Economics

Chart of the Week: Global oil supply situation

Economics/Strategy/Rates

Group Research

September 16, 2019

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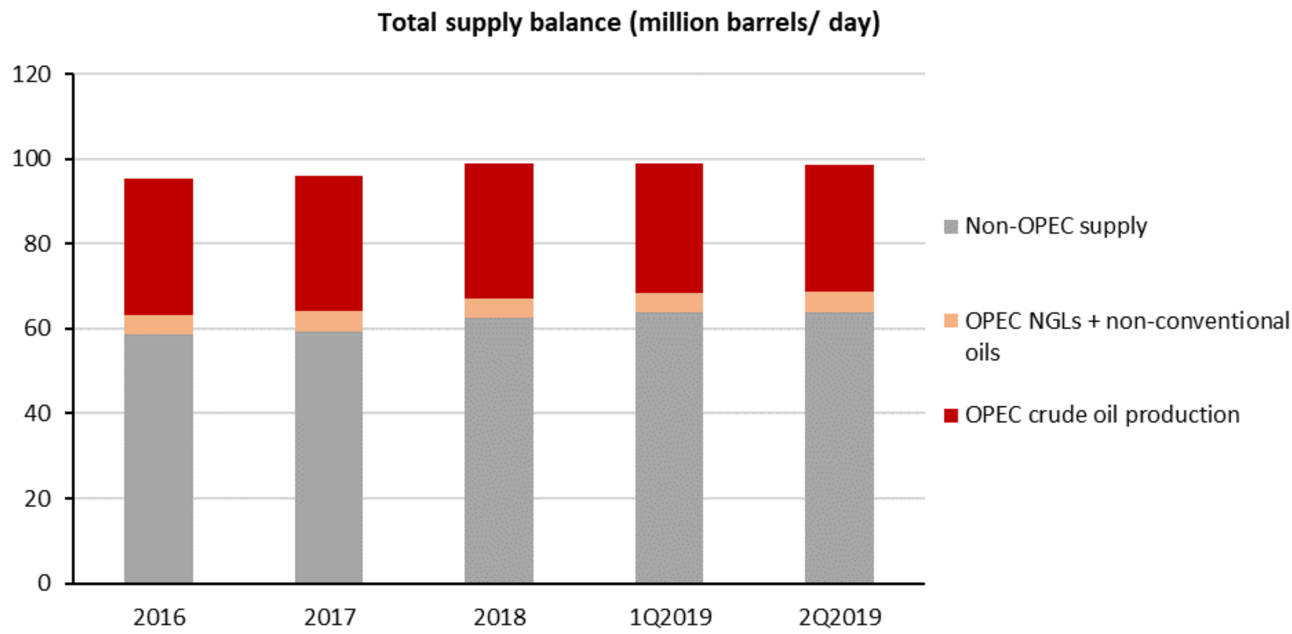
Key Events:

- *We look for the US Fed to keep rates on hold this week, after 25bp cut in July*
- *The Bank of Japan is expected to keep policy parameters unchanged*
- *Bank Indonesia is likely to lower rates this week*

Chart of the Week: Global oil supply situation

Over the weekend, drone attacks on Saudi Arabia's oil facilities, amongst the world's largest, disrupted the country's crude production and refining capacity considerably. A Yemeni group claimed responsibility for the attack, but its alignment towards Iran has led the US to raise heat on the latter. Saudi Arabia is the largest oil exporter in the world, producing a tenth of the total global supply and key member of the OPEC bloc. Knock-on impact on oil prices has been telling, as prices jumped by 15% in Monday's Asian trade. Extent of oil gains hinges on how long the outage lasts (Saudi Arabia and the US have sizeable stocks to smooth near-term supply disruptions). At the margin a shift in the producer mix away from being heavily dominated by the OPEC bloc to non-OPEC might help prevent a sustained rally in oil and step up production if required.



Source: OPEC, DBS

Event	Consensus	DBS	Previous
Sep 16 (Mon)			
China: Industrial production (Aug)	5.2% y/y	4.4% (actual)	4.8% y/y
China: retail sales (Aug)	7.9% y/y	7.5% (actual)	7.6% y/y
China: Fixed asset investment YTD (Aug)	5.7% y/y	5.5% (y/y)	5.7% y/y
Indonesia: Trade balance (Aug)	USD144mn	-USD258mn	-USD60mn
-- exports	-6% y/y	-3.2%y/y	-5.1% y/y
-- imports	-14% y/y	-7.1% y/y	-15.2% y/y
India: WPI (Aug)	0.98% y/y	1.0% y/y	1.1% y/y
Sep 17 (Tue)			
Singapore: NODX (Aug)	-10.2% y/y	-3.1% y/y	-11.2% y/y
Japan: Trade balance (Aug)	-JPY346.3bn	-JPY401bn	-JPY251bn
-- exports	-10% y/y	-4.2% y/y	-1.5% y/y
-- imports	-11% y/y	-4.6% y/y	-1.2% y/y
Sep 18 (Wed)			
Eurozone: CPI (Aug F)	1.0% y/y	1.0% y/y	1.0% y/y
Sep 19 (Thu)			
US: FOMC rate decision (upper bound)	2.00%	2.25%	2.25%
Taiwan: CBC benchmark rate	1.375%	1.375%	1.375%
Japan: BOJ policy balance rate	-0.1%	-0.1%	-0.1%
Indonesia: BI reverse repo rate (Jul)	5.25%	5.25%	5.50%
Sep 20 (Fri)			
Japan: CPI (Aug)	0.3% y/y	0.3% y/y	0.5% y/y
Hong Kong: Composite CPI (Aug)	3.1% y/y	3.3% y/y	3.3% y/y

