Widespread trade slowdown

DBS Group Research 18 January 2019

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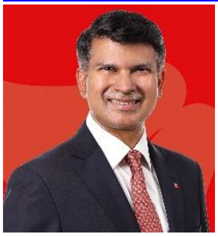

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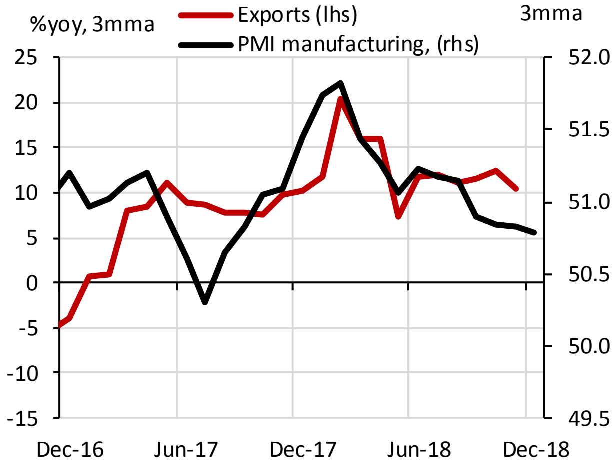
- *Asian exports have begun to follow the earlier declines in PMI. Further weakness is in the pipeline, in our view.*
- *But swings in exports are common, with the last soft patch coming as recently as 2016.*
- *A cyclical slowdown was on the cards in any case given the maturing electronics cycle.*
- *Trade wars and China's domestic demand slowdown have nonetheless complicated the exports picture.*
- *For most countries in Asia, slowing exports has a substantial bearing on the growth and macroeconomic policy outlook.*
- *We expect broadly supportive fiscal and largely neutral monetary policy in the region this year, with the exception of China where both policies are likely to ease further.*
- *Given this backdrop, we are disinclined to go long Asian currencies, unless there is a major positive shift in trade wars sentiments*

Spreading exports slump

A couple of months ago, we noted the sharply deteriorating PMIs in the region, and predicted that exports are likely follow the downtrend. Looking at the full set of November and a large part of the already-released December data, we see corroboration of that thesis, unfortunately.

Through November, our key measure of Asian aggregate exports, derived as the three-month-moving average of the year-on-year growth rate of total exports, eased to 10.4%, a 200bps correction from October. With December data from key exporters like China, Singapore, South Korea, and Taiwan already available, it is safe to say the December figure will be much weaker. We reckon once the full set of December data is available, exports growth of Asia-10 will fall to 5%. By January/February, it could fall below 0%.

EM Asia's (ppp weighted) exports and PMI



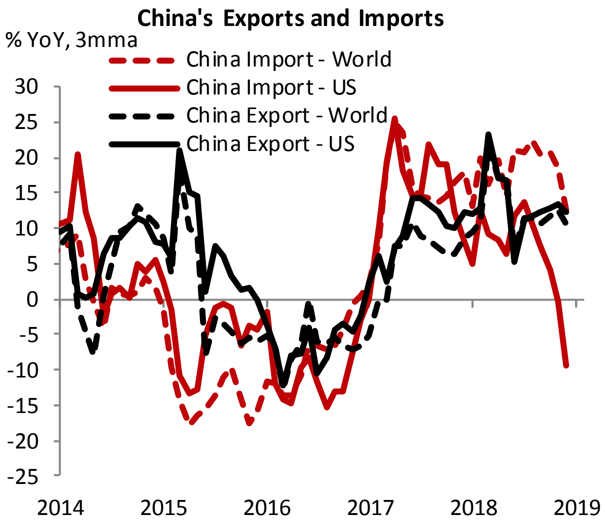
Source: CEIC, DBS Group Research.
Note: Asia-10 economies are: China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand

Of course, exports swing considerably through the cycle, and Asian exports growth was in negative territory as recently as in 2016. There is also not a single reason for the ongoing slowdown; some correction was on the cards in any case owing to the maturing electronics cycle, a phenomenon in the making through the course of last year. This is not something to fear. In fact, as the 5G network is rolled out worldwide, there could well be a resurgence spending on IT hardware later this year, boosting Asian exports. The ongoing boom in Asian infrastructure spending also bodes well for demand for capital goods going forward.

