be Justified





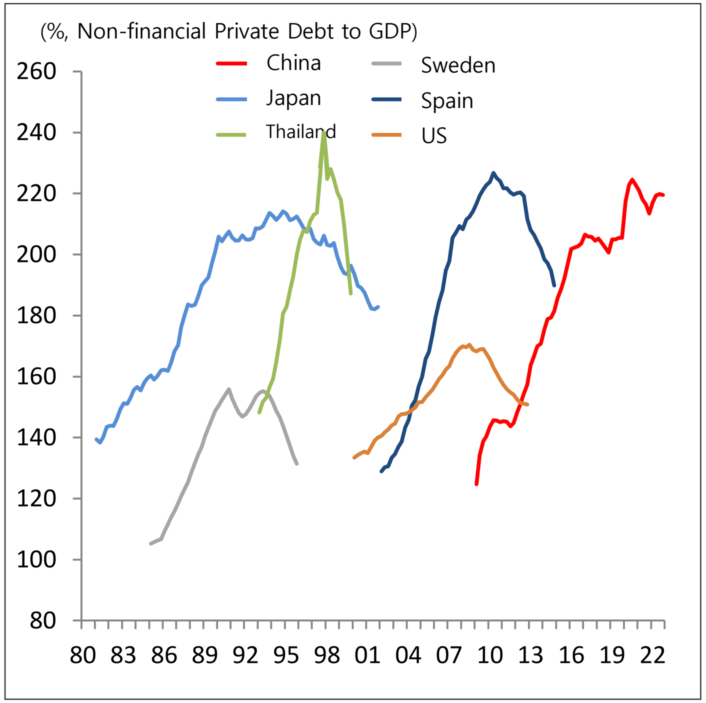
Sources: Refinitiv, Bloomberg, SHB S&T Center

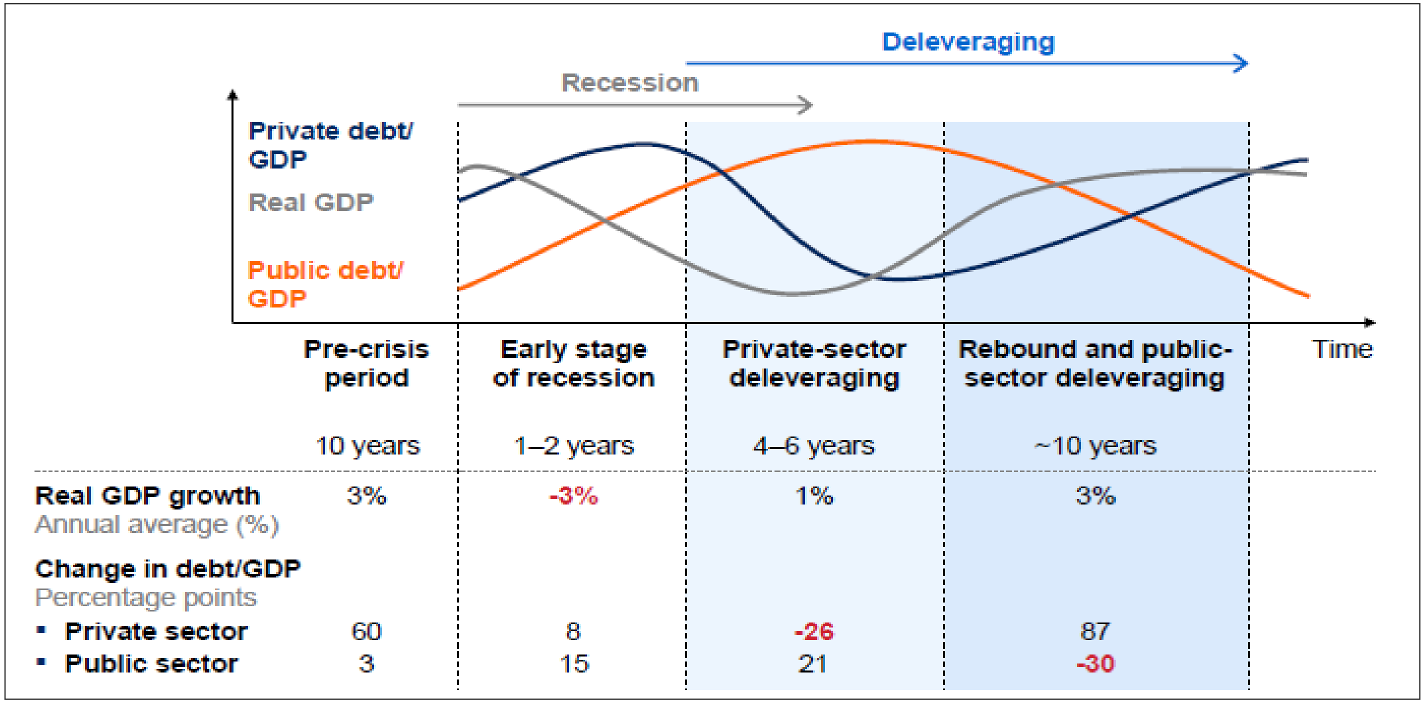
Although China May Avoid Systemic Risks, Will Not Be Able to Sustain High Growth

China Is Carefully Balancing Between Credit Risk and Recession

- Based on past cases, the probability of a financial crisis or recession following a real estate bubble or liquidity boom is close to 90%.
- Of course, the possibility of avoiding a systemic risk has increased as inflation slowed down. However, should be aware of the long-term impact of deleveraging, which advanced countries have also experienced.
- In particular, there is a high possibility of financial instability and economic growth slowdown in the phase where private sector debt is reduced rapidly.

The Deleveraging Process Is Carried Out As Excessive Private Debt Accumulates





Sources : McKinsey, Refinitiv, Bloomberg, SHB S&T Center

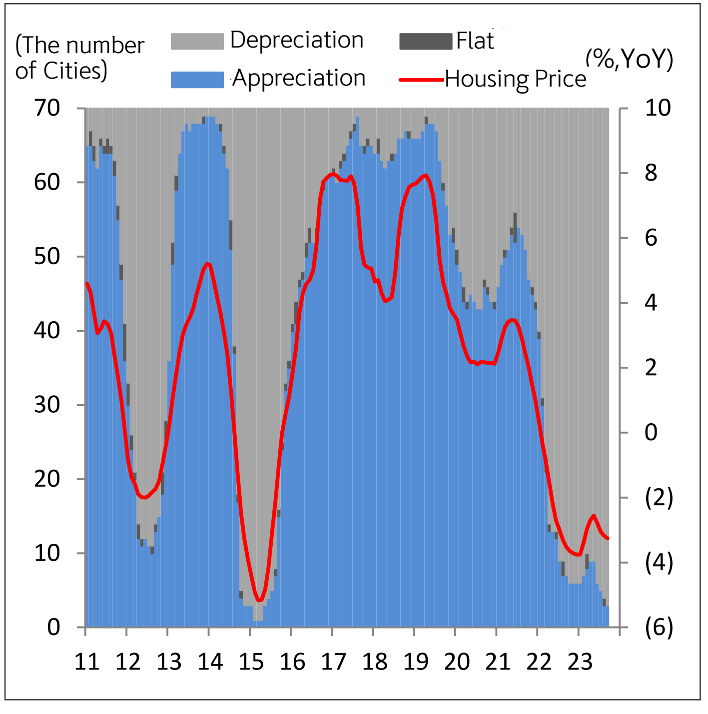
Major Issues in 2024
④Peak China?

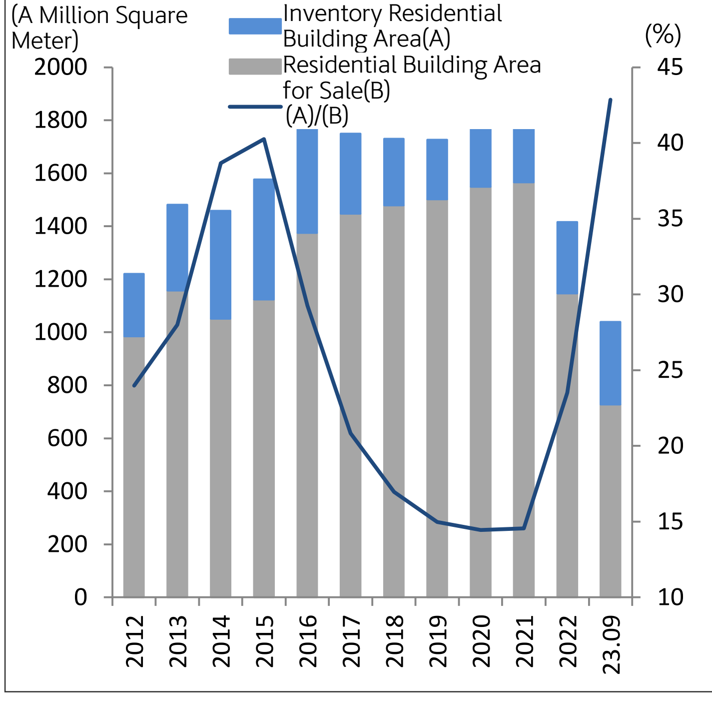
Relatively High Level of Caution for Chinese Real Estate Risks

Government Response Is Expected, but the Environment Is More Difficult Than in 2015

- It is possible that the real estate market, which had been led by supply due to expectations of urban expansion, has exposed its limitations. This could trigger credit risks for related companies.
- Compared to the real estate downturn in 2015, real estate investment is declining more rapidly, while inventory is increasing. This could make it relatively more difficult to artificially stimulate the market.
- In particular, with household debt reaching 140% of income, credit tightening derived from companies could lead to household deleveraging, which could in turn lead to consumption contraction.

