#10yearchallenge for economies and markets

DBS Group Research

8 February 2019

Taimur Baig
Chief Economist
taimurbaig@dbs.com

Masyita Crystallin
Economist
masyita@dbs.com

Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

- *We take cue from the social media phenomenon #10yearchallenge to tally markets and economies over the past decade.*

- *It may be tempting to think that thanks to zero rates and quantitative easing, all asset prices have rallied considerably; the result is in fact far more mixed.*

- *Crude oil, while volatile, has been flat over the past ten years. Gold, after rallying sharply at the beginning of the decade, has eased off owing to moderating inflation concerns. Still, it is up 50% since early 2009.*

- *Investors would have been far better of shunning oil and gold and going long US equities during this period, as the S&P500 returned 300% and the DXY gained 13%.*

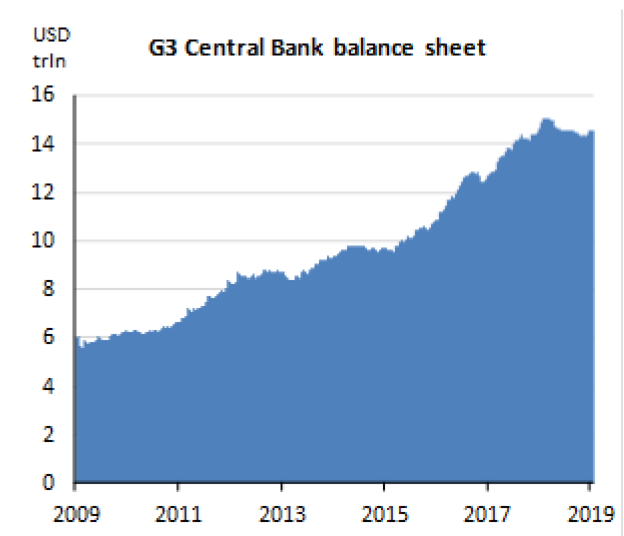
- *China's real per capita GDP doubled during this period; India's increased by 78%, Singapore's by 32%. But the US gained just 11%; strikingly, Greece's per capita income is still 21% below where it was a decade ago.*

#10yearchallenge

How have markets and economies done over the past decade? We take stock of the performance of selected asset classes (gold, oil, equities, bonds, credit) and economies (some key developed and emerging market ones) in this piece.

Liquidity

As the global financial crisis unfolded and quantitative easing ensued, the combined central bank balance sheets of the US Fed, Bank of Japan, and the European Central Bank doubled (from USD3trln) in a year (2008-09). G3 central bank balance sheets continued to expand after that, peaking at USD15trln at March 2018. With Fed tapering in place, there has been a modest decline in liquidity, but as the chart below shows, it is still exceptionally ample by historical standards.

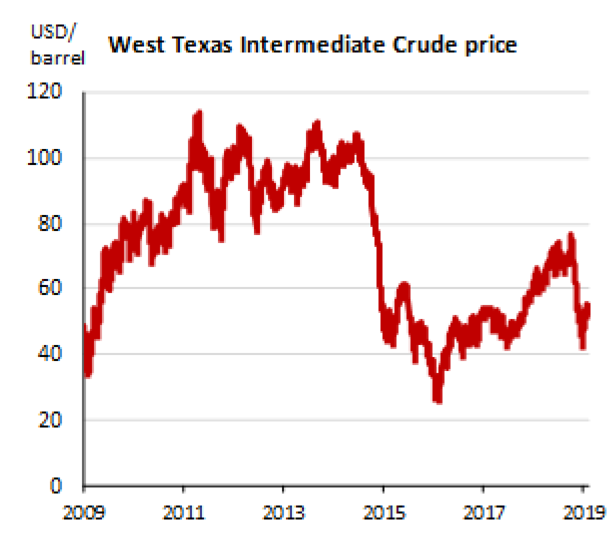


Source: Bloomberg, DBS Group Research.

Oil

Energy markets were volatile over the past decade, with crude oil peaking at close to $120 in 2011 and troughing near $20 in 2016. US Shale became the major destination of oil investment and subsequently a key factor in global supply. Countries like Iran, Libya, and Venezuela saw large fluctuations in exports, and renewables became

