Economics

Chart of the Week: China's weakening monetary policy transmission

Group Research

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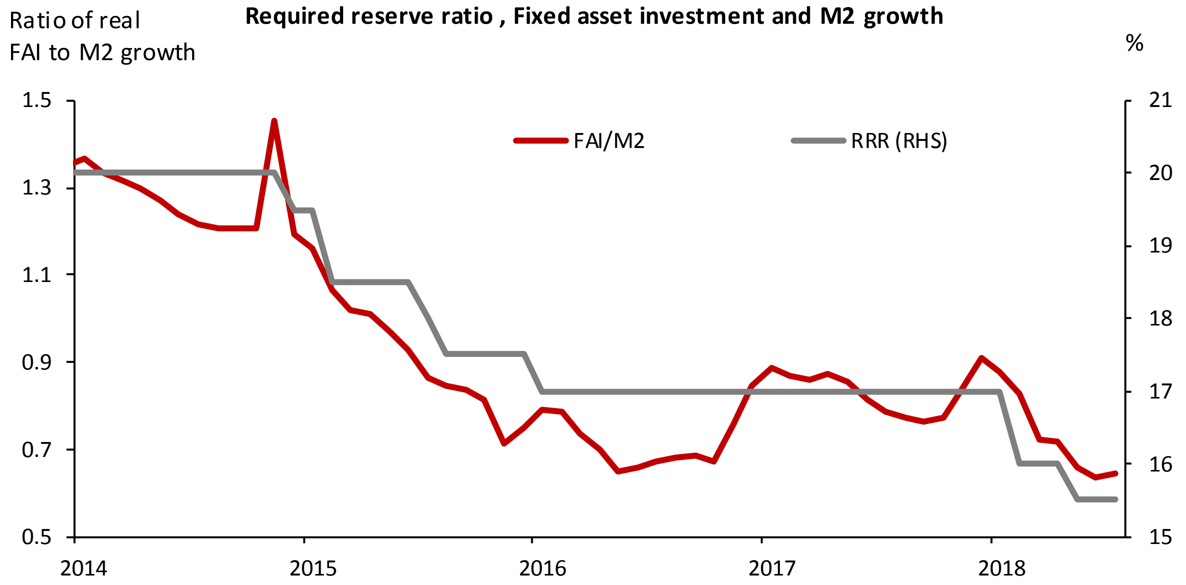
Key Events:

- *Singapore's 3Q GDP estimates could be revised marginally down to 2.5% YoY due to weaker than expected performance in the manufacturing sector.*
- Thailand's GDP growth is expected to lose its momentum modestly to 4.3% YoY from 4.6% in 2Q.
- *Japan, Malaysia and Hong Kong's CPI should have pick up in the latest month.*

Chart of the Week: China's weakening monetary policy transmission

As deleveraging has progressed and economic growth has slowed, the People's Bank of China (PBOC) has gradually eased its monetary policy stance in recent years. The required reserves ratio (RRR) has been cut steadily, freeing up banks' resources for further financial intermediation; furthermore, lately signals have been sent to provincial governments and state-owned enterprises to speed up spending and investment. But the chart below shows that the RRR cuts have not accomplished much yet. In fact, the ratio of real growth of investment to real M2 growth has been on a downtrend since 2015, i.e. the elasticity of investment with respect to money injection has been going down. It appears that in order to arrest the ongoing slowdown, the Chinese authorities would need to take much greater easing measures than would have been warranted just a few years ago.



Source: Bloomberg, DBS Group Research

Event	Consensus	DBS	Previous
Nov 19 (Mon)			
Japan: exports (Oct)	8.9% y/y	4.1% y/y	-1.3% y/y
- imports	14.1% y/y	11.0% y/y	7.0% y/y
- trade balance	-JPY43.8bn	-JPY155.6bn	JPY131.3bn
Thailand: GDP (3Q)	4.2% y/y	4.3% y/y	4.6% y/y
Nov 20 (Tue)			
Taiwan: export orders (Oct)	4.0% y/y	3.8% y/y	4.2% y/y
Hong Kong: CPI (Oct)	2.7% y/y	2.8% y/y	2.7% y/y
Nov 21 (Wed)			
Thailand: customs exports (Oct)	3.5% y/y	4.5% y/y	-5.2% y/y
- customs imports	6.4% y/y	6.0% y/y	9.9% y/y
- customs trade balance	-USD0.2bn	-USD0.11bn	USD0.49bn
Nov 22 (Thu)			
Japan: CPI (Oct)	1.4% y/y	1.4% y/y	1.2% y/y
Singapore: GDP (3Q; F)	2.4% y/y	2.5% y/y	2.6% y/y
--	3.9% q/q saar	4.4% q/q saar	4.7% q/q saar
Nov 23 (Fri)			
Taiwan: industrial production (Oct)	4.0% y/y	3.2% y/y	1.54% y/y
Singapore: CPI (Oct)	0.8% y/y	1.0% y/y	0.7% y/y
Malaysia: CPI (Oct)	0.6% y/y	0.6% y/y	0.3% y/y