Chinese Government's Stimulus Policies Are Anticipated, but Real Estate Market More Unstable Than in 2015





Sources: Goldman Sachs, Refinitiv, Bloomberg, SHB S&T Center

Major Issues in 2024

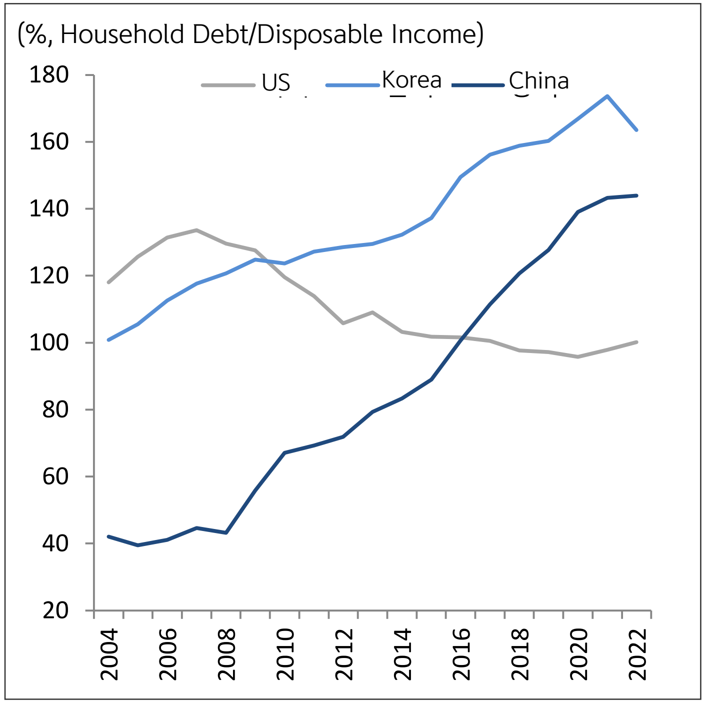
④ Peak China?

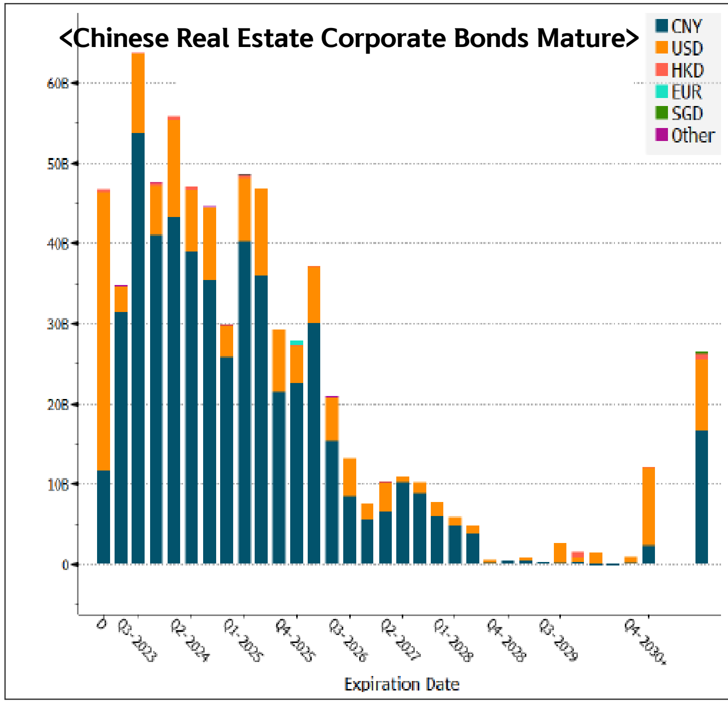
Chinese Corporate Debt Is Vulnerable to Contagion Depending on the Business Climate

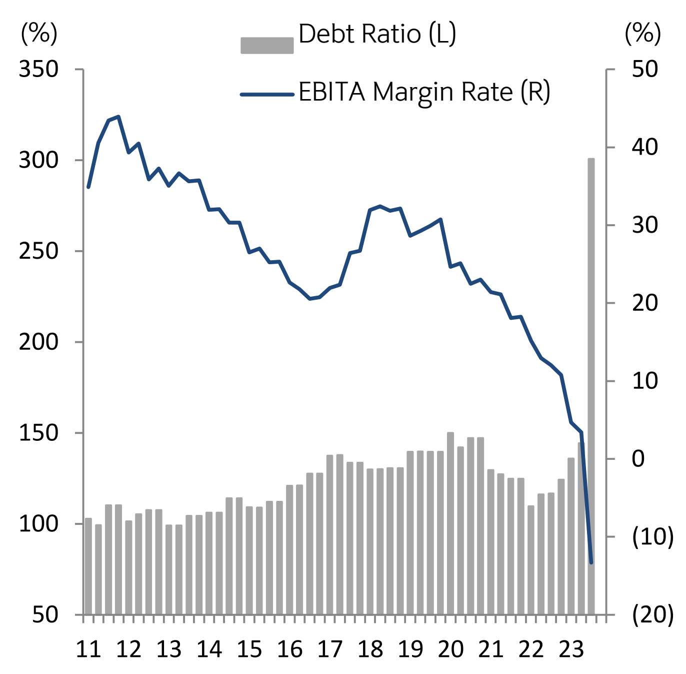
Since Not All Could Be Saved, Concerns Over a Chain of Crisis from Developers Are Rising

- China's relatively closed nature has led to high growth centered on supply and fixed investment based on the power of government control, but it has also led to a sharp increase in corporate debt.
- Due to excessive leverage, real estate developers are experiencing liquidity issues. The Chinese government is pursuing common prosperity, so it is pressuring developers to restructure rather than save them all.
- The government's rate cuts and economic stimulus are likely to contain the crisis, but the yuan is likely to weaken due to unstable fund flows and the release of monetary supply.

Liquidity Risks of Chinese Property Developers Seem Difficult to Be Resolved in the Short Term







Sources: Refinitiv, Bloomberg, SHB S&T Center

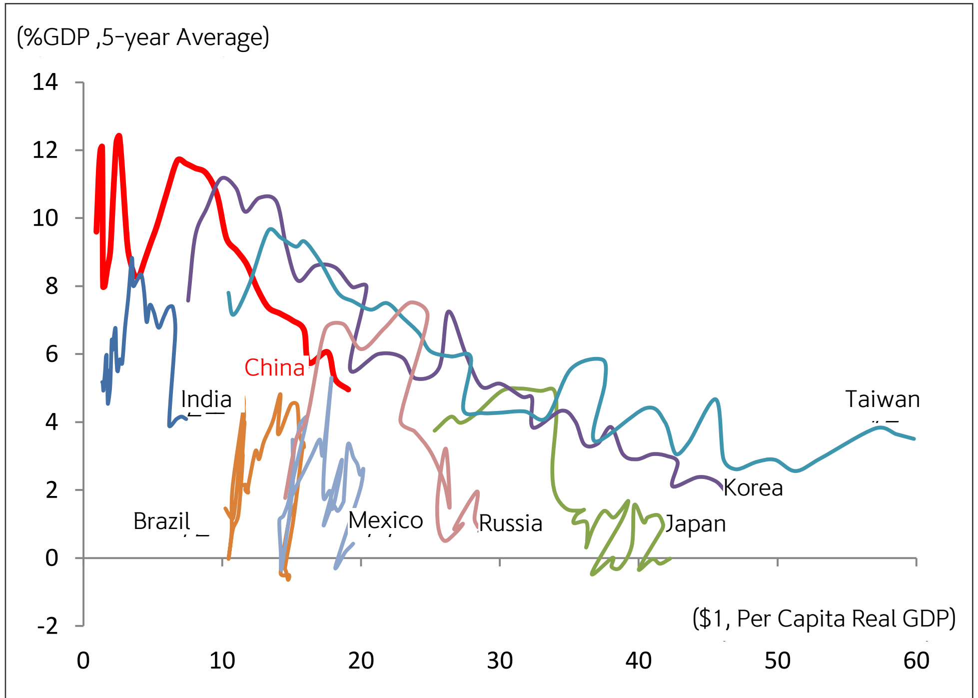
Major Issues in 2024
④Peak China?

The Chinese Economy Is Facing the Challenge of the Middle-Income Trap

The Pain of Transitioning from Quantitative Growth to Qualitative Growth

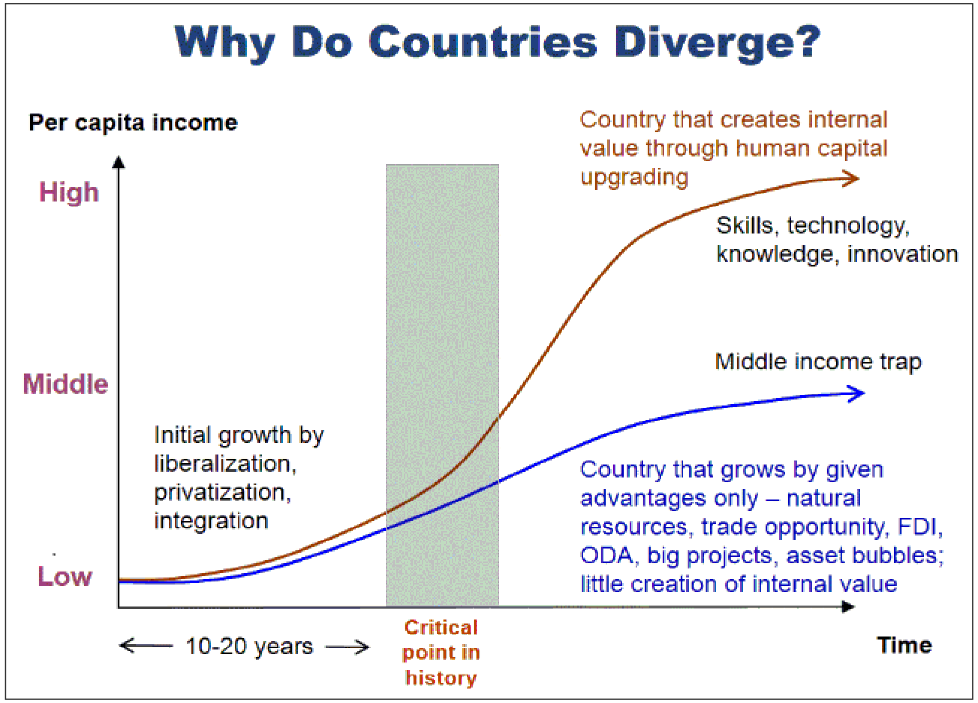
- With China's per capita real GDP approaching $20,000, it is entering the middle-income trap, a zone where growth has stagnated for major emerging economies.
- After achieving high-speed quantitative growth through conventional resources, low wages, and large-scale fixed investment, China has reached its limits in terms of technological advancement, political and social stability.
- However, China could escape the trap by securing technological capabilities, as has been done by countries like South Korea and Taiwan. However, there are obstacles, such as a rigid society and competition with the US.

