Economics

Chart of the Week: Slowdown to be exacerbated by debt burden

Group Research

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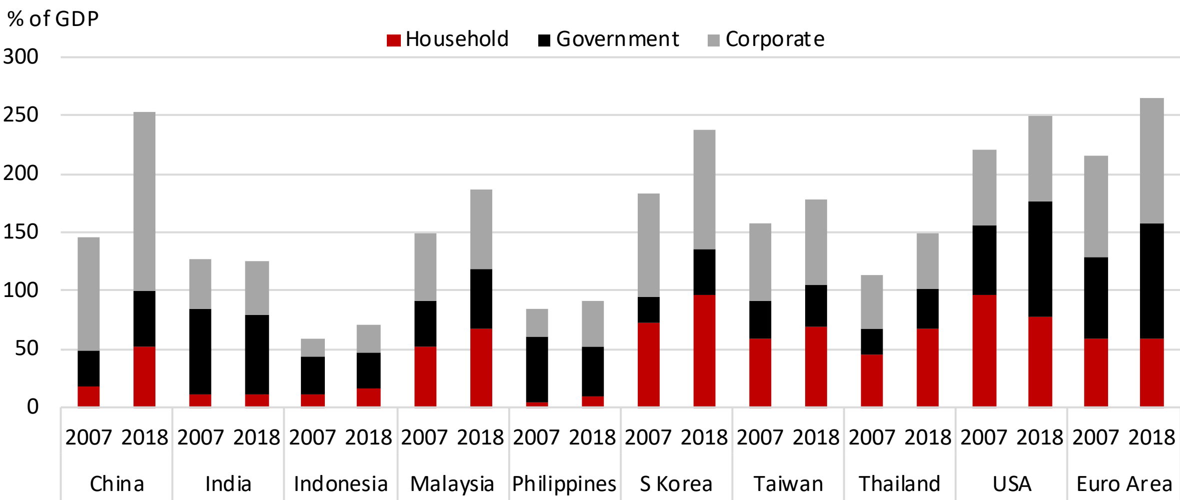
Key Events:

- *The European Central Bank is expected to keep benchmark rates unchanged on June 6.*
- *On the same day, we are looking for Reserve Bank of India to cut 25bps.*
- *Inflation in the Philippines is expected to soften further to 2.7% YoY in May.*

Chart of the Week: Slowdown to be exacerbated by debt burden

Global fixed income markets are flashing bright red for an impending slowdown. Instigated by the US and compounded by China, headwinds to investment and consumption are rising. While global central banks are already in accommodating mode, and further QE and rate cuts are likely coming from the Fed and PBOC, they are unlikely to unleash animal spirits in the global markets as this juncture. The is because corporate and public sector debts have soared over the past decade, limiting the room for a credit cycle even if monetary policy is eased further. This holds both in the EM and DM, underscored by the chart below.



Source: CEIC, BIS, DBS

Event	Consensus	DBS	Previous
Jun 3 (Mon)			
Malaysia: trade balance (Apr)	MYR 12.5bn	MYR 13.8bn	MYR14.4bn
-- exports	-1.3% y/y	0.8% y/y	-0.5% y/y
-- imports	-0.3% y/y	-0.2% y/y	-0.1% y/y
US: ISM manufacturing (May)	53.0	52.0	52.8
Jun 4 (Tue)			
Eurozone: CPI (May)	1.3% y/y	1.5% y/y	1.7% y/y
Eurozone: unemployment rate (Apr)	7.7%	7.7%	7.7%
South Korea: CPI (May)	0.8% y/y	0.7% y/y	0.6% y/y
Thailand: CPI (May)	1.0% y/y	1.1% y/y	1.2% y/y
Jun 5 (Wed)			
Philippines: CPI (May)	2.9% y/y	2.7% y/y	3.0% y/y
Taiwan: CPI (May)	0.87% y/y	0.80% y/y	0.66% y/y
Jun 6 (Thu)			
Eurozone: main refinancing rate	0.0%	0.0%	0.0%
Eurozone: deposit facility rate	-0.4%	-0.4%	-0.4%
India: RBI repurchase rate	5.75%	5.75%	6.00%
Jun 7 (Fri)			
US: change in nonfarm payrolls (May)	185k	180k	263k
US: unemployment rate (May)	3.6%	3.6%	3.6%

Eurozone: The European Central Bank is expected to keep benchmark rates unchanged on June 6 and maintain a dovish forward guidance. Global risks have heightened since the last policy meet, with the ECB expected to highlight downside risks on growth from a slowing Chinese economy, escalation in trade tensions and overhang of Brexit-related uncertainties. Investors also await details on the third funding scheme Targeted Long-Term Refinancing Operations (TLTRO III), starting in September. Flash estimate of May CPI inflation, due earlier in the week, is likely to see the headline retreat from 1.7% in April to 1.4% in May, due to passage of Easter-related pressures, slight pullback in energy prices and modest pricing power of manufacturers; these will overshadow the impact of a weak euro.

