Economics

Chart of the Week: China slowdown still marginal

Group Research

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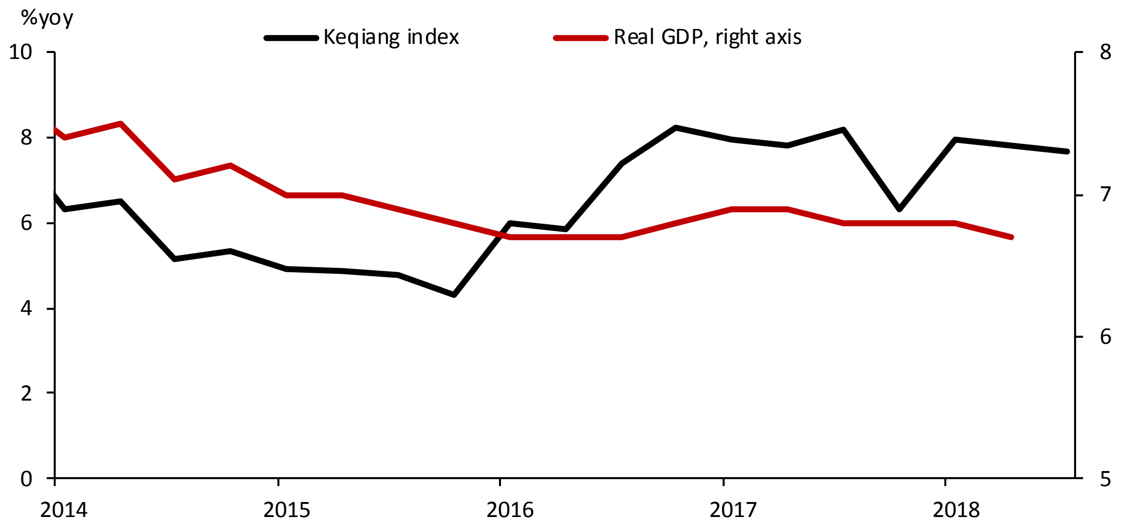
Key Events:

- *Data out from China will likely show that domestic demand has remained weak in August.*
- *India's inflation should have eased in August due to seasonal weakness in food prices.*
- *Looking for cues for the ECB to reduce asset purchases.*

Chart of the Week: Li Keqiang index shows only mild slowing of real GDP momentum in Q3

We revive the Li Keqiang index, constructed with the favourite economic indicators of China's Premier of the State Council. The indicators, railway freight, electricity consumption, and credit growth, show decent growth through July, although the momentum of the first two indicators has slowed considerably over the past year, while loans growth is holding up. We expect the trend to last through the third quarter, culminating in GDP growth only a tad lower than in 2Q. On the external front, there is considerable uncertainty, but we don't expect the frictions to show up in the data before 4Q.

China: Real GDP and the Li Keqiang index



Source: CEIC, DBS. The Keqiang index is a weighted composite of three growth relevant variables--railway freight, electricity consumption, and credit growth. The weights are obtained from a regression of real GDP as the dependent variable and the Keqiang indicators as independent variables.

Event	Consensus	DBS	Previous
Sep 10 (Mon)			
Japan: GDP (2Q F)	2.6% q/q saar	2.3% q/q saar	1.9% q/q saar
China: CPI (Aug)	2.1% y/y	2.3% y/y	2.1% y/y
China: PPI (Aug)	4.0% y/y	4.0% y/y	4.6% y/y
Sep 11 (Tue)			
Philippines: exports (Jul)	3.5% y/y		-0.1% y/y
- imports	27.0% y/y		24.2% y/y
- trade balance	-USD3.20bn		-USD 3.35bn
Sep 12 (Wed)			
India: CPI (Aug)	3.8% y/y	3.7% y/y	4.2% y/y
India: industrial production (Jul)	6.7% y/y	6.3% y/y	7.0% y/y
India: exports (Aug)		24% y/y	14.3% y/y
- imports		30% y/y	28.8% y/y
- trade balance	-USD17.0bn	-USD16.5bn	-USD 18.02bn
Sep 13 (Thu)			
Eurozone: ECB main refinancing rate	0%	0%	0%
- ECB deposit facility rate	-0.4%	-0.4%	-0.4%
US: CPI (Aug)	2.8% y/y	2.9% y/y	2.9% y/y
Sep 14 (Fri)			
China: retail sales (Aug)	8.8% y/y	8.5% y/y	8.8% y/y
China: industrial production (Aug)	6.1% y/y	5.8% y/y	6.0% y/y
China: fixed asset investment (Aug)	5.7% y/y ytd	5.7% y/y ytd	5.5% y/y ytd
US: retail sales (Aug)	0.6% m/m sa	0.6% m/m sa	0.5% m/m sa
US: industrial production (Aug)	0.3% m/m sa	0.2% m/m sa	0.1% m/m sa
IN: WPI (Aug)	4.7% y/y	4.5% y/y	5.1% y/y

