Economics

Chart of the Week: DMFX to outperform EMFX

Group Research

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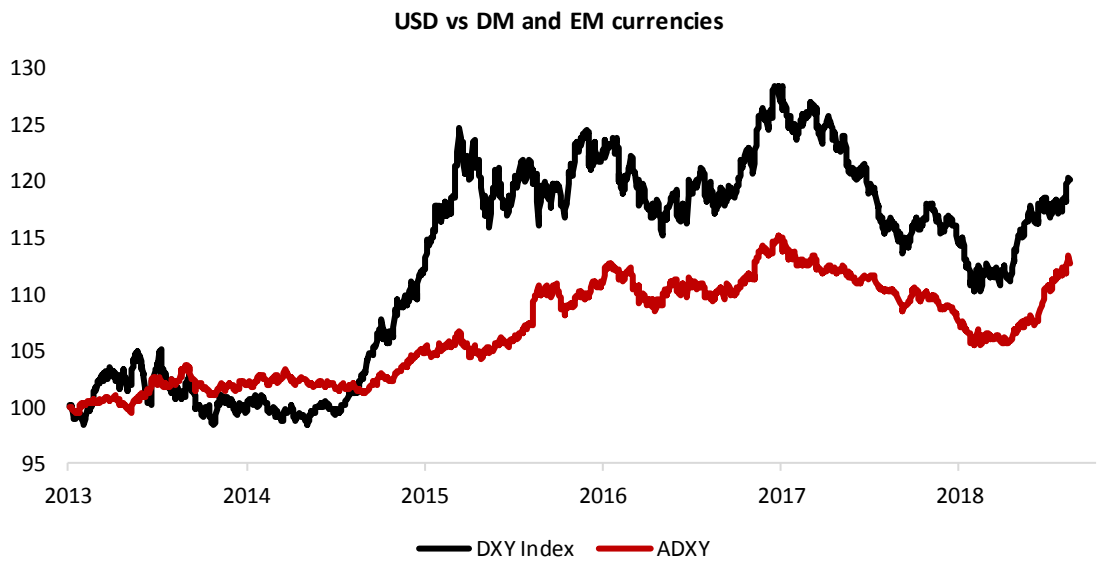
Key Events:

- *CPIs of Japan, Singapore and Hong Kong are expected to accelerate.*
- *Taiwan's export orders and industrial production will rebound. Yet, downside risk remains.*
- *Industrial production growth of Singapore is projected to slow down despite low base effects.*

Chart of the Week: USD against DM and EM currencies

The US dollar has appreciated against the developed (EUR, GBP, JPY) and emerging market (INR, IDR, CNY) currencies in recent years, but is there a chance that the two series (DXY, reflecting the USD against developed market currencies, and ADXY, reflecting USD against the Asian EM currencies) may not move in tandem going forward? We think that trade wars, uncertainty in the middle-east, and China slowdown will hurt EM demand and sentiments more than they would affect DM. Especially with growth surprises between the US and EU narrowing lately and the Japanese economic outlook improving, DXY could lose momentum. As for EM currencies, much will depend on China and oil.



Source: Bloomberg, DBS

Event	Consensus	DBS	Previous
Aug 20 (Mon)			
Taiwan: export orders (Jul)	2.1%y/y	3.0%y/y	-0.1% y/y
Aug 21 (Tue)			
Hong Kong: CPI (Jul)		2.5% y/y	2.4% y/y
Aug 23 (Thur)			
Taiwan: industrial production (Jul)	3.0% y/y	3.8% y/y	0.4% y/y
Singapore: CPI (Jul)		0.8% y/y	0.6% y/y
Aug 24 (Fri)			
Japan: CPI (Jul)	1.0%y/y	1.0%y/y	0.7%y/y
Singapore: industrial production (Jul)		6.7% y/y	7.4% y/y

Singapore: CPI inflation and industrial production (IPI) figures for July are on tap this week. Headline inflation is expected to rise a tad to 0.8% YoY, up from 0.6% previously. A lower base in the same period last year and higher energy prices would likely filter through to transport cost. However, the main downside risk would stem from the soft rentals and potentially lower COE premiums. Nevertheless, inflation has bottomed and much now depends on the gradient of the its upward trajectory going forward.

Industrial output for the month is likely to moderate to 6.7% YoY, from 7.4% in June. While latest July non-oil domestic exports (NODX) registered a buoyant showing of 11.8% YoY, this can be attributed to an extremely low base effect in pharmaceuticals. Pharmaceutical exports recorded SGD 779mn in Jul17, the lowest since Dec08, thereby resulting in the positive technical lift for the YoY figure. Such effect may not necessarily be manifested in the industrial figures. Nonetheless, there has been some mild improvement in electronics exports (2.1% in Jul18 vs -7.9% previously). This may provide some impetus to the overall manufacturing growth.

Japan: CPI inflation is expected to have risen to 1.0% YoY in July, up from 0.7% in June and the highest over four months. To a large extent, this should be attributed to global oil price increases and domestic weather abnormalities (heavy rains and a record-breaking heat wave in July). The wage-driven inflation, which is captured by CPI less fresh food and energy, is expected to have remained subdued at 0.3%. A temporary rise in inflation, as a result of oil and weather factors, is unlikely to trigger any policy changes from the BOJ.

Taiwan: Export orders are expected to have rebounded to 3.0% YoY in July after slipping by -0.1% in June. Industrial production, meanwhile, is projected to have risen to 3.8% from 0.4% during the same period. Risks are on the downside, however, given the faster-than-expected slide in China's manufacturing activities in July amid deleveraging pressures and trade-war uncertainties. The temporary factory shutdown in Taiwan's TSMC, as a result of a computer virus outbreak earlier this month, may also disrupt local production activities and cause a delay in export shipments (which will be reflected in Aug-Sep figures).

Hong Kong: Consumer price should rise at a faster pace of 2.5% YoY in July, from 2.4% in June. The robust domestic economic conditions in 1H18 (GDP grew by 4.0% YOY) and the fed through of higher rent over the past year should uphold pricing pressure. Yet, the acceleration of inflation should remain in check. Pressure on import prices is expected to be moderate 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 control the inflation at a moderate level.

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