We have to nonetheless concede that China's ongoing domestic demand slowdown and trade wars have complicated the picture. In the case of China, the following chart, breaking down China's imports and exports from/to the world and the US is instructive. China's imports have slowed considerably in recent months, which in our view goes well beyond the electronics narrative. In fact, China's exports data look healthier (so far) than imports.

The irony of this development is that trade wars are going the opposite direction of demands from the White House, at least so far. Whatever the cause may be (including slowdown in domestic demand and substituting away from US goods), Chinese imports from the US have plunged lately, while exports have held up quite well (perhaps reflecting strong demand in the US, lack of substitutability of Chinese goods, and front-loading of some exports before tariffs were imposed).

Consequently, in 2018, China's trade surplus vis-à-vis the US was USD324bn, higher than the USD278bn in 2017 or USD254bn in 2016. Meanwhile China's trade surplus relative to the world continues to decline (USD352bn in 2018, USD420bn in 2017, and USD537bn in 2016).



Source: CEIC, DBS Group Research

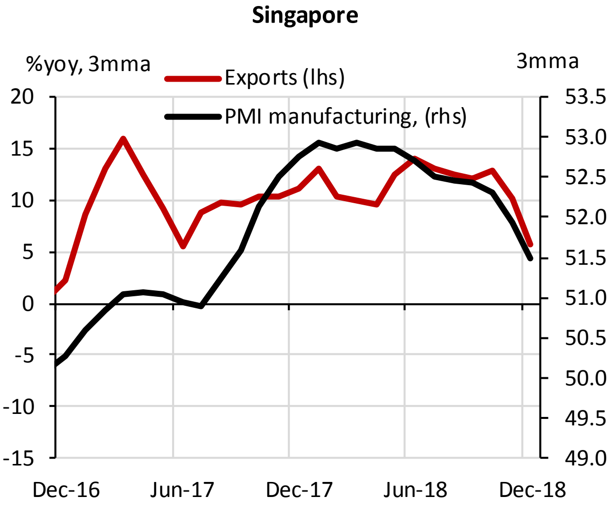
We have December trade data available for several Asian bellwether economies, including China, Singapore, South Korea, and Taiwan (see charts below). Except for Taiwan, the weak exports figures should be seen in context, given that other three economies in this analysis experienced negative exports growth just two years ago,

In the case of China, it was just a matter of time before exports joined the steadily declining manufacturing PMI trend (declining since June). More worrisome is the fact that a rather adversarial base effect will kick in from 1Q onward, which means on a year-on-year basis, we will likely see China's exports growth figures worsen considerably in the coming months.

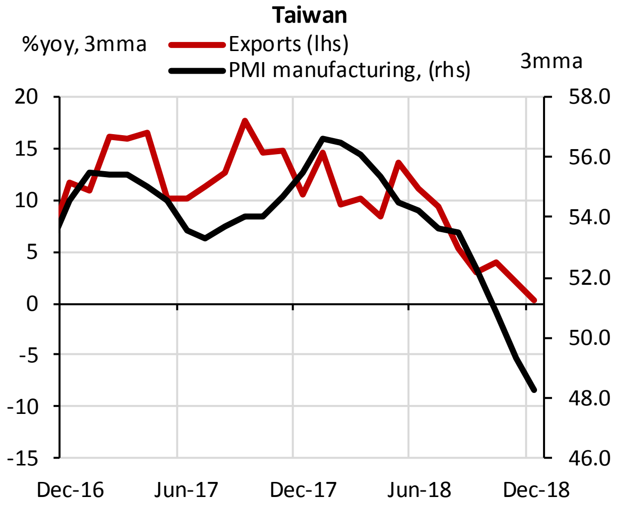
Policy implications are clear. Between softening domestic demand, maturing electronics cycle, and the fog of trade wars, the authorities need to slow the deleveraging process somewhat and ease fiscal and monetary policies. We expect supportive tax cut and infrastructure spending measures in the coming months. Additionally, monetary policy, already on an easing path, will be characterised by further liquidity injection and cuts in reserves ratios.