China Is at a Crossroads of the Middle-Income Trap



Sources: BCG & SIA, SHB S&T Center

Inevitable Conflict with the US for Transitioning Into Qualitative Growth



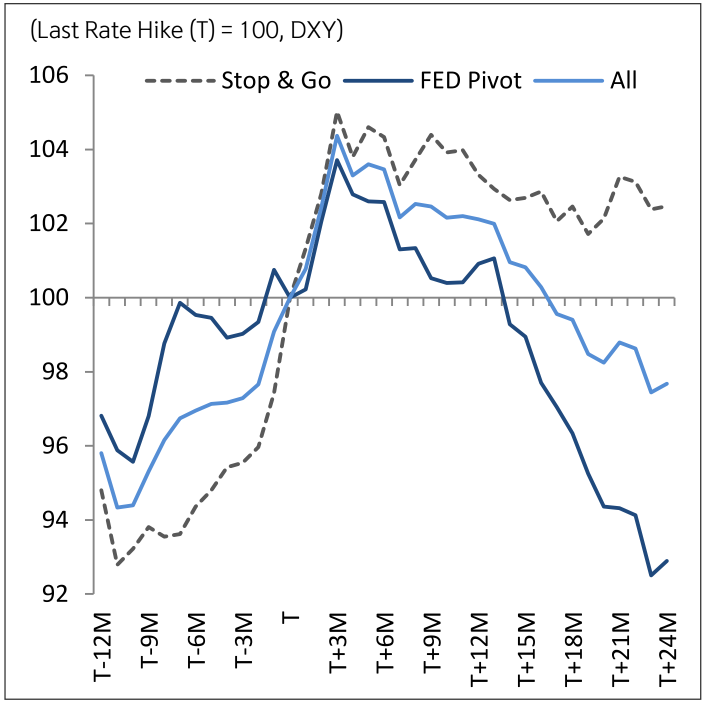
Sources: Google, SHB S&T Center

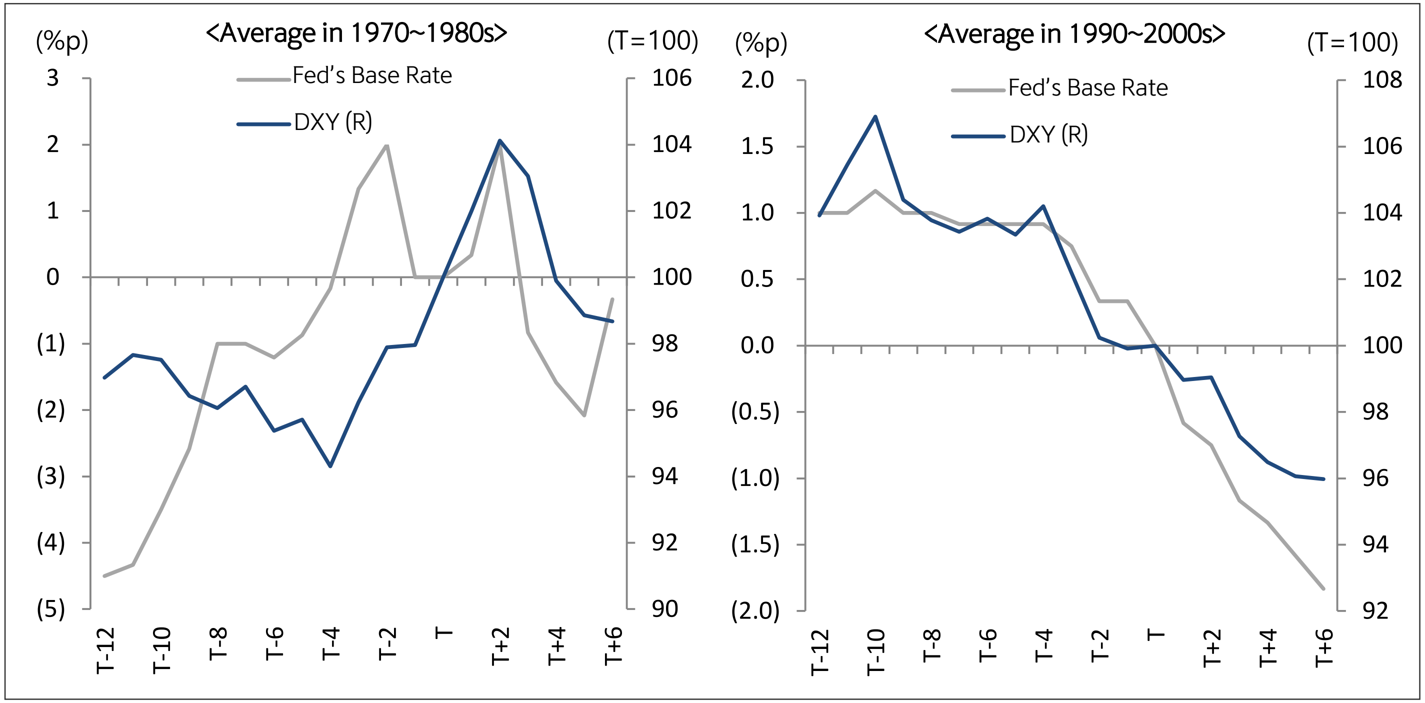
The US Dollar Is Faltering, Expected to Fall as Time Goes

The Fed's Trauma Triggers Slow Pace Like in the 1970~80s

- Historically, the US dollar has weakened for 1-2 years after the Fed ended its rate hike cycle. However, the speed of the decline has been determined by uncertainty regarding the direction of monetary policy.
- In the 1970s and 1980s, the Fed took a stop-and-go approach due to inflation, and its shift to monetary easing was delayed until after a recession. This led to a prolonged period of dollar strength.
- In contrast, after the 1990s, the Fed began to respond more proactively to inflation. This led to a more rapid decline in the dollar. But now, the Fed is likely to take a more cautious approach.

**In the Future, the US Dollar Is Likely to Weaken, Given the Economic and Monetary Policy
However, the Speed of the Decline Will Depend on the Fed's Proactive Response**





Sources: Refinitiv, Bloomberg, SHB S&T Center
*T (picture on the right) refers to official entering point of US recession

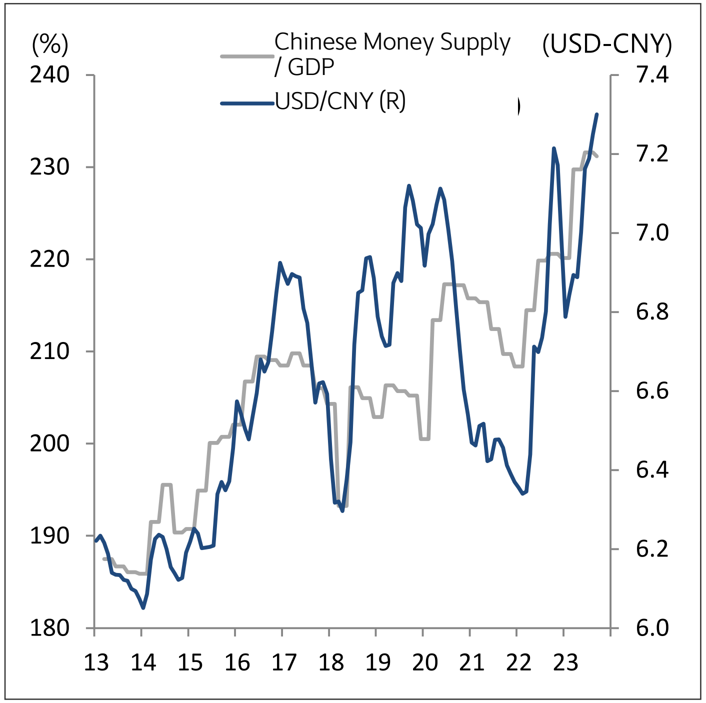
Implications for the Global FX Market

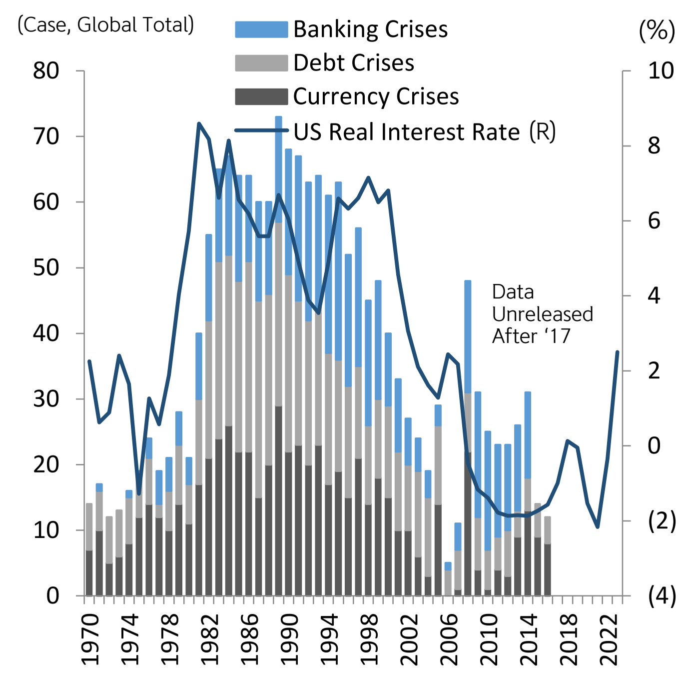
Despite Systemic Risk, Deleveraging Phase Is Unavoidable

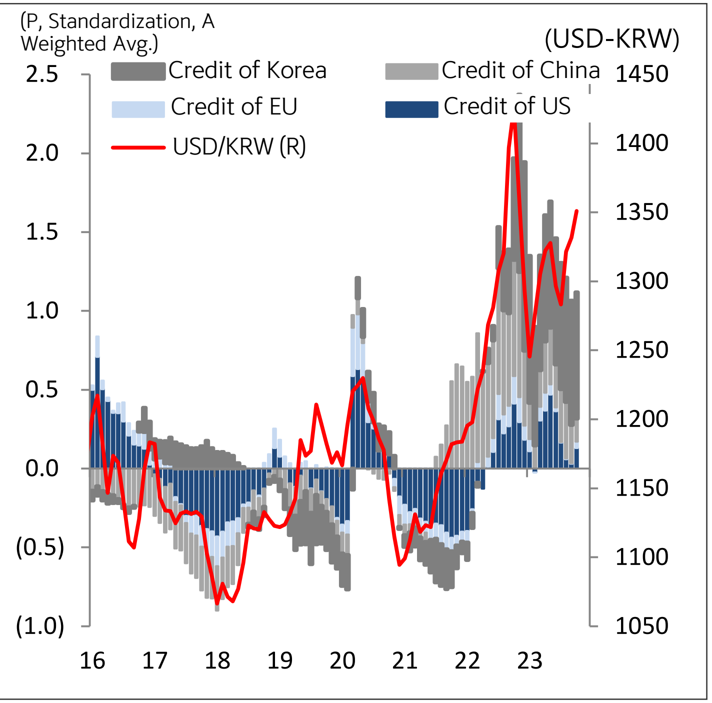
Yuan Likely to Be Relatively Unfavorable Compared to Asian Currencies

- While the risk of systemic risk has decreased as inflation slowed, the deleveraging process is likely to trigger credit risk, given the large regional disparities.
- In particular, there is a high risk of financial instability and economic growth slowdown in areas where the private sector's debt reduction is progressing rapidly.
- China's corporate debt and Korea's household debt will continue to be a concern for a while. In the event of a liquidity crunch to buffer the shock, the related currencies are likely to weaken.

