

# Chart of the Week: US inflation on a mild uptrend

Group Research

17 September 2018

Radhika Rao

Economist

[radhikarao@db.com](mailto:radhikarao@db.com)

Please direct distribution queries to

Violet Lee +65 68785281

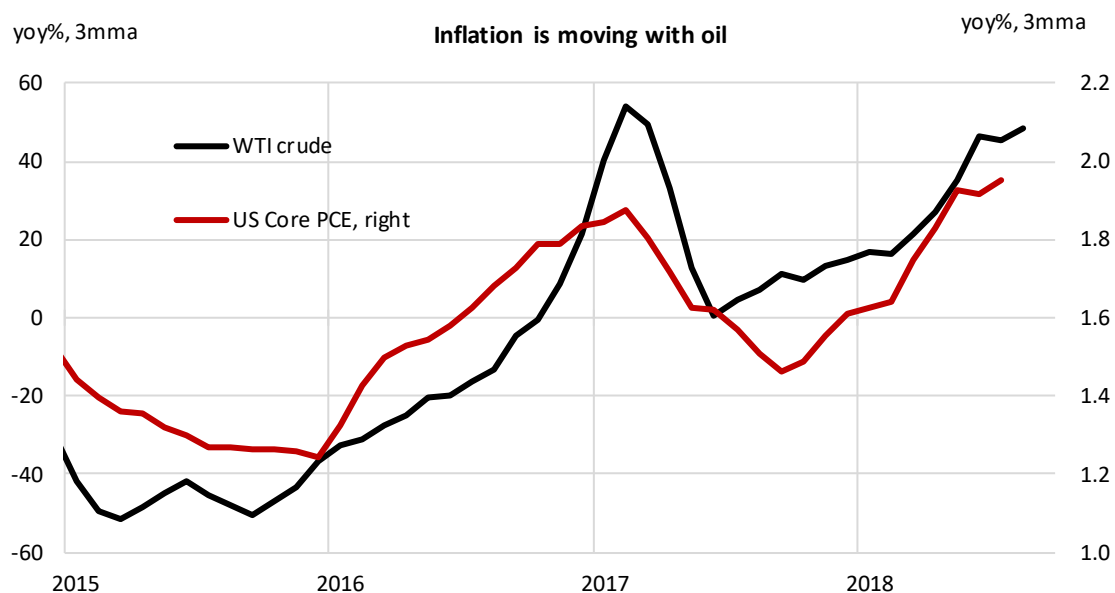
[violetleeyh@db.com](mailto:violetleeyh@db.com)

## Key Events:

- *BOJ is expected to stand pat this week after widening the target band in July. LDP leadership vote is due on Thursday*
- *Singapore and Indonesia's export growth to moderate*
- *Hong Kong inflation will be modestly higher, but Malaysia's continues to soften*

## Chart of the Week: US inflation on a mild uptrend

US growth remains very strong, with Atlanta Fed's Nowcast tracking 3.5-4.5% growth in recent months. Labour market continues to tighten and wages are picking up, which ought to push up inflation. Headline inflation is comfortably over 2%, while core is heading to 2% as well. Oil prices are on an upward trend as supply tightness and geopolitical concerns rise. There are strong structural forces at play (competition from tech companies and increased production/distribution efficiency) that are holding back inflation, but it seems clear to us that cyclical factors will likely drive up prices in the near term, allowing the Fed to continue to hike through next year.



Source: Bloomberg, DBS. West Texas Intermediate crude oil price (USD/barrel) through August 2018 and US core consumer personal consumption expenditure inflation through July 2018.

Event	Consensus	DBS	Previous
<b>Sep 17 (Mon)</b>			
Singapore: NODX (Aug)	-2.4% y/y	3.9% y/y	11.8% y/y
Indonesia: exports (Aug)	9.1% y/y	8.3% y/y	19.3% y/y
- imports	24% y/y	26% y/y	31.56% y/y
- trade balance	-USD0.42mn	-USD0.5mn	-USD2.03bn
<b>Sep 19 (Wed)</b>			
Japan: exports (Aug)	5.2% y/y	3.9% y/y	3.9% y/y
- imports	14.5% y/y	10.2% y/y	14.6% y/y
- trade balance (adj)	-JPY144bn	JPY30.3bn	-JPY45.6bn
Malaysia: CPI (Aug)	0.4% y/y	0.5% y/y	0.9% y/y
Thailand: BOT benchmark rate	1.5% y/y	1.5%	1.5%
Japan: BOJ policy decision - balance rate	-0.1%	-0.1%	-0.1%
- 10Y yield target	0%	0%	0%
<b>Sep 20 (Thu)</b>			
Hong Kong: CPI (Aug)	2.4% y/y	2.5% y/y	2.4% y/y
<b>Sep 21 (Fri)</b>			
Japan: CPI (Aug)	1.1% y/y	1.1% y/y	0.9% y/y
Thailand: customs exports (Aug)	5.3% y/y		8.3% y/y
- imports	11.55% y/y		10.5% y/y
- trade balance (adj)	USD1150mn		-USD516mn

**Hong Kong:** Consumer prices are expected to rise at a faster pace of 2.5% YoY in August, from 2.4% in July. Favourable domestic economic conditions in 1H18 (GDP grew by 4.0% YOY) and the feed through of higher rents over the past year should uphold inflationary pressures. The widespread pork disease in China might also raise imported food prices, but not break out of range. Pressure on overall import prices should remain in check due to a strengthening US dollar and weakening CNY. The launch of new government subsidies (e.g. upward adjustment in the ceiling of the government's rates concession) will continue to contain the inflation at a moderate level.

