Economics

Chart of the Week: Singapore GDP and MAS meeting are the focus this week

Group Research

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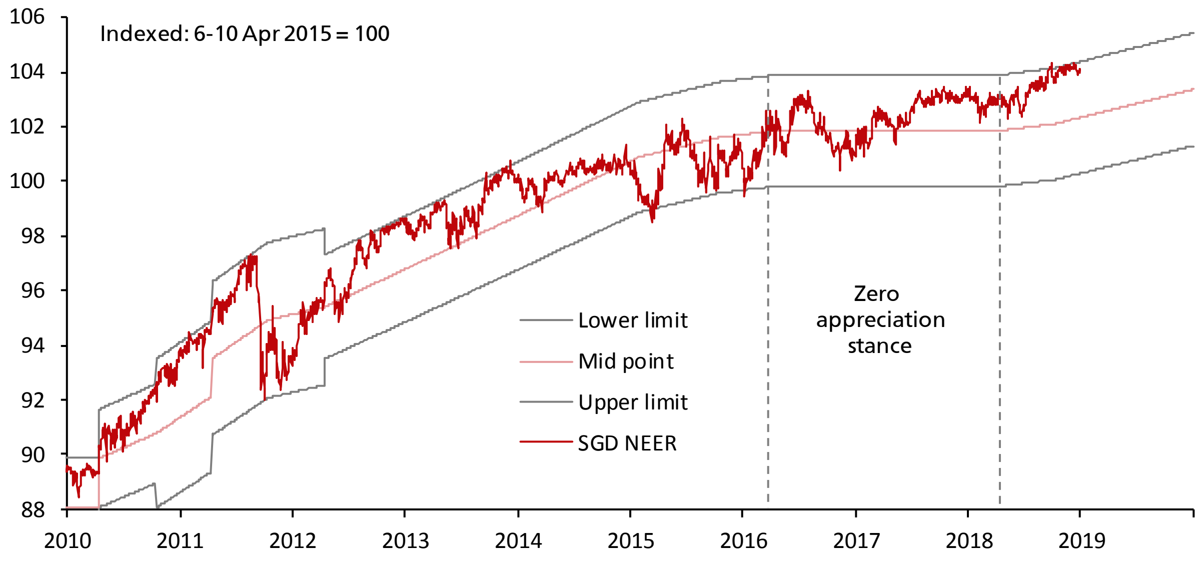
Key Events:

- *Singapore advance GDP estimates for 1Q19 will disappoint, and the MAS will maintain status quo on monetary policy.*
- *ECB is expected to keep monetary policy unchanged amid a weak growth outlook.*
- *Inflation is likely to pick up in China but remain stable in Taiwan, US and India.*

Chart of the Week: No urgency to tighten SGD policy

There is no urgency for the Monetary Authority of Singapore (MAS) to tighten monetary policy a third time at its policy review due before mid-April. According to our model, the SGD nominal effective exchange rate (SGD NEER) is in the strongest quartile of its modest and gradual appreciation policy band. On the other hand, economic and inflation have disappointed amidst a cautious global outlook with a dovish policy tilt. Indeed, GDP growth for the first quarter is expected to underperform. The headline number is likely to read 1.6% YoY, down from an already sub-par performance of 1.9% in the previous quarter.

DBS SGD NEER and policy band



Event	Consensus	DBS	Previous
Apr 8 (Mon)			
Taiwan: trade balance (Mar)	USD 5.49bn	USD 5.49bn	USD 4.93bn
-- exports	-8.3% y/y	-8.3% y/y	-8.8% y/y
-- imports	-12.6% y/y	-8.2% y/y	-19.7% y/y
Apr 9 (Tue)			
Taiwan: CPI (Mar)	0.3% y/y	0.3% y/y	0.23% y/y
Apr 10 (Wed)			
Eurozone: main refinancing rate (Apr)	0.00%	0.00%	0.00%
-- deposit facility rate	-0.40%	-0.40%	-0.40%
US: CPI (Mar)	1.8% y/y	1.8% y/y	1.5% y/y
Apr 11 (Thu)			
Philippines: trade balance (Feb)	-USD 3.4bn	-USD3.3bn	-USD 3.8bn
-- exports	-0.3% y/y	0.5%	-1.7% y/y
-- imports	6.9% y/y	6%	5.8% y/y
China: CPI (Mar)	2.4% y/y	2.2% y/y	1.5% y/y
Malaysia: industrial production (Feb)	1.5% y/y	1.8% y/y	3.2% y/y
Apr 12 (Fri)			
Singapore: GDP (1Q adv)	1.5% y/y	1.6% y/y	1.9% y/y
--	2.3% q/q saar	3.4% q/q saar	1.4% q/q saar
India: CPI (Mar)		2.8% y/y	2.57% y/y
India: industrial production (Feb)		2.0% y/y	1.7% y/y
China: trade balance (Mar)	USD 6bn	USD 5bn	USD 4.08bn
-- exports	6.4% y/y	5% y/y	-20.8% y/y
-- imports	-2.1% y/y	1% y/y	-5.2% y/y

China: Exports and imports are expected to increase by 5.0% and 1.0% YoY in March from -20.8% and -5.2% in February (where the different timing of the Lunar New Year dragged the February figures). Outward shipment performance should have improved somewhat due to trade war optimism. Import growth is also forecasted to grow moderately amid a stabilising domestic demand. Early indicators pointed to a relatively positive sentiment. NBS Manufacturing PMI returned to expansion zone for the first time since November 2018. Although both the new export orders and imports components of the PMI remained in contraction zone, the readings bounced back apparently to 47.1 and 48.7 in March from 45.2 and 44.8 respectively. Trade balance will likely remain steady in the months ahead. On inflation front, the gradual economic recovery should translate into some upward pressure on inflation rate. The CPI is projected to rise by 2.2% YOY, up from 1.5% in February.