The Credit Risk That Can Be Caused by Deleveraging Is Likely to Trigger Currency Weakness in Response to Monetary Easing







Sources: Harvard Business School, : Refinitiv, Bloomberg, SHB S&T Center

Implications for the Global FX Market

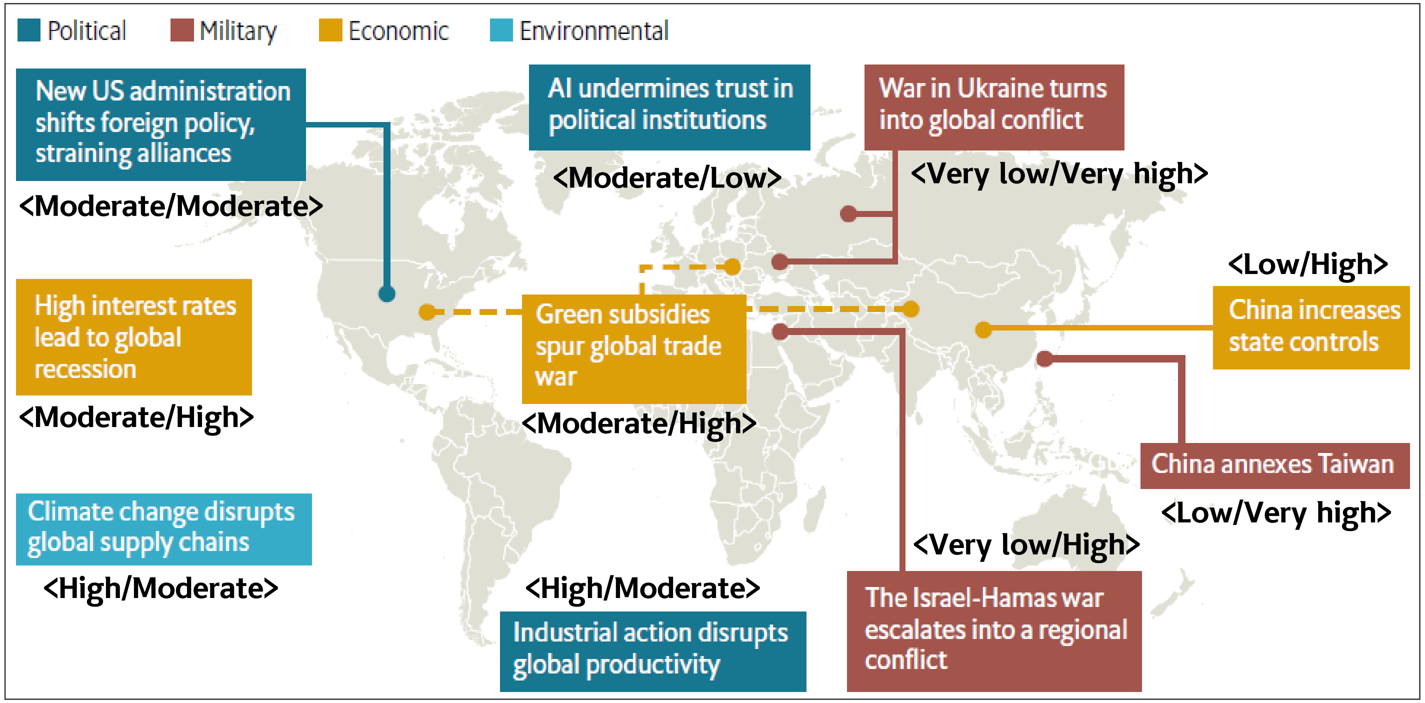
Coinciding With Election Events, Political & Geopolitical Risks Increase

While the Focus Is Moving Towards Asia, Emerging Market Capital Is Vulnerable

- While the bloc formation centered around US and China is progressing, geopolitical risks emerge along with the general election in Taiwan, and presidential elections in Russia and the US.
- In addition to the US monetary and trade policies, military conflict, though unlikely to happen, would have large economic impact if it happens so it needs to be monitored.
- In general, when global political and geopolitical risks increase, foreign investment capital tends to leave emerging countries, while it tends to flow into developed countries, resulting in differentiation.

Election Events and Various Political/Geopolitical Risks Could Intersect in 2024

Major Election Calendar (2024)	
January	Taiwan: Presidential/General Election(1/13)
February	Indonesia: Presidential/General Election(2/14)
March	Russia: Presidential Election(3/17)
April	S. Korea: Presidential Election(4/10)
June	Mexico: Presidential/General Election(6/2)
November	US: Presidential/General Election(11/5)
TBD	India: General Election Ukraine: Presidential Election U.K.: General Election



Sources: Wikipedia, EIU, Refinitiv, Bloomberg, SHB S&T Center
*Picture on the right, <> indicates possibility of occurrence of 2024 risk factors and their economic impact

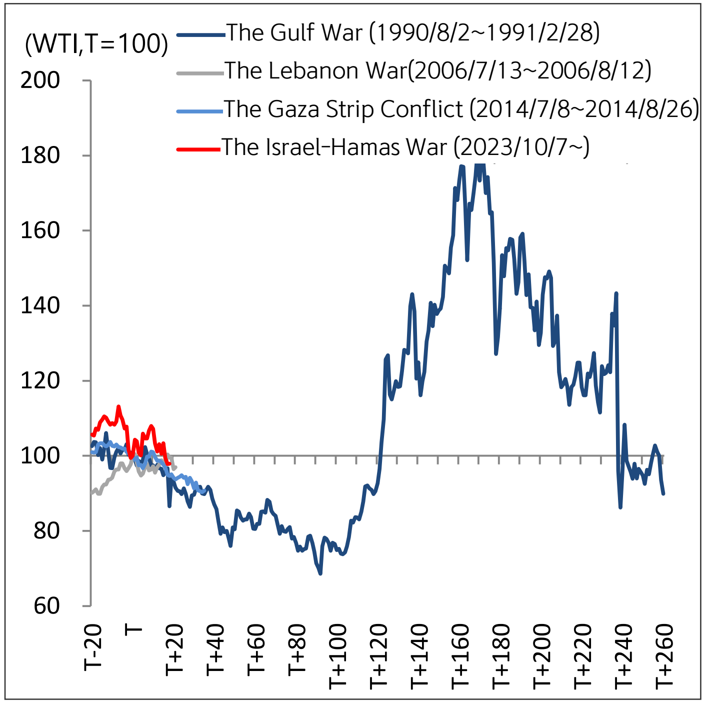
Implications for the Global FX Market

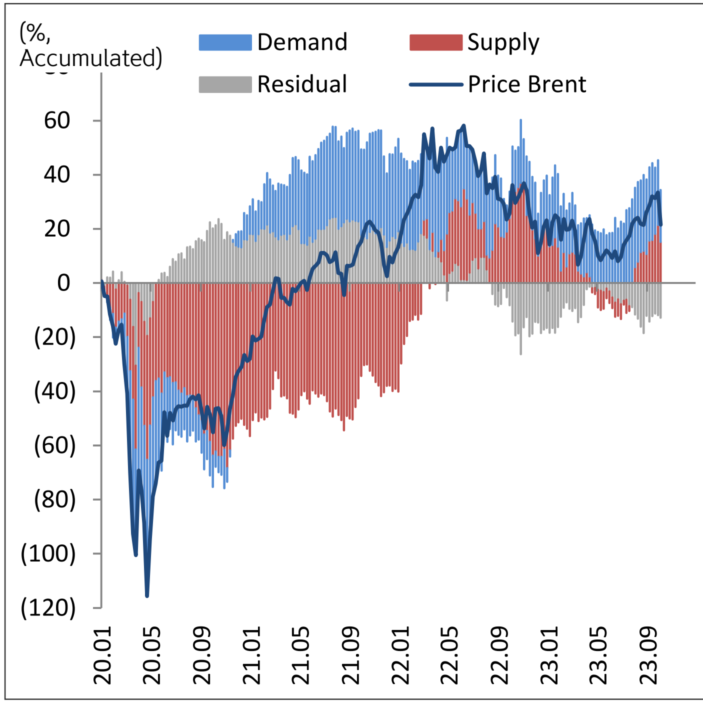
Global Oil Prices That Can Trigger Stagflation Risk

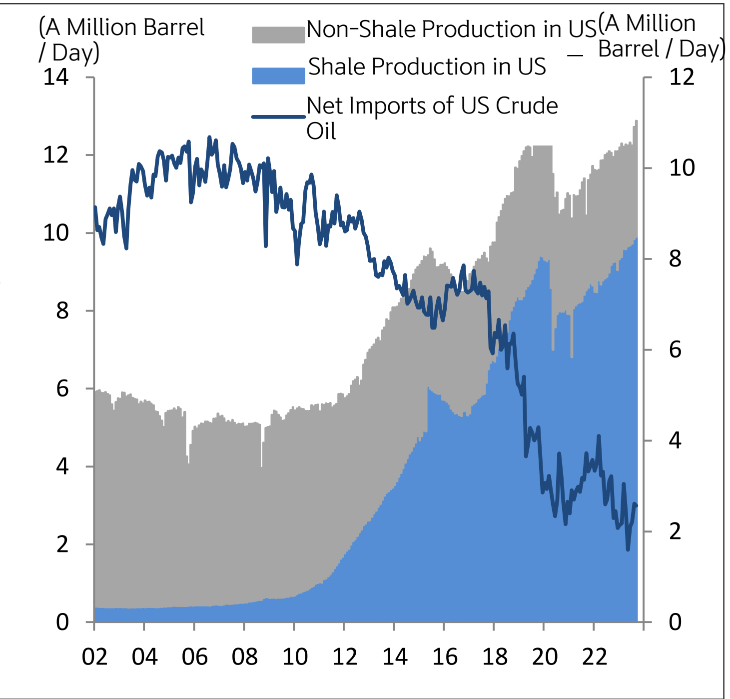
Shock from Israel-Hamas War Will Be Limited, but Need to Keep an Eye on the Middle East

- In raw materials sector, which is highly vulnerable to supply chain disruptions, geopolitical risks could lead to supply shortages and price increases.
- Although the US and other major powers are likely to avoid direct military intervention due to the high political cost, there is a risk of raw materials instability, such as oil prices, due to the Russia-Ukraine and Israel-Hamas wars.
- Given the expansion of the US's oil supply control capabilities, the direct impact of the Israel-Hamas war is expected to be limited if it develops into a short-term localized war.

