Economics

Chart of the Week: Keeping an eye on China's growth momentum

Group Research 25 February 2019

Nathan Chow
Economist / Strategist
nathanchow@dbs.com

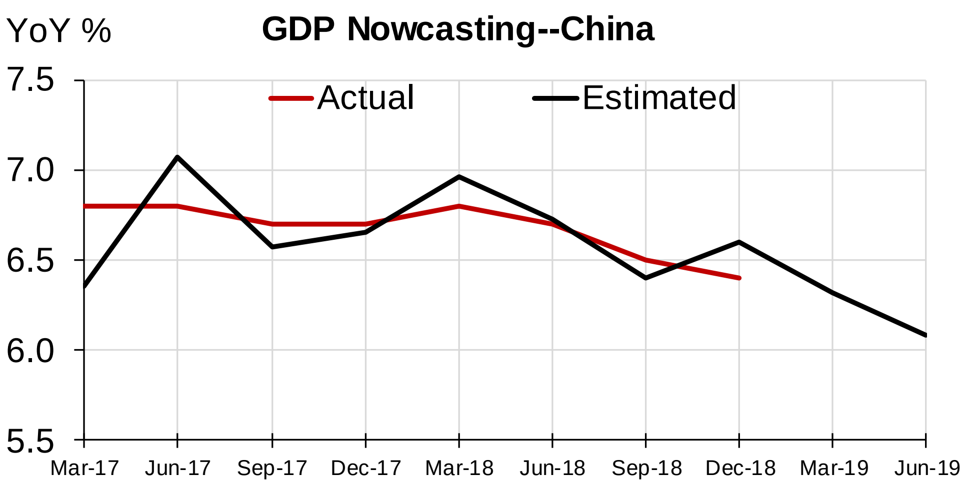
Please direct distribution queries to
Violet Lee +65 68785281
violetleeyh@dbs.com

Key Events:

- *China's manufacturing PMI is expected to edge down to 49.3 in Feb19 from 49.5 in Jan19 due to weakening domestic demand.*
- *The real GDP growth of Hong Kong should have slowed to 2.1% YoY in 4Q18 after a robust 3.7% expansion in 1-3Q18.*
- *India's real GDP growth is also forecasted to ease from 7.1% in 3Q18 to 6.6% in 4Q18 due to moderating domestic demand.*

Chart of the Week: China growth momentum watch

While the markets are looking ahead past weak data and rallying in response to progress toward a resolution in China-US trade wars, satisfactory growth and earnings numbers will remain elusive for a while, in our view. In the US, Atlanta Fed's Nowcast for 4Q18 has weakened considerably lately, point to well below-2% growth. As for China, real GDP growth slowed in each successive quarter in 2018, and the 2019 data available so far offer little evidence of the slowdown being arrested, despite some stimulus measures. Indeed, our Nowcast model is estimating sustained slowdown in 1H2019. While loans are bottoming out, industrial production, domestic sales, and trade show no sign of a turnaround yet. Putting these together, we see 1Q growth at 6.3% and 2Q at 6.1%. If further fiscal stimulus and liquidity injection take place, and sentiments improve around a resolution in trade wars, then there is a modest chance that growth could surprise on the upside. For the time being though, the hard data remain a source of consideration concern.



Source: DBS Group Research.

