

# Chart of the Week: Fund flows turn to Asia

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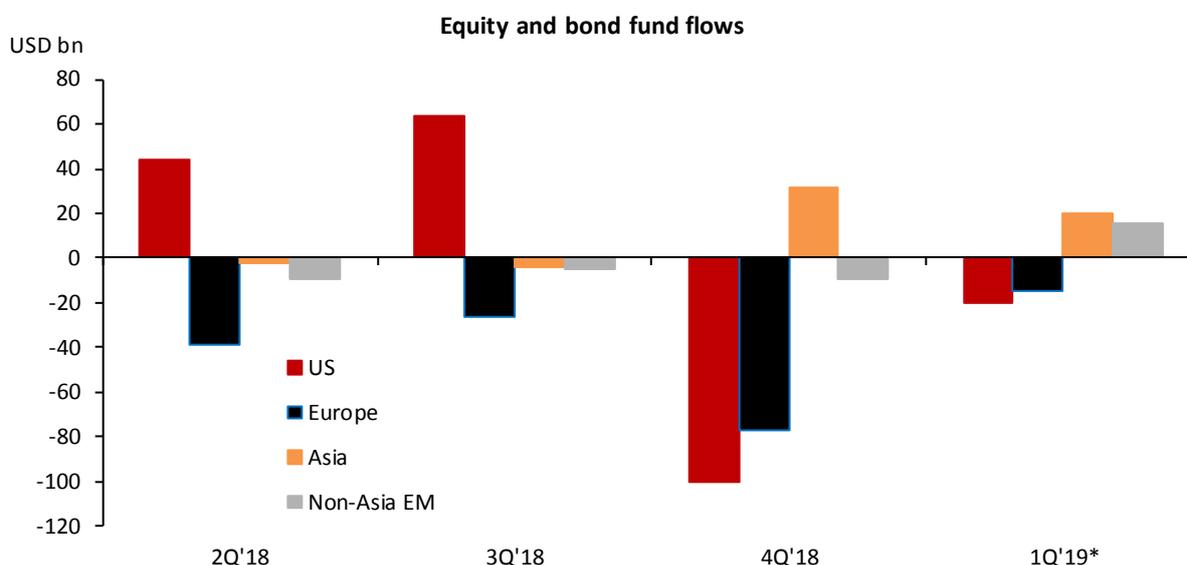
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**Key Events:**

- Bank Indonesia (BI) is likely to keep the policy rate unchanged on the policy meeting this Thursday
- Inflationary pressure in Japan, Malaysia, Hong Kong and Eurozone will likely remain benign
- Export growth in Singapore, Japan, Thailand and Taiwan will remain in the red due to weak global demand

**Chart of the Week: After a bruising 2018, Asian markets have seen strong bond and equity inflows**

In 2018, as US policy rates rose in the while the economy delivered strong growth, capital inflows turned away from Europe and EM dramatically. We estimate that bonds and equity flows to the US in the second and third quarters of last year were USD50.3bn and USD58bn, respectively. During that period, EU saw an outflow of USD65bn (bonds: USD15.9bn; equities: USD49.2bn) and EM was similar, with an outflow of USD21.5bn ((bonds: USD17.9bn; equities: USD3.6bn). Fortunes have turned dramatically since then, particularly since the beginning of this year. Over the first six weeks of 2019, US equities have seen a drawdown of USD43.6bn. During the same period, EM Asia has received USD17.1bn in equities and USD3.3bn in bond fund flows. Last year's sharp price correction has brought back value-seeking investors to Asia, as bets on some resolution of trade wars and expectation of more policy stimulus in China rise.



Source: EPFR, DBS Group Research. Data through February 13

Event	Consensus	DBS	Previous
<b>Feb 18 (Mon)</b>			
Singapore: NODX (Jan)	-2.7% y/y	-8.5% y/y (actual)	-2.8% y/y
Thailand: GDP (4Q)	3.6% y/y	3.7% y/y (actual)	3.2% y/y
<b>Feb 20 (Wed)</b>			
Japan: trade balance (Jan)	-JPY 1022.6bn	-JPY 1211bn	-JPY 56.7bn
-- exports	-5.5% y/y	-3.8% y/y	-3.9% y/y
-- imports	-5.0% y/y	0.4% y/y	1.9% y/y
<b>Feb 21 (Thu)</b>			
Hong Kong: unemployment rate (Jan)	2.9% y/y	2.8% sa	2.8% sa
Indonesia: BI reverse repo rate	6.00%	6.00%	6.00%
Thailand: trade balance (Jan)	-USD 0.5bn	-USD0.5bn	USD 1.06bn
-- exports	-1.3% y/y	-2.1% y/y	-1.72% y/y
-- imports	-1.0% y/y	-1.0% y/y	-8.15% y/y
<b>Feb 22 (Fri)</b>			
Japan: CPI (Jan)	0.3% y/y	0.3% y/y	0.3% y/y
Malaysia: CPI (Jan)	-0.4% y/y	0.1% y/y	0.2% y/y
Taiwan: export orders (Jan)	-8.5% y/y	-10.7% y/y	-10.5% y/y
Hong Kong: CPI (Jan)	2.5% y/y	2.7% y/y	2.5% y/y
Eurozone: CPI (Jan)	1.4% y/y	1.5% y/y	1.6% y/y

**Eurozone:** Inflation trends this year are unlikely to be source of concern for the European policymakers, as softening growth prospects them to delay policy normalisation plans. We look for January inflation to tick down to 1.5% YoY from the 2018's 1.7%. Supply-side pressures have eased due to a pullback in energy prices from its peak (albeit inching up again in recent weeks), while core continues to tread water around the 0.9%-1.1% range. Markets-based inflation expectations gauge are also benign, with the 5Y5Y breakeven forwards trending down to still tepid levels this month. As a result, ECB normalisation (hikes) is off the cards for this year, with focus instead on supporting the economy, possibly through another round of targeted long-term refinancing operation (TLTRO) to replace maturing ones.

