Economics

Chart of the Week: Trade recovery hostage to US-China trade talks

Group Research

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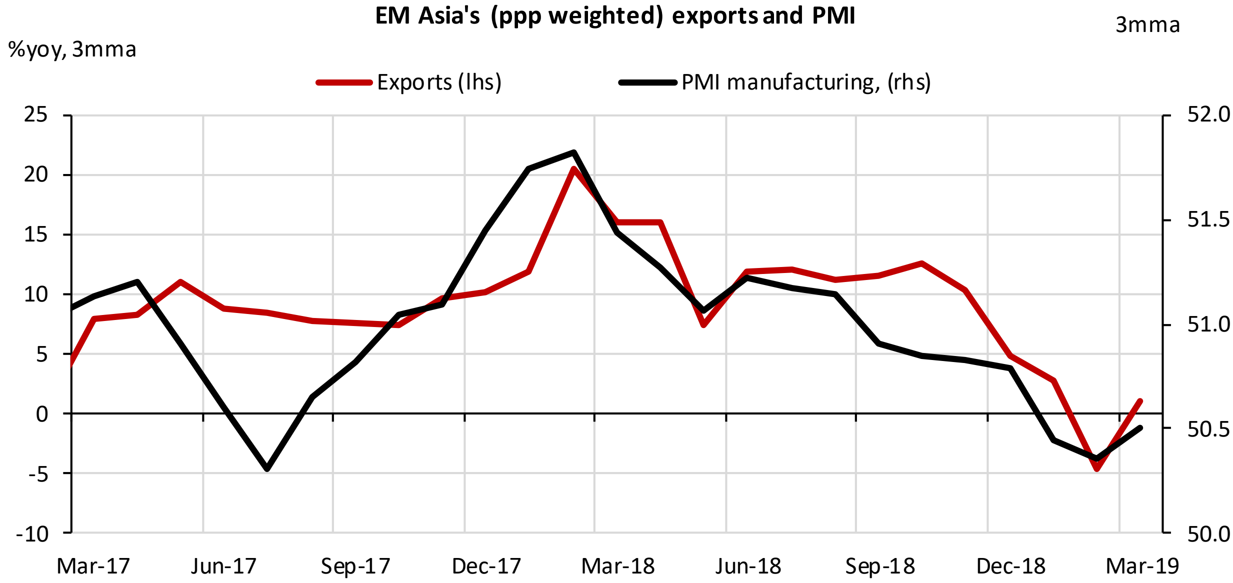
Key Events:

- *China's exports and imports are expected to increase by 10.0% YoY and drop by 1.0% in April, from 14.2% and -2.0% in March respectively.*
- *Taiwan's exports are expected to post positive growth for the first time over six months (DBS forecast: 3.2% YoY), while CPI inflation is likely to remain muted (0.2% YoY).*
- *The central bank of Malaysia will likely to cut the Overnight Policy Rate (OPR) by 25bps in the forthcoming meeting in order to balance the risks on growth and inflation.*

Chart of the Week: Trade recovery still rather fragile

Looking at the first quarter trade data out of Asia, it appears that the worst is over. China's March exports, on a three-month moving average basis, were up 1%, while on a ppp-adjusted basis, Asia ex-China exports growth was nearly zero during the same period. Reviving expectations around China's growth outlook (helped by large scale economic stimulus), as well as the US data (real GDP up 3.2% in 1Q on a qoq, SA basis) have driven this dynamic, in our view. The forthcoming trade figures won't necessarily be much better, however. China's demand for commodity and machinery imports could well remain muted as the stimulus, given its design, supports consumption over investment in the near term. Moreover, as seen in overnight developments, any setback in China-US trade talks could be severely disruptive to sentiments and hurt trade. We therefore remain cautious about the chance of trade figures supporting the regional outlook considerably in the coming months.