Event	Consensus	DBS	Previous
Feb 25 (Mon)			
Singapore: CPI (Jan)	0.6% y/y	0.9% y/y	0.5% y/y
Feb 26 (Tue)			
Hong Kong: trade balance (Jan)	-HKD31.0bn	-HKD25.1bn	-HKD51.2bn
-- exports	-2.8% y/y	+5.8% y/y	-5.8% y/y
-- imports	-2.2% y/y	+1.7% y/y	-7.0% y/y
Singapore: industrial production (Jan)	-3.1% y/y	-1.7% y/y	2.7% y/y
Taiwan: industrial production (Jan)	-1.6% y/y	-1.1% y/y	-1.2% y/y
Feb 27 (Wed)			
Hong Kong: GDP (4Q)	2.1% y/y	2.1% y/y	2.9% y/y
Feb 28 (Thu)			
China: manufacturing PMI (Feb)	49.5	49.3	49.5
US: GDP (4Q A)	2.4% q/q saar	2.3% q/q saar	3.4% q/q saar
India: GDP (4Q)	6.7% y/y	6.6% y/y	7.1% y/y
South Korea: industrial production (Jan)	1.2% y/y	0.5% y/y	1.6% y/y
South Korea: 7D repo rate	1.75%	1.75%	1.75%
Japan: industrial production (Jan)	-2.5% m/m sa	-1.5% m/m sa	-0.1% m/m sa
Mar 1 (Fri)			
US: PCE core (Dec)	1.9% y/y sa	1.9% y/y sa	1.9% y/y sa
Eurozone: CPI (Feb)	1.5% y/y	1.1% y/y	1.4% y/y
Thailand: CPI (Feb)	0.7% y/y	0.5% y/y	0.3% y/y
Indonesia: CPI (Feb)	N/A	2.8% y/y	2.8% y/y
South Korea: trade balance (Feb)	USD3250mn	USD3649mn	USD1294mn
- exports	-9.0% y/y	-2.9% y/y	-5.8% y/y
- imports	-11.6% y/y	-5.1% y/y	-1.7% y/y

Eurozone: Price pressures likely eased in February, with this downtrend to persist into mid-year as base effects remain adverse. We expect February flash estimate to slow to 1.1% YoY from 1.4% month before. Slowing inflation and cyclical pullback in economic activity have pushed back policy normalisation expectations to next year. Latest Minutes from the ECB meeting reflect policymakers' concerns over growth but they prefer a wait-and-watch support to gauge whether its temporary or a cyclical downturn. In the meantime, speculation is building that the ECB might consider another tranche of cheap financing program, under the TLTROs scheme (targeted long-term repurchase operation) to support growth and infuse liquidity.

Hong Kong: The Hong Kong real GDP growth should have slowed to 2.1% YoY in 4Q18 after a robust 3.7% expansion in 1-3Q18. Externally, trade figures saw year-on-year contraction since November as front-loading of activities ended. Meanwhile, equity market consolidation should have dragged the export performance of financial and the consumption sentiment (retail sales growth slowed to 0.1% in December). The Hong Kong economy is expected to expand by 3.3% for 2018 as a whole.

On entering 2019, the Hong Kong economy will continue to be clouded by the external uncertainties. Exports and imports of good is forecasted to bounce back somewhat, at 5.8% and 1.7% respectively. Yet, this is due to the usual Chinese New Year effect. The potential hard Brexit and lingering trade tension may add downward pressure on asset markets. Such negative wealth effect may moderate the domestic demand further. We expect the GDP will grow by 2.5% in 2019.

China: The manufacturing PMI is projected to edge down to 49.3 in Feb19 from 49.5 in Jan19. Aside from fewer working days in February due to Chinese New Year, industrial activities are expected to moderate amid weakening domestic demand. Index for new export orders should stay in contraction territory for the 9th consecutive month as the weakening demand continues to warrant concerns. Production will be weakened further down the road.

India: Amongst the last few countries to release 4Q18 (third quarter FY19) GDP numbers, we expect India's real GDP growth to have slowed to 6.6% YoY vs 7.1% in 3Q18. Our inhouse GDP Nowcasting model also points to a broader slowdown in activity. Unfavourable base effects aside, consumption spending likely moderated due to slow rural incomes, while tighter financial conditions and a decline in auto sales for a second consecutive quarter points to softer urban demand. An overshoot in the fiscal deficit (vs target) likely led to slower public spending, but external trade is likely to be a smaller drag as oil prices subsided. On Gross value-added basis, growth likely slowed to 6.5% YoY vs 6.9% quarter before. Apart from GDP numbers, markets will also seek clarity over the recent debate on the reliability of data in view of recent release of back series GDP data and delay in jobs numbers, amongst others.

