Economics

Chart of the Week: US dollar still in vogue, SWIFT data suggests

Group Research

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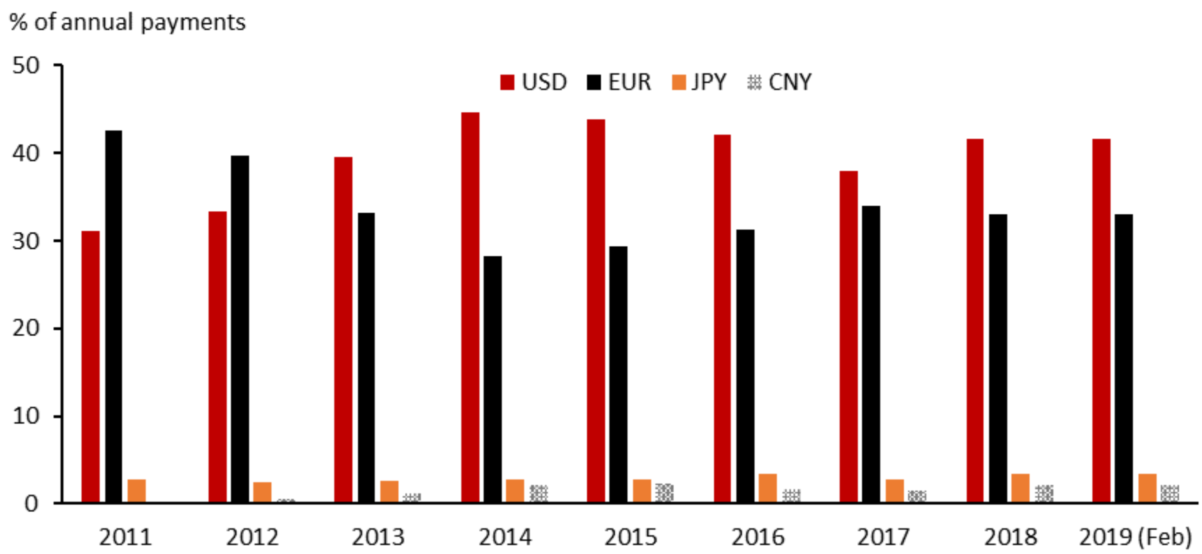
Key Events:

- *The Bank of Japan is likely to keep rates steady, but lean towards a dovish bias*
- *China data is likely to point to a weak start for domestic demand in 2019*
- *Eyes are on Philippines, Indonesia and India trade figures to gauge the impact of slowing global demand and lull for the electronics sector*

Chart of the Week: US Dollar still in vogue, SWIFT data suggests

Sifting through the recent data on the share of payments of major currencies through SWIFT, we make a few observations. The US dollar continues to reign high, with more than 40% share, only modestly lower than its peak in 2014. Despite the undercurrents of slower growth and a tougher political climate political worries, EUR has cornered a third of the payments space. Limited improvement in the Yuan’s role is a bigger disappointment, suggesting that the internationalisation push has lost some momentum. Part of this lacklustre adoption probably owes to the two-way moves (flexibility) in the currency since 2015 vs one-sided appreciation bias earlier. Add to this, the authorities are also occupied with other priorities in the past year, including efforts to arrest slowing growth, deleveraging at a less-damaging pace, addressing political roadblocks that have hurt the pace of Belt and Road Initiative (BRI) rollout and reaching a consensus on the trade dispute with the US. It is likely then that the peak of CNY’s share at 2.8% reached in 2015, is unlikely to be challenged anytime soon.

Share of payments of major currencies in SWIFT transactions



Source: SWIFT, Bloomberg, DBS Group Research

Event	Consensus	DBS	Previous
Mar 12 (Tue)			
Philippines: trade balance (Jan)	-USD3.6bn	-USD3.3bn	-USD3.75bn
-- exports	-3.6% y/y	-15% y/y	-12.3% y/y
-- imports	0.1% y/y	-8% y/y	-9.4% y/y
India: CPI (Feb)	2.4% y/y	2.3% y/y	2.1% y/y
India: Industrial production (Feb)	2.0% y/y	3.5% y/y	2.4% y/y
US: CPI (Feb)	1.6% y/y		1.6% y/y
Mar 14 (Thu)			
China: retail sales (ytd)	8.1% y/y	8.7% y/y	9% y/y
China: Industrial production (Feb)	5.5% y/y	8.6% y/y	6.2% y/y
China: FAI (ytd)	6.0% y/y	6.3% y/y	5.9% y/y
Malaysia: Industrial production (Jan)	2.1% y/y	0.1% y/y	3.4% y/y
India: WPI (Feb)	2.8% y/y	3.0% y/y	2.8% y/y
Mar 15 (Fri)			
Japan: BOJ policy balance rate	-0.1%	-0.1%	-0.1%
Japan: 10-year yield target	0%	0%	0%
Indonesia: trade balance (Feb)		-USD0.3bn	-USD1.2bn
-- exports		-4.5% y/y	-1.8% y/y
-- imports		-2.5% y/y	-USD1.2bn
India: trade balance (Feb)	-USD13.6bn	-USD14bn	-USD14.7bn
-- exports		3.7% y/y	0% y/y
-- imports		8% y/y	3.7% y/y
Eurozone: CPI (Feb F)	1.5% y/y	1.5% y/y	1.4% y/y

