

Chart of the Week: Dollar's retreat and gold's rebound

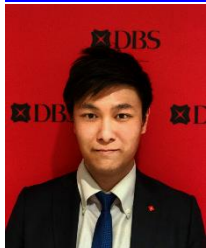
Economics/Strategy/Rates/FX

Group Research

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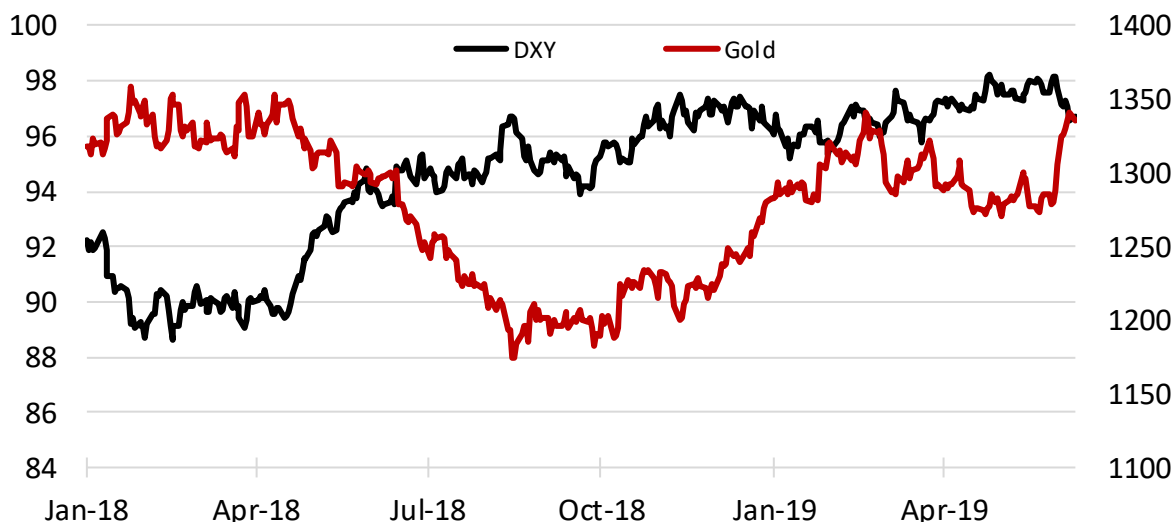
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- *China's exports and imports are expected to decrease by 3.8% YoY and grow by 1.2% in May, from -2.7% and 4.0% in April respectively amid trade tension with the US and moderating global demand.*
- *Likewise, retail sales and industrial production are expected to ease further in May as suggested by the falling NBS Manufacturing PMI.*
- *Export performance of Taiwan is likely to stay weak alongside the trade war between China and the US.*

Chart of the Week: DXY vs Gold

With Fed easing expectations rising sharply over the past month, the US dollar has begun to lose some its strength. The USD index (DXY) against major currencies has slipped modestly over the past few weeks, although this respite could well be temporary if trade tensions exacerbate or poor data out of Europe continue. More striking is the recent rebound in gold prices despite rock bottom inflation expectations. The return of some lustre to gold reflects heightened global uncertainties, both on the macro and geopolitical fronts. We see the ongoing fixed income and gold rallies as flight to safety phenomena. Even as global central banks support asset prices, the late cycle dynamic is unlikely to reverse, in our view. From short to long duration on fixed income, from bullish USD to not so bullish, the markets are signalling considerable pessimism about the global growth outlook.

