Economics

# Chart of the Week: Volatility has eased, but for how long?

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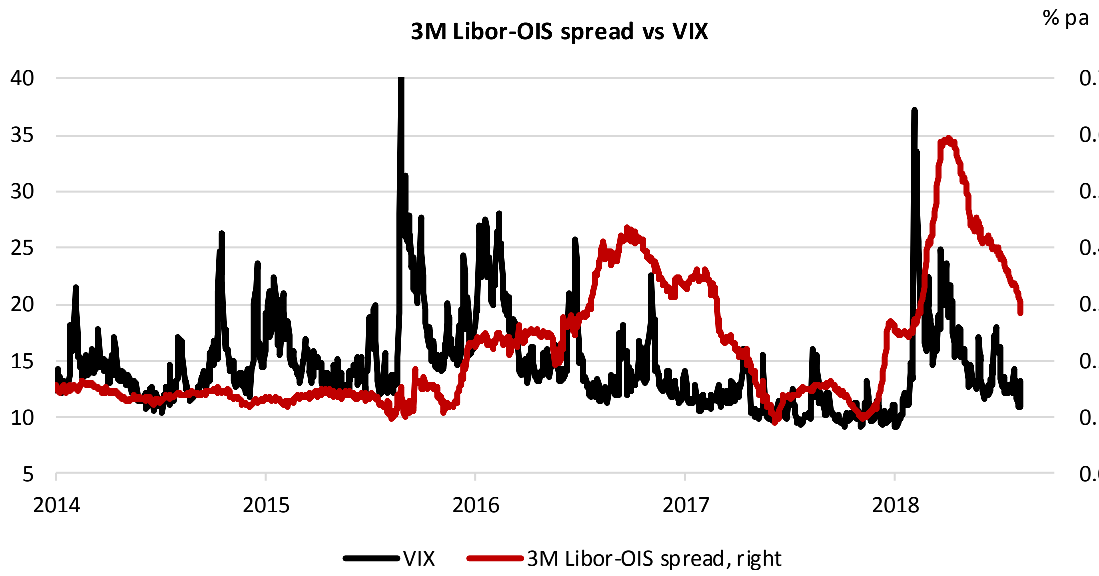
**Key Events:**

- *The Singapore economy grew 3.9% YoY (DBSf: 4.0%) in the second quarter, easing from 4.5% previously*
- *Bank Indonesia is expected to remain status quo on monetary policy*
- *Malaysia and Taiwan will likely register 2Q18 GDP growth of 5.2% YoY and 3.3% respectively*

## Chart of the Week: vols are down, but for how long?

*After a worrisome spike in early-2018, two key markers of market stress, the Libor-OIS spread and VIX, have eased considerably. This has taken place despite Fed rate hikes, sustained trade tensions, and a sharp depreciation of the RMB. Still subdued inflation, a supportive demand environment, and the lack of any major dislocations in the financial markets have helped this dynamic. As we head toward the final leg of the year, geopolitical tensions could resurface both in the US and the middle-east, while China's markets could feel further stress, causing volatility to rebound. Latest concerns about a financial crisis in Turkey may well mark a bottom for vols.*




