Economics

Chart of the Week: The march of US renewable energy

Economics/Strategy

Group Research

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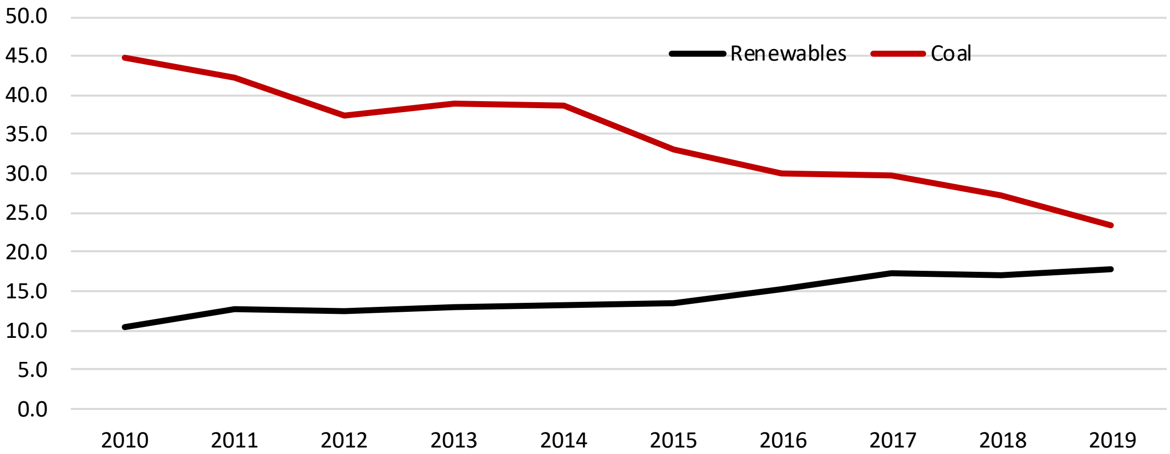
Key Events:

- *Benign inflation is likely to see the US Fed, BOJ and the ECB keep rates steady this week*
- *Bank Indonesia and BNM are also likely to follow suit, with an eye on growth and portfolio inflows*
- *Taiwan and South Korea 4Q GDP is expected to register firm 2%y/y+ growth*

Chart of the Week: Renewables in US electricity production

US, the second largest consumer of energy in the world (after China), may seem to be reversing its policies toward clean energy (walking away from the Paris climate accord, curbing environmental protection laws, relaxing restriction on power plant emissions), but the data show encouraging and likely irreversible production trends. While a large part of US energy is still coming from petroleum (36%) and natural gas (31), the role of highly polluting coal (13%) has diminished over the years, while renewables (11%) have made strides. This is best reflected in electricity production by source over time. A decade ago, renewables (solar, wind, biomass, hydro) made up 10% US power production, while coal made up nearly 45%. Today, the corresponding figures are 18% and 23.5% respectively.

Key sources of electricity production (% of total output)



Source: CEIC, DBS

Event	Consensus	DBS	Previous
Jan 21 (Tue)			
Hong Kong: composite CPI (Dec)	3.0% y/y	2.9% y/y	3.0% y/y
Japan: BOJ policy balance rate	-0.1%	-0.1%	-0.1%
-BOJ 10Y yield target	0%	0%	0%
Taiwan: GDP (4Q P)	2.78% y/y	2.5% y/y	3.0% y/y
Jan 22 (Wed)			
South Korea: GDP (4Q P)	1.9% y/y	2.1% y/y	2.0% y/y
Thailand: customs exports (Dec)	-1.25% y/y	-1.6% y/y	-7.4% y/y
- customs imports	2% y/y	2% y/y	-13.8% y/y
- customs trade balance	USD 0.85bn	USD 0.6bn	USD 0.5bn
Malaysia: CPI (Dec)	1.0% y/y	1.0% y/y	0.9% y/y
Malaysia: BNM overnight policy rate	3.0%	3.0%	3.0%
Taiwan: industrial production (Dec)	3.8% y/y	2.4% y/y	2.2% y/y
Jan 23 (Thu)			
Japan: exports (Dec)	-4.2% y/y	-5.9% y/y	-7.9% y/y
- imports	-3.1% y/y	-7.5% y/y	-15.7% y/y
- trade balance	-JPY161.6bn	JPY61.3bn	-JPY85.2bn
Philippines: GDP (4Q)	6.4% y/y	6.5% y/y	6.2% y/y
Singapore: CPI (Dec)	0.7% y/y	0.7% y/y	0.6% y/y
Indonesia: 7D reverse repo rate	5.0%	5.0%	5.0%
Eurozone: ECB main refinancing rate	0%	0%	0%
ECB deposit facility rate	-0.50%	-0.50%	-0.50%
Jan 24 (Fri)			
Japan: CPI (Dec)	0.7% y/y	0.6% y/y	0.5% y/y
Singapore: industrial production (Dec)	-1% y/y	-3.4% y/y	-9.3% y/y
US: FOMC rate decision (upper bound)	1.75%	1.75%	1.75%