Eurozone: Compared to the US Fed, the European Central Bank (ECB) cut its growth forecasts sharply at the last review. A weak growth assessment was accompanied by rolling out of a third funding scheme LTRO III, underscoring the ECB's dovish inclinations. There is speculation that a tiered deposit rate facility might be introduced next, though it is unclear if this might be rolled out as early as this week. Authorities also likely to touch upon recent mixed economic signals; Germany's manufacturing orders continue to underwhelm, but there was light at the end of the tunnel as China PMIs show signs of an improvement, with a lift to growth likely in 2H19. For now, divergence between Europe and US economic activity will be apparent in the respective FX price action, with the ECB to also keep an eye on Brexit developments. The extended deadline to leave the union lapses on April 12, but markets are taking comfort from signs that the EU members might be warming up to a 12-month delay in UK's exit from the bloc.

India: March CPI inflation is likely to validate the central bank's move to be confident on a benign inflationary trend but prefer to stay data-dependent as inflation is expected to grind higher after hitting bottom in January 2019. We expect March's reading to tick up to 2.8% YoY from 2.6% month prior, leaving the quarter's average inflation at 2.4%. Fading disinflation in food and bounce in fuel prices will add to the headline, while service inflation remains steady, keeping core reading at 5%. Industrial production in February is also likely to be steady, but soft, at 2% YoY from 1.7% in January. Key sub-categories have eased, particularly, capital goods and consumer durables which were faring well last year. Once election related uncertainty fades, financial conditions ease and budgetary stimulus kicks in, production trends can return to 3-4% growth, not far from FY18 and FY19 annual growth pace.

Malaysia: Industrial output for February will likely underperform. The headline number is expected to register a modest rise of 1.8% YoY, down from 3.2% previously. A high base and sluggish external demand are weighing down on the headline index. Indeed, against the backdrop of a 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 dismay. From a product perspective, global semiconductor shipments and billings are contracting. This would have significant impact on industrial output given the high electronics composition of its manufacturing sector.

Philippines: We expect trade balance will improve slightly in Feb19 to -USD3.33bn from -USD3.9bn in Jan19, with exports only growing at 0.5% from four consecutive months of negative growth, while imports stabilized, growing at 6% YoY from 7.8% in Jan19. China rebound could support exports of Asian countries, including Philippines. Imports, on the other hand, could stay flat as oil price increase is still limited and domestic demand remain soft. In addition, delay on several infrastructure projects could be positive on imports temporarily.

Singapore: Advance GDP estimates for the first quarter is expected to stoke concerns of a disappointing year ahead. The headline number is likely to read 1.6% YoY, down from an already sub-par performance of 1.9% in the previous quarter. Sequential growth could possibly provide some respite with an expansion of 3.4% QoQ saar. But this can also be seen as a technical rebound after a paltry reading of 1.4% previously.

The manufacturing sector could be the key drag, and likely to report the first contraction (-1.1% YoY) since 2015, down from an expansion of 5.1% in 4Q18. Indeed, external headwinds have picked up. Global electronics demand is easing, and the trade war is adding salt to wound in the near term. And all these, are on top of an ongoing slowdown within China. Though there are some emerging signs of the cycle bottoming-out, and upside will only materialize later in the year. Before that, a bad outcome in the first quarter is almost a given.

Yet, the services sector could pick up some of the slack. Higher turnovers in the financial markets and increased IT and tourism activities could provide some impetus. We expect a better showing in the key services cluster after the disappointment in 4Q18. A growth bounce back to above 2% is on the cards.

Overall, 2019 is on for a slow start. With inflation stable and the need to cushion growth momentum, we expect the Monetary Authority of Singapore to keep its exchange rate policy unchanged in the upcoming meeting after two consecutive rounds of tightening last year.

Taiwan: March trade and inflation data due this week will likely show some signs of stabilisation. Exports are expected to have shrunk -8.3% YoY, a similar extent compared to -8.8% in February. CPI growth is expected to have remained close to zero, at 0.3%. Last week's data release already showed that manufacturing PMI has risen to 49 in March, up from the 3.5 year low of 46.3 in February, and the highest over six months. This supports the case that Taiwan's growth cycle will bottom out in 2Q, as China's policy stimulus starts to work, semiconductor demand from Chinese tech companies picks up, and iPhone-related demand improves on the back of price cuts. Meanwhile, the rise in domestic stock market and the decline in bond yields should have eased financial conditions, helping to bolster confidence and lift domestic demand. That said, there is little evidence suggesting that a strong rebound is forthcoming. The 1Q GDP could still surprise on the downside, given the poorer-than-expected performance in Jan-Feb.

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