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**MARTIN SOONG, CNBC:**

All right, let’s bring in Stephen Chang, Managing Director and also Asia Portfolio Manager at PIMCO. He joins us live from up in our Hong Kong studios. Stephen, good to see you. I appreciate your time and great to have you on the show. How are you thinking about markets right now?

**STEPHEN CHANG, PIMCO:**

I think if- you were just mentioning China; and this is a very simple policy step, in fact, a combination of policy steps yesterday. What we are noticing is that they are much more mindful about market signals, in particular, they have been mentioning about the stock market and there are these liquidity releases, which would help confidence generally, but also for the equity market as well. I think this set up a path for them to potentially announce a 5% GDP target. And you need more steps in order to achieve that. And we want to see what other measures, particularly on the macro fundamental side, could help to achieve that objective. In the market, I think there have been a lot of calls for them to do more on the demand side, that can help the consumer, that can help the income of households. So that part we haven't seen much and if that part comes in a pretty big magnitude, then I think the market can continue to see more recovery.

**SOONG:**

Yeah, I want to talk, I want you to talk to us a little bit more about the demand side, Stephen, because you know, the moves that we've just outlined are on the supply side and theoretically in context when you cut the Triple-R, basically you're giving banks more money that they could potentially lend, right? And, you know, in a command economy, the banks will do as instructed. “Go forth and lend”, they will go forth and lend. But if the demand is not there, what happens?

**CHANG:**

I think that's why we have seen the lending towards more on the infrastructure side or targeted industry, paid into technology or green energy and other government directed areas. The consumer side has been, has been quite weak. There have been some after effects from the COVID period. There have been impacts from weaker property prices which created a negative wealth effect. And the housing part is still not really seeing much of any recovery. Overnight, we saw PBOC announcing some additional steps to help on the commercial real estate side, which, you know, we're still trying to work out details, whether that would be beneficial for the kind of developers that have business in both residential and commercial. But so far, if you look at the data coming through from monthly transactions, the buying interest is still very much lacking. If you have no income, you have kind of been somewhat pessimistic about the outlook so far, it's hard to estimate that animal spirit. So again, you know, some steps from the government would be helpful in this regard. I think they started to talk about it. But again, we need to see something quite concrete and where households can actually feel that impact coming through.

**SRI JEGARAJAH, CNBC:**

Simulate the demand side and that suggests some deeper fiscal action. Stephen, so am I right in saying that this policy action perhaps may not be enough to recommit to the China market and assets wholeheartedly and put money to work and despite the fact the valuations look very compelling.

**CHANG:**

I think there are many different things that need to be done. But this is certainly one step towards that. The market has been quite bearish and or avoiding some of the China risk generally, be it in China, high yield credits or as you can see it from the equity valuation. And we are getting to a point where I think the policy makers are certainly watching many of these indicators much more, much more vigilantly. For example, yesterday, the PBOC announcement on Triple-R cuts was actually done at a conference where they invited different types of investment, including foreign investors to attend. So that attention, I think, is very helpful to us in telling us they are going to resuscitate confidence. And other steps again, it's going to be needing a combination of things. But the market certainly is coming through from a very, very bearish stance. And this is helpful in putting a little bit of a floor at least in the next couple of months.

**JEGARAJAH:**

Indeed. Steve, at a sector level, if there is one area that you're perhaps looking at with some interest, is it in the China Internet names given the long term secular trends, especially in AI? That's where patient capital clearly needs to be. And of course, the insider buying by Jack Ma in Alibaba helps as well.

**CHANG:**

The tech stock has certainly been a one-barometer for confidence. And this area, so far, at least in the credit side of things has been very steady. We see credit metrics to be still very, very healthy. There is a lot of noise about whether there will be additional regulatory controls of some kind, whether that be in online games or in other kinds of platform type of restrictions. I think, again, this could be the leading indicator from the equity market to tell you more about the kind of risk taking on China risk generally. This is a growth market where the valuation is very cheap compared to US comparables.

**JEGARAJAH:**

Stephen, we'll leave it there for now. We will get back to you to pursue this conversation. Thank you very much indeed. In the meantime, for those insights, Stephen Chang, from PIMCO.

