Economics

Chart of the Week: Who's benefited from the near-term diversion in US purchases?

Economics/Strategy/Rates/FX

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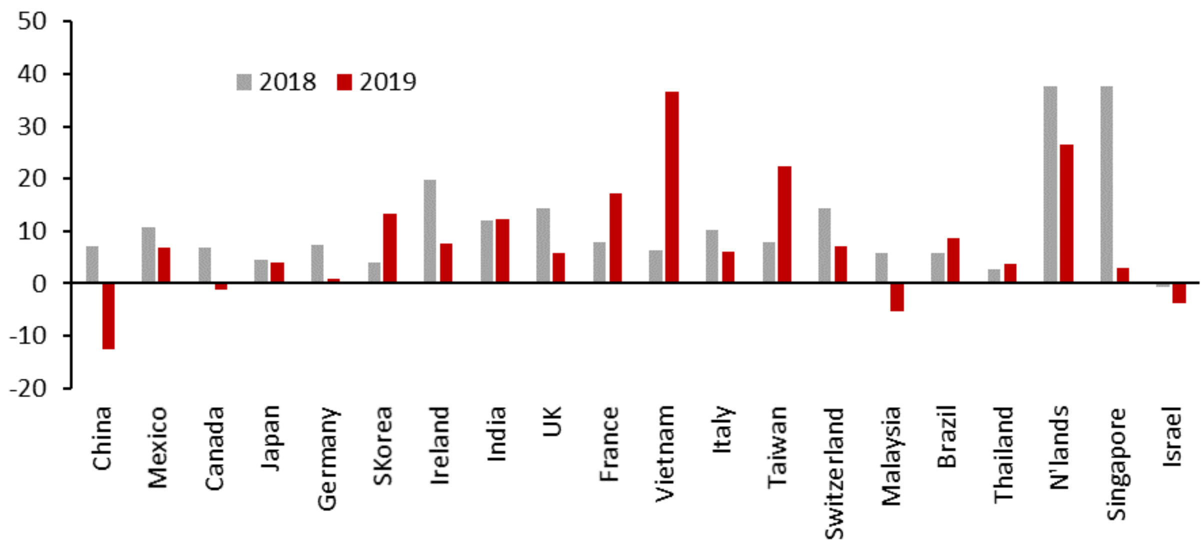
Key Events:

- *BOJ is expected to keep rates steady but reaffirm that they have room to act, if required*
- *Eurozone growth likely slowed further in 2Q on a weak manufacturing sector*
- *Taiwan growth might have been stable in 2Q as the slowdown in exports eased*

Chart of the Week: Who's benefited from the near-term diversion in US purchases?

Since the detent at the June G20 meeting, US and China are laying the ground to resume negotiations. Until a consensus is reached, tariffs on USD250bn worth of made-in-China goods stays. With these imports turning dearer, US importers have turned to other economies to source their requirements, signalling short-term diversion in trade. Looking through the top 20 countries (nominal terms) of US imports, the latter has scaled back purchases from China (-12.5% YoY in January-May 2019) and Malaysia (-5%). The biggest beneficiary of this shift is Vietnam, whose exports to the US jumped 37% in first five months of this year, followed by Taiwan, South Korea and Brazil. This should provide some stabilisation for regional exports in 2H19, however, an overall slowdown in global growth will dampen the scale of boost to their growth prospects.

US imports - customs basis (nsa) - YoY %



Source: CEIC, DBS

Event	Consensus	DBS	Previous
July 29 (Mon)			
Japan: industrial production (Jul)	-2% y/y	-0.4% y/y	-2.1% y/y
July 30 (Tue)			
Japan: 10-year yield target	0.0%	0.0%	0.0%
Japan: BOJ policy balance rate	-0.1%	-0.1%	-0.1%
July 31 (Wed)			
S Korea: industrial production (Jun)	-1.5% y/y	-3.4% y/y	-0.2% y/y
Taiwan: GDP (2Q P)	1.8% y/y	1.7% y/y	1.7% y/y
Eurozone: GDP (2Q A)	1% y/y	1.1% y/y	1.2% y/y
Eurozone: unemployment (Jun)	7.5% y/y	7.5%	7.5%
Eurozone: CPI (Jul)	1.1% y/y	1.1% y/y	1.2% y/y
Aug 1 (Thu)			
US: FOMC rate decision (upper bound)	2.25%	2.25%	2.5%
S Korea: CPI (Jul)	0.8% y/y	1.1% y/y	0.7% y/y
S Korea: Trade balance (Jul)	USD4.95bn	USD2.6bn	USD4bn
-- exports	-11.8% y/y	-11.9% y/y	-13.5% y/y
-- imports	-8.1% y/y	-4.2% y/y	-11.1% y/y
Thailand: CPI (Jul)	1% y/y	0.8% y/y	0.9% y/y
Indonesia: CPI (Jul)	3.3% y/y	3.2% y/y	3.3% y/y
Aug 2 (Fri)			
Malaysia: Trade balance (Jun)	MYR8.6bn	MYR 8.7bn	MYR9.1bn
-- exports	1.9% y/y	3.8% y/y	2.5% y/y
-- imports	-1.5% y/y	0.5% y/y	1.4% y/y
US: non farm payrolls (Jul)	160K	200K	224K

