Chart of the Week: Hibor and USD/HKD will remain stable

Economics/Strategy/Rates/FX

Group Research

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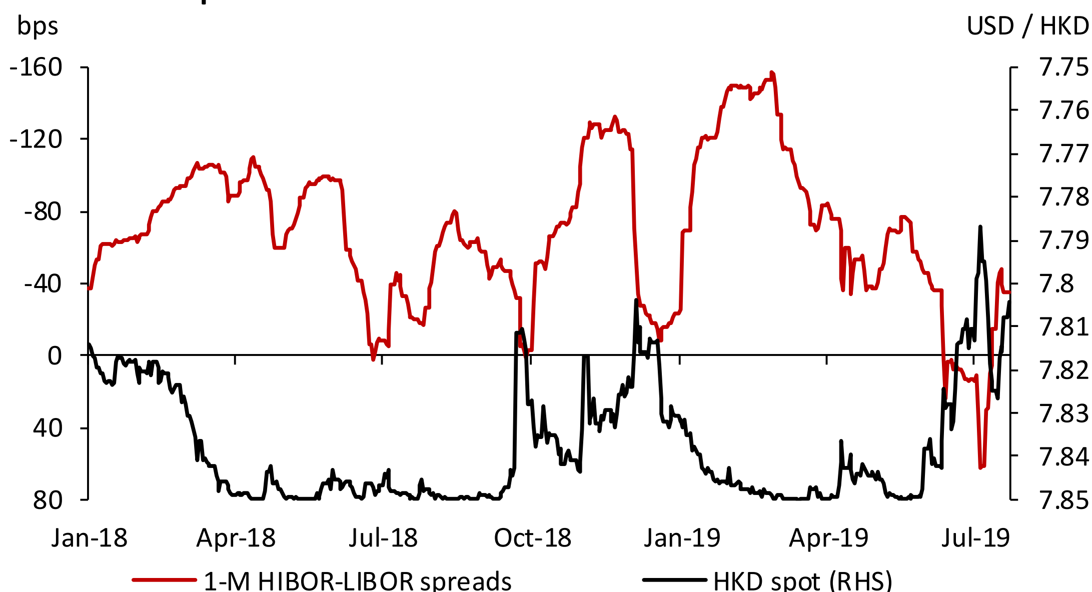
Key Events:

- *ECB's main refinancing rate and deposit facility rate is expected to remain unchanged.*
- *Hong Kong and Taiwan's export figures will continue to shrink due to external uncertainties.*
- *South Korea's GDP growth is expected to rebound to 3.2% QoQ saar in 2Q from -1.4% in 1Q.*

Chart of the Week: 1M Hibor-Libor spread and USD/HKD spot

1M Hibor has returned to 1.8-1.9% in July after fourth months of increases. The interbank rate peaked at 2.99% on July 4 on tight liquidity arising from corporate dividend payment, quarter-end effect in June and large-scale IPO exercises. In the near term, the 1M Hibor will see some downward pressure from stronger Fed Fund rate cut expectation but a -30-50bps spread against its US counterpart. USD/HKD is therefore expected to keep to its latest 7.80-7.83 trading range. There will be less motivation for the Hong Kong Monetary Authority (HKMA) to intervene the market. We expect Prime Rates to stay at current level in 2019.



Source: Bloomberg and DBS

Refer to important disclosures at the end of this report.

Event	Consensus	DBS	Previous
July 22 (Mon)			
Hong Kong: CPI (Jun)	2.6% y/y	2.9% y/y	2.8% y/y
Taiwan: export orders (Jun)	-1.6% y/y	-2.0% y/y	-5.8% y/y
Thailand: customs exports (Jun)	-5.0% y/y	-6.7% y/y	-5.8% y/y
- customs imports	-3.0% y/y	0.7% y/y	-0.6% y/y
- customs trade balance	USD850mn	-USD480mn	USD1.8bn
July 23 (Tue)			
Singapore: CPI (Jun)	0.8% y/y	0.9% y/y	0.9% y/y
Taiwan: industrial production (Jun)	-0.3% y/y	-0.2% y/y	-3.1% y/y
July 24 (Wed)			
Malaysia: CPI (Jun)	1.5% y/y	1.6% y/y	0.2% y/y
July 25 (Thu)			
Eurozone: ECB main refinancing rate	0%	0%	0%
ECB deposit facility rate	-0.40%	-0.40%	-0.40%
Hong Kong: trade balance (May)	-HKD46.1bn	-HKD51.4bn	-HKD34.7bn
-- exports	-2.3% y/y	-5.0% y/y	-2.4% y/y
-- imports	-3.0% y/y	-5.0% y/y	-4.3% y/y
South Korea: GDP (2Q P)	1.9% y/y	1.9% y/y	1.7% y/y
July 26 (Fri)			
US: GDP (2Q A)	1.8% q/q saar	2.0% q/q saar	3.1% q/q saar
US: PCE core (2Q A)	2.0% q/q saar	1.6% q/q saar	1.2% q/q saar
Singapore: industrial production (Jun)	-8.5% y/y	-8.3% y/y	-2.4% y/y

