Economics

Chart of the Week: Tech war and electronics supply chain relocation: who could benefit?

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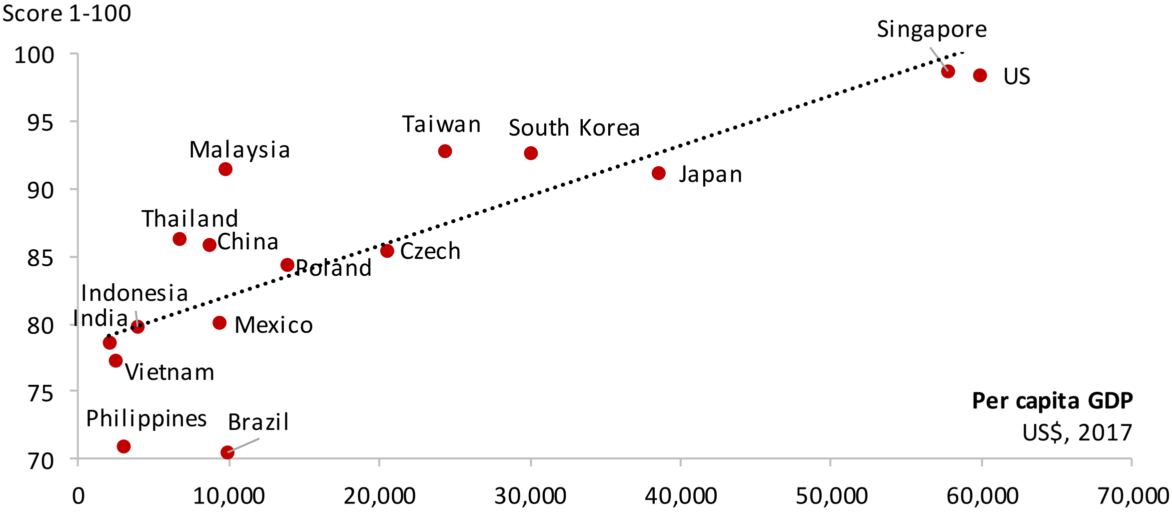
Key Events:

- *The Reserve Bank of India is expected to deliver a second 25bps rate cut for the year, at this week's rate review.*
- *March inflation is likely to remain subdued across South Korea, ASEAN and Eurozone.*
- *Malaysia will likely report a modest rebound in February export/import figures.*

Chart of the Week: Tech war and electronics supply chain relocation: who could benefit?

A China-US tech war could lead to the relocation of parts of the electronics supply chain from China to other emerging Asian economies. To identify the potential beneficiaries, we look at wages (proxied by per capita GDP), labour skills, productivity, education, infrastructure, IP protection, and other critical factors required by the electronics industry (captured by the international surveys on competitiveness and ease of doing business). Our finding is that Thailand and Malaysia are closest to China in terms of the overall supply-side conditions, and therefore, best positioned to receive the electronics work transferred from China as a result of a tech war. Vietnam could also be a potential beneficiary, thanks to its cheap wages, and existing production capacity established in the smartphone/communication equipment sector.

Global Competitiveness and Ease of Doing Business Indices
Simple average, 2017/18
Score 1-100



Source: World Economic Forum, World Bank, IMF, DBS Group Research

Event	Consensus	DBS	Previous
Apr 1 (Mon)			
South Korea: exports (Mar)	-6.8% y/y	-6.5% y/y	-11.1% y/y
- imports	-5.3% y/y	-4.6% y/y	-12.6% y/y
- trade balance	USD5177mn	USD5133mn	USD2964mn
Thailand: CPI (Mar)	0.90%	0.8% y/y	0.7% y/y
Eurozone: CPI (Mar)	1.5% y/y	1.4% y/y	1.5% y/y
US: retail sales (Feb)	0.3% m/m sa	0.2% m/m sa	0.2% m/m sa
US: ISM manufacturing (Mar)	54.3	54.5	54.2
Indonesia: CPI (Mar)	2.5% y/y	2.5% y/y	2.6% y/y
Apr 2 (Tue)			
South Korea: CPI (Mar)	0.7% y/y	0.5% y/y	0.5% y/y
Apr 4 (Thu)			
Malaysia: exports (Feb)	5.0% y/y	6.8% y/y	3.1% y/y
- imports	3.0% y/y	6.0% y/y	1.0% y/y
- trade balance	MYR10.7bn	MYR 10.1bn	MYR11.5bn
India: Repo rate	6.00%	6.00%	6.25%
Apr 5 (Fri)			
Philippines: CPI (Mar)	3.4% y/y	3.6% y/y	3.8% y/y
US: Change in nonfarm payrolls (Mar)	175k	180k	20k