The Geopolitical Risk Deriving From the Middle East Could be Fatal to Oil Prices & Direct Intervention by Powerful Countries May Be a Turning Point







Sources: FRB, DOE, Refinitiv, Bloomberg, SHB S&T Center

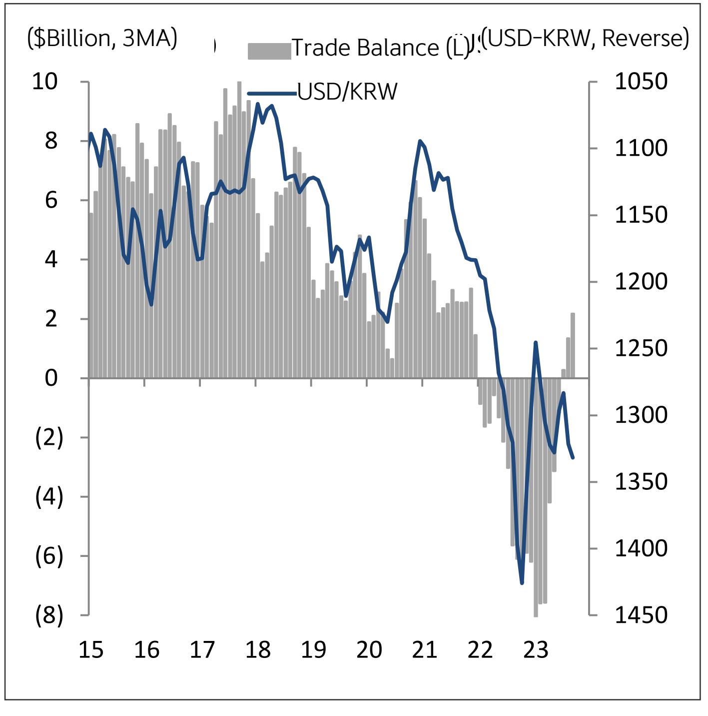
Implications for the Global FX Market

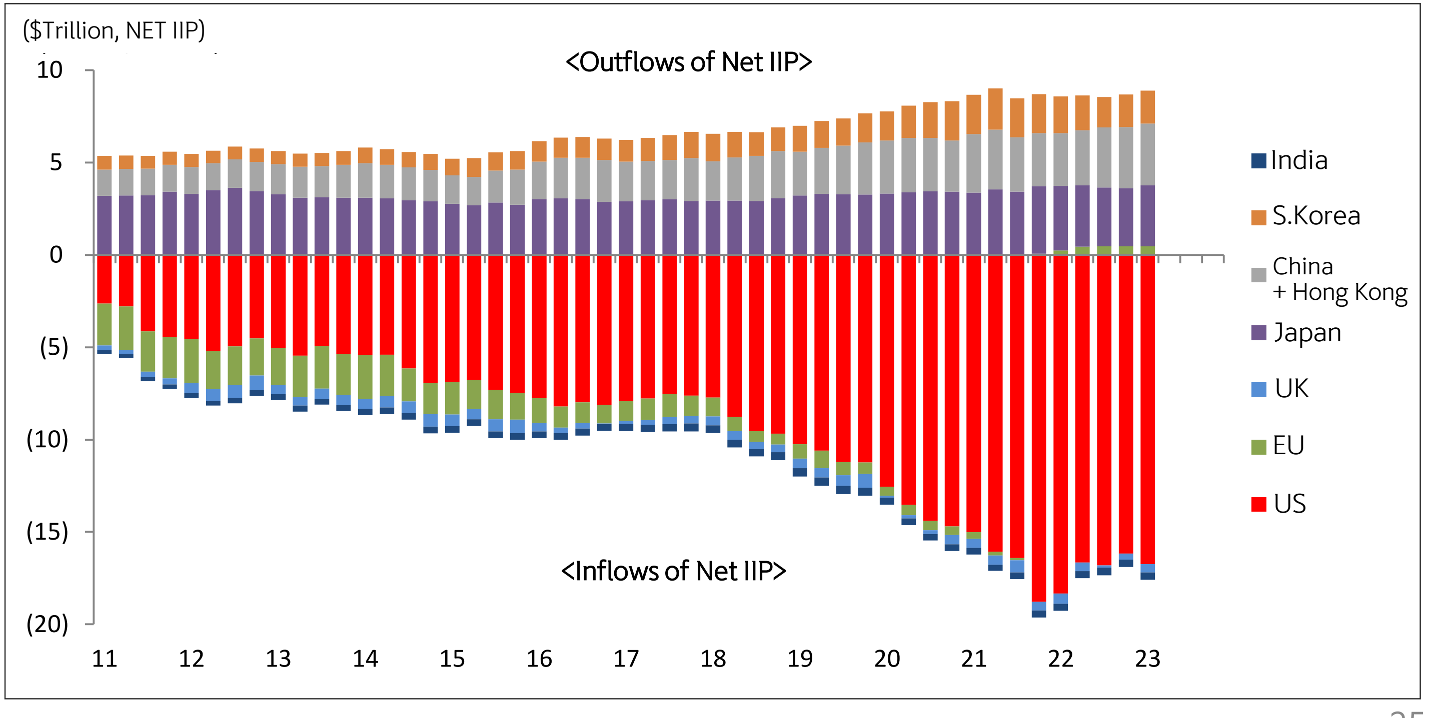
Endless Attachment to US Dollar Assets

Yet, Trade Balance Improvement Leads to Better Supply and Demand

- While the burden of US deleveraging is relatively small, fund inflows to USD are expected to increase due to the recession of the Chinese economy.
- Fund inflows have generally increased from emerging countries to developed countries, but inflows are concentrated in the US rather than in Europe and Japan, creating a monopoly market position.
- The preference for USD assets will continue for some time, but while the burden of one-sided concentration exists, supply and demand are expected to ease internally due to a shift to a trade surplus.

Ongoing One-way Traffic with US Dollar Assets in the Global Financial Market





Sources: World Bank, IMF, Refinitiv, Bloomberg, SHB S&T Center

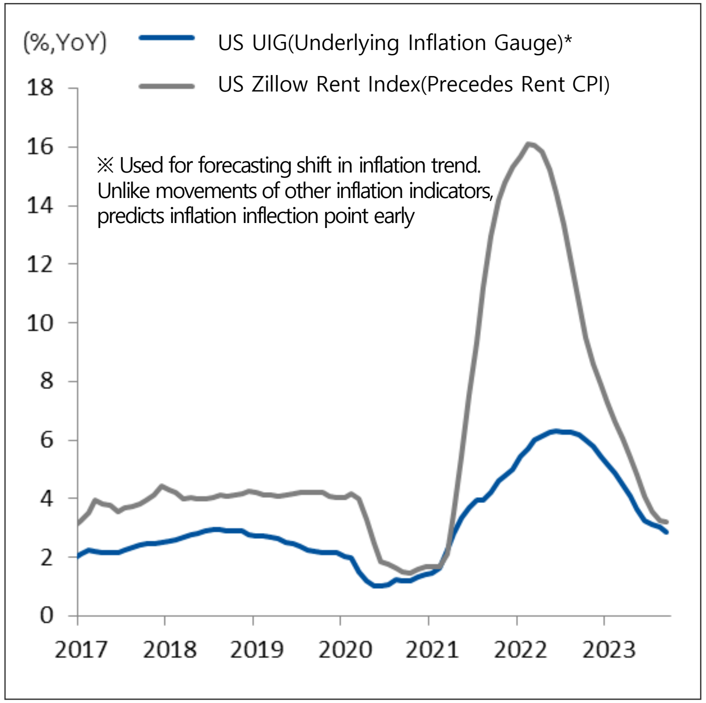
Forecast of Major Currencies: 1) USD

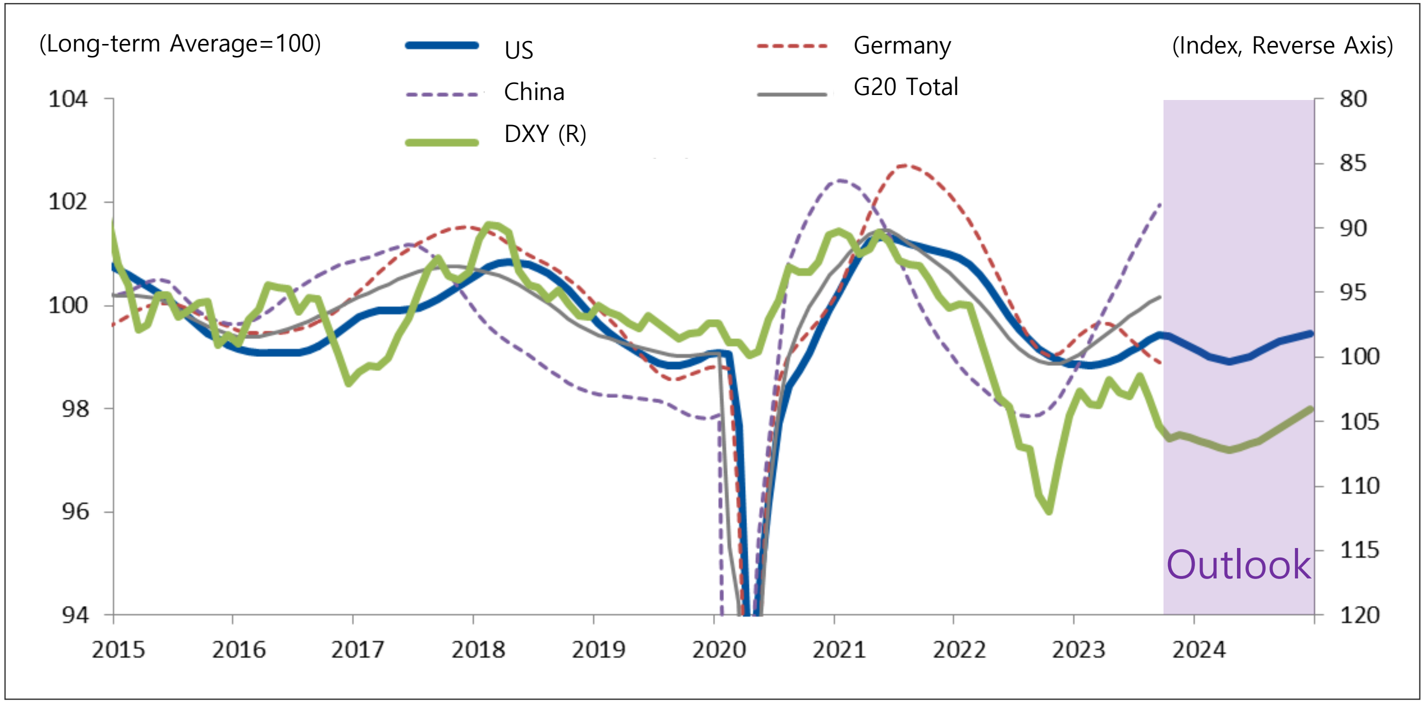
USD Is Expected to Decline After the US Economy Passes Through the Bottom

US Dollar Index (DXY): 101~108P

- Pressure on strong USD will be maintained while expectations on soft landing of the US economy has dwindled and the economy is heading towards the bottom in terms of economic cycle (possibly in 1H).
- US economy holds comparative advantage over Europe and China. Preference on safe assets would also prolong strong USD trend.
- USD would fluctuate due to uncertainties regarding international affairs. But while inflation slows down, the Fed is expected to take market friendly stance, stabilizing USD.

