Economics

Chart of the Week: Trade war's impact on foreign and Chinese firms

Economics/Strategy/Rates/FX

Group Research

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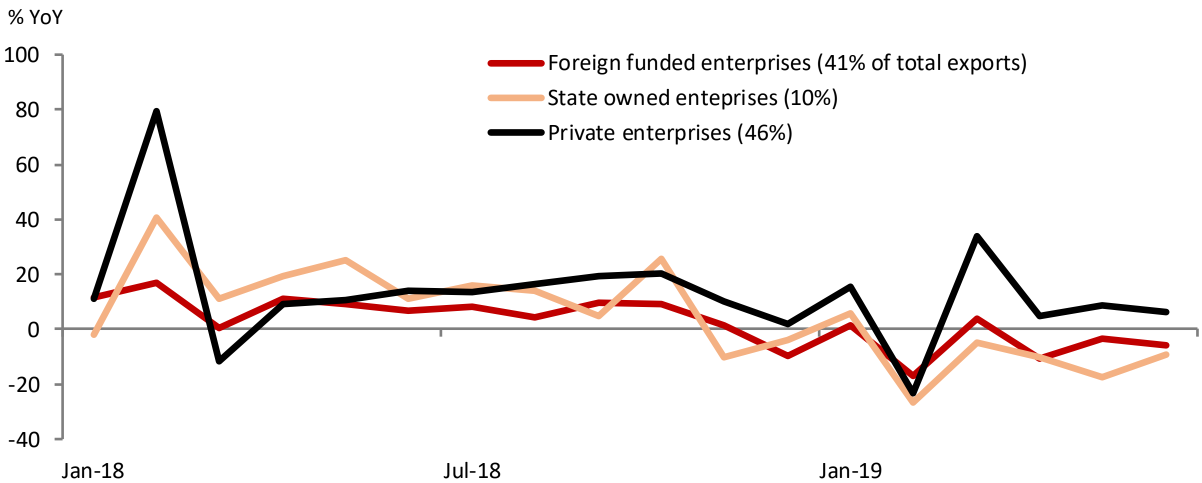
Key Events:

- *The central banks in India and Philippines are expected to cut rates by 25bps each this week; Bank of Thailand will stand pat.*
- *Japan is likely to report a notable slowdown in 2Q GDP growth; Indonesia and Philippines should see steady results.*
- *Taiwan's July export figures are expected to continue outperforming China's.*

Chart of the Week: Trade war's impact on foreign and Chinese firms

Exports by the foreign funded enterprises in China, which account for nearly 40% of China's total exports, fell by 5.8% YoY in Jun19, down from +6.9% in Jun18 before the first round US tariffs took effect. This outpaced the decline in exports by Chinese private enterprises during the same period (6.0% in Jun19 vs 13.8% in Jun18). 15 out of China's top 20 exporters are foreign firms in the electronics sector, including 10 from Taiwan, 4 from the US and 1 from South Korea, according to a 2018 report by China Customs. Trump's decision of imposing 10% tariffs on the remaining USD 300bn Chinese exports, which are largely comprised of electronics products, will put more pressures on the China-based foreign firms, eroding their profits and obliging them to diversify the supply chains.

China: Custom exports, by enterprise type



Source: CEIC, DBS

Event	Consensus	DBS	Previous
Aug 5 (Mon)			
Indonesia: GDP (2Q)	5.0% y/y	5.0%	5.1% y/y
Aug 6 (Tue)			
Philippines: CPI (Jul)	2.3% y/y	2.4%	2.7% y/y
Taiwan: CPI (Jul)	0.9% y/y	0.6% y/y	0.9% y/y
Aug 7 (Wed)			
Philippines: exports (Jun)	0.6% y/y	2.5% y/y	1.0% y/y
- imports	-2.4% y/y	-4.0% y/y	-5.4% y/y
- trade balance	-USD3.32bn	-USD3.0bn	-USD3.28bn
India: RBI repurchase rate	5.50%	5.50%	5.75%
Thailand: BOT benchmark rate	1.75%	1.75%	1.75%
Taiwan: exports (Jul)	1.0% y/y	0.7% y/y	0.5% y/y
- imports	1.0% y/y	-3.1% y/y	6.6% y/y
- trade balance	USD3.28bn	USD3.31bn	USD3.87bn
Aug 8 (Thu)			
Philippines: GDP (2Q)	5.9% y/y	6.0% y/y	5.6% y/y
Philippines: BSP overnight rate	4.25%	4.25%	4.50%
China: exports (Jul)	-0.2% y/y	-1.0% y/y	-1.3% y/y
- imports	-8.8% y/y	-3.0% y/y	-7.3% y/y
- trade balance	USD44.2bn	USD31.0bn	USD50.98bn
Aug 9 (Fri)			
Japan: GDP (2Q P)	0.6% q/q saar	0.6% q/q saar	2.2% q/q saar
China: CPI (Jul)	2.7% y/y	2.5% y/y	2.7% y/y
Malaysia: industrial production (Jun)	4.1% y/y	3.2% y/y	4.0% y/y
India: industrial production (Jun)		0.5% y/y	3.1% y/y