**Hong Kong:** Thanks to the largely favorable local economic growth (real GDP rose 3.5% YoY in 1-3Q18), the labor market is expected to remain tight. Recovery in inbound tourism and domestic consumption (visitor arrivals and retail sales value increased 11.6% and 9.1% YOY respectively in 2018) should support the labor market. The seasonally-adjusted unemployment rate is forecasted to remain at a 20-year low of 2.8%. Looking forward, the external uncertainties including the Sino-US trade friction and global economic slowdown warrant particular concerns. The demand for labor, of which over 10% comes from the import/export trade and wholesale sectors, is set to slow.

On inflation, the consumer prices are expected to rise at a faster pace of 2.7% YoY in January, compared to 2.5% in December. The feed through of higher rents over the past year and the upward adjustment in public housing rentals should have uphold the inflationary pressure. However, overall import prices should stay at moderate level due to a softening oil price.

**Indonesia:** Bank Indonesia (BI) is likely to keep the policy rate unchanged on the policy meeting this Thursday, as the Fed rate hike has also been on hold lowering pressure to Rupiah. In fact, Rupiah has appreciated by 2.7% YtD on the back of inflows to both bonds (USD1.9bn YtD) and equities (USD0.78bn YtD). Trade balance, on the other hand, have widened to -USD1.16bn in Jan19 from -USD1bn in Dec19, despite significantly lower oil price compare to last year. Unlike in 2018 where trade balance worry was coming from imports side, exports deceleration seems to be the theme for 2019 trade balance concern as global trade demand continue to weaken amplified by trade war tension. In addition to the lower pressure to Rupiah, we think BI might stay on hold due to the benign inflation (Jan19 inflation recorded 2.8% YoY from 3.1% in Dec18). We maintain our view that BI tightening cycle has ended in 2019 as inflation is likely to remain stable resulting in a competitive real interest rate. Furthermore, externally we think better overall global financial condition will provide some support to Rupiah.

**Japan:** CPI inflation is expected to remain low and flat at 0.3% YoY in January. The gap between headline and core inflation has been closed since December 2018, largely thanks to the decline in oil prices. On a positive note, lower oil prices and a tight labour market will lend support to domestic consumption, which will in turn, underpin the demand-side inflation in the medium term. The inflation expectation indices have remained stable as of Dec18, partly also thanks to the public anticipation of consumption tax hike later this year. We are maintaining the 2019 CPI forecast at 1.1%.

**Malaysia:** Inflation for Jan19 is on tap this week. The headline number should print a benign 0.1% YoY. However, that's partly to do with the high base last year and the removal of the GST subsequently. We reckon that inflation should bottom in the coming 1-2 months and should start to rise from 2Q19 onwards. That said, inflationary pressure will remain benign. Against the backdrop of a slower growth outlook, the central bank will likely continue to stand pat on monetary policy in 2019.

**Taiwan:** January export orders due this week are expected to show a still deep decline of -10.7% YoY (vs -10.5% in Dec18). Demand will likely continue to be depressed by the weakness in Chinese consumption, slowdown of the electronics cycle, and increases in US tariffs on Chinese products. Taiwan's manufacturing PMI has slipped further to 47.5 in January from 47.3 in December 2018, below the 50 mark for the fourth consecutive month. New export orders fell at the fastest pace since August 2015. These early indicators suggest that export and overall growth will likely deteriorate further in 1Q19 compared to 4Q18 and bottom out in 2Q19 at the soonest.

**Thailand:** Out earlier on Monday, Thai growth was modestly better than expected at 3.7% YoY in 4Q18, marking a second sub-4% quarter and primarily reflecting underperformance in the Thai external sector. Apart from weaker trade data, sentiment indices softened towards late-2018, even as higher fixed asset investments led by public sector participation improved, helped by pre-election and broader infrastructure boost. Consumption and inventory restocking demand are also expected to provide support at the margin. 2018 growth likely averaged 4.1% from 3.9% year before. January trade numbers are likely to return to a deficit of USD500mn vs an unexpected surplus in December as exports remain weak, inferring from regional auto and electronic trends.

**Singapore:** Non-oil domestic exports (NODX) for Jan19, out earlier today, came in weaker than expected at -8.5% YoY (vs consensus at 2% and us at -2.8%). While most will immediately point to the trade war as the culprit, it pays to note that the Lunar New Year effect does come into play as well. The front-loading of export orders prior the boarder base tariff hikes last September, and the subsequent cutback in order has resulted in a decline of 1.1% in 4Q18. While there could be more downside risk ahead, the ongoing trade negotiation between the US and China is seeing light at the end of the tunnel. A positive month-on-month figure will certainly put the trade war argument into doubt. In our view, the trade war is not the major risk. Instead, slowdown in China and the moderation in global growth are having a much bigger impact on export performance. In this regard, we do expect a softer export outlook in 2019.

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

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