Source: CEIC, DBS Group Research

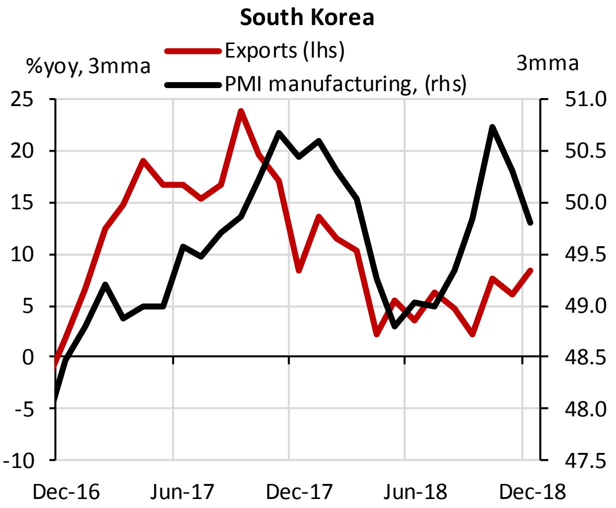
Beyond China, however, the demand dynamic is not quite worrisome in Asia, so we expect no vigour in policy response elsewhere. On the monetary policy side, we think Asian central banks are done following the Fed for the time being, and hence expect policy interest rates on a prolonged pause. Similarly, on the fiscal side, we don't see much by way of new measures, although a number of countries will likely see positive fiscal impulse related to elections (India, Indonesia, Thailand) and infrastructure spending during the course of this year.



Source: CEIC, DBS Group Research



Source: CEIC, DBS Group Research



Source: CEIC, DBS Group Research

Taimur Baig

Strategy

FX: Event hopes vs slowdown blues

EUR/GBP has retreated from 0.90 towards 0.85 on disappointing EU data and a relief to the Brexit pandemonium. The euro's recent recovery on a more patient Fed hike stance has lost momentum. With Eurozone's growth/inflation outlook downgraded again, look for a more cautious tone at the European Central Bank meeting on 24 January. The ECB will, nonetheless, seek to dispel recession risks but fail to convince markets of a rate hike late this year. The euro is correctly positioned below its psychological 1.15 level with an increasingly entrenched downward bias.

In the UK, disorderly (No Deal) Brexit fears have been replaced by hopes for a delay in the 29 March deadline and the remote possibility of a withdrawal from Brexit. Unfortunately, **the British pound's rebound above 1.29 this week is still considered a relief rally**. Nothing has really changed. All this week has demonstrated is the unity of UK lawmakers in rejecting Prime Minister Theresa May's contentious withdrawal agreement with the EU. The multiple scenarios, including a second referendum and snap election, to the Brexit chaos suggest that such optimism can be misplaced. It does not take much for political mis-steps to swing sentiment towards fear again with the pound looking at its post-referendum low of 1.20.

The Chinese yuan's appreciation may have stalled. Optimism over US-China trade talks will be balanced by China slowdown worries. Real GDP growth out on 21 January is set to come in below 6.5% YoY in 4Q18 and support this month's policy push for more stimulus measures to cushion growth. The Shanghai Composite Index has not deviated far above from its four-year low. The next round of trade talks on 30-31 January will be more challenging. Markets are hoping for the world's largest economies to reach a trade deal that will lower tariffs on each other's goods but recognize the difficulties to resolve structural issues such as the protection of intellectual property. Until then, it is premature to dismiss the yuan depreciating past 7 this year.

