Economics & Strategy Weekly

# Weekly: Asia's softened property and equity markets

**Economics/Strategy/Rates/FX/Equities**

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**Taimur Baig**
Chief Economist
taimurbaig@dbs.com

**Radhika Rao**
Economist
radhikarao@dbs.com

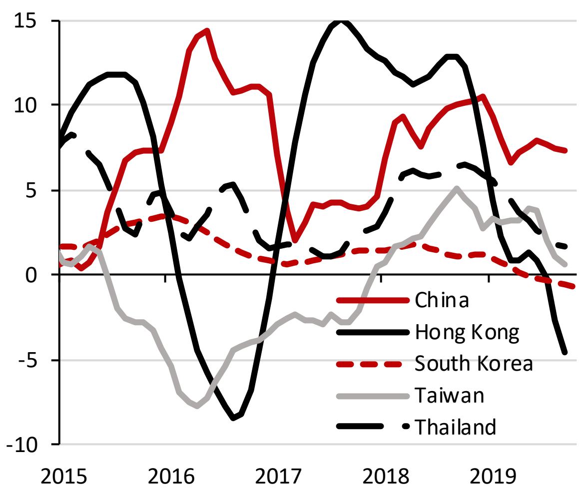
**Please direct distribution queries to**
Violet Lee +65 68785281 violetleeyh@dbs.com


- *Economic slowdown and geopolitical uncertainties have taken a large amount of froth out of Asia's property and equity markets in recent years.*
- *On the property side, residential property price growth has moderated across the region.*
- *This has been mostly driven by growth and trade slowdown, but also in some cases policy orchestrated (China, Thailand, and Singapore).*
- *On equities, recent rally notwithstanding, North Asian stocks are subdued, valuation-wise. In contrast, four markets in Asean and South Asia look rather frothy—India, Indonesia, Malaysia, and Thailand.*

## Taking stock of Asia's property and equity market valuation

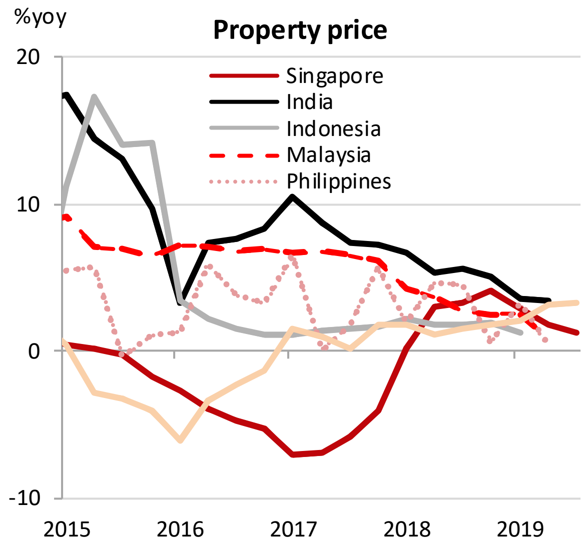
Trade war, investment uncertainty, soft patch in the electronic cycle, and unfavourable geopolitical dynamics have taken a large amount of froth out of Asia's property and equity markets in recent years. While the level of stock and equity prices is by no means low, there is a tell-tale lack of exuberance in the financial markets. Our analysis of regional property and stocks prices paints a fairly sobering picture.

On the property side, residential property price growth has moderated across the region in the past couple of years, mostly driven by growth slowdown, but also in some cases orchestrated by cooling measures (China, Thailand, and Singapore). Despite low rates and comfortable liquidity, economic uncertainties appear to be dominating the real estate market dynamic.



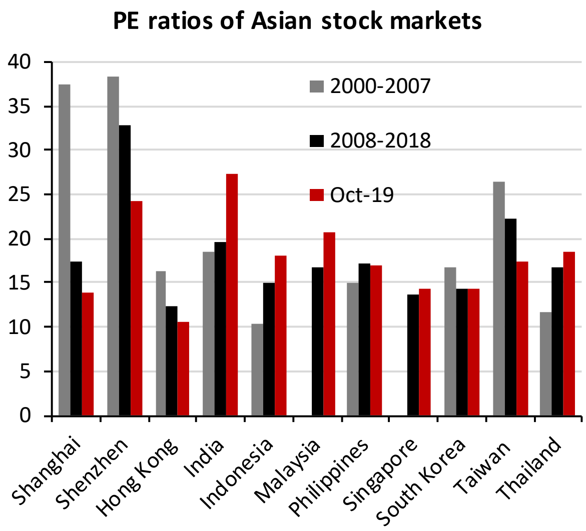
Source: CEIC, DBS

At the same time, with the exception of Hong Hong, which is coming off a very high base, there are no instances of outright decline in property prices in the region so far.