Eurozone: Inflation is likely to be near flat at 1.4% YoY in March, vs February's 1.5%. Underlying trends are likely to reflect a small recovery in energy costs and food, but little evidence otherwise that wage gains are feeding into price pressures. Base effects are likely to keep overall inflation muted this year, best reflected in the subdued core gauge. This provides enough headroom for the European Central Bank to maintain an easing bias, as rising growth and political risks become a priority. Underscoring the accommodative bias and in a bid to replace maturing TLTROs, the ECB rolled out fresh tranche of funding support, which are expected to preserve favourable lending conditions and ensure transmission of an accommodative monetary policy. Policy normalisation plans are likely to be on ice until end-2020 at the least.

India: The Reserve Bank of India monetary policy committee (MPC) is expected to deliver a second 25bp cut for the year, at this week's rate review. This will take the repurchase rate to 6.00% and reverse repo to 5.75%. Guidance is expected to stay dovish, considering MPC projections that foresee inflation below the 4% target, one year hence. Signs of slowing economic activity are also likely to nudge the bias towards easing. We maintain our base case of a prolonged pause on rates thereafter, the probability of a last-in-the-cycle 25bp cut in 3Q19, is rising. Just as the rate cut cycle gets underway, attention turns to the efficacy of policy transmission (see here) through the domestic banking system which is crucial for material boost to growth.

Indonesia: We expect inflation to ease further to 2.5% YoY from 2.6% on the back of lower food prices due to harvest period and stable domestic fuel prices. A stronger rupiah has been translated into lower producer price index, driven mostly by manufacturing and agriculture products. Mining sector prices have eased as well but to a lesser degree. Leading to election on April 17th, domestic demand has remained buoyant, supported partly by stable inflation. Almost all retail indicators have shown a pickup. Domestic liquidity has tightened considerably as a result of tighter monetary policy since 2018. Monetary aggregate growth eased, and banking sector's loan-to-deposit ratio inched up. Inflation could pick up slightly leading to Eid-al Fitr but remain within Bank Indonesia's lower target of 2.5%.

Malaysia: Trade data is on tap this week. After a subdued outcome in January, a rebound in exports growth is on the cards. Expectation is for a 6.8% YoY rise in export sales, while imports are likely to report a 6% growth. This should bring overall trade surplus to MYR 10.1bn, from MYR 11.5bn previously. Though the base effect from the Lunar New Year may have provided some arithmetic lift, purchasing managers probably have cut back on their purchases by more than required due to trade war concerns. But positive signs are emerging from the trade talk between the US and China. This is expected to lift sentiments, which could potentially boost export performance.

Philippines: Despite El Niño, inflation might continue to ease in the Philippines, to 3.6% YoY in March from 3.8% in February. Food prices have remained stable, in fact rice, vegetable and poultry prices eased slightly compared to February while fish prices inched slightly. Business and retail indicators are weak showing lackluster domestic demand. Economic Planning Secretary mentioned that the El Niño might lower growth by 0.2ppt. Further, the passage of rice liberalization bill could help maintain rice prices stable during the supply shortage periods.

South Korea: CPI inflation is projected to remain subdued and stable at 0.5% YoY in March. Thanks to the decline in global commodity prices, the upstream producer prices slipped by -0.2% in February, the first negative reading seen since November 2016. Domestically-driven price pressures also stayed tame, amid the slowdown in GDP growth, deterioration in output gap and weakness in the labour market. Even factoring in a moderate rebound in oil prices ahead (US$70-75/bbl), CPI figures will likely only bottom out in 2Q and stay in the range of 0.5-1.5% in the remainder of this year. Below-target inflation, together with disappointing growth data and the Fed's extended rate pause, will likely stoke market expectations for a dovish BOK. But the probability of a rate cut this year remains far lower than 50%, in our view.

Thailand: Inflation is expected to inch up modestly to 0.8% YoY from 0.7% the month before. Modest bounce in fuel prices is likely to be the primary reason behind the uptick, despite which inflation is below the Bank of Thailand 1-4% target range. BOT's Senior Director Don Nakornthab emphasized in recent comments that the policy committee is data dependent and maintains a slight hawkish bias. Low inflation was stemming from structural issues and with growth near potential, the official did not see these data as an obstacle to rate hikes. With the pressure to tighten policy having eased after the US Fed's dovish pivot last month, we maintain our call for the BOT policy rates to remain on pause this year.

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