Source: CEIC, DBS

Event	Consensus	DBS	Previous
May 6 (Mon)			
Indonesia: GDP (1Q)	5.18% y/y	5.2% y/y	5.18% y/y
May 7 (Tue)			
Malaysia: overnight policy rate	3.00%	3.00%	3.25%
Philippines: CPI (Apr)	3.1% y/y	3.2% y/y	3.3% y/y
Taiwan: CPI (Apr)	0.50%	0.20%	0.58% y/y
Taiwan: trade balance (Mar)	USD 3.10bn	USD 3.67bn	USD 3.12bn
-- exports	-3.3% y/y	3.2% y/y	-4.4% y/y
-- imports	2.9% y/y	5.9% y/y	6.6% y/y
May 8 (Wed)			
China: trade balance (Apr)	USD 33.7bn	USD 49.6bn	USD 32.67bn
-- exports	3.0% y/y	10.0% y/y	14.2% y/y
-- imports	-2.0% y/y	-2.0% y/y	-7.6% y/y
Philippines: trade balance (Mar)	-USD 2.7bn	-USD 2.5bn	-USD 2.8bn
-- exports	-1.2% y/y	1.2% y/y	-0.9% y/y
-- imports	4.0% y/y	3.3% y/y	2.6% y/y
Thailand: BOT benchmark rate	1.75%	1.75%	1.75%
May 9 (Thu)			
China: CPI (Apr)	2.5% y/y	2.4% y/y	2.3% y/y
Philippines: GDP (1Q)	6.0% y/y	6.1% y/y	6.3% y/y
Philippines: Overnight borrowing rate	4.50%	4.75%	4.75%
May 10 (Fri)			
US: CPI (Apr)	2.1% y/y	1.8% y/y	1.9% y/y
China: M2 (Apr)	8.5%y/y	8.5%y/y	8.6% y/y
China: aggregate financing (Apr)	CNY1650bn	CNY1600bn	CNY2859.3bn
China: new yuan loans (Apr)	CNY1175bn	CNY1200bn	CNY1690bn
Malaysia: industrial production (Mar)	2.0% y/y	-0.9% y/y	1.7% y/y
India: industrial production (Mar)	N/A	4.0% y/y	0.1% y/y

China: Exports and imports are expected to increase by 10.0% YoY and drop by 1.0% in April, from 14.2% and -2.0% in March respectively. Outward shipment should continue to expand by double-digit due to trade war optimism. Decline in import is forecasted to narrow amid a stabilising domestic demand. Early indicators pointed to a relatively positive trade sentiment. NBS Manufacturing PMI returned to expansion zone for the second month. Although both the new export orders and imports components of the PMI remained in contraction zone, the readings bounced back apparently to 49.2 and 49.7 in April from 47.1 and 48.7 respectively. Yet, we are still cautious to the export outlook due to a moderating global demand.

On monetary front, liquidity injection should have eased back somewhat on the back of an improving domestic economy. M2 is expected to grow by 8.5%, compared to 8.6% in March. Both new increase in aggregate financing and new yuan loans should retreat in April. The Politburo reiterated that China will push forward structural deleveraging. The People's Bank of China also skipped the open market operation once due to reasonably sufficient level of liquidity. Monetary policy stance conceivably turned prudent. However, we expect targeted policy are still on card as a premature policy normalization could risk choking off growth momentum. In fact, the PBoC extended CNY267.4 bn to commercial banks in April via its targeted medium-term lending facility (TMLF) for channeling funding to sectors in greater demand for funding (i.e. private enterprises, SMEs). This, couple with the gradual economic recovery, should translate into some upward pressure on inflation rate. The wide spread of swine flu should have also elevated the food price. The CPI is projected to rise by 2.4% YOY, up from 2.3% in March.

Taiwan: April trade and inflation data are on tap this week. Exports are expected to post positive growth for the first time over six months (DBS forecast: 3.2% YoY), while CPI inflation is likely to remain muted (0.2% YoY). Overseas demand should have improved marginally, thanks to the stabilisation in the Chinese economy, bottoming of the tech cycle and easing of China-US trade tensions. Having said that, there are little signs showing a significant turnaround underway. The dip in China's April PMI suggests that the stimulus-driven economic recovery in China has remained fragile. Taiwan's manufacturing PMI has also slipped to 48.2 in April from 49.0 in March, albeit still well above the February low of 46.3. Overall, we think that Taiwan's GDP growth has bottomed in 1Q, but the momentum will remain weak in 2Q.

