Economics

Chart of the Week: Global nickel price and Indonesia

Economics/Strategy/Rates

Group Research

October 7, 2019

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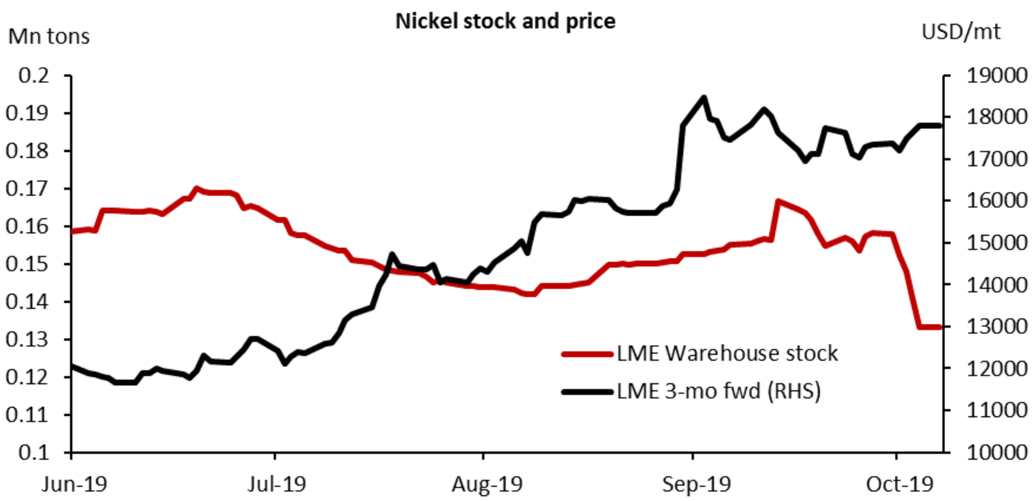
Key Events:

- *Industrial production might improve slightly in Malaysia due to front-loading of orders ahead of a new round of tariffs. While India industrial production is likely to decline.*
- *Trade performance in the region varies. Philippines is likely to still register trade deficit on the back of imports acceleration as infrastructure projects starts ramping up.*
- *While Taiwan could outperform peers as investment repatriation and trade diversion might lift Taiwan onshore production.*

Chart of the Week: Impact of Indonesia's nickel ore export ban on world prices

Indonesian authorities have announced an export ban on nickel ore, effective January 1, 2020, two years earlier than expected. As the world's largest producer of nickel ore, Indonesia's nickel stock accounts for almost 25% of global supply. Since the announcement in end-Aug, nickel price soared by 18% through Sep 2nd, moderating somewhat thereafter. Inventories in warehouses as monitored by the London Metal Exchange (LME) have fallen by almost 16% since Sep 30th.



Event	Consensus	DBS	Previous
Oct 7 (Mon)			
Taiwan: exports (Sep)	0.8% y/y	-1.6% y/y	2.6% y/y
- imports	-3.7% y/y	-7.7% y/y	-2.7% y/y
- trade balance	USD 5.79bn	USD 5.83bn	USD5.98bn
Oct 10 (Thu)			
Philippines: exports (Aug)	1.3% y/y	4.1% y/y	3.5% y/y
- imports	-0.2%y/y	-2.1% y/y	-4.2% y/y
- trade balance	-USD3.64bn	-USD3.14bn	-USD3.39bn
US: CPI (Aug)	1.8% y/y	1.8% y/y	1.7% y/y
Oct 11 (Fri)			
Malaysia: industrial production (Aug)	2.3% y/y	1.8 % y/y	1.2% y/y
India: industrial production (Aug)	1.80%	-2.0% y/y	4.3% y/y

India: Following a firm print in July, we expect industrial production to decline 2% YoY in August, dragged by weaker electricity and manufacturing output. Core industries output had pointed to a broad-based deceleration in activity, particularly coal, steel and cement, which don't bode well for industrial and infrastructure output. These coupled with other high frequency data – car sales, PMIs, imports of capital goods etc. – reinforce a softening trend of growth in 3Q19. Cognizant of a weaker growth momentum, the central bank and the government have undertaken steps to boost growth, which will continue in 2020 as well.

Malaysia: Industrial production index for August is expected to register a marginal improvement to 1.8% YoY, up from 1.2% previously. While front-loading of orders ahead of a new round of tariffs may prompt possible upside surprise, the overall performance is still considered sub-par compared to the average 3% expansion year to date. PMIs in key markets have turned out mixed. Industrial output and export performance in neighboring market Singapore has been disappointing. Trade war between the US and China is still ongoing. While there has been some degree of trade diversion favoring Malaysia, the positive effects are limited to some specific clusters. In addition, latest August export contracted by 0.8% YoY, which further underscores the headwinds on the manufacturing sector. A more broad-based improvement in global outlook would be required to lift production output in a sustained manner. And that appears unlikely given the gloomy global economic landscape.

The Philippines: August trade numbers are due this week. Exports are expected to continue its x months expansion, by 4.1% YoY and imports contracting at -2.1% YoY resulting in a trade deficit of USD3.14bn from a deficit of USD3.39bn last month. Imports are likely to start accelerating on the back stronger growth in 2H19 and healthy pipeline of government-funded infrastructure projects. In addition, the house of representative has approved on second reading a resolution to extend 2019 budget validity to 2020 due to this year's budget impasse, which means more infrastructure projects could be executed in 2020, which could accelerate imports starting in 4Q19. Given below-expectation growth in 1H19, sluggish trade and weak inflation, we think BSP might have room for another policy rate cut in 4Q19 and 1Q20.

Taiwan: September trade figures are due today. Exports are expected to contract -1.6% YoY, down from the 2.8% in August, but still outperforming export orders by a wide margin (-8.3% in August). The divergence between export orders and exports has become notable in recent months, including in the key electronics sector. Overseas demand conditions remained sluggish, in the context of global growth slowdown and the spreading of trade protectionism. But investment repatriation and trade diversion helped to lift onshore production and shipment activities. This suggests that Taiwan's GDP may outperform some of the other trade-dependent economies in the region in 2H19.

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