Economics

Chart of the Week: Asia's product and sectoral exposure to trade disruption

Group Research

1 October 2018

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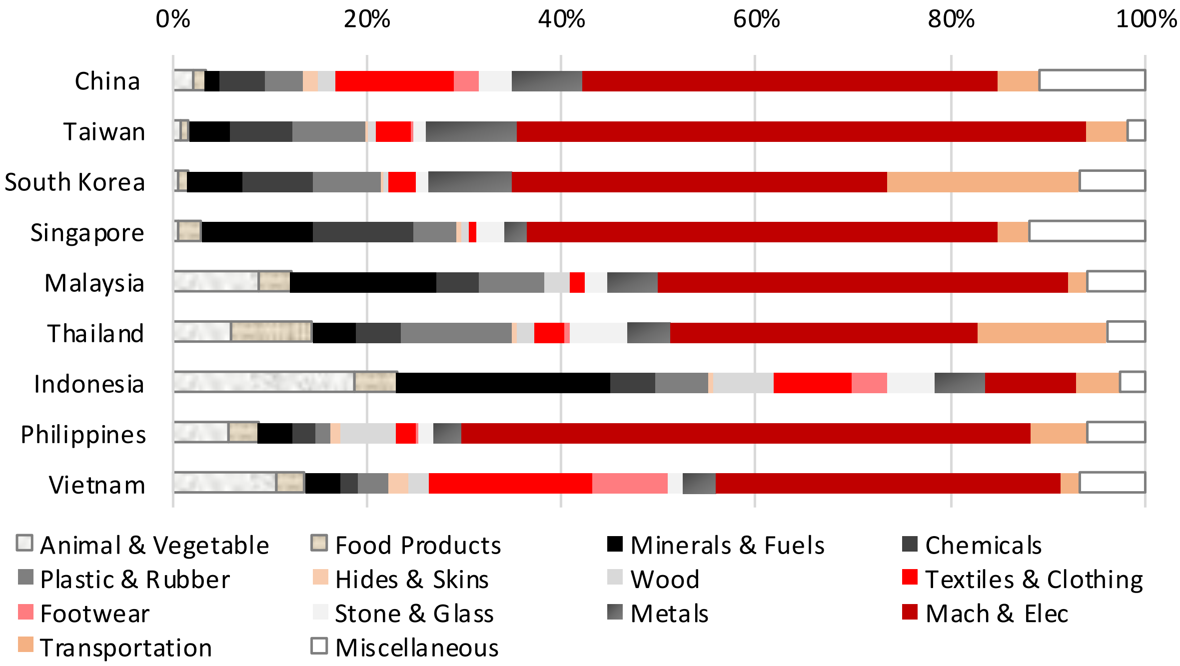
Key Events:

- *The Reserve Bank of India is expected to deliver a further 25bps rate hike this week.*
- *Inflation in South Korea and Taiwan should have risen in September due to festive effect and oil price increase.*
- *By contrast, inflation in Thailand and Indonesia should have eased slightly last month.*

Chart of the Week: Asia's product/sectoral exposure to trade disruption

Electronics is the key manufacturing sector for most Asian economies. Machinery and electrical equipment account for 50-60% of total exports for the Philippines, Singapore, and Taiwan, and 40% for China, Malaysia, and South Korea. In contrast, Indonesia, Thailand and Vietnam have a relatively more diversified export product portfolio, tilted towards commodities, automobiles and textiles/footwear, respectively. In terms of the export exposure to the Chinese market, South Korea's and Taiwan's exposures are the highest (more than 25% of total exports), and ASEAN's is relatively low (10%-15% of total exports).

Product distribution of Asia's exports



Source: World Bank, DBS.

Event	Consensus	DBS	Previous
Oct 1 (Mon)			
Korea: exports (Sep)	-5.5% y/y	-4.7% y/y	8.7% y/y
- imports	4.4% y/y	9.4% y/y	9.4% y/y
- trade balance	USD8010mn	USD6917mn	USD6853mn
Thailand: CPI (Sep)	1.2% y/y	1.3% y/y	1.6% y/y
Indonesia: CPI (Sep)	3.1% y/y	3.1% y/y	3.2% y/y
US: ISM manufacturing (Sep)	60.0	60.0	61.3
Oct 2 (Tue)			
Korea: industrial production (Aug)	1.3% y/y	1.3% y/y	0.9% y/y
Hong Kong: retail sales value (Aug)	8.3% y/y	7.0% y/y	7.8% y/y
- volume		5.5% y/y	5.9% y/y
Oct 5 (Fri)			
Korea: CPI (Sep)	1.6% y/y	1.5% y/y	1.4% y/y
Malaysia: exports (Aug)	7.0% y/y	2.6% y/y	9.4% y/y
- imports	6.7% y/y	5.8% y/y	10.3% y/y
- trade balance	MRY9.1bn	MYR7.9bn	MYR8.30bn
Taiwan: CPI (Sep)	1.9% y/y	1.9% y/y	1.53% y/y
India: RBI repurchase rate	6.75%	6.75%	6.5%
US: change in nonfarm payrolls (Sep)	185k	185k	201k