Hong Kong: CPI inflation should have stayed evaluated at 3.3% YoY in August. Increased pork and fruit costs in China have added add upward pressure to food price. A weak HKD should also keep the upshot of import costs. Yet, headline local costs are largely contained due to slow economic growth and the latest one-off relief measures imposed by the government.

Indonesia: We expect Aug19 trade balance to worsen slightly to -USD258mn from -USD60mn in Jul19. Both exports and imports are still expected to contract, but to a lesser degree than in Jul19, with exports falling 3.2% YoY and imports -7.1% YoY. Imports deceleration seems to have bottomed out and started to pick up in all categories, consumer, capital goods and raw material. Exports might remain weak, as Indonesia has not benefitted from the trade-war related production shift. Non-O&G exports still recorded negative growth (-6.9% YoY) with manufacturing exports recorded a 7-month contraction. O&G exports recorded the first growth since Dec18, up 13.3% YoY. Authorities have announced an export ban on nickel ore starting 1 January 2020, 2 years earlier than expected. This will likely increase nickel ore exports in 4Q19 due to front-loading demand. Yet, as nickel accounts less than 0.4% of total exports the impact is likely to be minimum.

Bank Indonesia will hold its policy meeting this week. We maintain our view that BI could cut by another 50bps within 2019, with a 25bps likely as early as this week. Bank Indonesia has reiterated its concern over growth slowdown and high frequency indicators have pointed towards slower growth in 2H19. In addition, inflation has remained benign and Rupiah has appreciated by 1.9% following regional peers since the last policy meeting (between Aug 22nd to Sep 13th). We see that the timing of further cut(s) will depend more on Rupiah stability, as a result of the dynamics between current account deficit, which is likely to remain wide in 2H19, and capital inflows.

Japan: The Bank of Japan is expected to keep policy unchanged this Thursday but discuss heavily about the available options of easing. The current macroeconomic conditions remain stable and financial market conditions are favourable. Output data have been holding up well as of early-3Q. CPI inflation has slipped but remained in the positive territory. The 10Y JGB yield has fallen below the lower end of the official target (±0.2%) since early-August, obliging the BOJ to reduce bond purchases in the 5-10Y space during the regular operations this month. Meanwhile, the USD/JPY has risen to 108 from the bottom of 105, thanks to the thaw in China-US trade war and the recovery in global risk sentiment. The reaction of the EUR/JPY to the ECB's bazooka easing last week has been calm.

That said, policymakers should be mindful of the risks of economic slowdown and renewed yen appreciation, given the looming consumption tax hike, sluggish global trade environment, and fragile investor sentiment. A preemptive move of easing can't be ruled out at this week's meeting. If any, it will likely be a mix of measures to lower the short-term policy rate (10bps, from -0.1% to -0.2%) and on the other hand, support the long-term yields and mitigate the impact on banks' profits (e.g., lowering the quantity target of annual bond purchases, offering negative lending rates to banks, slicing and dicing banks' reserves to reduce the portion subject to negative deposit rates).

Singapore: Non-oil domestic exports (NODX) for August may surprise on the upside, albeit still in negative growth territory. A forecast of -3.1% has been penciled into our forecast. This will be a marked improvement from a decline of 11.2% previously. Front loading by importers ahead of fresh tariff hikes will be the key reason behind any upside surprise. A healthy uptick of 3.7% MoM sa in the previous month is reflective of such phenomenon and is expected to persist in August. Further, global electronic cycle appears to be bottoming out. Growth in billings of semiconductor equipment is turning around while the pace of decline in global semiconductor shipments has eased. While the odds are against our view given that PMIs in most key markets are still in contraction mode, Singapore's August manufacturing and electronics PMIs have both inched higher for three consecutive months.

Taiwan: Chances are high that Taiwan's central bank (CBC) will hold the discount rate steady at 1.375% during its quarterly review this Thursday. We see little pressure for the CBC to follow other central banks in the region to ease monetary policy. Growth has been faring better than expected in recent months, thanks to trade diversion and investment repatriation against the backdrop of China-US trade war. Exports and industrial production growth returned to positive territory in Jul/Aug (2.6%, 3.0% YoY). The government's GDP growth forecast for 2019 was revised up to 2.5% from 2.2% during the August review. Meanwhile, inflation remains muted on the back of weak global commodity prices (Aug CPI: 0.4%). Furthermore, financial conditions have eased compared to three months ago, thanks to the passthrough effects from global yield decline. We are comfortable with our forecast for the CBC to keep rates unchanged through the rest of 2019 and into 2020.

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