Economics

Chart of the Week: Asian property prices

Group Research

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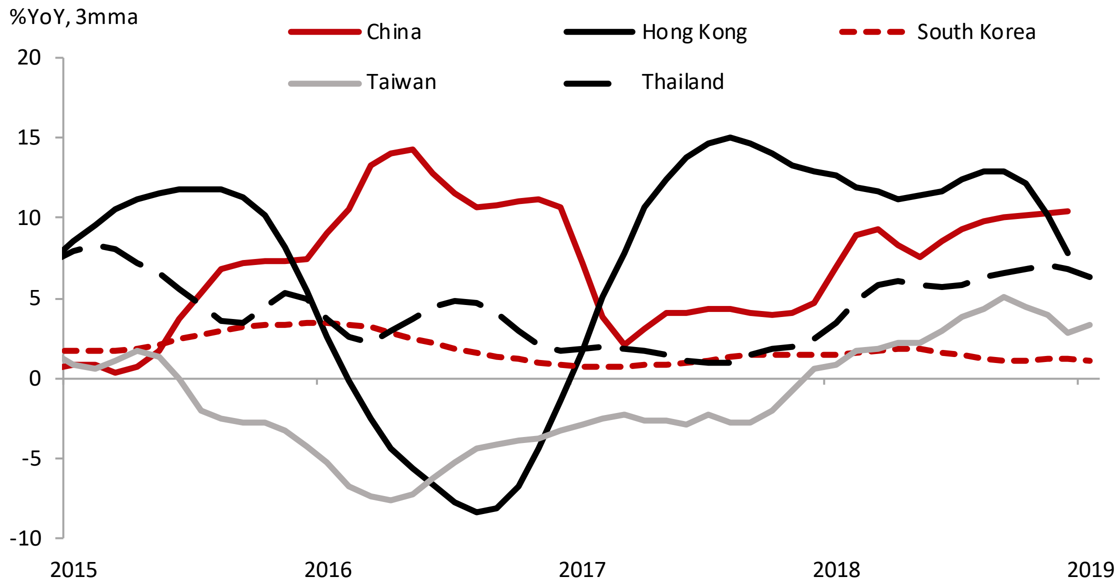
Key Events:

- *Hong Kong's retail sales performance should have improved somewhat in January, thanks to the temporary rebound in the equity market.*
- *Trade data of China is forecasted to deteriorate in February amid both external uncertainties and moderating domestic economic activities.*
- *Taiwan's export growth is expected to remain sluggish in February due to weakening external demand.*

Chart of the Week: Property prices in Asia

As interest rates rose, liquidity tightened, and some country authorities introduced cooling measures in 2018, Asian property markets softened, particularly in Hong Kong and Singapore. China saw some recovery after the doldrums on 2017, but the generally favourable price statistics mask large unsold inventory and debt distress among some developers. South Korea's long dormant market found no help during the course of the year as BoK sought to normalise monetary policy, with prices flat. 2019 could well be a better year in Asia, as the rate cycle has matured, central banks seem keen to keep ample liquidity in the markets, and a strong stimulus package from the Chinese authorities could get the mortgage market humming again.

Performance of selected Asian property price indices



Source: CEIC, DBS Group Research.

Event	Consensus	DBS	Previous
Mar 4 (Mon)			
Malaysia: trade balance (Jan)	MYR9.0bn	MYR10.0bn	MYR10.4bn
-- exports	-0.6% y/y	-0.9% y/y	4.8% y/y
-- imports	1.2% y/y	-1.4% y/y	1.0% y/y
Mar 5 (Tue)			
Hong Kong: retail sales (Value; Jan)	1.1% y/y	1.5% y/y	0.1% y/y
Hong Kong: retail sales (Volume; Jan)	1.4% y/y	0.8% y/y	0.2% y/y
South Korea: GDP (4Q F)	3.1% y/y	3.1% y/y	3.1% y/y
South Korea: CPI (Feb)	0.7% y/y	0.7% y/y	0.8% y/y
Philippines: CPI (Feb)	4.0% y/y	4.3% y/y	4.4% y/y
Malaysia: overnight policy rate	3.25%	3.25%	3.25%
Mar 7 (Thu)			
Eurozone: GDP (4Q, F)	1.2% y/y	1.2% y/y	1.2% y/y
Eurozone: main refinancing rate	0.0%	0.0%	0.0%
Eurozone: deposit facility rate	-0.4%	-0.4%	-0.4%
Mar 8 (Fri)			
China: trade balance (Feb)	USD27.0bn	USD25.4bn	USD39.2bn
-- exports	-2.7% y/y	-5.8% y/y	9.1% y/y
-- imports	0.6% y/y	-2.2% y/y	-1.5% y/y
Japan: GDP (4Q F)	1.7% q/q saar	1.5% q/q saar	1.4% q/q saar
Taiwan: CPI (Feb)	0.3% y/y	0.2% y/y	0.2% y/y
Taiwan: trade balance (Feb)	USD2.1bn	USD1.56bn	USD0.91bn
-- exports	-0.8% y/y	0.7% y/y	-0.3% y/y
-- imports	4.8% y/y	8.7% y/y	6.8% y/y

