Economics

Chart of the Week: Asian equity funds flush with cash to deploy

Group Research

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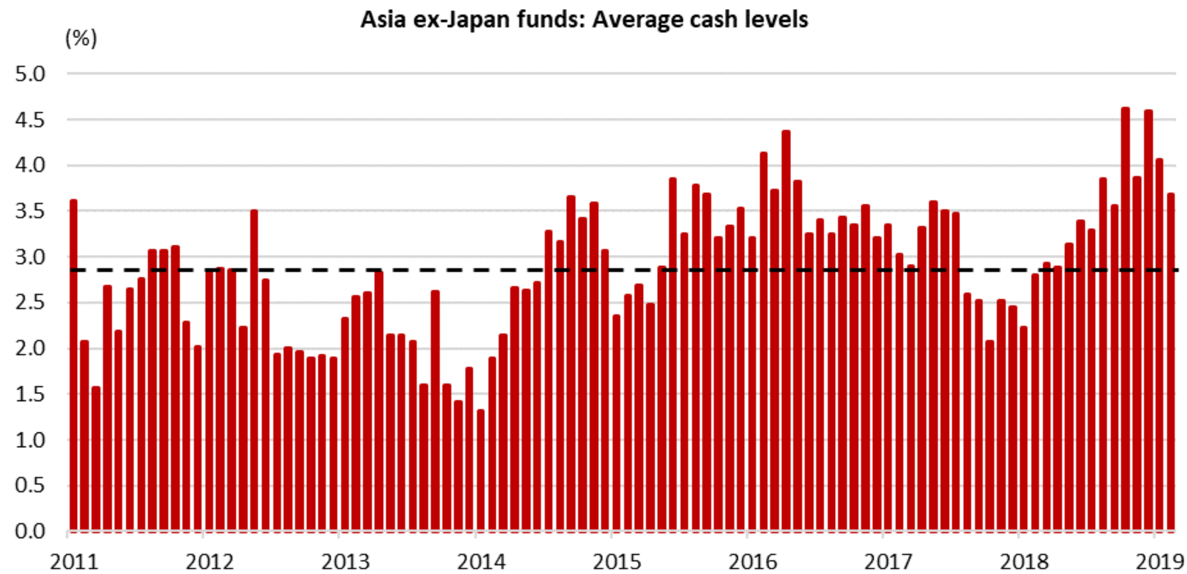
Key Events:

- *Bank of Japan is expected to cut growth outlook and keep policy unchanged.*
- *Bank Indonesia is likely to stand pat.*
- *Singapore's industrial production is expected to contract by 5.3% y/y in March.*

Chart of the Week: Cash position of Asia ex-Japan funds

Asian stocks have had a surprisingly strong run since the beginning of the year, which contrasts sharply with lacklustre economic data (particularly trade). Among the 19 indices we look at in this region, with the sole of exception of Malaysia (-3.8%), ytd returns have ranged from +5% (Jakarta) to +37% (Shenzen). Does this mean the markets have run ahead of themselves? We think that valuation concerns notwithstanding, there is near-term support available for Asian equity markets. First, trade and manufacturing data are about to turn, in our view, helped by likely improvement in China-US trade tensions and China's fiscal and monetary stimulus. Second, cash levels are quite high by historical comparison among Asia-oriented mutual funds (see chart). High cash position among fund managers likely reflected the fact that at the beginning of the year, there was little conviction about the outlook, but between mild improvement in the global macro narrative and continue run-up of the markets, they may be compelled to chase the rally during the course of this quarter.



Source: EPFR and DBS. Data as of end-February 2019. Refers to cash levels as a share of assets under management among Asia ex-Japan equity mutual funds.