Dollar's peak and Gold's rebound

Source: Bloomberg, DBS

Event	Consensus	DBS	Previous
June 10 (Mon)			
China: M2 (May)	8.6%y/y	8.6%y/y	8.5% y/y
China: aggregate financing (May)	CNY1410bn	CNY1455bn	CNY1359bn
China: new yuan loans (May)	CNY1300bn	CNY1350bn	CNY1020bn
China: trade balance (May)	USD 22.3bn	USD 13.1bn	USD 13.8bn
-- exports	-3.9% y/y	-3.8% y/y	-2.7% y/y
-- imports	-3.5% y/y	1.2% y/y	4.0% y/y
Taiwan: trade balance (May)	USD 3.5bn	USD 3.4bn	USD 2.7bn
-- exports	-2.8% y/y	-2.1% y/y	-3.3% y/y
-- imports	-0.6% y/y	1.4% y/y	2.6% y/y
Indonesia: CPI (May)	3.2% y/y	3.1% y/y	2.8% y/y
June 11 (Tue)			
Malaysia: industrial production (Apr)	2.5% y/y	2.5% y/y	3.1% y/y
Philippines: trade balance (Apr)	-USD 3.9bn	-USD 4.6bn	-USD 3.1bn
-- exports	1.0% y/y	-3.1% y/y	-2.5% y/y
-- imports	2.7% y/y	8.4% y/y	7.8% y/y
June 12 (Wed)			
US: CPI (May)	1.9% y/y	1.9% y/y	2.0% y/y
China: CPI (May)	2.7% y/y	3.0% y/y	2.5% y/y
India: CPI (May)	3.1% y/y	3.1% y/y	2.9% y/y
India: industrial production (Apr)	0.7% y/y	0.5% y/y	-0.1% y/y
India: trade balance (May)	-USD15.9bn	-USD14.0bn	-USD15.3bn
June 14 (Fri)			
US: industrial production (May)	0.2% m/m sa	0.1% m/m sa	-0.5% m/m sa
China: Industrial production (May)	5.4% y/y	5.2% y/y	5.4% y/y
China: retail sales (May)	8.0% y/y	7.0% y/y	7.2% y/y
China: fixed asset investment (May)	6.1% y/y	6.3% y/y	6.1% y/y

China: Exports and imports are expected to decrease by 3.8% YoY and grow by 1.2% in May, from -2.7% and 4.0% in April respectively. Outward shipment should continue to fall due to escalating trade war. Import growth is forecasted to narrow amid a weakening domestic demand. Early indicators, NBS Manufacturing PMI, returned to contraction zone. Both the new export orders and imports components of the PMI remained in contraction zone, and fell to 46.5 and 47.1 in May from 49.2 and 49.7 respectively. We remain cautious to the export outlook due to a moderating global demand.

Likewise, domestic demand is expected to ease further in May as suggested by the falling NBS Manufacturing PMI. Retail sales and industrial production growth should have softened to 7.0% and 5.2% YOY in May from 7.2% and 5.4% in April respectively. On a contrary, fixed asset investment growth is forecasted to edge up to 6.3% from 6.1% on the back of accommodative monetary policy and fiscal support. Looking ahead, the consumption sentiment and industrial activities will continue to be cloudy due to external uncertainties.

On monetary front, liquidity injection should have bounced back somewhat due to pro-growth policy. M2 is expected to grow by 8.6%, compared to 8.5% in April. Both new increase in aggregate financing and new yuan loans should revive in May. In fact, the PBoC released RMB280bn for small to medium size banks by cutting the reserve requirement ratio. This 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 3.0% YOY, up from 2.7% in April.

Taiwan: Exports are expected to register -2.1% YoY in May, a similar extent of decline compared to -3.3% in April. Risks are tilted toward the downside, given the disappointment from South Korea's May exports and PMI data released of late. Taiwan's manufacturing PMI also reported a sluggish 48.4 in May, below the 50 mark for the eighth month in a row and little changed from 48.2 in April. The unexpected, further rise in US tariffs on the USD200bn Chinese goods, which took effect in May, should have weighed on the regional supply chains. In the tech sector, inventory pre-build from China's Huawei should have remained in place for the time being, given the 90-day reprieve granted by the US government on its trade ban against Huawei. While we had expected Taiwan's exports to bottom out in 2Q, the outlook has become

uncertain and further deterioration appears possible, depending on how the China-US trade war/tech war pans out in the coming months.

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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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