Economics

Chart of the Week: Tech cycle weakness adds to regional trade woes

Group Research

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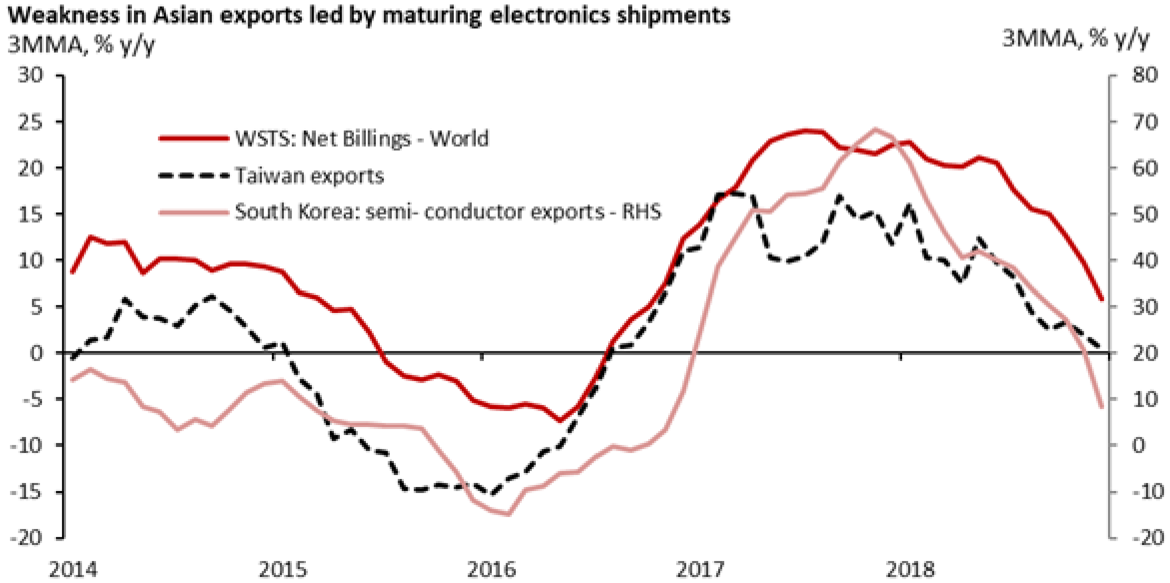
Key Events:

- *China's 4Q GDP, accompanied by December retail sales, industrial production and investment data are in focus*
- *Philippines and South Korea report their 4Q18 GDP numbers*
- *No change in stance or guidance is expected from the ECB and BOJ.*

Chart of the Week: Tech cycle weakness adds to regional trade woes

We noted in our Weekly on 18 Jan (see here), that a deterioration in regional PMIs since 3Q18 laid the ground for the ongoing weakness in Asian exports. Part of this correction reflects a tech-driven downturn, reflecting a maturing electronics cycle, particularly for North Asia and other regional players entrenched in the global supply chain. Profit warnings from Apple, Samsung and Foxconn herald tough times, highlighted by price cuts and slower capex plans. Absence of new product lines and inventory overhang have hurt the consumer electronics sector, particularly mobile phones and computers. The slump might persist this year, in the absence of fresh catalysts, before the broader 5G network rollout revives activity towards late-2019. While this sector has not yet fallen under the scrutiny of the China-US trade dispute, any deterioration in the bilateral talks or widening of the targeted product net will be a fresh blow for regional trade.