Inflation Leading Indicators Continues Downward Trend
It's Possible for DXY to Plunge Along with Downturn of US Composite Leading Indicator(OECD) With a Lag





Sources: Bloomberg, SHB S&T Center

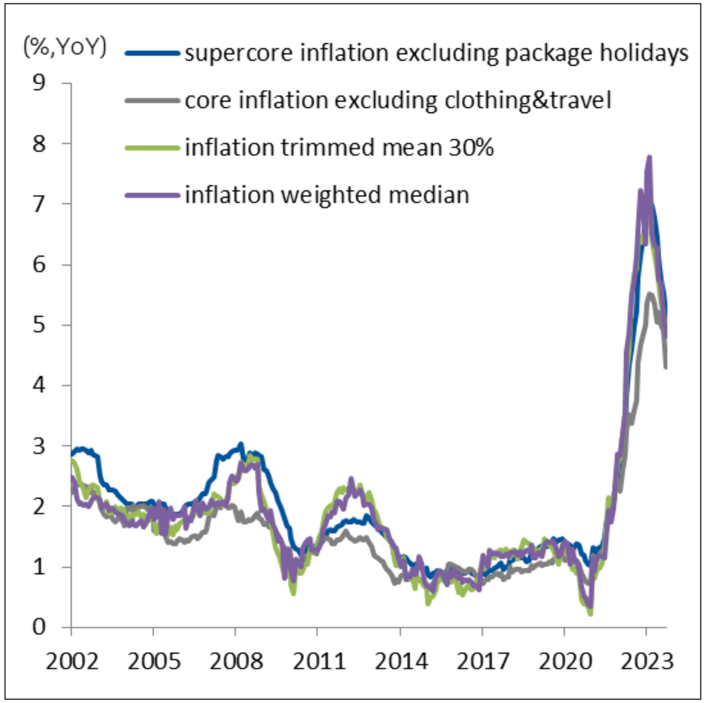
Forecast of Major Currencies: 2) EUR

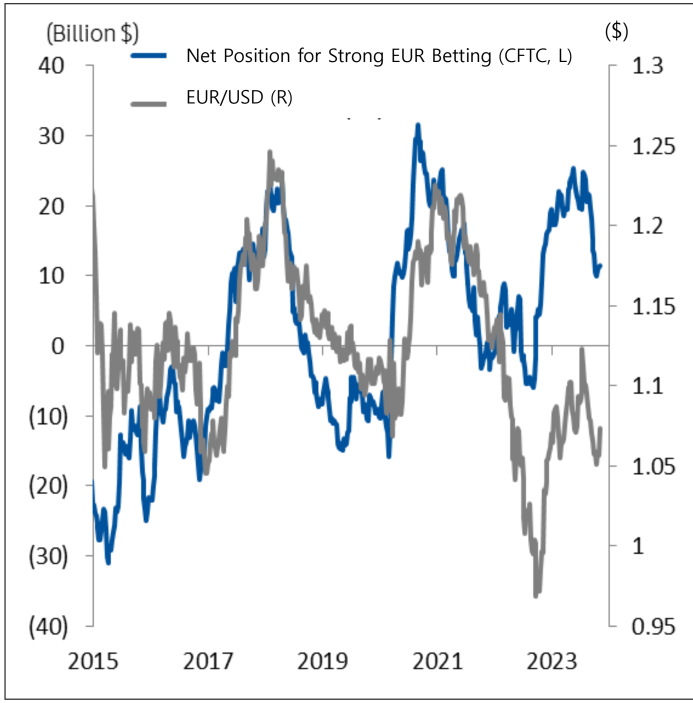
Rebound in 2H After Maintaining Low Level in 1H

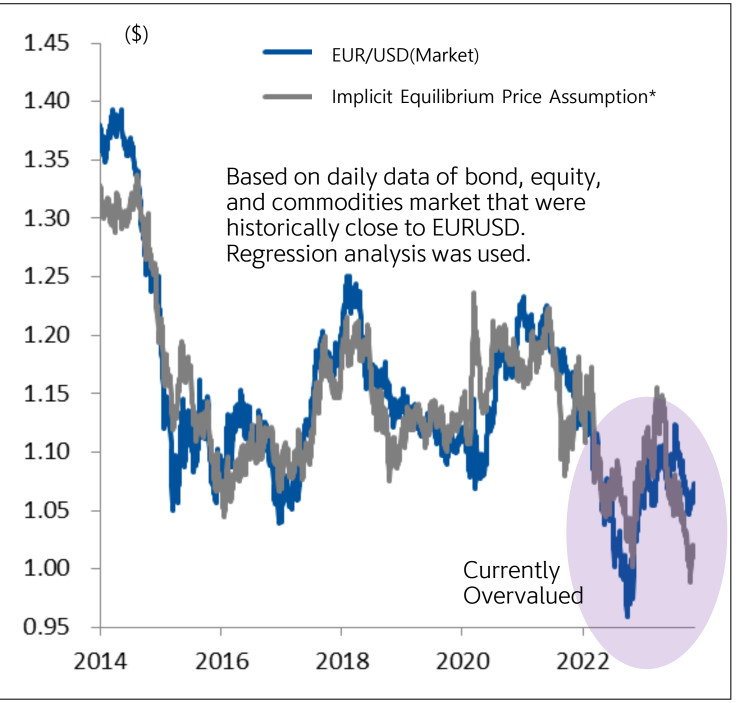
EUR/USD : 1.01~1.10 Dollar

- Inflation is expected to be around 3% in 2024, but core inflation can remain at a high level with limited decline.
- Unlike the US, Europe is close to stagflation due to supply-side inflation, but is expected to maintain a relatively hawkish stance.
- Unlike 1H, EUR is expected to rebound in 2H due to a relatively hawkish ECB, expectations of improvement in the Chinese economy, and expectations of a truce in the Ukraine War.

Yet Slow, Inflation Is Expected to Further Slow Down
EUR Is Still Overvalued Compared to the Market Equilibrium, Exposed to Risk of Additional Fall in the Short Term







Sources: Thomson Reuters, Bloomberg, SHB S&T Center

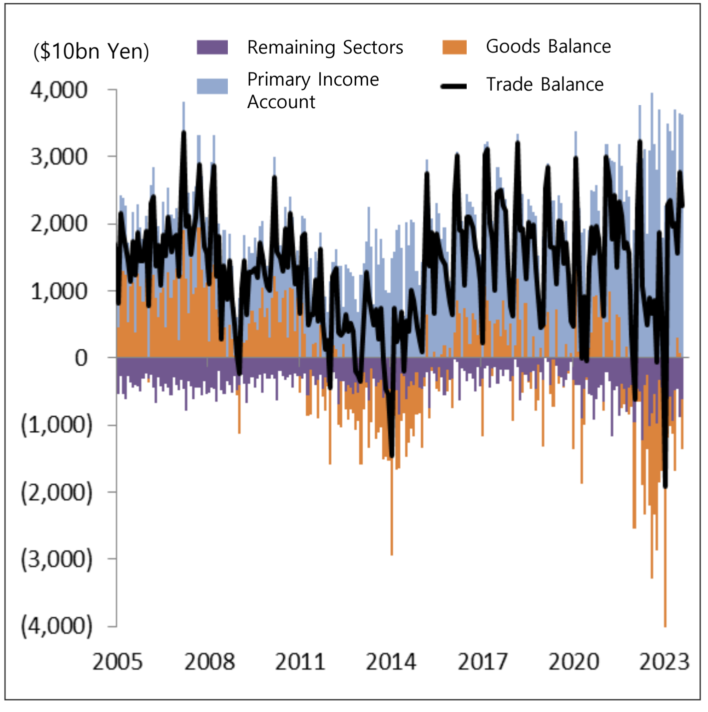
Forecast of Major Currencies: 3) JPY

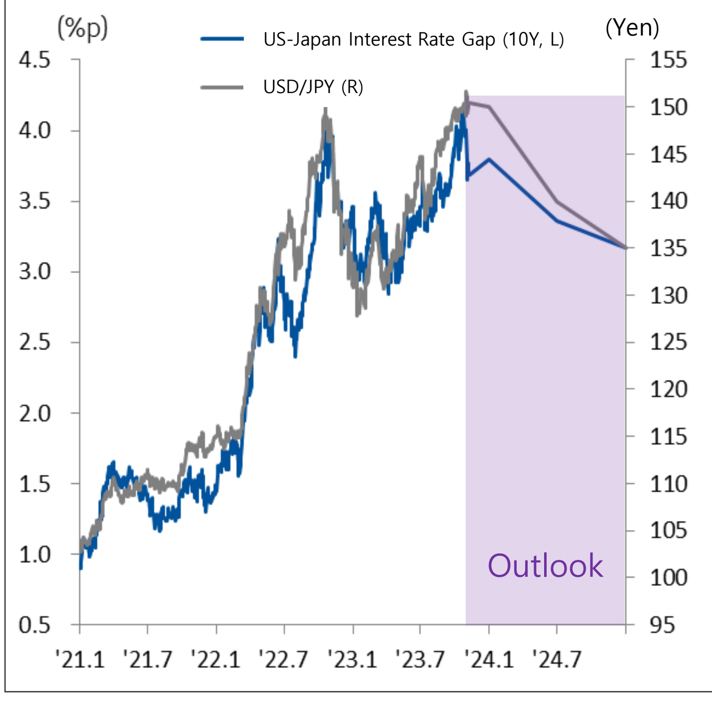
If US Treasury Yields Fall, Weakening of JPY Would Be Concluded