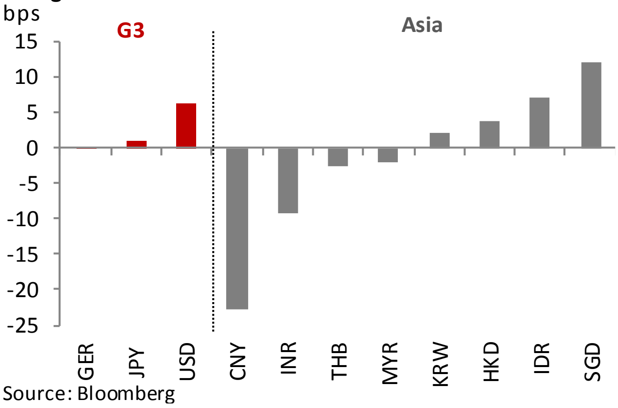
Philip Wee

Rates: Consolidation

This week marks a period of consolidation across rates after a sharp rebound in risky assets. Within the G3 space, 10Y UST yields are up modestly. However, it ignores the significant volatility at the start of the year when yields and risky assets plunged in tandem. 10Y UST yields are some 20bps off their lows and the curve has pretty much un-inverted (except for the 2Y/3Y segment).

The performance across Asia is mixed. For the 10Y tenor, China is by far the best performer. As we had noted over the past two weeks, we thought that Chinese government bonds will hold up well amid a continued slowdown in the economy which would prompt further monetary action by the People's Bank of China (PBoC). Even if the worst of the trade tensions is behind us, it would probably be several more months before the cyclical slowdown is arrested.

Change in 10Y Government Bond Yields since end-2018



Source: Bloomberg

Conversely, Singapore government securities (SGS) were the underperformers thus far this year. We attribute the selloff in 10Y SGS to profit taking. Sentiment was overly negative in late December. Coupled with thin liquidity over the period, there was an exaggerated move to the downside in yields.

We maintain that the environment is still favourable for EM Asia govvies. A Fed pause, thawing trade tensions and the likely end of the hiking cycle across Asia suggests that the high-yielders (Indonesia, India and the Philippines) should do relatively well from a total return perspective.

Running ideas:

-long 3Y Indo govvie

-short Dec-2019 Fed funds futures

Eugene Leow

Equities: Earnings growth downgrades on its way, but valuation should provide cushion

2019 consensus earnings growth for aggregate Asia ex-Japan is now at 6.6%, when it was still at 7.6% two weeks ago. We think there is still downside risk to the growth numbers considering a global growth slowdown scenario and volatility in macro variables such as oil price, currencies and interest rates. **We suspect there will be significant cuts in earnings forecasts after the earnings result season.**

From a historical perspective, the average growth after the GFC (2011-18) has been around 6.4% for earnings and 4.6% for GDP growth. We would expect 2019 earnings growth to fall below average given below average GDP growth forecasts for the next two years. Looking at the table below, consensus earnings growth forecasts for China and Malaysia still look too optimistic. Earnings growth forecasts for Korea is deepening into the negative territory, after being the first to turn negative in Asia.

Regional countries — Earnings and GDP growth

	GDP growth (%)				Earnings growth (%)			
	Post GFC avg	2018E	2019f	2020f	Post GFC avg	2018E	2019f	2020f
China	7.4	6.6	6.2	6.0	15.2	**15.2**	**15.7**	**16.1**
Hong Kong	2.9	3.3	2.5	2.0	10.7	**13.8**	8.4	10.0
India	6.9*	**7.1**	**7.4**	NA	13.6	**16.9**	**24.4**	**15.8**
Indonesia	5.4	5.1	5.2	5.1	13.0	10.5	12.5	11.5
Malaysia	5.2	4.7	4.5	4.2	3.0	0.0	**4.4**	**7.4**
Philippines	6.2	**6.3**	**6.5**	**6.4**	12.6	5.1	12.2	12.1
Singapore	3.5	3.4	3.0	2.8	5.8	12.8	6.5	7.5
South Korea	3.0	2.7	2.6	2.4	19.6	8.3	-6.3	10.9
Taiwan	2.5	2.7	2.2	1.8	20.6	0.4	1.3	9.7
Thailand	3.0	**4.1**	**3.8**	**4.0**	13.9	5.5	5.5	7.8
Asia exJ	4.6	4.6	4.4	3.9	6.4	9.3	6.6	12.0
Eurozone	1.2	**1.9**	**1.8**	**1.8**	1.7	6.7	7.8	8.4
Japan	0.9	**1.0**	**1.0**	0.5	17.5*	7.2*	5.5*	NA
United Stat	2.2	**3.0**	**2.5**	1.5	9.6	**23.6**	6.4	**10.9**