Event	Consensus	DBS	Previous
Apr 22 (Mon)			
Taiwan: export orders (Mar)	-5.0% y/y	-4.8% y/y	-10.9% y/y
Thailand: customs exports (Mar)	-4.25% y/y	-4.2% y/y	5.91% y/y
- customs imports	-3.00% y/y	-0.2% y/y	-10.03% y/y
- customs trade balance	USD0.75bn	USD0.6bn	USD4.03bn
Apr 23 (Tue)			
Hong Kong: CPI (Mar)	2.2% y/y	2.4% y/y	2.1% y/y
Singapore: CPI (Mar)	0.7% y/y	0.8% y/y	0.5% y/y
Taiwan: industrial production (Mar)	-1.5% y/y	-1.3% y/y	-1.8% y/y
Apr 24 (Wed)			
Malaysia: CPI (Mar)	0.3% y/y	0.2% y/y	-0.4% y/y
Apr 25 (Thu)			
Indonesia: BI repo rate	6.00%	6.00%	6.00%
Japan: 10-year yield target	0.0%	0.0%	0.0%
Japan: BOJ policy balance rate	-0.1%	-0.1%	-0.1%
South Korea: GDP (1Q P)	2.5% y/y	2.5% y/y	3.1% y/y
Apr 26 (Fri)			
Japan: industrial production (Mar P)	0.0% m/m sa	0.2% m/m sa	0.7% m/m sa
Singapore: industrial production (Mar)	-4.0% y/y	-5.3% y/y	0.7% y/y
US: GDP (1Q A)	2.2% q/q saar	2.0% q/q saar	2.2% q/q saar
US: PCE core (1Q A)	1.3% q/q saar	1.8% q/q saar	1.8% q/q saar

Hong Kong: The CPI should have rebound to 2.4% YoY in March from 2.1% in February. An increasing commodity price, a weaker USD amid a dovish Federal Reserve monetary policy, as well as a relatively strong CNY exchange rate may add some upward pressure on import cost. Yet, the overall inflation pressure should remain moderate. Local cost is largely contained alongside a slow growing economy. The softening residential rentals should also keep the overall inflation in check.

Indonesia: Bank Indonesia (BI) is likely to stand pat in the upcoming policy meeting as global uncertainty persist and risk to current account deficit that could not be ignored just yet. Inflation remain benign, with Mar19 CPI recorded at 2.5% YoY, right on BI lower limit. We think inflation is likely to pick up Approaching Eid-al Fitr and rising wholesale price might finally passthrough to consumers. Given all these, we think inflation would remain below 3%, way below BI's upper limit of 4.5%. On another account, trade balance recorded two consecutive months of surplus thanks to relatively lower oil price compared to 4Q18 and impact of weaker Rupiah finally affecting price and imports demand. As the Fed changed gear toward supporting growth more and domestically Rupiah and inflation are within BI's comfortable level, the only factors that need to be watched out further is the development in trade balance and current account. For now, we still think that BI is likely to stand pat this year, as global uncertainty remain present on both trade and capital flows front. More trade balance data points are needed to conclude otherwise.

Japan: The Bank of Japan is expected to cut the growth outlook but keep policy unchanged this week. Judging from the rapid deterioration in exports and industrial production, GDP growth should have fallen sharply to close to 0% YoY in 1Q (negative QoQ is possible). This poses apparent risks to the BOJ's FY19 forecast of 0.9%. Thankfully, core CPI remained stable in the range of 0.5-1.0% in 1Q. The expected inflation rate for the next one year also stood firmly, at 0.8% among enterprises and 3% among households. Steady inflation and inflation expectations should allow the BOJ to maintain the FY19 CPI forecast (0.9%) and argue that domestic recovery remains on track. The upside surprise from China's March data, recovery in global risk appetite and dissipation of yen appreciation pressures should also provide some comfort for the BOJ.