Malaysia: Trade data (Apr19) is on tap this week. Export growth for the month is likely to bounce back up to a mild expansion of 0.8% YoY, from -0.5% and -5.3% over the past two months. However, risk is still on the downside given weak external demand and drags from the trade war. Although there are signs suggesting some form of bottoming out, and that spillovers from China's stimulus measures may help lift demand, it'll take time to see more pronounced improvement. Sentiments remain weak and risk aversion still dominates. Until we see respite from the trade disputes, and recovery in global demand can we then expect better export performance. Import growth on the other hand should register a decline of 0.2%, which should thus deliver a smaller trade surplus of MYR 13.8bn, from MYR 14.4bn previously.

India: Close to the heels of the 1Q19 GDP outcome, the RBI policy committee decides on rates on June 6. We look for a 25bp cut in the Repo rate to 5.75%, taking cumulative cuts in 2019 to 75bp. Inflation has been edging higher in recent months, but at sub-3%, readings are still below the 4% target, which provides the central bank the room to consider overriding growth concerns. Global volatility has heightened since the MPC met in April, which makes this week's decision a close one. Nonetheless, akin to 2H18 when benchmark rates were on hold (against expectations for a hike) considering a benign inflation outlook despite a weak rupee, we expect domestic concerns to override global catalysts this time around as well. A decisive win by the ruling coalition will also buffet the economy from a cautious risk backdrop.

The Philippines: Inflation is expected to soften further to 2.7% YoY in May from 3% last month, driven by slower domestic demand as higher pressure on trade balance and last year's monetary tightening has squeezed domestic liquidity and domestic demand. Monetary aggregate continued to soften this year, M3 grew only at 4.3% YoY in Mar19 from 7.3% in Jan19, due to aggressive monetary tightening where BSP increased by 175bps and fading impact of higher excise taxes last year. On another account, higher food items and transportation cost might push inflation higher as several jeepney fare's route are adjusted. In addition, the recent policy rate and Required Reserve Requirement cut would finally pass-through to inflation. Yet, given the high base effect from last year and slower domestic demand, further softening of inflation this month is still likely.

Taiwan: CPI inflation is expected to have picked up to 0.8% YoY in May, a tad higher than 0.7% in April. Upward pressure should mainly come from the external front, given the TWD's depreciation in May (2% vs USD, 4% vs JPY) and the boosting impact on import costs. The overall inflation picture remains benign, with the headline and core CPI figures both running below the long-term average of 1.0%. There is some room for the central bank to cut rates (benchmark: 1.375%) to counter the impact of trade war/global slowdown on economic growth. But policymakers may only take actions when external environment deteriorates substantially and recession risks shoot up. We expect the CBC to stand pat at June's policy meeting.

Thailand: May inflation is expected to inch down to 1.1% YoY from April's 1.2%. The contribution of food segment is likely to ease, even as higher fuel prices underpin the transport and communication category. With the year-to-date average at 0.9% (Jan-May), inflation is below the lower end of the BOT target. Weak inflation coupled with disappointing 1Q19 growth, pressure will build on the BOT to reverse December 2018's token rate hike. The central bank might revise down its current growth forecast from 3.8% and shift the guidance to dovish at the next policy review. But a pre-emptive shift to easing bias is not imminent as Thai policy rates are already low and the authorities are concerned over financial stability risks.

South Korea: CPI inflation is projected to have risen slightly to 0.7% YoY in May from 0.6% in April. The KRW's rapid depreciation (4.7% vs USD in Apr-May) should have pushed up import costs. But domestic price pressures should have remained subdued, thanks to the slowdown in GDP growth, deterioration in output gap, weak labor market conditions and falling inflation expectations. CPI figures have stayed below 1% consecutively since the beginning of this year, missing the BOK's 2% target by a wide margin. But this may not mean the BOK will cut rates immediately to respond. Although one board member called for rate cut at the 31 May meeting, the governor's comments were less dovish than expected (e.g., downplaying deflation concerns, mentioning the need to pay attention to financial stability). For the BOK to take actions, it would require more weakness in economic data (which is possible in the next several months given the spillover effects of China-US trade war), easing of capital outflow pressures and some sort of stabilization in the KRW. We currently maintain the forecast of a 25bps rate cut in 3Q.

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