China: Domestic demand should have continued to slow in August. Retail sales growth is projected to have eased to 8.5% YoY from 8.8% in July. Likewise, industrial production would have moderated to 5.8% from 6.0%. This largely mirrors the contraction in new export order component of the official manufacturing PMI (below 50 for 3 consecutive months), due to increasing trade frictions. On the investment front, fixed asset investment (FAI) should have bounced back somewhat to 5.7% in August, thanks to July's RRR cut. Looking ahead, the PBOC will likely offer more longer-term cash via MLF to offset the impact of increasing supply of local government bonds. This will in turn render some support to FAI. On inflation, the higher import commodity prices and the strengthening USD would continue to add upward pressure to both CPI and PPI. Food prices may also rise in the coming months due to the widespread pig disease.

Eurozone: This week's European Central Bank (ECB) meeting will be important on a few counts. Markets will look for cues for the ECB to lower asset purchases in 4Q, from the current quantum of EUR30bn/ month. Expectations are that QE will be halved in 4Q, before ceasing the program in December. Inflation is hovering at the 2% target since May 2018, albeit driven primarily by cost-push prices i.e. higher transport/ energy costs. While policy normalisation is still some time away, we believe that a combination of relatively stable growth (at 2%+ levels), modest pick-up in wage conditions and firm headline inflation are sufficient for the ECB to consider a gradual withdrawal from QE. Developments in Italy are, however, a wild card as the new government seeks to increase fiscal spending in its upcoming Budget (27 Sep) to support its slowing economy, at the risk of breaching the bloc's fiscal thresholds.

India: In this data heavy week, August CPI inflation is likely to slow to slip below the 4% target to 3.7% YoY from 4.2% in July. A seasonally weak period for food inflation will help offset the impact of rising fuel/ transport costs. High global oil prices coupled with a weak rupee have sent domestic fuel prices to record highs in recent sessions. Yet far, the government has been steadfast in its efforts to protect fiscal revenues by not lowering fuel excise duties, but likely to impinge on consumers' purchasing power. For the RBI, the policy path is likely to get challenging in the run-up to the October policy review as inflation is slowing at a time when market volatility is high, and the rupee is at a record low vs the US dollar. If the rupee remains under pressure, the RBI might be forced to hike rates citing risks to inflationary expectations and second order impact of a weak currency. August WPI inflation, due on Friday, is seen at 4.5% YoY from July's 5.1%.

Industrial production in July likely rose 6.3% YoY, not different from 7% in June, but the MoM pace is likely to moderate. Jittery sentiments and rising inputs costs have softened manufacturing PMIs in last two months, with lower cement, oil and coal output also slowing infra output modestly. August trade deficit, due around mid-Sep, is likely to only correct slightly to USD 16.5bn from July's USD18bn.

Japan: The 2Q GDP growth has been revised up to 3.0% (QoQ saar) from 1.9%, according to the final estimate released this morning. Risks to the 2H outlook, however, are on the downside. The typhoon and earthquake that struck Japan last week have disrupted power supply and transport networks in Kansai and Hokkaido, which is expected to drag down consumption and industrial production growth in 3Q. Externally, concerns continue to mount regarding the impact of US-China trade war and whether Japan will become Trump's next target. Against such a backdrop, the Bank of Japan is expected to reinforce the yield curve control and keep the 10Y yield well below the upper limit of the target band (0.2%) in the near term. Meanwhile, PM Abe is expected to re-pledge to focus on the economy in the runup to the LDP leadership election on 20 September, such as compiling a supplementary budget to provide disaster relief, proposing measures to reform the social security system and tackle population aging.

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