Indonesia: Inflation numbers for Indonesia are on tap this week. We think inflation could stabilized at 2.82% YoY or 0.19% MoM from 2.8% or 0.3% MOM last month on the back of easing rice price and domestic demand has not picked up significantly yet. Although consumer confidence indices have shown an uptick (both current and expectation), but real sales number for motorcycles for example has continued to decline. Retail sales are mixed, but overall number still easing in YoY terms. BI announced that it maintained the policy rate at 6% and shift gear to support to support growth as pressure to Rupiah has eased this year. We think election spending could catalyze domestic activities, however, not enough to accelerate growth beyond 5.2% like in 2018.

Taiwan: January industrial production is expected to contract -1.1% YoY, the second straight month of decline but slightly better than the -1.2% in Dec18. Exports and export orders registered a smaller decline of -0.3% YoY and -6.0% respectively in January, versus -3.0% and -10.5% in Dec18. This was helped by the earlier timing of Chinese New Year this year. Adjusted by the seasonal factors, exports and export orders both fell on the MoM basis in January (-4.5%, -0.8% respectively). We reckon that the average export/production growth in 1Q19 will be weaker than in 4Q18. Accordingly, GDP growth has not bottomed yet and will slow further in the current quarter.

Thailand: Joining the broader moderation in regional inflation, Thai CPI inflation likely remained below the Bank of Thailand's for a fourth consecutive month. Our forecast is for headline inflation to rise 0.5% YoY higher vs month before due to base effects, but flat on sequential terms. Supply-side pressures from oil prices have eased, helped also by baht outperformance will has capped imported pressures. Ample supplies keep a lid on food costs, but the relative resilience in consumption spending is yet to translate into better core inflation numbers. Recent BOT minutes pointed to a preference to build policy buffer, however, below-target inflation and currency strength is likely to see them keep rates on hold this year.

Singapore: January CPI inflation and industrial production index are on tap this week. The headline price barometer is expected to read 0.9% YoY. The high base effect over the past 2 months is fading and inflation is expected to resume its upward trend. Oil prices are back to where they were one year ago. While energy market reforms could make for some downward adjustment in electricity tariffs, the weightage for this item are overshadowed by the bias on the COE premiums. In that regards, COE premium has continued to remain soft due the excess supply of vehicles in the secondary market. While inflation should rise towards 1% in the near term, it is still weighed down by these domestic factors. Meanwhile, core inflation recorded 1.9% in the previous month and risk is that it could rise above the 2% mark in the coming months.

Industrial output for the month is likely to contract by 1.7% YoY, down from an expansion of 2.7% previously. Non-oil domestic export performance has slipped (-10.1% YoY, -5.7% MoM sa) as global demand continues to wane and growth in global semiconductor sales dipped into negative. PMIs are also slipping across the board in key markets such as the US, China and Eurozone. 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. 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 Bank of Korea is expected to keep rates unchanged at 1.75% this Thursday. The chance of further tightening has fallen substantially, because 1) growth is decelerating due to slowing global economy and faltering electronics demand, 2) inflation is easing faster than expected due to the correction in oil prices, and 3) capital outflow pressure has dissipated, thanks to the delay in Fed rate hikes, optimism about US-China trade negotiations and the recovery in global risk sentiment.

The fresh data out this week will likely point to further growth slowdown in 1Q19. Exports are expected to contract for the third consecutive month, by -2.9% YoY in February. Industrial production is likely to maintain positive YoY growth in January, but the pace will slow to 0.5% from 1.6% in the prior month.

On the political calendar, the second North Korea-US leadership summit this week will be closely watched. Investors will look for concrete details about the denuclearisation process, as well as the possibility for the US to ease some economic sanctions on North Korea.

Group Research

Economics & Strategy Team

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 21-2988-4003 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).