Singapore: Third quarter GDP and October CPI inflation figures are due this week. The headline growth number could be revised marginally down to 2.5% YoY (4.4% QoQ saar). The downward revision stems mainly from a weaker than expected performance in the manufacturing sector although some upward revision in the construction and services sectors could help offset the decline.

Besides the high base effect which weighed down on the year-on-year figures, the better sequential growth number does suggest some degree of resilience in the economy. That said, there are concerns regarding the risk aversion and higher interest rates taking a toll on the financial markets, and property cooling measures weighing down on the business service (i.e., real estate) sector. Electronics cycle has peaked, and demand is weakening. Trade war could also add salt to wound in the coming quarters. In short, external headwinds has picked up, and there are increasingly more downside risks to growth.

Meanwhile, inflationary pressure has remained subdued. Though CPI inflation for October could inch higher to 1.0%, from 0.7% previously, it is still low compared to historical standards and against the backdrop of higher oil prices. Essentially, demand pull inflationary pressure is lacking amid a softer growth outlook. Overall CPI inflation could potentially fall slightly below our expectation of 0.7% for the full year.

Malaysia: CPI inflation for October to expected to inch higher to 0.6% YoY, up from 0.3% previously. The reintroduction of the Sales and Services Tax (SST) after the GST was scraped, could essentially see inflation reading picking up gradually in the coming months. Yet, growth momentum is slowing down, which implies weaker demand-pull price pressure. Indeed, while we expect inflation to rise above the 1% level in the coming months, overall inflation outlook remains subdued. There is risk that full year inflation could come in lower than our previous forecast of 1.3%.

Japan: The nationwide inflation figures are due this week. As inferred from the preliminary data for Tokyo, headline CPI should have picked up to 1.4% YoY in October from 1.2% in September, while core CPI and core-core CPI should have remained stable at 1.0% and 0.3% respectively. The underlying price dynamic remains relatively weak for the time being, in light of modest wage gains and lukewarm consumption demand. The 3Q GDP (-1.2% QoQ saar) released last week disappointed on all the fronts, due to the deterioration in overseas demand and the disruptions of natural disasters. Macro picture suggests that the BOJ will maintain a loose monetary policy in the rest of this year and into 2019.

Hong Kong: Consumer prices are expected to rise at a faster pace of 2.8% YoY in October, compared to 2.7% in September. Robust domestic economic conditions in 1-3Q18 (GDP: 3.7% YoY) and the feed through of higher rents over the past year should uphold inflationary pressures. The upward adjustment in public housing rentals also fueled the consumer inflation. The widespread pork disease and increase in vegetable price in China might continue to boost imported food costs. However, pressure on overall import prices should stay at moderate level due to a strengthening US dollar and weakening CNY.

Taiwan: Export orders and industrial production (October) are on tap this week. We look for a slowdown in export orders to 3.8% YoY (vs 4.2% in Sep) and a technical rebound in industrial production to 3.2% (vs 1.5%). The actual export shipments have been faring well as of October (7.3%). But manufacturing PMI fell sharply to 48.7, 2ppt lower than in the previous month and below the 50 mark for the first time since May 2016. Apparently, business sentiment has begun to sour after two rounds of US tariffs imposed on Chinese products took effect. What remains to be seen is how seriously the hard data will be affected. Our full-year GDP forecast implies 2.0% growth in 4Q, a moderate slowdown compared to the 2.3% in 3Q. Risks are still skewed to the downside.

Thailand: The week kickstarts with Thai 3Q GDP numbers today. We expect a modest loss in momentum to 4.3% YoY from 4.6% in 2Q, which in turn was slower than 4.9% at the start of the year. Domestic drivers will still be the main contributor but moderate from a strong start. Consumption and confidence indices came off highs, alongside easing farm incomes (also reflected in slower non-durables demand). Net goods trade was likely a negative contributor for a third successive quarter as exports softened in 3Q. October customs trade balance likely posted a small deficit for a fourth time this year. The BOT committee, however, continues to build the case for policy normalisation, signalling a hike is near. Need to maintain financial stability and create policy buffer is expected to lead to a shallow rate hiking cycle in the coming quarters.

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