Eurozone: The European Central Bank (ECB) Governing Council is expected to maintain its cautious tone on growth but play down worries over recessionary conditions. Slowing growth and easing inflation will be, nonetheless, enough for policymakers to make a dovish shift at the margin. Besides highlighting the ongoing reinvestments of bonds and low policy rates, we expect a discussion on further stimulus measures by way of fresh tranche of concessionary loans (but no conclusive announcement). Staff economic projections (particularly GDP) are due for a downward revision.

Hong Kong: Retail sales performance is expected to have improved somewhat in January, from December's 0.1% (0.2% in volume terms) to 1.5% (0.8%) in value terms. Aside from the usual Lunar New Year seasonal effect, the local consumption sentiments were well supported by rising wages of low-skilled workers (4.1% YoY in 3Q18) amid full employment (unemployment rate at 20-year low of 2.8% in December). The temporary rebound in the equity market should have also rendered some support to the retail sector through positive wealth effect.

China: Exports are expected to contract by 5.8% YoY in February (down from +9.1% in January) due to the different timing of the Lunar New Year. Outward shipment performance should turn sluggish again due to a weakening global demand and effective tariffs from the US. Import growth is also forecasted to fall amid moderating domestic economic activities. Early indicators point to a weakening trade sentiment. New export orders PMI and imports PMI have contracted for 9 and 8 consecutive months respectively. Trade balance will likely deteriorate in the months ahead.

Philippines: We think Philippines inflation will continue to slowdown in February to 4.3% YoY, from 4.4% in Jan19 as impact of increased excise taxes has continued to disappear. In addition, lower rice price in Feb19 might also contribute to lower inflation pressure. Yet, there was an upward pressure to inflation as well coming from higher domestic fuel price and electricity price. Thankfully, stronger Peso has provided some cushion to the transmission of higher global fuel price to domestic price. We see that domestic demand might be pressured as net export continue to weaken further, liquidity tightened, in fact, money supply growth (M1) decelerated to 6.9% YoY in Jan19 from 9.5% in Dec18. We think, more dovish BSP this year (we expect no rate hike in 2019) could support domestic demand this year.

Taiwan: Exports are expected to remain sluggish at 0.7% YoY in February, versus -0.3% in January. Downside surprises are possible, given the double-digit decline in South Korea's February exports and the further deterioration in China's and Japan's Manufacturing PMI. There are no signs of bottoming in the trade cycle yet. Some sort of stabilisation is expected for 2Q, presuming that China's fiscal stimuli will start to work, and demand in the Apple supply chain will begin to improve on the back of the iPhone price cuts. CPI inflation, on the other hand, is forecasted to remain subdued at 0.2% YoY in February. The high base effects will help to keep inflation figures close to zero, despite the temporary rise in food prices (due to Chinese New Year) and the modest rebound in oil prices.

Malaysia: Trade figures (Jan) are due, and Bank Negara will also convene its policy meeting this week. Headline export growth is expected to register a decline of 0.9% YoY, from an expansion of 4.8% previously. This will be the first negative growth figure since Feb18, which underscores the drag from a weaker global demand, as well as the indirect impact of the trade war. Import growth is also expected to decline, by 1.4% YoY, as domestic demand impetus has been weighed down by the challenging economic conditions. This should bring overall trade balance to MYR 10bn, from 10.4bn previously. Outlook for export performance will likely continue to stay soft in the coming months against the backdrop of weaker global demand.

With potentially a softer trajectory for exports, growth momentum is expected to slow as well. And this corroborates with a downside surprise in inflation reading (-0.7% YoY) in January recently. While the bias could be towards monetary easing, we reckon that inflation is weighed down by some policy changes in the second half of last year, and that it should bottom out in the coming month before trending higher from mid this year onwards. As such, we believe the central bank will keep monetary policy steady for now, although room for monetary easing could increase should inflation fall short of expectation or growth slow more than expected.

South Korea: CPI inflation is projected to remain subdued at 0.7% YoY in February versus 0.8% in January. The rise in food prices as a result of the Lunar New Year will be reflected in the MoM rather than YoY changes in CPI. The underlying inflation should also stay tame, given the ongoing slowdown in GDP growth and the deterioration in output gap which offset the impact from minimum wage hikes. Despite a weaker inflation and growth outlook, the Bank of Korea said explicitly at the policy meeting last week that it is not considering a rate cut for the time being. Sentiments in the KRW and KOSPI markets have deteriorated amidst the sluggish macroeconomic environment, and more importantly, the renewed geopolitical uncertainties following last week's North Korea-US leadership summit.

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