Economics

Chart of the Week: Foreign investors eye China's bond markets

Group Research

April 15, 2019

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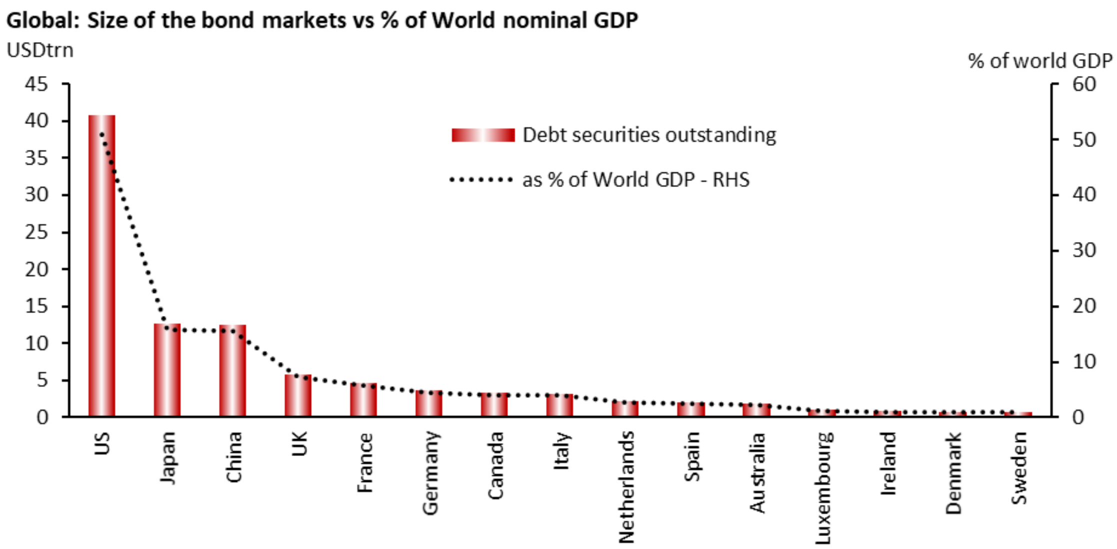
Key Events:

- *The Bank of Korea is expected to hold rates steady at 1.75% but lower its growth outlook*
- *China GDP growth is likely to slow modestly to 6.3% YoY in 1Q19 vs 6.4% in 4Q18, on the back of improving high frequency data since Chinese New Year*
- *Bounce in oil prices is likely to perk Japan inflation*

Chart of the Week: Foreign investors eye China bond markets

The recent inclusion of China's onshore bonds in the Bloomberg Barclays Global Aggregate Index (since April 1) has, understandably, met with much excitement. The index weighting is likely to increase to 5.5-6.0% over the next 20 months. China's onshore bond market is the third largest in the world, only marginally smaller than Japan. Being a part of an international benchmark could be mutually beneficial, in our view. With foreign investors keen to get a bigger piece of the pie – size accounts for 15% of world GDP – this also presents an opportunity for the domestic bond market to develop/deepen, exercise tighter governance and lending standards, and access a new investor base. Considering recent onshore bond defaults, credibility of rating agencies will also come under the scanner. Early indications are positive as domestic regulators press the need for better quality controls, amid increasing competition from foreign agencies; S&P Global won a license to rate Chinese bonds earlier this year.



Source: BIS, IMF, DBS Group Research

Please see below a rundown of this week's key data releases and events with macro relevance:

Event	Consensus	DBS	Previous
Apr 15 (Mon)			
Indonesia: trade balance (Mar)	-USD0.2bn	USD1.3bn	USD330mn
-- exports	-11.8% y/y	-12.1% y/y	-11.3% y/y
-- imports	-4.2% y/y	-14.2% y/y	-14% y/y
India: WPI (Mar)	3.23% y/y	3.2% y/y	2.9% y/y
India: trade balance (Mar)	-USD9.6bn	-USD10.5bn	-USD9.6bn
Apr 17 (Wed)			
Japan: trade balance (Mar)	JPY363bn	JPY871bn	JPY335bn
-- exports	-2.6% y/y	0.7% y/y	-1.2% y/y
-- imports	2.8% y/y	-0.5% y/y	-6.6% y/y
Singapore: NODX (Mar)	-1.2% y/y	-2.2 y/y	4.9% y/y
China: GDP (1Q)	6.3% y/y	6.3% y/y	6.4% y/y
China: retail sales (Mar)	8.4% y/y	8.6% y/y	
China: Industrial production (Mar)	6% y/y	6.0% y/y	
China: FAI (ytd; Mar)	6.3% y/y	6.3% y/y	6.1% y/y
Apr 18 (Thu)			
South Korea: BOK 7-Day repo rate	1.75%	1.75%	1.75%
Apr 19 (Fri)			
Japan: CPI (Mar)	0.5% y/y	0.5% y/y	0.2% y/y