**Indonesia:** Trade numbers are due this week, which is likely to see the goods trade balance narrow from July's wide deficit of -USD2bn. Exports likely rose 8.3% YoY in August (vs 19% in July), while imports stays strong at 26%, resulting in a smaller -USD500mn deficit. Intermediate goods, that make three-fourths of overall imports, have grown by 23% YoY in first seven months of 2018, along with strong growth in capital and consumer imports. In a bid to contain the current account deficit, plans are to limit non-essential imports and improve availability of domestic inputs for capital-intensive projects.

**Japan:** The Bank of Japan is expected to stand pat this week after widening the target band of 10-year bond yield to  $\pm 0.2\%$  at the July meeting. Policymakers would adopt a more cautious view on the 2H growth outlook compared to two months ago, given the domestic typhoon/earthquake disasters, external trade tensions and intensification of emerging market volatility. While inflation may pick up in 3Q due to supply-side disruptions and oil price increases, the BOJ would pay close attention to the underlying price trend driven by wage growth and inflation expectations. August CPI, due Friday, is expected to show 1.1% YoY in the headline and 0.4% in core.

Meanwhile, the LDP leadership election is due this Thursday. Chances are high that PM Abe will lead and reiterate the focus on economic issues. A supplementary budget worth JPY1tn appears to be on the cards, to provide disaster relief and fund the post-disaster reconstruction. This would also require the BOJ to coordinate on monetary policy, maintain bond yields low and stable and provide liquidity to the disaster areas through special lending facilities.

**Singapore:** Non-oil domestic exports (NODX) for Aug18 is expected to moderate to 3.9% YoY, down from 11.8% previously. Most will conclude that the impact of trade war is biting but there is a need to look at this decline in perspective. Last month's figure was mainly driven by a 109% surge in pharmaceutical exports. It is industry specific, which bumped up the overall figure. And upside risk should not be discounted if pharma springs a surprise again. That said, August figure will

struggle with a high base in the same period last year. This will weigh on the headline year-on-year number. So, all eyes should be on the month-on-month change, which will provide a better indication of the turn.

**Malaysia:** CPI inflation for Aug18 is expected to register 0.5% YoY, down from 0.9% previously. Plainly, amid higher energy prices, inflation was supposed to be on an upward trend if not for the zero rating of the GST. Following the surprise outcome in the recent election, the new government abolished the GST and reintroduced the Sales and Services Tax (SST). Changes in the tax regime are expected to significantly reduce the end-consumer prices, which will be captured in the CPI index. Importantly, this lowers the entire trajectory for the inflation curve. However, inflation is expected to rise above 1% after the reintroduction of the SST in September.

## Group Research

### Economics & Strategy Team

**Taimur Baig, Ph.D.**

Chief Economist - G3 &amp; Asia

+65 6878-9548 [taimurbaig@db.com](mailto:taimurbaig@db.com)**Nathan Chow**

Strategist - China &amp; Hong Kong

+852 3668-5693 [nathanchow@db.com](mailto:nathanchow@db.com)**Joanne Goh**

Regional equity strategist

+65 6878-5233 [joannegohsc@db.com](mailto:joannegohsc@db.com)**Neel Gopalakrishnan**

Credit Strategist

+65 68782072 [neelg@db.com](mailto:neelg@db.com)**Eugene Leow**

Rates Strategist - G3 &amp; Asia

+65 6878-2842 [eugeneleow@db.com](mailto:eugeneleow@db.com)**Chris Leung**

Economist - China &amp; Hong Kong

+852 3668-5694 [chrisleung@db.com](mailto:chrisleung@db.com)**Ma Tieying**

Economist - Japan, South Korea, &amp; Taiwan

+65 6878-2408 [matieying@db.com](mailto:matieying@db.com)**Radhika Rao**

Economist - Eurozone &amp; India

+65 6878-5282 [radhikarao@db.com](mailto:radhikarao@db.com)**Irvin Seah**

Economist - Singapore, Malaysia, &amp; Vietnam

+65 6878-6727 [irvinseah@db.com](mailto:irvinseah@db.com)**Duncan Tan**

FX and Rates Strategist - ASEAN

+65 6878-2140 [duncantan@db.com](mailto:duncantan@db.com)**Samuel Tse**

Economist - China &amp; Hong Kong

+852 3668-5695 [samueltse@db.com](mailto:samueltse@db.com)**Philip Wee**

FX Strategist - G3 &amp; Asia

+65 6878-4033 [philipwee@db.com](mailto:philipwee@db.com)

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

**Disclaimer:**

The information herein is published by DBS Bank Ltd (the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified. DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.