Source: Bloomberg, DBS

| Event | Consensus | DBS | Previous |
|---|---|---|---|
| **Aug 13 (Mon)** | | | |
| Singapore: GDP (2Q, F) | 4.1% y/y | 4.0% y/y | 3.8% y/y |
| -- | 1.4% y/y | 0.8% q/q saar | 1.0% q/q saar |
| India: CPI (Jul) | 4.50% y/y | 4.3% y/y | 5.0% y/y |
| **Aug 14 (Tue)** | | | |
| China: retail sales (Jul) | 9.1% y/y | 8.9% y/y | 9.0% y/y |
| China: industrial production (Jul) | 6.3% y/y | 5.8% y/y | 6.0% y/y |
| China: fixed asset investment (Jul) | 6.0% y/y | 6.0% y/y | 6.0% y/y |
| Eurozone: GDP (2Q, P) | 0.3% y/y | 0.3% q/q sa | 0.3% q/q sa |
| -- | 2.1% y/y | 2.1% y/y | 2.1% y/y |
| **Aug 15 (Wed)** | | | |
| Indonesia: trade balance (Jul) | -USD 0.69bn | -USD0.6bn | USD 1.74bn |
| -- exports | 14.00% y/y | 10% y/y | 11.47% y/y |
| -- imports | 15.60% y/y | 12% y/y | 12.66% y/y |
| Indonesia: BI rate (Aug) | 5.25% | 5.25% | 5.25% |
| **Aug 16 (Thu)** | | | |
| Japan: trade balance (Jul) | -JPY 41.2bn | JPY 144.2bn | JPY 720.8bn |
| -- exports | 6.3% y/y | 4.2% y/y | 6.7% y/y |
| -- imports | 14.2% y/y | 8.8% y/y | 2.6% y/y |
| Malaysia: GDP (2Q) | 5.3% y/y | 5.2% y/y | 5.4% y/y |
| **Aug 17 (Fri)** | | | |
| Singapore: non-oil domestic exports (Jul) | 6.0% y/y | 8.8% y/y | 1.1% y/y |
| Eurozone: CPI (Jul, F) | 2.1% y/y | 2.0% y/y | 2.0% y/y |
| Taiwan: GDP (2Q, F) | 3.2% y/y | 3.3% y/y | 3.29% y/y |
| Hong Kong: unemployment rate (Jul) | 2.8% sa | 2.8% y/y | 2.8% sa |

**China:** Domestic demand will continue to slowdown in July, with projected retail sales growth ease to 8.7% from 9.4% in 2Q18. Likewise, industrial production would have moderated to 5.8% from 6.6% in 2Q18. This largely mirrors the contracting new export order component of the official manufacturing PMI (49.8 for 2 consecutive months) due to trade friction. On the investment front, fixed asset investment (FAI) should remain stable at 6.0% in July amid recent cut in required reserve ratio. This indicate the monetary policy stance turns more supportive. This will likely to support FAI in the months ahead.

**Hong Kong:** Thanks to robust local economic growth (real GDP rose 4.0% YoY in 1H18), the labor market should remain tight. Recovery in inbound tourism and domestic consumption (visitor arrivals and retail sales value increased 10.6% and 12.4% respectively in 2Q18 should support the labor market in July. The seasonally-adjusted unemployment rate is expected to stay at a 20-year low of 2.8%. Looking forward, the potential repercussion from the Sino-US trade friction on the stock market warrant attention. Hang Seng Index continue to test 27,500 in the July. The negative wealth effect to the local spending sentiment might blow headwinds to the retail sector as well as the labour market.

**Indonesia:** Bank Indonesia meets this week, with the decision likely to be a close call. Earlier this month, Governor Warjiyo reinforced the central bank's preference to be pre-emptive and vigilant on external risks. A small uptick in July inflation and above consensus 2Q GDP also adds to the case for further normalisation. On the other hand, market volatility has subsided lowering the urgency to tighten policy. Foreign outflows have ceased, while IDR bond yields (10Y/2Y) have eased since the last review. The benchmark equity index has trimmed YTD losses, with the exception of rupiah which is marginally weaker vs the USD compared to early-July. Tentative calm in the markets provide the BI to bide time, prompting us to call for a pause this week. The need for pre-emptive action, however, leaves the door open for a hike this quarter and another in 4Q. July trade numbers due on same day is likely to register 10% YoY increase in exports and 12% in imports, resulting in a small deficit ~USD0.6bn.