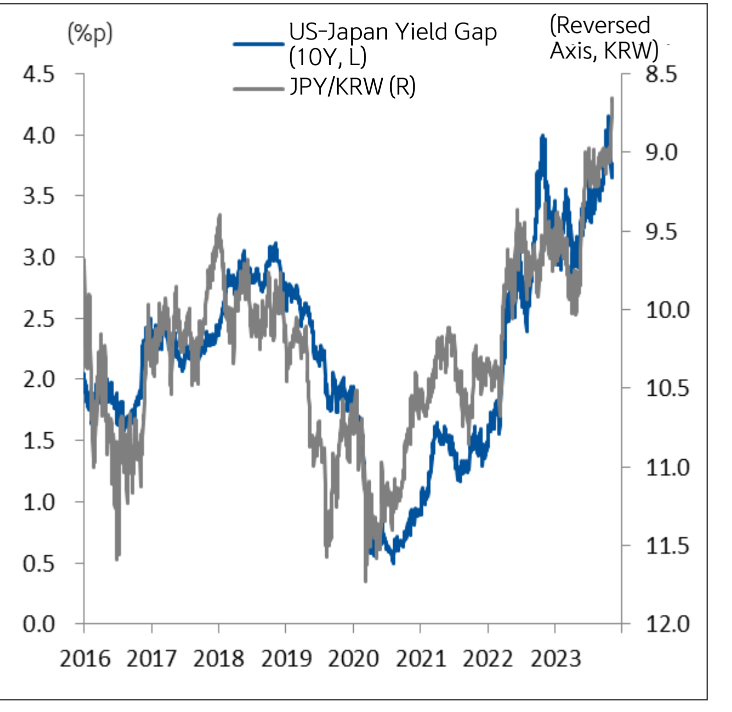
USD/JPY : 130~155 Yen

- Japanese capital, which has invested heavily overseas in 2023, is likely to slow down and the average interest and dividends flowing from abroad will increase.
- The US interest rates were high, reflecting the unyielding US economy. But as the US economy slows, the interest rate gap between the US and Japan may be narrowed.
- The possibility of monetary policy normalization such as the BOJ's move away from negative interest rates, is also a factor for the strengthening of the yen, but the extent of the change is not expected to be large.

Monthly Average of Overseas Inflow of Interest and Dividends Is About 3 Trillion Yen / The Interest Rate Gap Between US-Japan Will Narrow and JPY Will Rebound / The Interest Rate Gap Will Also Affect JPY/KRW







Sources: Thomson Reuters, Bloomberg, SHB S&T Center

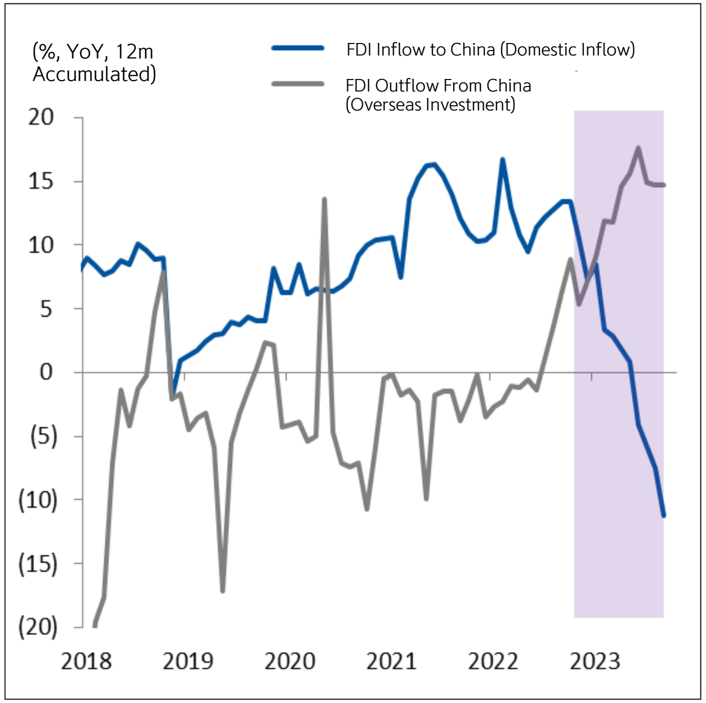
Forecast of Major Currencies: 4) CNY

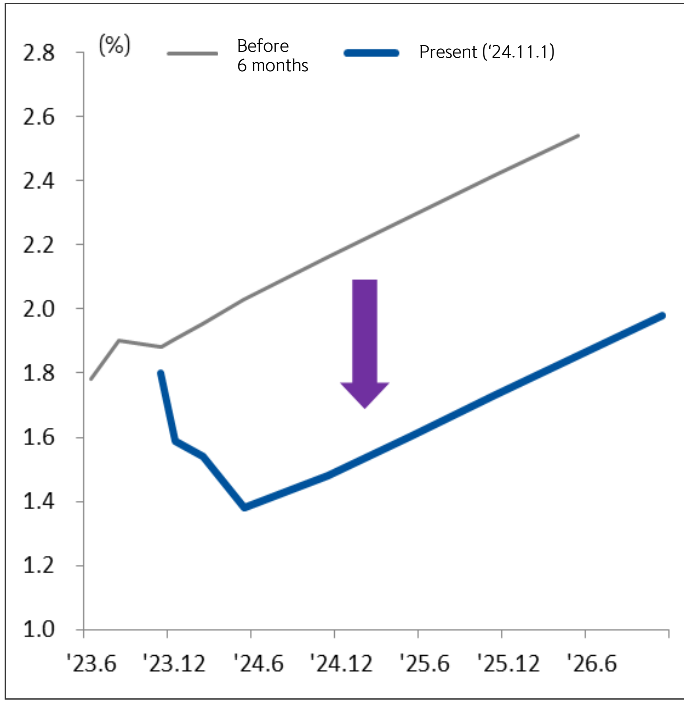
On the Brink of Low Growth and Crisis Breakthrough, CNY May Strengthen Slightly

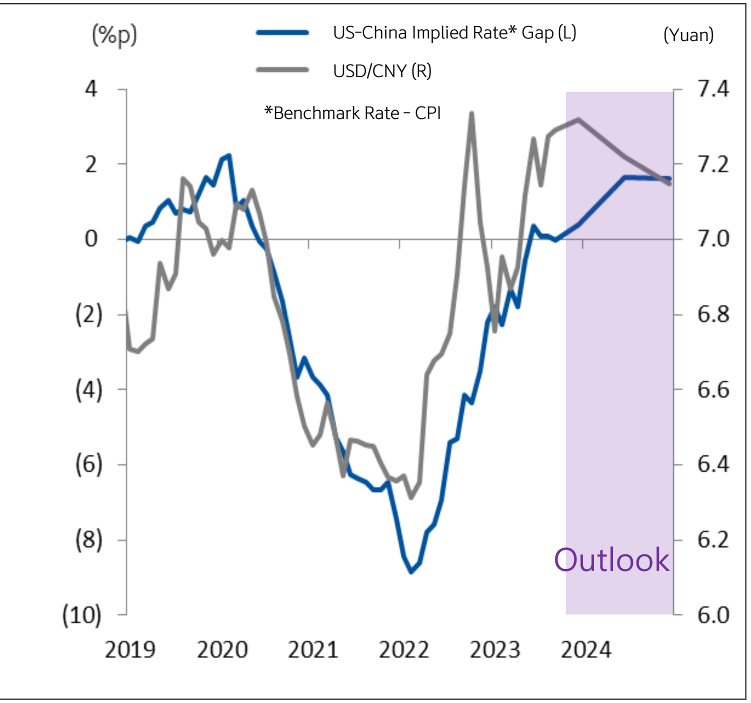
USD/CNY : 7.10~7.45 Yuan

- Due to nationalistic measures including anti-espionage law has been enhanced, ban on Apple products for government officials has been extended, etc., foreigners are considering investment in China as a risk rather than an opportunity.
- Considering trade balance and movement of financial accounts including decrease in FDI inflow, equity investment, and export, sudden reversal of weakening trend of the yuan may seem difficult.
- But in the midst of the Fed's policy transition, CNY could be appreciated, reflecting change in market sentiment depending on how the US Presidential election unfolds.

Investing in China Is Considered to Be a Risk, Rather Than Opportunity / Dovish Monetary Policy Would Be Adopted Due to Economic Slowdown / There Will Be a Change in One-Sided Weakening Trend of the Yuan







Sources: Thomson Reuters, Bloomberg, SHB S&T Center

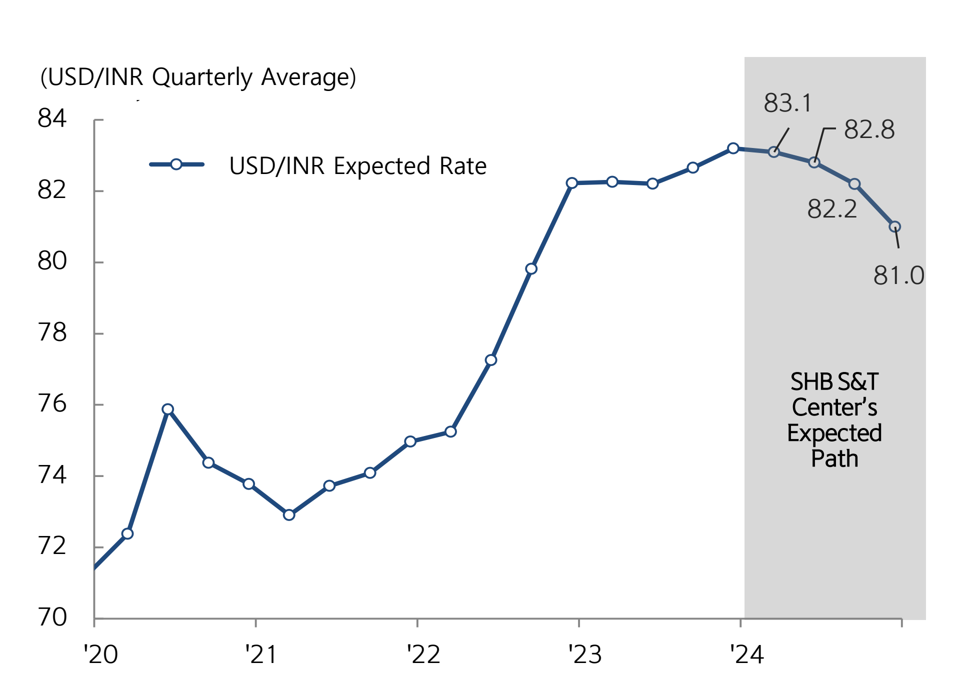
Forecast of EM Currencies:
1) INR

Gradually Fall Throughout 2024

USD/INR: 76.8 ~ 85.2 Rupee

- USD/INR would fall gradually throughout 2024 as strong USD trend eases on the Fed's rate hike seize and slowdown in India's inflation.
  - ▶ While global growth momentum is expected to weaken due to growth in US and China slow down, USD/INR will be stabilized downward due to major countries' early termination of rate hikes, sound domestic economy, and expansion of foreign capital inflow despite geopolitical risks in the Middle East and debt burden stemmed from prolonged high interest rate.
  - ▶ Yet, USD/INR would fall rather slowly due to the delay in the Fed's rate cuts and oil price uncertainty caused by the Middle East crisis.