**JEGARAJAH:**

Let's go back to Stephen Chang from PIMCO. Steve, the turnaround in chips, it could go either way, depending on what the cycle brings us. But it is being led by AI, SK Heinex out with their numbers. Do you like South Korea or Taiwan on that metric? Or do we have to approach with some caution?

**CHANG:**

We are more Fixed Income investors, so our natural attention is to focus more on some of Korea- particularly the Korea credits that are available in the US dollar market. It has been a market which provides you with a pretty healthy spread levels for future investment grade. We are watching some of these indicators from the tech cycle, whether we will see a sustained recovery. There's a lot of expectation that this tech cycle, particularly given the need for AI, as you mentioned, will continue. The latest data coming from Taiwan, the December numbers, seem to suggest that there are some weaknesses that are unexpected around that, particularly for exports. And there could be one month, there could be seasonality, so watching that continually will be important. But some of these, such as memory chip makers, I think some of the credit metrics are improving by the same time they have CapEx needs, so there will still be a need to issue in the dollar market, and we have been active in some of these issuers.

**SOONG:**

Steve, let's take it up to 30,000 feet and talk macro. You know, whenever it is that the Fed is going to start cutting, most likely May now looks like. We're at about an 85 and a half percent chance, according to the CMEs of Fedwatch tool. Asian central banks are going to have to through, to a greater or lesser extent follow-in lock step. And potentially for their sovereigns at the very least, and credits as well, theoretically, could be an upside in terms of price. What do you like in terms of Asian paper right now?

**CHANG:**

In Asia, I think we see divergence, depending on which country you're looking at, starting with Japan, you could be looking at, maybe in March, maybe somewhat later, a removal of the negative interest rate going back to zero from current policy rate levels. And then you go to the more the southern side, you go to Australia. That's a market that we like, the interest rate duration at this point. They are much more sensitive to interest rates and they have done a number of rate hikes, which have slowed down and have caused the housing market side to slow down. So to us, that might be a better place to have interest rate duration. And then you have a number of different Asian markets. Again, there are different considerations from those respective central banks. Many of them have not hiked that aggressively during the last two, three years. And there might be some scope for cuts, and they would, again, you know maybe perhaps have some patience that they can wait for the Fed to go first. So some of them may not actually be very early in that context. And so some markets we actually think could be in scope for being underweight duration, in addition to what we said about Japan earlier. For example, Singapore just printed a pretty high inflation number. And the policy stance is to continue to focus on that inflation through stronger currencies, probably at slightly higher rates.

**SOONG:**

Yeah, I think the MES Singapore's de-facto central bank is up to bat at the end of this month as well. So we'll be watching that. But back to Japan very quickly, Stephen, when they do abandon NERP, negative interest rate policy, let's say it's April, that seems to be to get a census forming there now. And these, initially, people thought the end would rocket. Right now we're here, maybe not so much. It'll probably strengthen, but probably more like, what do we know? 147ish, 130 at the most. What is your view on that? One, and two, for your space, fixed income, you're going to chuckle at this, right? Is this the time to try and put on the “Widowmaker trade" again , that is short GGBs are not?

**CHANG:**

We have been somewhat underweight in duration. We think this is a pretty material change in terms of the dynamic of the Japan inflation picture. We have heard from the Bank of Japan earlier this week that 2% in terms of the inflation target, you can see in their forecast that it's pretty close to what they think it would get to. I think the number for 2025 was like 1.9%. So we think there is more scope for them, not only going back to zero, but potentially going to a somewhat positive policy rate down the line. And as you were mentioning about the Japanese yen, I think valuation there certainly looks cheap on many different metrics. And there are people, myself included, who have been to Japan and been to the US and then been to other parts of Asia. The yen is very cheap in terms of what you can buy at this current spot effects level. The question there, of course, is still the very low interest rate, negative interest rate compared to the US. So the carry trade remains very difficult to fight.

**SOONG:**

All right, Stephen, great to talk to you. Appreciate the time. You keep safe and see you again very soon I hope. Stephen Chang from PIMCO joining us live.