**India:** We head into a data-heavy and short trading week. From a peak of 5% YoY in June, CPI inflation is expected to moderate to 4.3% in July, notwithstanding a month-on-month rise. The seasonal rise in food inflation has been smaller than last year, which coupled with high base effects is likely to take the headline to 4% this quarter and next, before edging back up in the March 2019 quarter. Added to this is high fuel inflation, lifted by a combination of a weak currency and firm oil prices, together with rising services categories. The latter will keep core inflation above 6% YoY. The RBI monetary policy committee tightened policy pre-emptively with a 50bp hike in June and August and has entered a long pause for rest of 2018. July WPI inflation is expected ease to 5% YoY from 5.8% month before, while the July trade deficit corrects to -USD15bn from a multi-year high of -USD17bn in June. Exports growth should get a boost from low base effects, while a high commodity and electronics bill keeps imports high.

**Japan:** July trade data will likely show a slowdown in exports (4.2% YoY vs 6.7% in June) and acceleration in imports (8.8% vs 2.6%). Trade surplus has been shrinking in the past several months, due to the moderation in global demand and rise in oil prices. Net exports turned out to be a drag on GDP growth in 2Q. Thankfully, consumption and investment rebounded in 2Q on the back of favourable weather factors and supportive domestic policies. Overall growth, as a result, picked up to 1.9% (QoQ saar) from -0.9% in 1Q. Going forward, exports will likely face more headwinds in 2H18-2019, given the possible spillover effect from US-China trade tensions and Trump's threat of imposing tariffs on US automobile imports. The risks to our 2018-19 GDP forecasts (1.1%, 0.9%) are skewed to the downside.

**Singapore:** The Singapore economy grew 3.9% YoY (DBSf: 4.0%) in the second quarter, easing from 4.5% previously. On the margin, economic growth slowed to 0.6% QoQ saar, compared to 2.2% in 1Q18. While this is a step down from the pace registered in the previous quarter, the easing is nothing more than a normalization process amid the peaking of the electronics cycle and higher interest rates. Although the external outlook is becoming increasingly more challenging, particularly for a trade dependent economy like Singapore, second quarter growth had remained well supported by buoyant showing in the manufacturing sector (+10.2% YoY) and resilience in the services sector (+2.8% YoY).

That said, clouds in the horizon is gathering. The trade actions between Singapore's two largest export market, the US and China, could indirectly affect Singapore. Tighter liquidity conditions and mounting pressure on regional currencies could also weigh down on inventor's confidence and business sentiments. Watch trade figures in the coming months as tell-tale signs for that matter. Expectation is for third quarter's growth to be the weakest this year, which will also par down consensus expectation for the full year growth rate. Our below consensus forecast of 3.0% for 2018 GDP growth remains on track. Meanwhile, the official forecast range has also remained at 2.5-3.5%.

Separately, expect a rebound in the headline non-oil domestic exports for July (due later this week) after a disappointing performance in the previous month. The headline number is likely to register 8.8% YoY, up from 1.1% previously. There could be some upside to electronics export figure, but the broad number is likely to remain in negative level given the easing in global demand. Biomedical exports could spring some surprises while engineering equipment may add some impetus. Nevertheless, some low base effects are at play in lifting the headline number. The key figure to watch is the month-on-month series, which could give a better indication on the direction of export performance. In this regard, the risk is on the downside given an increasingly challenging external environment.

**Malaysia:** GDP growth for the second quarter is expected to register 5.2% YoY. Though this is a marginal step down from 5.4% in the previous quarter, overall economic outlook remains sanguine. Domestic demand will remain the key driver while net exports could turn out to be a drag. Private consumption will likely stay at about 7% given the improvement in employment prospects and pre-election budget measures, while investment could see renewed impetus from a healthy pipeline of infrastructure projects after the disappointment in the first quarter (0.1% YoY). Government spending could spike up against the backdrop of the election in the second quarter. Though export sales were buoyant in the second quarter, rising to 8.4%, from 6.0% in 1Q18, the pick-up in import growth was a lot stronger. Import rose to 8.1%, from -0.3% over the same period. For that, expect net exports to become a drag on growth once again.

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