Philippines: Several Philippines important data are on tap this week: GDP, inflation, policy rate and trade balance. We think 1Q19 GDP is likely to be at 6.1%, still around Philippines' potential growth. Besides cyclical factor – first quarter GDP is usually lower than the last quarter – there are several events that could weigh on growth this quarter. First, delay on 2019 budget approval, which was just signed on April 15th, is likely to weigh on growth. The government has been operating under a reenacted budget for two months under which new project could not be started. In addition, P95.3bn items were vetoed by the President, P75bn of which is infrastructure spending. Budget delay might impact negatively on growth as the economy has relied on public investment as the main driver of growth. Second, El Niño and power outage will also affect growth on agriculture and manufacturing sectors. Fortunately, consumption might continue to support growth as decelerating inflation has helped maintain purchasing power. From the external side, exports have decelerated significantly, recording negative growth in the first two months of 2019, yet, trade balance has actually improved compare to 4Q18. We project trade balance to improve further to -USD2.5bn in Mar19 from -USD2.8bn in Feb19 with exports slightly improve to 1.2% YoY from -0.9% YoY and imports slowed further to 6.1% YoY from 6.3% in Feb19.

Inflation might continue to ease further in April to 3.2% despite climbing oil price. In fact, the average fuel price has stayed flat compare to 4Q18. On the other hand, thanks to timely foodstuff imports, food price has eased in April, driving overall inflation lower. Given the steady inflation deceleration, we think BSP might have enough policy space to cut should growth disappoint further. However, for this week's policy meeting, BSP might still prefer to stand pat, while keeping the powder dry should further data shows that the economy needs more stimulus in the near future.

India: Industrial production growth is likely to fare better in March, lifted by base effects and positive core industries index. Breakdown of the latter pointed to a pick-up in cement, steel, and coal output towards the end-fiscal year, likely due to last lift to construction projects. Given the softness in lead consumption indicators, that consumer durables and non-durables are unlikely to have fared better, while capital goods comes off highs. Manufacturing PMI eased for a second consecutive month but remains above the 50-neutral mark.

Malaysia: Bank Negara will meet this week and industrial production index (Mar19) is also on the calendar. The central bank is expected to cut the Overnight Policy Rate (OPR) by 25bps in the forthcoming meeting in order to balance the risks on growth and inflation.

External economic conditions have been challenging, and 1Q19 GDP growth is likely to disappoint. Inflation though likely to rise, will continue to remain manageable. Indeed, rhetoric has turned marginally dovish in the previous meeting, with more focus on the downside risks on growth resulting from the unresolved trade tensions, heightened uncertainties in the global and domestic environment, and prolonged weakness in the commodity-related sectors. The US Fed is also expected to keep interest rate steady this year, thereby providing a window for Bank Negara to adjust the Overnight Policy Rate (OPR) lower without excessive pressure on the ringgit. This essentially takes out the previous policy move in Jan18, whereby the OPR was raised by 25bps.

Industrial production index for Mar19 will reinforce this view. The headline number is expected to contract by 0.9% YoY. This will be the first negative reading in many years, which underscores the downside risk on growth mentioned above. The manufacturing and mining sectors will likely be the key drag amid the sluggish demand in the external environment.

Thailand: Bank of Thailand meets this week, where we expect the policymakers to acknowledge the likelihood of a softer 1H19 growth, while inflation gets off its back. Policymakers might still prefer to tighten policy conditions with an eye on financial stability but might not move in that direction yet given risks to the outlook. 1Q19 growth is likely to fall on the weaker end of 3-3.5% range vs 3.3% quarter before. The Thai Cabinet approved THB13.2bn worth stimulus spending, while awaiting approval of the FY20 budget by the new government. Meanwhile, resolution of political uncertainty will be key; the Election Commission is expected to announce final results this week. In the run-up, six members of a party, which is part of the anti-junta coalition alliance, were disqualified from the election count. The EC is also in midst of clarifying the methodology to arrive at the party-list candidates. This factor is seen as a deciding factor for the mixed early count, which saw the pro-military party win the popular vote while opposition Pheu Thai won the most constituencies.

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

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