Expected USD/INR Path in 2024



* Quarterly Average
Sources: Bloomberg, CEIC, SHB S&TCenter

2024 Outlook of USD/INR and Consensus of Major Institutions

SHB S&T Center *(Range)*	24.1Q(E)	24.2Q(E)	24.3Q(E)	24.4Q(E)	Yearly Avg.
	83.1	82.8	82.2	81.0	82.3
	(80.5~85.2)	*(79.2~84.9)*	*(78.0~84.5)*	*(76.8~84.0)*	*(76.8~85.2)*
Institutions Survey	24.1Q(E)	24.2Q(E)	24.3Q(E)	24.4Q(E)	
Median	82.5	82.3	82.0	81.3	
High	84.3	84.5	85.3	84.0	
Low	80.0	78.0	76.0	75.0	
Australia & NZ Banking	82.5	82.0	81.5	80.0	
BNP Paribas	82.4	82.3	82.2	82.0	
Capital Economics	82.3	81.5	80.8	80.0	
Commerzbank	81.5	81.5	81.0	81.0	
ING Financial	82.0	81.0	80.0	82.0	
Kotak Mahindra	83.5	83.0	83.5	84.0	
Maybank Singapore	83.5	83.0	82.5	82.0	
Nomura Bank	83.2	82.7	82.3	81.8	
RBC Capital Markets	83.5	83.6	83.3	83.0	
Wells Fargo	84.3	84.5	84.0	83.5	

Sources: SHB S&T Center, Bloomberg Consensus (After October 2023)
*1) SHB S&T Center's consensus is quarterly average and yearly average
*2) Bloomberg consensus is the closing value for the period

Forecast of EM Currencies:
2) VND

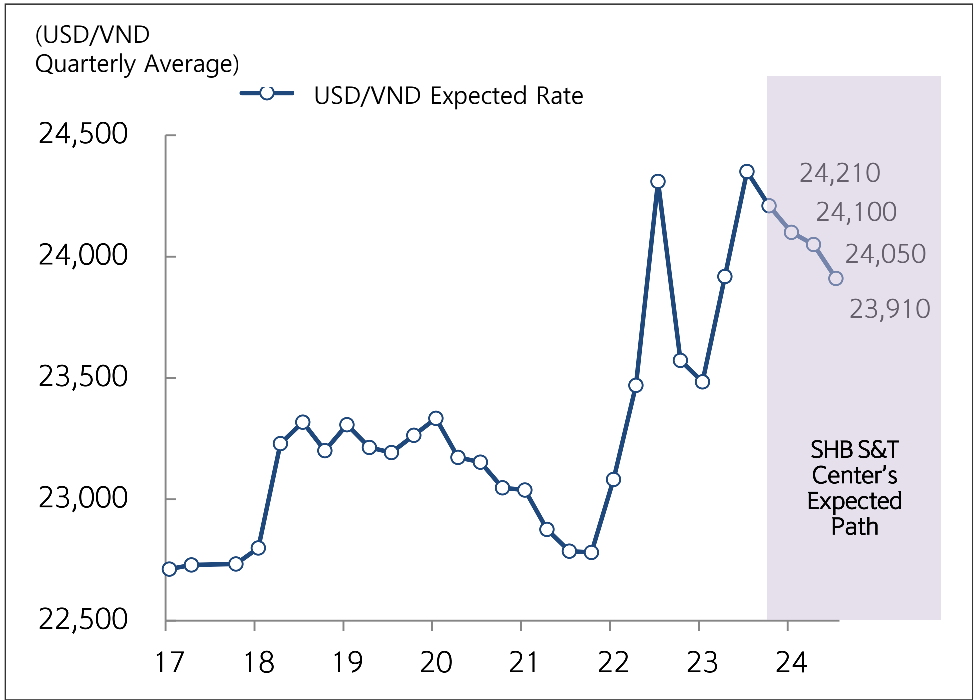
High in 1H, Low in 2H

USD/VND: 23,300 ~ 24,750

● USD/VND will be remained at a higher level in 1H due to unfavorable external circumstances including sluggish demand and weakening of the yuan caused by concerns over the Chinese economy. But USDVND will gradually fall as major central banks are expected to seize tightening stance and cut rates.

▶ Yet, due to the delay in the Fed's rate cuts and uncertainties regarding Chinese economy, USDVND may fall slower than expected.

Expected USD/VND Path in 2024



* After 2024 4Q, indicates SHB's forecast path
Sources: Bloomberg, SHB S&T Center

2024 Outlook of USD/VND and Consensus of Major Institutions

SHB S&T Center *(Range)*	24.1Q(E)	24.2Q(E)	24.3Q(E)	24.4Q(E)	Yearly Avg.
	24,210 *(23,750~24,750)*	**24,100** *(23,670~24,450)*	**24,050** *(23,500~24,300)*	**23,910** *(23,300~24,150)*	**24,050** *(23,300~24,750)*

Institutions Survey	24.1Q(E)	24.2Q(E)	24.3Q(E)	24.4Q(E)
Median	24,100	24,000	23,800	23,525
High	24,800	24,750	24,700	24,000
Low	23,250	23,100	23,000	22,800
Oversea-Chinese Banking	24,200	24,200	24,000	23,900
Maybank Singapore	24,500	24,200	24,000	24,000
Australia & NZ Banking	23,800	23,700	23,600	23,550
United Overseas Bank	24,000	23,800	23,600	23,500
MUFG	24,800	24,750	24,700	-
Mizuho Bank	24,300	24,500	24,100	-
Credit Agricole CIB	23,300	23,300	23,300	23,000
Standard Chartered	23,400	23,400	23,400	23,000

Sources: SHB S&T Center, Bloomberg Consensus (After September 2023)
*1) SHB S&T Center's consensus is quarterly average and yearly average
*2) Bloomberg consensus is the closing value for the period

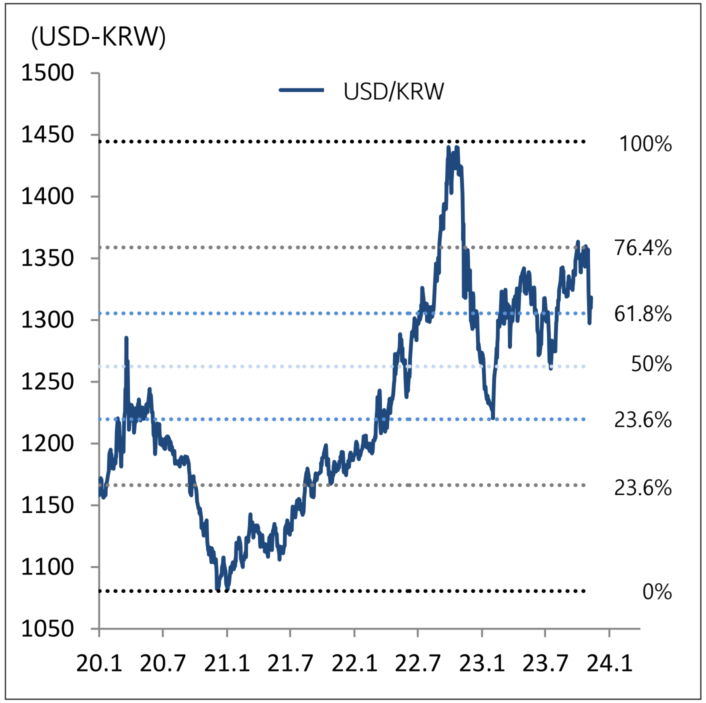
Yet, Decision to Leave & Courage to Let Go

USD/KRW:1,240~1,360 won (1H) / 1,210~1,310 won (2H)

- The expected depreciation of KRW has been delayed due to concerns about the Chinese economy, which is facing deleveraging pressure under the PBOC's high interest rate policy. However, in the medium term, USD is expected to turn weak as the Fed's stance which has been focused on inflation, will gradually balance with concerns about recession and financial instability.

- USD/KRW is expected to follow a downward trajectory and move between 1,210 and 1,360 won in 2024, reflecting the Fed's pivot. However, tensions are expected to remain as volatility may increase due to the US presidential election at the end of the year and geopolitical issues in Taiwan/Russia/Ukraine.

Patience Is Required for Leveling Down of USD/KRW, But Tension Exists Due to Political and Geopolitical Risks



	2022	2023			2024				
	Yearly	1H	2H	Yearly	1Q	2Q	3Q	4Q	Yearly
USD/KRW	1,291	1,296	1,321	1,309	1,310	1,280	1,250	1,270	1,278
(Range)	*1,186~1,444*	*1,216~1,343*	*1,261~1,363*	*1,216~1,363*	*1,280~1,360*	*1,240~1,320*	*1,210~1,290*	*1,230~1,310*	*1,210~1,360*
USD/JPY	131	135	147	141	147	140	138	136	140
EUR/USD	1.05	1.08	1.08	1.08	1.06	1.07	1.08	1.08	1.07
USD/CNY	6.73	6.93	7.29	7.11	7.25	7.22	7.16	7.15	7.20
JPY/KRW (100yen)	984	960	899	929	891	914	906	934	911
EUR/KRW	1,358	1,401	1,420	1,411	1,389	1,370	1,350	1,372	1,370
CNY/KRW	192	187	181	184	181	177	175	178	178

Sources: Refinitiv, Bloomberg, SHB S&TCenter

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