Economics

Chart of the Week: Surging FDI from China/HK to Vietnam

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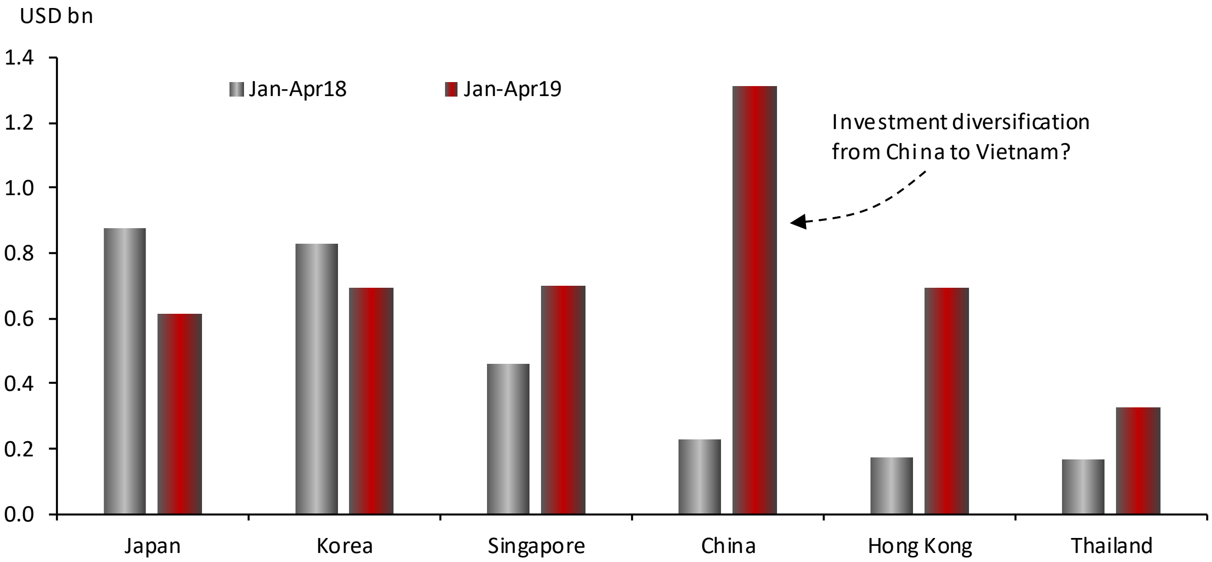
Key Events:

- *GDP growth in US could potentially be revised downward to 2.9% QoQ saar.*
- *The Bank of Korea is expected to hold rates steady at 1.75% but with a dovish bias amid downside risk to growth*

Chart of the Week: Sign of regional supply chain reshuffling?

FDI flows from China and Hong Kong into Vietnam have been strong lately. In the first four months of this year, FDI from China and Hong Kong registered USD 2.0bn, readily on pace to be the record highest annual outturn. This has outstripped investment from all the other major investors year-to-date, as well as the same period last year. Granted, these are small numbers relative to China's global investments of USD30bn ytd, but the trend is interesting nonetheless. China's investment in Vietnam includes sectors such as energy, construction, manufacturing, and property. Ongoing trade wars may make the Jan-April figures a major trend in the coming years, in our view.

FDI from China into Vietnam outstripped others in Jan-Apr19



Source: CEIC, DBS

Event	Consensus	DBS	Previous
May 27 (Mon)			
Hong Kong: CPI (Apr)	2.2% y/y	2.3% y/y	2.1% y/y
Hong Kong: trade balance (Apr)	-HKD 48.3bn	-HKD 61.0bn	-HKD 59.2bn
- exports	-1.5% y/y	-1.7% y/y	-1.2% y/y
- imports	-0.5% y/y	-0.1% y/y	-0.1% y/y
May 30 (Thu)			
US: GDP (1Q, S)	3.1% q/q saar	2.9% q/q saar	3.2% q/q saar
May 31 (Fri)			
Korea: industrial production (Apr)	-3.1% y/y	-3.3% y/y	-2.8% y/y
Japan: industrial production (Apr)	-1.3% y/y	-1.5% y/y	-4.3% y/y
China: manufacturing PMI (May)	49.9	49.8	50.1
Hong Kong: retail sales (Apr)	-0.6% y/y	0.2% y/y	-0.2% y/y
India: GDP (1Q)	6.2% y/y	6.1% y/y	6.6% y/y
Korea: BOK repo rate	1.75%	1.75%	1.75%