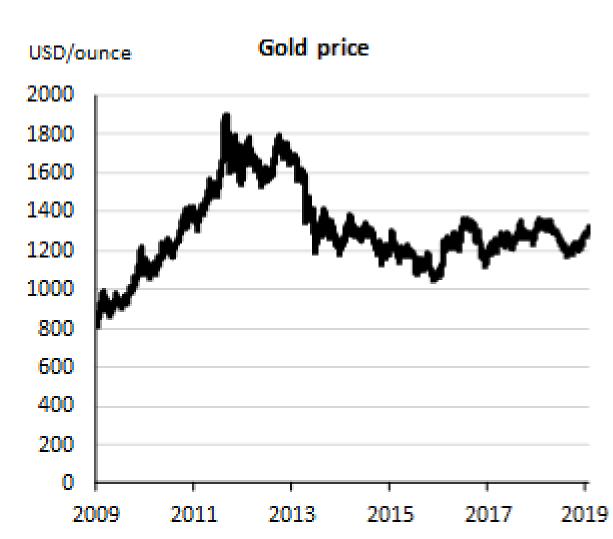
more mainstream. Through it all, point to point, oil was in fact flat.



Source: Bloomberg, DBS Group Research.

Gold

Gold has not gone out of fashion and central banks have been busy adding gold to their reserve assets. And yet, gold peaked way back in 2011, correcting sharply thereafter as global risk aversion subsided, and has been trading at a narrow range in the past three years.



Currencies

The USD appreciated by 13% against developed market currencies (DXY) during this period, but was flat against Asian currencies (ADXY). The CNY, after a sharp bout of appreciation (from 6.8 to 6.1 against the USD (2010-13) and major gyrations thereafter, is basically where it was a decade ago.

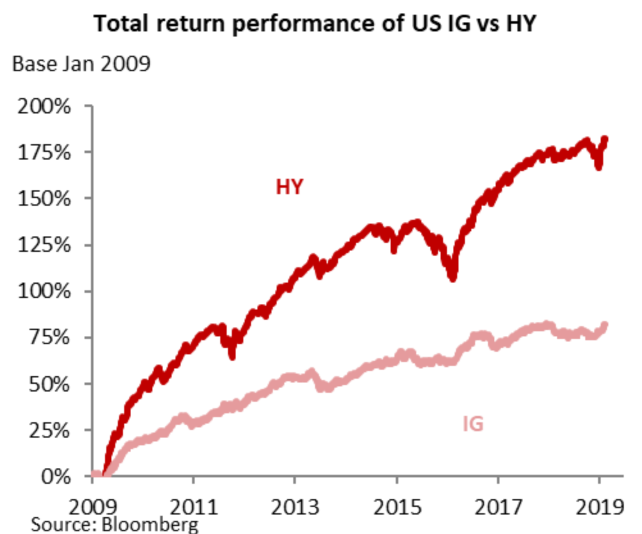
During this period, the Sing dollar corrected mildly against the USD (6%), while some key emerging market currencies sold off sharply (INR: 50%, IDR: 40%, MYR: 18%). Currencies of Asia's wealthier economies did better (KRW is 11% stronger since early 2009, while the TWD is also stronger by 6%).

Equities

Investors would have done exceedingly well by going long US equities during this period, as the S&P500 returned 300%. While some other markets returned well too, nothing came close to the US, especially when currency fluctuations are taken into account. India, for instance, returned 250%, but a large part of that gain is wiped off when the INR's 50% correction is taken into account. China had its currency broadly stable during this period, but the Shanghai stock exchange only returned 70%, a far cry from the US stock market.

Fixed income

With exceptionally strong support from governments and central banks, bonds did well across the board during this period. Global search for yield was widespread, compressing spreads and boosting fixed income returns.



Source: Bloomberg, DBS Group Research

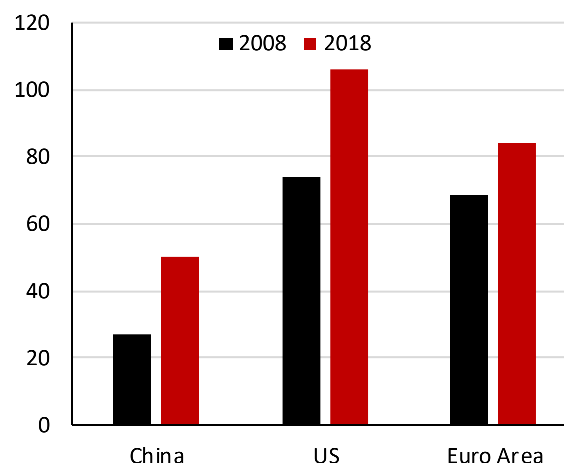
Spreads

As short-term rates were lowered to close to zero, and QE continued, curves showed a general tendency toward flattening form 2014 onward, with the present, nearly non-existent spread in the US underscoring the late stage of the ongoing expansion.

Source: Bloomberg, DBS Group Research.