Malaysia: After the downside surprise where the headline number dipped to -0.7% YoY in January, expectation is for the figure to gradually pick up. February figure rose marginally to -0.4% but remains in the red. March should see the headline number finally rise into positive territory but should remain benign. A forecast of 0.2% YoY has been penciled in. The steep fall in inflation was largely driven by two factors – a slew of fiscal policies aimed at lowering the cost of living, including the zero rating of the Goods and Services Tax (GST), and a correction in oil prices in late 2018. We expect inflation to bottom in 1Q19 and to start rising from 2Q19 onwards.

Singapore: CPI inflation and industrial output figures are on tap this week. The headline price barometer is expected to read 0.8% YoY. Inflation has persistently surprised on the downside. Lower global oil prices at the start of the year and lower electricity tariffs have kept the lid on inflation. Going forward, inflation is expected to pick up along with the steady rise in oil prices. But a sharper than expected decline in electricity prices due to the liberalization in the electricity market should tamper domestic price pressure and keep inflation in check. We have lowered our inflation forecast to 1.1% to reflect such benign inflationary environment. Though inflation will pick up in the coming months, the pace of increase will be modest.

Industrial output for the month is likely to contract by 5.3% YoY, down from a modest expansion of 0.7% previously. The poor outcoming in recent export data has provided a hint of bad things to come. Non-oil domestic export performance has slipped (-11.7% YoY, -14.3% MoM sa) as global demand continues to wane and growth in global semiconductor sales dipped into negative. Indeed, electronics sales was down 26.7% YoY and an even sharper 36.5% drop in pharmaceutical exports has further exacerbated the headline figure.

Yet, 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. Risk-adverse behavior from procurement managers is expected to dissipate. Labour market conditions in the US have remained firm. Stimulus measures from China could also start to spill over to Singapore's export performance soon. Hopefully, these will translate into stronger industrial output in the coming months.

South Korea: The 1Q GDP report due this week is expected to show a notable slowdown in headline growth to 2.5% YoY (vs 3.1% in 4Q18), or 1.0% QoQ saar (vs 3.9%). Exports, investment and consumption should have deteriorated on a broad basis, as judged from the monthly indicators. We see downside risks to our full-year GDP forecast of 2.6%, due to the weaker-than-expected 1Q. But we believe that a recession can be averted and growth will start to pick up slightly from 2Q, given the signs of bottoming in leading indicators and the government's plan of expanding fiscal stimulus. The Bank of Korea trimmed the 2019 GDP forecast to 2.5% from 2.6% at last week's meeting (inflation forecast lowered to 1.1% from 1.4%), while removed the phrase about "further adjusting the degree of monetary policy accommodation" from the statement. This hints an extended pause in the interest rate normalisation cycle, instead of a rate cut, in our view.

Taiwan: March export orders are expected to register -4.8% YoY, a smaller decline compared to -8.5% in Jan-Feb. Industrial production is projected to be -1.3%, also slightly better than the -1.4% in Jan-Feb. The uptick in March PMI suggests that manufacturing activities may have bottomed out after the Chinese New Year. The upside surprise from China's March economic data further supports the case of a cyclical improvement in Taiwan's external trade/manufacturing outlook. We expect exports and industrial output to return to the growth territory from 2Q onwards.

Thailand: Pick-up in Thai customs-based exports in February is likely to followed by a marginal drop in March, not helped by base effects. We pencil in a -4% YoY drop after a 6% rise month before. Imports is likely to recover to post a smaller decline at -0.2% YoY vs -10%, narrowing the trade surplus to USD600mn. While the early skepticism on trade disputes and slowing Chinese economy have been allayed by recent set of stronger numbers (upside surprise in China 1Q data) and discussions between the US and China, a rebound in 2Q is likely hinge on what comes out of the prolonged negotiations. Meanwhile, the strength in Thai trade balance faded in 2018, with a over 70% fall in the surplus last year and a flat start in 1Q19. This reinforces our expectations that a somber external trade environment coupled with slow start to public spending (due to elections), is likely to keep 2019 growth below 4%, from a decade high 4.1% in 2018.

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