Weakness in Asian exports led by maturing electronics shipments



Source: CEIC, data transformations are by DBS Group Research

Event	Consensus	DBS	Previous
Jan 21 (Mon)			
China: retail sales (Dec)	8.1% y/y	8.0% y/y	8.1% y/y
China: industrial production (Dec)	5.3% y/y	5.2% y/y	5.4% y/y
China: fixed asset ex rural (Dec)	6.0% y/y	6.1% y/y	5.9% y/y
China: GDP (4Q)	6.4% y/y	6.4% y/y	6.5% y/y
Thailand: trade balance (Dec)	-USD1000mn	-USD1000mn	-USD1178mn
-- exports	-0.6% y/y	1.4% y/y	-0.95% y/y
--imports	4.75% y/y	5.3% y/y	14.7% y/y
Taiwan: export orders (Dec)	-3.5% y/y	-2.4% y/y	-2.1% y/y
Jan 22 (Tue)			
South Korea: GDP (4Q P)	2.7% y/y	2.8% y/y	2.0% y/y
Hong Kong: CPI (Dec)	2.5% y/y	2.7% y/y	2.6% y/y
Jan 23 (Wed)			
Malaysia: CPI (Dec)	0.2% y/y	0.4% y/y	0.2% y/y
Japan: trade balance (Dec)	-JPY42.3bn		-JPY737bn
-- exports	-1.8% y/y		0.1% y/y
--imports	4% y/y		12.5% y/y
Singapore: CPI (Dec)	0.3% y/y	0.6% y/y	0.3% y/y
Taiwan: industrial production (Dec)	-1.4% y/y	0.8% y/y	2.1% y/y
Japan: policy balance rate	-0.1%	-0.1%	-0.1%
Japan: 10-yr yield target	0.0%	0.0%	0.0%
Jan 24 (Thu)			
Philippines: GDP (4Q)	6.3% y/y	6.2% y/y	6.1% y/y
Malaysia: overnight policy rate	3.25%	3.25%	3.25% y/y
Eurozone: ECB main refinancing rate	0%	0%	0%
- ECB deposit facility rate	-0.4%	-0.4%	-0.4%
South Korea: BOK 7-day repo rate	1.75%	1.75%	1.75%
Jan 25 (Fri)			
Singapore: industrial production (Dec)	4.4% y/y	5.6% y/y	7.6% y/y

China: The real GDP growth is expected to slow to 6.4% in 4Q18, concluding the year at 6.6%. On external front, trade performance has weakened in December. Export registered YOY decline after front loading activities came to an end. Domestic demand should have eased further in December. Retail sales and industrial production growth are projected to moderate to 8.0% and 5.2% YoY from 8.1% and 5.4% in November respectively. This largely mirrors the continued decline in the official manufacturing PMI. In particular, the new export order component contracted for 7 consecutive months (below 50), due to external headwinds. Fixed asset investment would have bounced back to 6.1% in December, thanks to an accommodative monetary policy such as TMLF.

Eurozone: Weakness in incoming data has pushed backed the probability of a rate hike by the European Central Bank. The economy softened last year, after a strong start, as the uncertainty over trade disputes, political risks, gains in the euro exchange rate on real basis and slowing external trade weighed on the outlook. Sentiments have weakened of late, with the emission-related softness in German industrial output extending into 4Q18. With oil prices tapering off since last year's high, price pressures have also ebbed, allowing the ECB to keep rates on hold even after asset purchases end this month. The rate differentials between the US and Eurozone are likely to continue widening this year.

Hong Kong: Consumer prices are expected to rise at a faster pace of 2.7% YoY in December, compared to 2.6% in November. The feed through of higher rents over the past year should uphold inflationary pressures. The upward adjustment in public housing rentals also fueled the consumer inflation. The widespread pork disease in China might continue to boost imported food costs. However, pressure on overall import prices should stay at moderate level due to a softening oil price.

Japan: The Bank of Japan is expected to keep policy unchanged this week but trim the FY18/19 GDP and inflation forecasts during the quarterly outlook report. While growth should have rebounded in 4Q18 after being disrupted by natural disasters in 3Q18, the 2019 outlook is now challenged by external headwinds - global slowdown and yen appreciation in particular. CPI inflation has also fallen notably since 4Q18 due to lower oil prices and a stronger yen. The deterioration in external conditions could be a bigger risk than the consumption tax hike for Japan this year.

Malaysia: CPI inflation for Dec18 is expected to remain benign, which thus provides ample room for the central bank to maintain status quo on monetary policy. The headline CPI inflation figure for the month is likely to register 0.4% YoY. Reintroduction of the Sales and Services Tax (SST) after the GST was scraped, hasn't quite lifted inflation. Moreover, energy prices also fizzled out at the tail-end of the year. Slowing growth momentum also implies weaker demand-pull price pressure. Indeed, while we expect inflation to rise above the 1% level in the coming months, overall inflation outlook remains subdued.

With growth expected to slow and inflationary pressure still benign, Bank Negara is certainly in no hurry to tighten monetary policy further. The central bank has hiked the Overnight Policy Rate to 3.25% early last year. But since then, GDP growth has persistently fallen below expectation. Drag from investment activity and weakness on the export front will likely continue to weigh on growth outlook. In addition, inflationary pressure remains benign. The headline number averaged just 0.4% since the zero-rating of the GST in July. More importantly, the outlook on growth is biased on the downside while inflation is expected to rise only from 2H19 onwards due to base effect. Barring any surprise in the external environment, there is a lack of fundamental reasons for the central bank to adjust its monetary policy stance in 2019 in our opinion.