Source: IBES, Thomson Reuters, DBS Bank. Bolded numbers are above post- GFC average. Note: Earnings growth from IBES, GDP growth from DBS Bank.

Valuation should provide cushion for downgrades

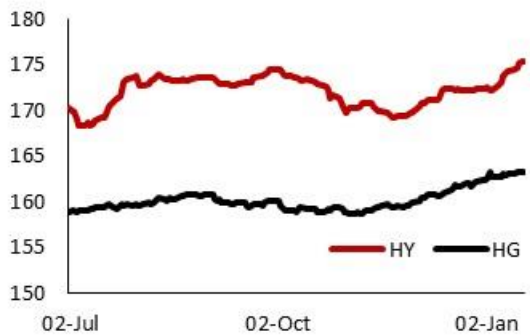
While earnings growth downgrades are on its way, we believe Asia ex-J valuations, which are now trading at near one standard deviation below average, should provide enough cushion for earnings downside, especially in China and Singapore.

Joanne Goh

Credit: Too fast, too soon

In the weekly dated 11 January, we recommended not fighting the momentum in the market in the near term, despite concerns that the likelihood of a reversal in sentiment remained high. This week saw the market move further ahead, boosted by positive moves in the US equity market and renewed expectations of an easing in trade tensions. Headlines such as those involving Huawei or the sentencing of a Canadian national in China, that could have added to geopolitical concerns and moved markets late last year, were ignored.

Bloomberg Barc. Asia HG and HY tot. return index



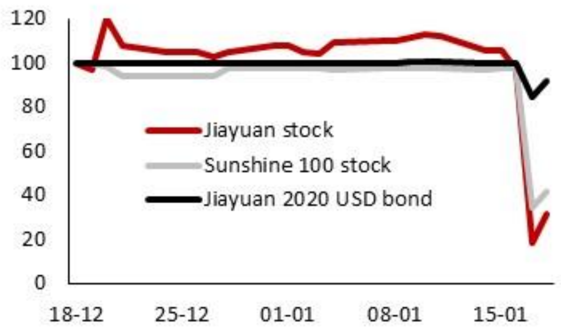
Sources: Bloomberg, DBS

Due to the price action seen in the last two weeks, bond valuations have moved quickly from looking attractive at the end of last year to less compelling now. As an example, we have often cited new issues, even in the high-grade space, as offering good value and attractive new issue premium. This week, the State Bank of India priced 3Y and 5Y USD bonds at T+157.5 (4.11%) and T+185 (4.4%) while BPCL issued a 3Y bond at T+187.5 (4.4%). While the pricing of these new issues is more attractive than say in 2017 and early 2018, they are less exciting compared to the deals in late 2018. In the sub-debt space, the story is similar (e.g. the CMB Win Lung AT1 at 6.5%).

With markets having moved so fast, we believe it is time to turn selective, if not take a pause. Apart from macro risks (e.g. global economic growth, trade talk set back), the risk of negative credit events remains. There was another onshore default (Kangde Xin) with the company's 2020 bond now trading in the 40s. The bigger event though was in the mid-cap property sector. Jiayuan

International's equity plunged on Thursday, which also happened to be the redemption date of the company's USD350mn bond. Subsequently, with the company confirming that the bond had been redeemed, market participants attributed to the sell off to margin calls on pledged shares or a sale of shares by a large shareholder. The Jiayuan 2020 bond fell to the 70s around 25 points at one point before recovering to the 90s on Friday morning. Sunshine 100 also saw its equity plunge in sympathy. While market participants try to figure out reasons for the volatility, the incident serves as a reminder of credit concerns over weaker issuers.