Hong Kong: Retail sales are expected to have increased by 7.0% YoY (5.5%) in value (volume) terms in August, a slower pace than 7.8% (5.9%) in July. Although local consumption sentiments are well supported by rising wages of low-skilled workers (3.8% YoY in 2Q18) and a falling unemployment rate (20-year low of 2.8% in August), the outlook is clouded by the consolidating equity market amid an intensifying Sino-US trade war. Looking forward, tourist spending is also likely to moderate due to a weak CNY that constrains the purchasing power of Chinese visitors.

India: The Reserve Bank of India's monetary policy committee will likely announce, on October 5, a further 25bps hike in policy rates, with more to follow. External challenges stem from US monetary policy normalisation, just as oil prices are rising sharply. At home, volatile financial markets have kept the rupee at record lows. For the INR credit markets, spillover worries from a domestic non-bank financial institution's default continues to hurt risk-appetite. In this midst, inflation slipped below target in August and will stay benign in September-October, lowering the urgency for a rate hike. However, we expect the RBI to deliver a hike, emphasising the forward-looking nature of monetary policy, as high oil prices and a weak rupee, risk hardening inflationary expectations and disrupt the benign inflation outlook.

Indonesia: September inflation is likely to ease a touch to 3.1% YoY from 3.2% month before. In recent months, contribution of food inflation has largely dictated the direction of the headline, whilst utilities and fuel components are steady despite a sharp rise in global crude prices. This divergence is also reflected in the administered vs volatile sub-components, where in administered cost pressures (due to price freeze) have continued to ebb whilst the volatile component, which bottomed out in late-2017, has drifted higher. In all, year-to-date inflation is still benign at 3.3% YoY, slightly below the mid-point of the target range. Rupiah stability has, however, been a larger catalyst for policy action since 2Q, than the price outlook. After September, we look for another 25bp hike in 4Q18.

Malaysia: Trade data is due this week. There could be some glimpse of the trade war effects. Export growth is expected to ease to 2.6% YoY, from 9.4% previously. Plainly, the strong showing in the previous month is more likely due to some manufacturers frontloading their orders ahead of the US tariff hikes. Hence, a fall back to reality should not be discounted. The underlying trend is still towards a single digit export growth, which is more in line with the backdrop of normalisation in monetary policies and gradual tightening in global liquidity conditions. Import growth is projected to ease to 5.8% as domestic investment and consumption demand moderate post-election. This should bring overall trade balance to MYR 7.9bn, a step down from MYR 8.3bn previously.

South Korea: CPI inflation is projected to have risen slightly to 1.5% YoY in September from 1.4% in August. Food and energy prices should have gone up, due to the festive effect and oil price increases. Thankfully, the base effect for CPI has remained favourable as of September. Meanwhile, the underlying price pressure has remained tame as the labour market is weak, domestic demand is lukewarm and inflation expectations are well anchored. A benign CPI number will provide leeway for the Bank of Korea, allowing it to keep rates unchanged at the next meeting on 18 October.

Thailand: CPI inflation is expected to have eased to 1.2% YoY in September from 1.6% month before, yet above January's 0.7%. Besides base effects, the pass-through of higher oil prices through the transport and related components had propped up the headline in recent months. While imported pressures persist, base effects are likely to fade into 4Q, softening readings accordingly. Meantime, the BOT has grown confident on the economy's growth prospects (1H: 4.7% YoY), even as it can be patient in raising rates, as inflation has only recently risen back into the BOT's 1-4% target range. With Thai baht also being a regional outperformer, the pressure to hike rates to stabilise its exchange rate is also lower.

Taiwan: CPI inflation is expected to have risen to 1.9% YoY in September from 1.5% in August. Prices of fresh food, housekeeping and some other services items should have gone up, due to the Mid-Autumn Festival and a strong Typhoon that hit South China last month. Transportation fees should also see a hike, given that Brent oil prices surpassed USD80/barrel in September and the US dollar stayed on the strong side. The central bank (CBC) downplayed inflation risks at the latest meeting on 27th September, saying that CPI will ease in 4Q18-2019 due to a slower rise in oil prices and fading impact of tobacco tax hike. The CBC also cautioned against the risk of GDP growth slowdown in 2H18-2019 due to heightened external uncertainties. There is little sign that the CBC will follow the Fed to raise rates anytime soon.

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