Eurozone: The European Central Bank meets this week and no fresh measures are expected. In December's assessment, ECB President Lagarde had signaled subtle changes on the growth outlook, citing tentative signs of stabilization, with slow growth in the near-term, but better second half. Overall growth risks were tilted to the downside but less pronounced than earlier in the year. This view is reinforced by recent data – trade, industrial production, decade-low unemployment rate etc. which have stabilized, albeit at subdued levels. With inflation, particularly core, showing signs of life (still way below target), current policy stance is seen as appropriate and supportive of growth. Passage of the Phase 1 trade deal and likely smooth Brexit in end-January will address few of the external concerns. The ECB's year-long strategic review of the monetary policy framework is likely to be kickstarted, which might include a relook into the long-held inflation target.

Hong Kong: On inflation front, the CPI should edge down to 2.9% in December from 3.0% in November. China authority has started to contain the swine fever, with pig stock saw 2.0% MoM increase in November. A stronger HKD, which traded at around 7.8 against USD, also lowered the import cost. Domestically, a softening labour market and consumption sentiment should also keep the inflation rate at bay.

Indonesia: Bank Indonesia (BI) is likely to keep policy rate at 5% at this week policy meeting. Rupiah has rallied in the past month amid improving risk sentiments from the US-China phase 1 trade deal, closing at 13,645/USD on 17 Jan (almost 2 year high) and 10Y yield at 6.84% on the back of positive foreign flows to both equity (USD 196.2mn) and bonds (USD 1.5bn) YTD. This positive sentiment could provide Indonesia with more options to pause on rates this month. On the other hand, inflation has remained low, reaching 2.72% in Dec19. We see inflation below BI's upper bound of 4% this year despite several cost push pressures from higher cigarette excise tax, health insurance premia, toll road rate, LPG and electricity prices. We see room for another 50bps rate cuts should growth disappoint further but stay on hold this month to maintain interest rate differentials with the US and attract inflows. Fiscal levers might be more limited to support growth as tax revenue slid on the back of slower economic activities.

Japan: The Bank of Japan is expected to stand pat this week. GDP growth should have contracted sharply by more than -5% (QoQ saar) in 4Q19, in the aftermath of the sales tax hike and typhoon disaster. CPI inflation has remained weak at the sub-1% level – the December report this week is likely to show a mild increase of 0.6% YoY. But the BOJ may not be in a hurry to ease monetary policy, considering the narrowing of policy options, the side effects of negative interest rates, as well as the fiscal stimulus package proposed by the government to restore growth momentum. The stable financial market conditions also suggest no urgency for the BOJ to take actions for the time being.

Malaysia: Dec19 inflation is due and Bank Negara will convene its first policy meeting for the year. Expect the headline number to creep marginally higher to 1.0% YoY, from 0.9% previously. Inflationary pressure is picking up. The impact from consumption tax policy changes will lapse while the removal of price ceilings for fuel and some food items will prompt higher inflation. Full year inflation is expected to average 1.6% in 2020, up from a projected 0.9% last year.