China: The continued moderation in global manufacturing activities suggests that China's trade will likely start 2H on a soft footing. We expect exports and imports to fall 1% and 3% YoY respectively in July. Early indicators point to weakness – new export orders of Caixin manufacturing PMI stayed in contractionary territory in July. On inflation, the year-on-year increase in CPI is seen moderating to 2.5% in July from 2.7% in June due to a retreat in agricultural product prices. PPI is expected to fall into negative territory owing to a high base and contracting exports.

India: The RBI-led monetary policy panel meets this week, where we look for a 25bp rate cut, taking the benchmark repo rate to 5.50%. Recent comments by Governor Das that policy stance will depend on incoming data, nudged markets to pare easing expectations. Additional remarks that the change in stance to 'accommodative' in June was itself akin to a cut (implying ~100bp cut YTD), suggested that the panel/RBI might prefer to focus on transmission next. The central bank's preference to be data-dependent is not surprising, especially as the RBI has been more proactive than regional peers this year. Nonetheless, with a sub-target inflation on hand and soft numbers (auto, cement sales, production, PMIs, construction sector) underscoring weak economic activity, monetary policy will have to continue with the heavy lifting in rest of the year. Separately, June industrial production is expected to print a weak number, taking cue from core industries index and PMIs.

Japan: The 2Q GDP report (preliminary) is the focus this week. Headline growth is expected to decelerate to 0.6% QoQ saar from 2.2% in 1Q, but still in line with the long-term trend. Exports contracted further in 2Q, in the context of the deterioration in global demand and the escalation in

China-US trade war. But domestic demand (private consumption in particular) maintained steady expansion last quarter, helped by the tight labour market conditions. We maintain the full-year 2019 GDP growth forecast at 0.7%, but see bigger challenges in 2H, taking into account the upcoming consumption tax hike and the rise in Japan-Korea trade tensions.

Malaysia: Industrial production is expected to see some degree of moderation in June. The headline number is likely to ease to 3.4% YoY, down from 4.1% previously. Latest trade figure which saw export sales shrank by 3.1% probably suggests that there could be downside risk to this forecast. Indeed, PMIs of all key markets are mostly in the negative territory or trending downwards. Global semiconductor shipment and billing growth have all continued to decline. External demand is already weak and trade war has further exacerbated the doldrum. While there could be some trade diversion from the trade war, the effect has been weak, with Indochina economies such as Vietnam showing more pronounced benefits. In contrast, the lift for Malaysia appears to be marginal. Overall outlook for the manufacturing sector remains challenging.

Philippines: As inflation has soften further to 3.3% YoY in Jun19 from 4.4% in Jan19, resulting an average of 3.7% this year, BSP has more room to continue its monetary easing. We expect BSP to cut policy rate by another 25bps at this week's policy meeting. GDP Growth is expected to pick up to 6.0% from 5.6% last quarter, as the 2019 budget was signed early Apr19 and trade balance has somewhat improved as imports slowed. Weak exports could continuously weigh on growth this year as global growth and electronic manufacturing demand weaken further. We expect trade balance to improve slightly to -PHP 3.0bn in Jun19 from -PHP 3.28bn in the previous month.

Taiwan: July trade and inflation data are due this week. Export growth is expected to rise mildly by 0.7% YoY (vs 0.5% in June), while CPI inflation is expected to stay benign at 0.6% (vs 0.9%). Shipments to the US have picked up in recent months to take the overall export growth into positive territory, reflecting the trade diversion effect of US-China trade war. But it would prove overoptimistic to expect export figures to sustain the uptrend in 2H, given the general slowdown in global growth and the lingering weakness in the tech sector. Inflation pressures have remained muted so far this year, in light of the tepid consumption growth, softness in global commodity prices, and relatively stable local weather conditions (compared to last year's typhoon season). Barring unexpected supply-side disruptions, CPI figures are likely to stay in the 0.5-1% range in the rest of this year.

Thailand: The Bank of Thailand has signaled its discomfort with a strong baht weighing on the growth/trade outlook. There is, however, little it can do, in a challenging global landscape, to control the safe-haven flows into attractive low-but-stable yielding Thai assets. The BOT could consider a rate cut to help reduce the baht's yield appeal, but it will be no panacea. A measured 25bp cut would simply undo last December's hike. But financial stability will become a concern if lower rates further lift household debt. Hence, we expect the BOT to keep monitoring THB strength and not rush into policy easing. Odds of easing will rise if data continues to stay weak and THB appreciates past 30.50/USD and edges to 30.0 (six-year lows).

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