Debt

A decade ago, the governments of China, US, and Euro area had to resort to substantial debt issuance as a counter to the deep demand shock of the GFC. The legacy of that is seen partially in the following chart, with significantly higher debt burden in the world's three largest economic areas. We stress partial, as much more debt has been issued off the balance sheet of central governments, especially in China. The picture is even more dramatic if that is taken in context.



Source: IMF Fiscal Monitor database, DBS Group Research. 2018 figures are IMF projections

Real GDP per capita

Among the various measures of national income, we prefer real per capita GDP adjusted for purchasing power parity. The following chart yields a few key points:

- China has grown impressively over the past decade, with its real per capita GDP doubling. However, despite such growth, the country is still a middle income one. Greece's per capita GDP, for instance, is still 60% higher than that of China.

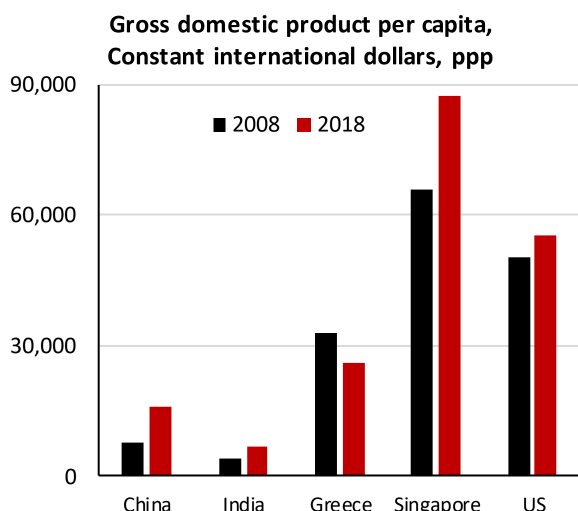
- India has grown impressively too, with its per capita income up 78%. But compared to China, it has lagged. A decade ago, China's per capita income was twice that of India's; today it is 2.3 times larger.

- Greece may remain much wealthier than China, it has had a terrible decade of income contraction. Today, its per capita GDP is 21% smaller than in 2008, reflecting the depth of its economic crisis.

- US markets may have delivered outsized gains since 2008, but its economy has done little. Today's per capita income is only 11% higher than it was a decade ago. Given stagnant wages (until recently) and rising inequality, even that growth masks the real stagnation in the US.

- Finally, Singapore, where the narrative is about aging, poor productivity growth, and structural slowdown, the income outcomes are actually very

impressive. On a purchasing power parity basis, Singaporeans are, on average, some of the richest in the world. Its real per capita income, both level ($87k international dollars) and growth (32% over the past decade), are truly towering.



Source: IMF World Economic Outlook database, DBS Group Research. 2018 figures are IMF projections

What about the next decade? Past performance is by no means a marker for what's to come. US may well surprise on the upside if productivity picks up just as redistributive policies boost income of the average American. But it would be nearly impossible for US markets come even close to the gains of the past decade The USD may not be as strong.

India may close the gap somewhat vis-à-vis China. Oil and gold may well lose their appeal as renewables take hold and inflation remains tame. We shall see.

Taimur Baig

Strategy

FX: The tables have turned in the USD's favour

The US dollar's downward correction in the past couple of months on the Fed's patient-on-hike stance is likely to have run its course. The tables have turned on the euro (the largest component in the DXY) which has started to reel on the expectations for the European Central Bank (ECB) push out its rate hike into 2020. ECB now acknowledges that the slowdown has been longer, deeper, and broader-than-expected, and sees inflation falling on lower oil prices over the coming months. These developments sit well with our view that the euro will depreciate below 1.10 this year on its relatively weaker growth/inflation/rate outlook against the US.

The business communities in the UK and Eurozone have also started to worry about the possible economic fallout from a no-deal Brexit on March 29. The change in scenario after that will be abrupt; there will be no transition period if UK stumbles out of the EU without a withdrawal agreement. Hence, there should be no complacency that the GBP/USD, now that it has depreciated below 1.30, could revisit its post-Brexit low around 1.20.

Against renewed global growth concerns, commodity-led currencies such as the New Zealand dollar (-2.3%), Australian dollar (-2.2%) and the Canadian dollar (-1.6%) led the depreciation this week. Rate hike expectations have been pushed out of this year in New Zealand after the unemployment rate spiked to 4.3% in 4Q18 from 4% (revised up from 3.9%) in the previous quarter. The Reserve Bank of Australia downgraded 2019 growth forecast to 3% from 3.25% and shifted to a "more evenly balanced stance". Effectively, the RBA has opened the door for a rate cut if increased global risks and the weaker housing market forces more downgrades in its sanguine growth/inflation outlook. Our view remains unchanged for the Oz to falter below 0.70.