China: The manufacturing PMI is projected to drop to contraction zone of 49.8 in May from 50.1 in April. Among all, the new export order component should have stayed in contraction territory for the 12th consecutive month due to weakening global demand as well as the escalated trade tension. The US has imposed 25% on USD200bn goods imported from China. Potential higher tariff for the rest of the imported goods (USD325bn) is also on the plan. Meanwhile, the domestic economy is softening. Retail sales, industrial production and fixed asset investment decreased to 7.2%, 5.4%, and 6.1% in April from 8.7%, 8.5%, and 6.3% in March. More stimulus measures are needed to rescue the economy.

Hong Kong: Both the domestic and external sectors should have improved somewhat in April. On consumption front, retail sales value is expected to rebound to positive growth of 0.2% in April from-0.2% in March. This is somewhat due to the positive wealth effect from the buoyant equity market during the month. Recover in inbound tourism (visitor arrival increased by 16.8% YoY in March (3mma)) should have also rendered some support to the retail sector alongside a stabilized CNY exchange rate. Externally, trade figures should worsen due to moderating external demand. Outward and inward shipment growth are forecasted to drop by 1.7% and 0.1% in April from -1.5% and -0.5% respectively. This should largely mirror the recent rebound in China's export performance. However, external uncertainties such as escalating trade tension and its potential repercussion on the domestic economy should continue to warrant concern.

On inflation front, the CPI should have gone up to 2.3% YoY in April from 2.2% in March. An increasing commodity price may add some upward pressure on import cost. The widespread of swine fever in China may also boost the food price. 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.

India: March 2019 quarter (4QFY19) growth numbers will be the highlight for the week, with data due on Friday. We look for real GDP growth to ease to 6.1% YoY vs 6.6% in 4Q18. Consumption demand, which is the mainstay for the economy's growth, moderated at the start of 2019 as signaled by most lead indicators; auto sales, non-durable production, tractor sales, rural wage growth, diesel sales etc. This along with a slower pace of government spending (due to end-FY limitations) and modest private sector capex interests, suggest the domestic demand component is likely to the main dampener on growth. Merchandise trade, in INR terms, will fare better as exports growth accelerated in the quarter, whilst imports slowed, narrowing the trade deficit drag. Ongoing cyclical slowdown, which is expected to hit a trough in the June 2019 quarter, might prompt the RBI to maintain a growth supportive stance and ease rates at the upcoming rate review.

Japan: Industrial production is expected to have risen by about 1% MoM sa in April, mirroring the uptick in manufacturing PMI and production forecast index last month. This rebound would prove to be short-lived, however, given that China's stimulus effects have started to dissipate and the trade tensions between US and China have escalated recently. Japan's flash manufacturing PMI already reported a drop to 49.6 in May (vs 50.2 in April), led by the decline in export orders and output; probably reflecting the impact from the China-US trade war. Calendar effects in May were also unfavourable, due to the longer-than-usual Golden Week holiday.

South Korea: The Bank of Korea is expected to hold rates steady at 1.75% this Friday with a dovish bias. Policymakers will likely acknowledge the downside risks to their 2019 GDP growth forecast of 2.5%, citing the increase in external uncertainties. While the April indicators like PMI and exports have exhibited signs of improvement, slowdown risks have increased again in May due to China's renewed economic weakness and importantly, the reescalation of China-US trade war. The supply chain disruption impact on South Korea from the China-US trade war could well outweigh the benefits of trade/investment diversion in the near term. The deterioration in growth outlook, together with the muted inflation (0.6% YoY in April) and the cooling of property prices, point to the chances of monetary easing in the next several months. Immediate rate cuts remain unlikely, given the rapid pace of KRW depreciation in recent weeks (6% vs USD ,YTD) and policymakers' concerns about herd behaviour in the FX market. We expect the BOK to move to lower rates in 3Q (-25bps, to 1.50%).

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