Volatility in Chinese midcap property securities



Note: prices indexed to 100
Sources: Bloomberg, DBS

Neel Gopalakrishnan

Highlights of the week:

[Top-10 investment strategies for 2019: #4](#)
[Top-10 investment strategies for 2019: #5](#)
[Top-10 investment strategies for 2019: #6](#)
[Top-10 investment strategies for 2019: #7](#)
[Top-10 investment strategies for 2019: #8](#)

Key Forecasts

	GDP growth, % YoY				CPI inflation, % YoY, ave			
	2017	2018f	2019f	2020f	2017	2018f	2019f	2020f
China	6.9	6.6	6.2	6.0	1.6	2.1	2.3	2.3
Hong Kong	3.8	3.3	2.5	2.0	1.5	2.5	2.7	2.5
India*	7.1	6.7	7.1	7.4	4.5	3.6	4.0	4.2
Indonesia	5.1	5.1	5.2	5.1	3.8	3.2	3.8	3.6
Malaysia	5.9	4.7	4.5	4.2	3.8	1.1	2.5	1.6
Philippines**	6.7	6.3	6.5	6.4	2.9	5.3	4.7	3.8
Singapore	3.6	3.4	3.0	2.8	0.6	0.7	1.8	1.5
South Korea	3.1	2.7	2.6	2.4	1.9	1.5	1.7	1.6
Taiwan	3.1	2.7	2.2	1.8	0.6	1.4	1.0	1.0
Thailand	3.3	4.1	3.8	4.0	0.7	1.1	1.4	1.5
Vietnam	6.8	6.9	6.6	6.3	3.5	3.6	3.8	3.4
Eurozone	2.5	1.9	1.8	1.8	1.5	1.8	1.4	1.4
Japan	1.9	1.0	1.0	0.5	0.5	1.0	1.1	1.6
United States***	2.3	3.0	2.5	1.5	2.1	2.6	2.5	2.5

* refers to year ending March ** new CPI series *** eop for CPI inflation

	Policy interest rates, eop							
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
China*	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00
Philippines	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Singapore**	1.80	2.05	2.30	2.30	2.30	2.30	2.30	2.30
South Korea	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Taiwan	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38
Thailand	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Vietnam***	6.25	6.25	6.25	6.25	6.00	5.75	5.75	5.75
Eurozone	0.00	0.00	0.00	0.00	0.25	0.25	0.50	0.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00
United States	2.50	2.75	3.00	3.00	3.00	3.00	3.00	3.00

* 1-yr lending rate; ** 3M SOR ; *** prime rate

	Exchange rates, eop							
	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
China	7.10	7.20	7.15	7.10	7.05	7.00	6.95	6.90
Hong Kong	7.85	7.85	7.84	7.83	7.82	7.81	7.80	7.79
India	74.0	75.0	76.0	77.0	76.5	76.0	75.5	75.0
Indonesia	15000	15200	15400	15600	15500	15400	15300	15200
Malaysia	4.25	4.30	4.28	4.25	4.23	4.20	4.18	4.15
Philippines	53.5	54.0	54.5	55.0	54.8	54.5	54.3	54.0
Singapore	1.42	1.44	1.43	1.42	1.41	1.40	1.39	1.38
South Korea	1180	1200	1190	1180	1170	1160	1150	1140
Thailand	33.5	34.0	33.8	33.5	33.3	33.0	32.8	32.5
Vietnam	23500	23600	23550	23500	23470	23440	23410	23380
Australia	0.68	0.66	0.67	0.68	0.69	0.70	0.71	0.72
Eurozone	1.10	1.08	1.09	1.10	1.11	1.12	1.13	1.14
Japan	116	118	117	116	115	114	113	112
United Kingdom	1.26	1.24	1.23	1.22	1.23	1.24	1.25	1.26

Australia, Eurozone and United Kingdom are direct quotes

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