China: Domestic demand is expected to stabilize somewhat in March as suggested by early indicators. The NBS Manufacturing PMI rebounded to 50.2, the first expansionary reading since Nov 18. Retail sales and industrial production growth should have improved to 8.6% and 6.0% YOY in Mar from 8.2% and 5.3% in Jan-Feb 19 respectively. Fixed asset investment is also forecasted to expand at a faster pace, at 6.3% (compared to 6.0% in Jan-Feb), thanks to an accommodative monetary policy (M2 and aggregate financing growth accelerated to 8.6% and 10.6% in Mar from 8.2% and 10.3% in Jan-Feb respectively). On the external front, exports bounced back to double-digit growth 14.2% from -5.7% in Jan-Feb while imports dropped further to -7.6% from -3.4%. The improved trade balance in Mar should help to stabilize the economy. We, therefore, expect the GDP growth will only edge down to 6.3% in 1Q19 from 6.4% in 4Q18 given the relative improvement seen after the Chinese New Year.

India: Inflation, both retail and wholesale, is expected to bounce off lows over the next few months as base effects recede, food disinflation ease and seasonal softness fades. The pass-through of higher oil prices is likely to be more apparent in the WPI given higher weightage of tradables in its basket. March WPI inflation is expected to rise to 3.2% YoY from 2.9% month before, taking FY19 average to 4.3% vs 2.9% in FY18. On the other hand, March trade deficit is likely to widen marginally to USD11bn vs -USD9.6bn in February, on the back of a decline in exports (weighed also by adverse base effects) whilst imports increase.

Indonesia: We expect Mar19 trade balance could reach USD1.3bn on the back of weaker imports. In YoY terms, we expect both exports and imports to decelerate further, exports to -12.1% YoY (from -11.3% in Feb19) and imports to -14.2% (from -14% in Feb19), partly due to base effect. Imports have decelerated continuously since Oct18 across all types of goods (consumer, raw material and capital). However, we think that the deceleration of capital goods imports has flattened to -0.8% from -5% last month. The deceleration of exports was also broadbased, non-O&G, driven by weak global trade demand and trade tension. Manufacturing exports have not recovered, both the non-O&G manufacturing which has recorded negative growth in last two months, and O&G manufacturing which has shown two-digit negative growth for the last three months. As the Fed has turned more dovish, inflation remain stable and pressure to Rupiah has significantly decreased compares to last year (up to 3Q18), deterioration in trade balance would be the only factor left for Bank Indonesia to contemplate a policy rate cut this year.

Japan: March trade and inflation data are due this week. Exports are expected to show a marginal improvement to 0.7% YoY from -1.2% in the prior month, in line with the mild pickup in manufacturing PMIs across the region. CPI inflation is expected to have risen to 0.5% YoY from 0.2%, aided by the rebound in oil prices. That said, the March improvement may not be enough to prevent a sharp slowdown in the first quarter (negative QoQ GDP growth is possible). Outlook will remain challenging in the later part of this year, given the 2ppt consumption tax hike to be implemented in October. A weaker-than-expected growth outlook, however, does not necessarily mean the BOJ will move to further ease monetary policy. We expect the BOJ to stand pat at the next meeting on April 25 to preserve policy space.

Singapore: Non-oil domestic exports (NODX) for March 2019 could likely dip back into the red. The headline number is projected to register a decline of 2.2% YoY. The lingering effect of the trade war is at work but a high base and ongoing slowdown in China are also weighing down on the figure. Risk-adverse behaviour of procurement managers have led to over-cutting of purchases and a rundown on inventory. We expect a restocking within these few months. However, focus should be on the month-on-month number to get a sense of any turn in the cycle. Furthermore, while there could be more downside risk ahead, the ongoing trade negotiation between the US and China is seeing light at the end of the tunnel. Stimulus measures from China could possibly start to spill over to Singapore's export performance in the coming months too. These could hint of improvement in export sales ahead.

South Korea: The Bank of Korea is expected to hold rates steady at 1.75% this week but cut the assessment on economic outlook. The BOK's GDP growth (2.6%) and inflation (1.4%) forecasts for 2019 now appear optimistic, given the weaker-than-expected monthly key indicators in 1Q19. Exports contracted -8.5% YoY in the Jan-Mar period, industrial production shrank -1.4% in January-February, while CPI growth averaged just 0.5%. Thankfully, the leading indicators, including manufacturing PMI, consumer and business confidence, suggest that the worst may be over in the current cycle and growth may have hit the bottom in 1Q19. Unless the 1Q19 GDP reports a QoQ contraction and stokes the recession fears, we do not think the BOK will make a policy U-turn to cut the benchmark rate (here).

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