Economics

Chart of the Week: Volatile days

Group Research

7 January 2019

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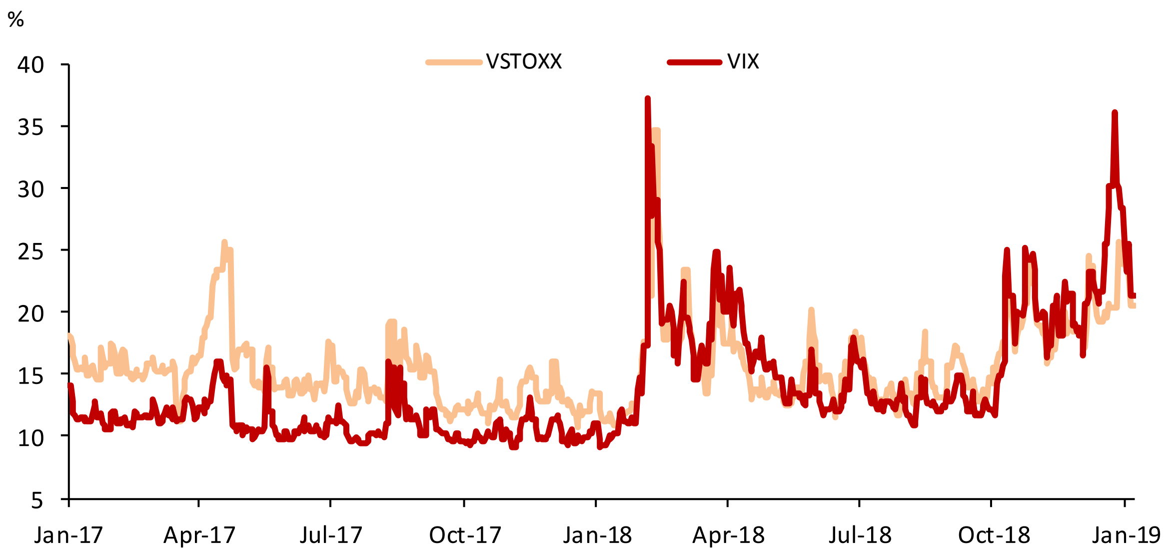
Key Events:

- *China's money supply and loan growth should have rebounded somewhat alongside an easing liquidity environment.*
- *Industrial output of Malaysia for November could see further weakness.*
- *Taiwan's trade and inflation data due this week will likely show more signs of weakness.*

Chart of the Week: VIX and VSTOXX have spiked, but we were here less than a year ago

Over the course of a couple of tumultuous months marking the end of 2018 and beginning of 2019, there has been a resurgence in US stock market volatility, as measured by bets on futures and options captured by VIX. Europe has not been as dramatic, but VSTOXX, which is a volatility measure for European stocks, has trended up as well. Both measures are testing levels seen a year ago, when a period of exceptionally low volatility led to a technical-driven selloff. This time, the selloff seems more fundamentals-based due to slowing US growth momentum and bearish earnings guidance by some key companies. We however don't see a particularly gloomy US GDP or wage outlook for 2019; hence we find good reasons to remain constructive USD (based on relative growth differential vis-à-vis other key economies favouring flows to the US) and bearish US treasuries at this point. There will however be no shortage of factors to keep volatility high, ranging from Fed policy to US fiscal policy, US politics to trade wars.

Equity market volatility in the US (VIX) and Europe (VSTOXX)



Source: Bloomberg, DBS Group Research

Event	Consensus	DBS	Previous
Jan 7 (Mon)			
Taiwan: trade balance (Dec)	USD4.8bn	USD5.0bn	USD4.7bn
-- exports	-5.5% y/y	-4.2% y/y	-3.4% y/y
-- imports	-0.3% y/y	-0.3% y/y	1.1% y/y
Jan 8 (Tue)			
Taiwan: CPI (Dec)	0.3% y/y	0.3% y/y	0.3% y/y
Jan 10 (Thu)			
China: CPI (Dec)	2.1% y/y	2.5% y/y	2.2% y/y
China: PPI (Dec)	1.6% y/y	2.7% y/y	2.7% y/y
China: M2 (Dec)	8.1% y/y	8.2% y/y	8.0% y/y
China: new yuan loans (Dec)	CNY825bn	CNY1000bn	CNY1250bn
Jan 11 (Fri)			
US: CPI (Dec)	1.9% y/y	2.1% y/y	2.2% y/y
Malaysia: industrial production (Nov)	2.3% y/y	2.3% y/y	4.2% y/y

China: In view of the softening domestic demand and seasonal funding needs, the PBOC injected both long-term and short-term liquidity through the open market operations and the new monetary policy tool - targeted medium-term lending (TMLF). The authority has also eased evaluation rules for RRR to encourage inclusive financing. Looking ahead, the PBOC will likely offer more longer-term cash via MLF and RRR cuts to cope with the deterioration of corporate and local government cash flow. Money supply is therefore expected to increase. New increase in total social financing should hold stable as off-balance sheet lending will continue to shift back on to the book. In fact, it has been shrinking for 9 months in a row alongside the government's effort of controlling financial risk. On inflation, the rising food price due to the wide spread of pork disease should continue to add upward pressure to CPI. Yet, PPI will moderate due to external uncertainties and high base effect.

Malaysia: Industrial output for November could see further weakness. The headline industrial production index is expected to moderate to 2.3%, from 4.3% previously. The main drag would come from the manufacturing sector, specifically the electronics cluster. The trade war is adding salt to wound of an already declining electronics cycle. And the cluster is an important driver for the overall manufacturing sector as well as the economy. With global shipment and billing of semiconductors easing sharply, manufacturers are facing the heat. Indeed, the latest export data could hint of more risk down the road. Latest export growth slipped to 1.6% YoY, from 17.7% previously. If such trend continues, expect this to weigh down on not just industrial output, but on the overall GDP growth as well.

Taiwan: December trade and inflation data due this week will likely show more signs of weakness. Export growth is expected to register -4.2% YoY, the second consecutive month of contraction. CPI inflation is projected to stay subdued at 0.3% YoY, the lowest over more than a year. The deterioration in global demand, slowdown in electronics cycle, together with the decline in commodity prices, have weighed on the value and volume of exports. Given that the electronics sector will enter the low season in 1H19 and the adverse impact of US-China trade war will likely surface, the further downside risks to trade numbers need to be closely monitored in the next several months. Oil price movement, meanwhile, will likely continue to play a large role in driving inflation figures in the near term.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).