With that, monetary policy could be sandwiched between sluggish growth and rising inflation. Indeed, we expect GDP growth (4.6%) to fall short of the government's target of 4.8% this year. And with rising inflation, there is limited room for the central bank to ease monetary policy further given the balance of risks is no longer just tilted towards growth. We expect Bank Negara to remain on hold and maintain the OPR at 3.00% for the rest of 2020.

Philippines: 4Q19 GDP is on tap this week. GDP growth likely continued to accelerate from recent bottom of 5.5% YoY in 2Q19 as budget issue has been resolved and loosening monetary stance has started to impact cost of financing. Consumption continued to be supported by benign inflation, 1.5% on average in 4Q and increased economic activity as government has started ramping up spending. Despite monetary easing, 75bps cut in 2019 and 400bps RRR cut for large and medium size banks, credit growth has stayed below 8.8% YoY in 4Q19, down from 10.3% YoY in 3Q19. As private investment has not picked up significantly, government investment projects became the main growth driver besides consumption. Further, Philippines is likely to bank on the US-China phase 1 trade deal and recovery of global electronic demand.

Singapore: CPI inflation and industrial production figures are on tap this week. Headline CPI inflation will likely remain stable but up marginally to 0.7% YoY. Beside a subdued external inflationary environment, domestic price pressure has been exceptionally weak amid a still sluggish growth outlook. Moreover, the Open Electricity Market (OEM) reform has been successful in lowering electricity tariffs, and the effect of this policy change still lingers. That said, inflation should be rising in the coming months as the OEM impact fades. The headline number should start to inch towards the 1% mark in the coming months. Full year inflation is expected to register 1.1%.

Industrial output for September will likely remain in negative territory but an improvement to -3.4% YoY, up from -9.3% previously is expected. Indeed, most recent non-oil domestic export figure has provided a bright spark on the manufacturing outlook. December NODX rose 2.4% YoY and this marks the first month of expansion after nine consecutive months of decline. This confirms our long-held belief that the trough in exports and the manufacturing sector was reached around middle of last year. Global business cycle has started to improve since then. However, risks on the external front remains and the manufacturing outlook is far from hunky-dory. No doubt the phase one deal signifies a positive step in the de-escalation process, it doesn't mark the end of the trade war, as high tariff rates remained in place. In this regard, we expect the recovery ahead to be tepid.

South Korea: The preliminary estimate of 4Q19 GDP is on tap this week. Headline growth is expected to rise to 3.9% QoQ saar from 1.7% in the previous quarter, taking the full-year average to about 2.0%. Domestic demand is likely to take the lead. The high-frequency indicators including retail sales, property sales, consumer confidence and services output showed notable improvement in 4Q19, helped by the government's and the central bank's fiscal and monetary stimulus measures. Exports remained sluggish. But some signs of stabilisation have emerged since Dec19, thanks to the bottoming-out of electronics cycle and the easing of China-US trade tensions.

Taiwan: The 4Q19 GDP (preliminary), December export orders and industrial production are due this week. Headline GDP growth is expected to have stayed solid at 2.5% YoY. Growth momentum is likely to be largely driven by exports and investment, supported by the rise in electronics demand, 5G-related capex expansion, as well as the trade diversion and investment repatriation effects of the China-US trade war. Consumption growth should have remained steady in the meantime, underpinned by a stable labour market, a higher stock market, and a stronger TWD. Full-year GDP growth is likely to conclude at 2.5%, a tad higher than our estimate of 2.3%.

Thailand: Customs-based trade numbers are due this week. Favourable base effects are likely to see December exports post a shallow decline of 1.6% yoy (vs Nov's -7.4%), with imports to rise 2% but still weak on mom basis. This would leave the trade balance at USD0.6bn surplus. Barring base effects, two concerns linger. Firstly, exports continue to underperform due to mixed signals for crucial sectors, including electronics and auto. On the former, few global lead indicators have been encouraging, pointing to a bottoming out in trend growth on restocking demand and introduction of 5G technology. Secondly, weak import demand points to subdued domestic demand environment last year. Into 2020, we expect the reliance on consumption and government spending to rise, to lift growth to 3% y/y, better than last year, but still below trend (see here).

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