China: Domestic demand is expected to ease further on entering 2019. Retail sales and industrial production growth are projected to moderate to 8.7% and 6.0% YoY in Jan-Feb 19 from 9.0% and 6.2% in Dec18 respectively. This largely mirrors the continued decline in the official manufacturing PMI. In particular, the new export order component contracted for 9th consecutive months (below 50), due to external headwinds. Fixed asset investment would have bounced back to 6.3% from 5.9%, thanks to easing liquidity conditions (aggregate financing soared by 50.2%, the strongest growth since mid-2017) and the increased amount of infrastructure projects approved by the National Development and Reform Commission (greenlighted RMB1.2bn worth of infrastructure projects in 4Q18, the highest in three years).

India: We head into a data heavy week. Indications are that January inflation marked the bottom, with February's likely to climb 2.3% YoY from 2.1% month before. High-frequency data of food products point to a decline in vegetables, shallower fall in pulses and modest uptick in other segments. Domestic fuel prices are down from comparable period last year, but the extent of fall has eased. Impact of administrative measures (housing rent etc.) are also fading. While inflation ticks-up, the extent of gains heading into FY20 are likely to be modest, reinforcing expectations for a rate cut in April. January industrial production (IP) is likely to be marginally faster at 3.5% YoY from previous month's 2.4%. February trade numbers, due late in the week, are likely to see the trade deficit stay wide at USD14bn.

Indonesia: We expect overall trade balance in Feb19 to improve to -USD334mn with exports growth expected to remain in negative territory at -4.5% YoY from -4.7% YoY in Jan19. Export weakness in Jan was due to slowdown in prices as volumes accelerated from 13.6% YoY in Jan from 7.5% before. Fortunately, on the other hand, imports have continued to decline due to lower oil prices, contracting at -2.5% YoY from -1.8% in Jan19. Yet, improvement in imports has not offset a deceleration in exports, resulting in a wide trade deficit (-USD1.16bn in Jan19). We expect the weakness in exports to continue as global trade demand is still on the slide and prices of commodities remain weak, especially CPO and coal, two key Indonesia's exports. Coal and CPO has been a drag on non-O&G balance which shows a balance of -USD705mn. O&G balance was also weak, showing a balance of USD455mn in Jan19 from an average of USD1bn in full year 2018.

Japan: The Bank of Japan is expected to keep the short-term and long-term interest rate targets unchanged this week, at -0.1% and 0%, respectively. Growth outlook is deteriorating due to faltering exports. Manufacturing PMI has dropped below 50 for the first time since late-2016, to 48.9 in February. Industrial production also shrank more than expected by -3.7% MoM sa in January. Against this macro backdrop, the bias now is for the BOJ to further ease rather than normalising monetary policy. That said, given the negative short-term rates and the extremely flat yield curve, the room for further easing is rather limited. Meanwhile, extraordinary easing has created side-effects in the financial system, such as the deterioration in banks' profitability and capabilities to lend. Unless the risks of recession and deflation shoot up, the BOJ may not rush to expand monetary stimulus, in our view.

Malaysia: Industrial output for January will likely register the worst reading in six years. Headline production output is expected to clock 0.1% YoY, from 3.5% previously. High base and sluggish external demand are weighing on the headline pace. Against the backdrop of softer global growth and trade uncertainties, such sub-par performance has already been repeated in many of the regional peers. PMIs and exports performance to key markets such as the US, China and Singapore have been dismal. From a product perspective, global semiconductor shipments and billings are contracting. This would have a significant impact on industrial output given the high electronics composition of its manufacturing sector.

Philippines: Trade balance improved in Dec18 on the back of lower imports across the board, including raw material and capital. Exports has slid further driven mainly by electronic manufacturing exports which fall by 15.2% in Dec18. We think exports will continue to weaken, in line with weak global demand and maturing electronic manufacturing. We expect overall trade balance to improve slightly in Jan19 to -USD3.3bn from -USD3.7bn in Dec18 as we estimated that both exports and imports growing at -15% and -8% YoY in Jan19.

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