Singapore: CPI inflation and industrial production index for December are on tap this week. The headline price barometer should read a modest increase of 0.6% YoY, up from 0.3% previously. The low base effect in the same period last year is at work, but risk is definitely on the downside. Oil prices have dipped but there is still some stickiness in pump prices. Energy market reforms could make for further downward adjustment in electricity tariffs. However, weightage for these items are overshadowed by the bias on the COE premiums, which has continued to remain soft, due the excess supply of vehicles in the secondary market. While inflation should continue to stay below 1% in the near term, it should start to pick up from 2H19 onwards due to the low base effect last year.

Industrial output for the month is likely to register 5.6% YoY, down from 7.6% previously. Non-oil domestic export performance has slipped (-8.5% YoY, -5.7% MoM sa) as global demand continues to soften and growth in global semiconductor sales dipped into negative. These factors will likely to reflected in the industrial output. Moreover, global business cycle was already easing on the back of tighter liquidity conditions associated with monetary policy normalization. Besides, the trade war has added more salt to wound. Optimism is now replaced by anxiety in the manufacturing sector. Though the industrial output series will be distorted by large seasonal effect arising from the Lunar New Year in Jan-Feb period, the longer trend is still down, not up. The key thing to watch out for is the pace of deceleration.

South Korea: The 4Q18 GDP report is due Tuesday, followed by the Bank of Korea's monetary policy meeting on Thursday. GDP growth should have remained subpar on QoQ basis in 4Q18 (DBSf: 2.4% saar), despite a YoY pickup. Exports were supported by the favorable calendar effect last quarter. But domestic demand was depressed by the weak labour market, stock market and consumer confidence. While domestic demand may pick up this year on fiscal stimulus, exports will likely deteriorate due to global slowdown, electronics downcycle and trade tensions. The Bank of Korea should face some pressure to downgrade the 2019 GDP growth forecast during the quarterly outlook report this week (current: 2.7%). Coupled with the easing of inflation and the Fed's hints for a slower pace of rate hikes, there is a good chance that the BOK will not further raise rates this year.

Philippines: Besides the high base effect which weighed down on the year-on-year figures, the better sequential growth number does suggest some degree of resilience in the economy. That said, there are concerns regarding risk aversion and higher interest rates taking a toll on the financial markets, and property cooling measures weighing down on the business service (i.e., real estate) sector. Electronics cycle has peaked, and demand is weakening. Trade war could also add salt to wound in the coming quarters. In short, external headwinds has picked up, and there are increasingly more downside risks to growth.

We believe that GDP growth increase slightly to 6.2% in 4Q18 from 6.1% in 3Q18 resulting in an annual number of 6.3% in 2018. Despite weak trade balance, we believe consumption remained stable as inflation has reached peak in Sep18 and eased in 4Q18. Motor vehicle production, a leading indicator of growth has picked up while other business and economic indicators continued to ease. Investment was robust, supported by government projects. Besides the infrastructure projects, fiscal policy stayed accommodative, while monetary stance was tight last year causing money supply to squeeze. Yet we see that M3 growth deceleration may have bottomed out.

Taiwan: Export orders and industrial production for Dec18 are on tap this week. Export orders are expected to contract for the second consecutive month, by -2.4% YoY. Industrial production should remain in the expansionary mode, but the pace of expansion is likely to slow further (0.8% vs 2.1% in Nov18). The export-oriented manufacturing sector faces multiple challenges in the near term, namely, the slowdown in global growth, decline in electronics demand, a sluggish commodities market and lingering US-China trade tensions. Weakness is now spreading from sentiment to the hard data, posing downside risks to the 2019 GDP growth outlook (DBSf: 2.2%).

Thailand: Reflecting the weakness in regional trade numbers in late-2018, Thai December exports are also likely to decline on MoM basis. On YoY terms, however, export growth will be better than November’s -0.9% YoY at 1.4%, with imports at 5.3% will leave the trade balance in deeper deficit. Slowdown in electronics, agro products and electrical shipments have hurt exports, with a pick-up in demand from the ASEAN 9 countries insufficient to make up for weaker demand from US and China. Stronger domestic demand driven by higher intermediate and consumer-related purchases has, meanwhile, underpinned import growth.

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