Philip Wee

Rates: Uncertainty capping US yields

Considerable uncertainties over the China-US trade row continue to cap longer-term UST yields. 10Y and 30Y yields are back below 2.70% and 3.00% respectively as news broke overnight that a Xi-Trump meeting is unlikely ahead of the tariff deadline on 1st March. It probably does not help that another government shutdown looms on 15th February, ahead of the reinstatement of the debt ceiling on 1st March. Against this backdrop, we suspect that US yields will hover close to the lows of their recent trading range as risky assets struggle.

In Asia, central banks have taken full advantage of the Fed pause. Thailand and the Philippines kept rates unchanged this week while India was the most aggressive, cutting the repo rate by 25bps point in a surprise decision. In these three economies, inflation is clearly not a concern. In

particular, real policy rates in India still look high and we suspect that another rate cut will be in the offing in 2Q. Meanwhile, voting patterns suggests that the Bank of Thailand (BoT) may still be keen on normalising policy. However, with headline YoY CPI hovering close to zero, we doubt that there will be much urgency on this front.

Asia central banks are likely to be on hold with a slight bias for easing if conditions warrant. We have already pencilled in further easing for China and India through 2019 as the Fed dials back rate hike plans. Against this backdrop, short-term govvies (<3Y) are likely to be supported. Significant rallies have already been seen in higher-yielding Asia govvies (Indonesia, India and the Philippines) as the market faded the excessive pessimism at the start of the year. Considering the uncertainties ahead, the temptation to lock in some profits from risky assets is high after the recent run up.

Running ideas:
-long 3Y Indo govvie (7th Jan)
-short end-2019 Fed funds futures (7th Jan)

Eugene Leow

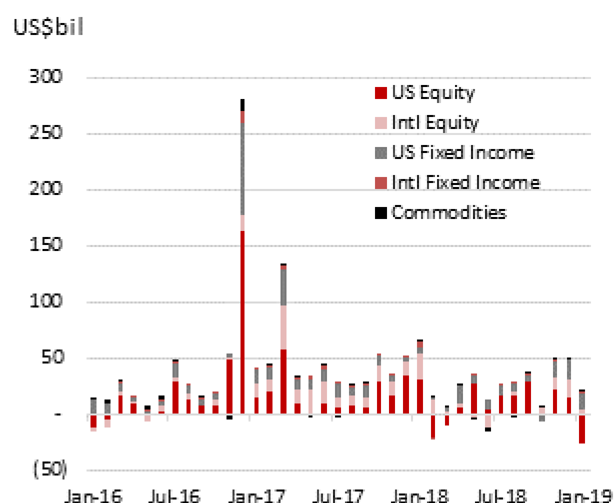
Equities: Outflows out of US despite positive momentum

ETF flows for January were surprisingly negative given the apparent return of risk appetite. US-listed ETFs recorded net outflows of US$2.8bn, following inflows of US$49.7bn in the previous month. This was largely driven by net outflows in US equity ETFs of US$25.5bn, while all other asset classes attracted inflows. We note that US fixed income ETFs posted net inflows of $13.5bn, which is consistent with flows in the previous two months.

Investors generally stayed clear of US equity ETFs in January despite positive market momentum. We believe the market's high volatility and high uncertainty relating to US-China trade talks, prolonged US government shutdown and a downshift in economic and earnings data could have dented the risk appetite for US equities. Markets will need to get past the soft patch of weak earnings and economic data especially for first quarter before flows stabilise, in our view.

In contrast, fixed income ETFs continued to see inflows since November. With the Fed's less hawkish stance on monetary policies, the peak in bond yields could be behind us in the near term, fuelling further interest in fixed income ETFs. Notably, flows to International fixed Income ETFs reversed from previous month's outflows.

Monthly flows of US-listed ETFs



Source: ETF.com. As of January 2019.

In commodities, there were strong inflows into gold related ETFs. Higher market volatility in the stock market, and prospects of a weaker USD ahead could be reasons for investors to turn to gold as an alternative investment.

Joanne Goh

Highlights of the week:

[India: RBI's dovish turn](#)
[Brexit endgame: Deal or no deal](#)

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	3.6	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	3.9	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	2.6	1.9	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

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Masyita Crystallin, Ph.D.
Economist – Indonesia & Philippines
+62 2988-4003 masyita@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Neel Gopalakrishnan
Credit Strategist
+65 68782072 neelg@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying, CFA
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist – Eurozone, India, & Thailand
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

Duncan Tan
FX and Rates Strategist - Asean
+65 6878-2140 duncantan@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

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

Disclaimer:

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.
DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.
PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422.