Eurozone: Preferring to be ahead-of-the-curve, European Central Bank (ECB) President Mario Draghi sounded the dovish bugle during his speech at the ECB Forum in Sintra, Portugal in mid-June. The bar for policy easing has been lowered after the authorities pledged to act, not only if the outlook weakens further but also if growth does not get better going forward and inflation stays consistently below the 2% target. This has opened the door for possible stimulus measures at the upcoming July 25 meeting, days before the US Federal Reserve meets to decide on its rates. While available policy options are being discussed, a premature use also opens the ECB to the risk of running out of avenues when if the growth outlook takes a turn for the worse in 2020. Hence, a prudent mix of dovish guidance and a gradual rollout of easing measures is likely to ensure enough ammunition remains with the ECB

Hong Kong: Trade figures might worsen further in June due to external uncertainties. Both outward and inward shipments, which contracted 2.4% and 4.3% respectively in May, are forecasted to further weaken to -5% YoY in June from the intensified trade war. Imports are also expected to slump due to weakening domestic demand; retail sales recorded the fourth YoY decline of -1.3% in May.

CPI inflation should have inch up to 2.9% YoY in June from 2.8% in May. Increased pork and fruit prices in China will add upward pressure to food price. A depreciating USD and hence HKD should also keep import costs elevated. Yet, local costs are largely contained due to slow economic growth.

Taiwan: Export orders are expected to continue to shrink -2% YoY in June, compared to -5.8% in May. Industrial production is projected to contract -0.2% (vs -3.1%). Recent trade and manufacturing data have been mixed. Exports fared better than expected in June, posting a marginal rise of 0.5%, the first positive reading over eight months. Exports to the US surged to offset the decline in demand from other major markets, probably reflecting the trade diversion effects of US-China trade war. But manufacturing PMI fell further and sharply to 45.5 in June from 48.4 in May, the weakest reading seen since late-2011.

Taking into account the global demand weakness, tech sector downturn, unresolved US-China trade tensions, and recent rise in Japan-Korea trade disputes, we have maintained a cautious view about Taiwan's short-term growth outlook in 2H.

South Korea: GDP growth is expected to rebound to 3.2% QoQ saar in 2Q from -1.4% in 1Q, but the average growth in 1H would remain poor at only 0.9%. The decline in exports has not shown signs of moderation in 2Q. Shipments to China fell sharply, reflecting the negative spillover effects of US-China trade war. Investment indicators, like equipment investment and construction output, also continued to languish in 2Q. Business sentiment was weak and fragile, amid the externally-driven manufacturing downturn and the policy-induced property market slowdown. Only consumption indicators fared well in 2Q, probably owing to the government's fiscal stimulus measures (increase in public spending on jobs/welfare).

Notwithstanding the BOK's latest 25bps rate cut and the easing of financial conditions, the near-term growth outlook remains challenging, in our view, considering the rise in Japan-Korea trade tensions and the deterioration in global economic environment.

Singapore: CPI inflation and industrial production figures for June will be on tap. Headline CPI inflation is expected to remain stable at 0.9% YoY, unchanged from the previous month. But inflation is likely to start trending higher in the coming months as the effect from lower COE premium starts to fade. And in the coming months, impact from the energy market reform will also dissipate. Meanwhile, core inflation could continue to ease, which underscores the slowdown in growth momentum within the economy and the easing in demand-pull inflationary pressure.

Industrial output for the month could potentially disappoint. The headline number is likely to shrink by 8.7% YoY, from -2.4% previously. While risks in the external environment has eased marginally with the trade truce between the US and China, uncertainties remain amidst a still challenging economic climate. The electronics industry has continued to backpedal. Growth momentum in China has also eased further. PMIs in key markets and within Singapore have all headed further southward, with most already in the contraction territory. Latest June non-oil domestic exports plunged by 17.3% YoY, the worst since February 2013, is a telling sign of what's on the cards for industrial output.

Malaysia: Headline inflation is expected to spike up to 1.6% YoY in June. This will be consistent with our expectation that the effects from the post-election policy changes, including the zero rating of the GST, subsidies for petrol and removal of toll charges, will fade from June onwards. Beyond this, inflation will likely remain range-bound between 1.5-2.0% in the coming months due to weak growth momentum and a lack of inflationary pressure. Oil prices were supposed to be a key driver, but it has been lacklustre on a weaker global outlook. This could weigh on inflation. Hence, any rise in inflation in the coming months could be slower-than-expected. This may compel us to lower our full-year inflation forecast, which currently stands at 1.7%.

Thailand: Trade numbers (customs) for June are due this week, with another decline likely in exports. Our forecast is for -6.7% YoY fall accompanied by 0.7% drop in imports which could push the trade balance into a modest deficit. Global demand conditions have continued to weaken, with exports numbers from the region setting for the weakness to spell over into second half of the year. Baht strength vs the dollar and regional partners is also an additional headwind. Domestic demand has moderated, as signaled in the softening import demand. All indications are that a narrower trade balance is likely to impinge on the current account surplus, keeping it at 5-6% of GDP vs over 7% last year.

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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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