Eurozone: Data this week is likely to underscore the central bank's dovish talk. Inflation and growth likely slowed further. July inflation is seen at 1.1% YoY vs 1.2% in June as energy prices stabilized and seasonal impact fades. Core is even more benign at sub-1%, with weak inflation impulses to perturb the ECB. 2Q GDP growth is expected to have slowed to 1.1% vs 1.2% quarter before on a weaker manufacturing sector, in midst of lingering external uncertainties, primarily from US-China trade conflicts, Brexit and slowing China/ Asia growth.

Indonesia: We expect April inflation to remain flat at 3.2% in Jul19 from 3.3% in the previous month as domestic demand has remained soft. Other risks to inflation such as higher oil prices which could put pressure on adjustment of domestic fuel price, are on the backburner. We see less risk of a oil surge this year, with prices lower compared to last year (average Brent YTD is only USD66/bbl vs USD72/bbl in the same period last year). Instead, we see more risks to inflation in next two months as drought season due to El Nino phenomenon peaks in Aug19 and lasts until Sep19, according to the Meteorology, Climatology, and Geophysics Agency (BKMG). In addition, relatively strong capital flows have somewhat ease domestic financial conditions. We still see inflation to remain at 3.2% on average this year.

Japan: The Bank of Japan is expected to keep the short-term and long-term interest rate targets unchanged this week, at -0.1% and 0% respectively. Growth has been slowing, as evidenced by the decline in exports, PMI, industrial production and Tankan business confidence. But inflation expectations and labour market indicators have remained largely stable. Also note that the room for monetary easing is relatively limited for the BOJ compared to the Fed and the ECB – JGB yields are already in the negative territory across the 1-10Y tenor and total assets held by the BOJ are equivalent to 100% of GDP. The BOJ would prefer to maintain policy status quo for the time being. But the governor is likely to reiterate the commitment to adopt additional easing measures when needed, in light of the looming consumption tax hike, rise in Japan-Korea trade disputes, and lingering US-China trade tensions.

Malaysia: Trade data is expected to hold up despite the challenging external environment. Export growth is likely to register a marginal improvement to 3.8% YoY, up from 2.5% previously. Low base probably plays a role in lifting the headline number, but trade diversion could be another driver. While demand from China likely weakened, exports to the US might rise as importers seek new sources away from China. That said, global demand for electronics remains weak, which will continue to weigh on the export outlook. Meanwhile, import growth is expected to ease to 0.5% YoY on the back of slower domestic growth. This would then deliver a trade surplus of MYR 8.6bn. down from MYR 9.1bn previously.

Taiwan: GDP growth is expected to have remained stable at 1.7% YoY in 2Q. The contraction in exports moderated somewhat last quarter, thanks to rising shipments to the US. Investment growth remained strong, as evidenced by the high-frequency indicators like capital goods imports and building permits granted for construction. Consumption growth appeared stable, with the gains in retail sales offsetting the decline in consumer confidence. Overall, it seems that the economy has avoided further deterioration in 2Q despite the challenging global environment, thanks to the trade diversion effect of US-China trade war and investment repatriation by Taiwanese firms based in China. We are maintaining our full-year GDP growth forecast at 1.9%.

South Korea: Exports are projected to contract -11.9% YoY in July, still a sharp pace compared to -13.7% in June. The rise in exports to the US market (trade diversion effect of the US-China trade war) has not been enough to offset the decline in exports to China so far this year. Meanwhile, Japan's recent curb of high-tech exports to South Korea presents new headwinds. The disruption impact on South Korea's semiconductor production and shipments is expected to emerge as soon as July. On the prices front, CPI inflation is forecasted to rise to 1.1% in July from 0.7% in June, but mainly due to the temporary low base effect. CPI numbers are expected to fall back to around 0.5% from August onwards, creating the room for the Bank of Korea to cut rates by another 25bps towards the end of this year.

Thailand: July inflation is expected to stay benign and below the BOT's 1-4% target range. We look for headline CPI to ease to 0.8% YoY from 0.9% month before, as components outside of food remain weak. Domestic fuel prices are down on the year, which in turn is weighing on the Transport & Communication segment. The latter was the biggest drag on the headline in June, with further decline here and unfavourable base effects to keep overall inflation in check. The central bank is fixated on the exchange rate rather than the inflationary trends, as the THB maintains its spot as the regional outperformer with YTD gains of over 5%/ USD. Apart from the disinflationary impact, a strong currency hurts trade competitiveness in midst of an already challenging regional trade outlook.

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