Source: CEIC, DBS

On equities, recent rally notwithstanding, North Asian stocks are subdued, valuation-wise. In contrast, four markets in Asean and South Asia look rather frothy—India, Indonesia, Malaysia, and Thailand. Investors appear to be betting on a subsantially improved 2020 for these economies.

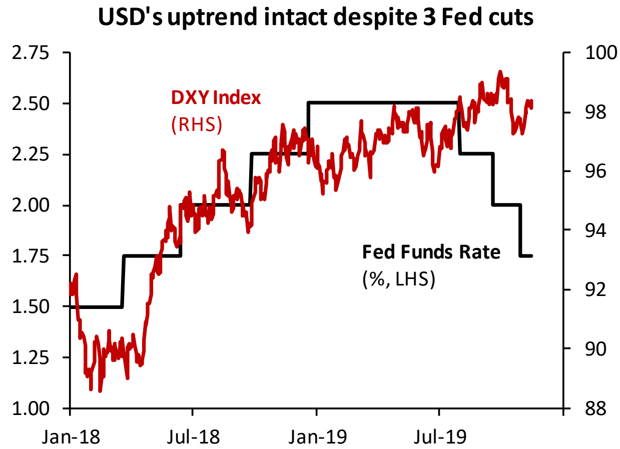



Source: Bloomberg, DBS

*Taimur Baig*

## FX: Forecasts realigned but risks remain

We have realigned our currency forecasts to the levels set after the risk rally in October. We have also **pushed out our forecast for the USD to peak into Q1 2020**. The Fed has completed its mid-adjustment cycle after its third cut in October. The USD Index (DXY) has remained resilient with the US economy amidst record high US stock markets.




Sources: DBS Research, Bloomberg data

While Germany and the UK have averted technical recessions, **monetary divergences have returned between the USD and its major DXY components**, the euro and the sterling. The European Central Bank has restarted its asset purchases program on November. For the first time this year, two Bank of England members voted for a rate cut at its monetary policy committee meeting on November 7.

**Although sentiment has improved, the global economy is still fragile.** The landscape remains for a tepid and uneven recovery in 2020 after the synchronized slowdown this year. To strengthen the outlook, China and the US must seek middle ground on tariffs to sign a Phase 1 trade deal. The UK snap election on December 12 needs to produce a majority government to resolve Brexit. Alarmed at the main parties' pledges to boost fiscal spending and borrowing without financing plans, Moody's has put UK's sovereign debt rating on negative watch.

Overall, the **odds for another relapse in trade tensions and Brexit risks cannot be totally discounted.** This was best reflected by the inability of the Chinese yuan and the British pound to appreciate past 7.00 and 1.30 respectively.

The global growth outlook is also held down by the largest economies in Europe and Asia. Although Germany's 3Q19 GDP growth came in at +0.1% QoQ saar instead of -0.1%, 2Q19's growth was revised down to -0.2% from -0.1%. While the finance ministry has played down the need for fresh fiscal stimulus, the economy ministry has been unwilling to signal a recovery.

Looking ahead in China, our economist expects sub-6% growth in 4Q19. China has, for the first time since 2016, lowered its 1Y medium-term lending facility rate to 3.25% from 3.00%. Having provided liquidity via cuts in the banks' reserve requirement ratios, China has started to lower funding costs for its small- and medium-sized companies.

Balancing between trade tensions and a slowing economy, we see the **yuan consolidating in a 7.00-7.20 range** for now. Without further yuan appreciation and more US rate cuts, **Emerging Asian currencies are also likely to return gains but we don't see many of them breaking out of this year's trading ranges.**

*Philip Wee*

## Rates: 10Y UST yields stall below 2%

**USD interest rates have been broadly drifting higher as excessive pessimism faded over the last two months.** Notably, the US yield curve has largely normalized (most segments of the curve are now upward sloping) and 10Y yields are now hovering in the upper half of the 1.5-2.0% range. There are two opposing forces pulling on US yields. In the short term, upside to yields is capped by lingering uncertainties on the China-US trade negotiations (positive news flow on the phase 1 trade deal has turned negative as progress has seemingly stalled) and persistent unrest in Hong Kong. Clearly, sentiment on both issues could change, but until that happens, **2% might be a difficult hurdle for 10Y US Treasury yields to clear in the short term.**

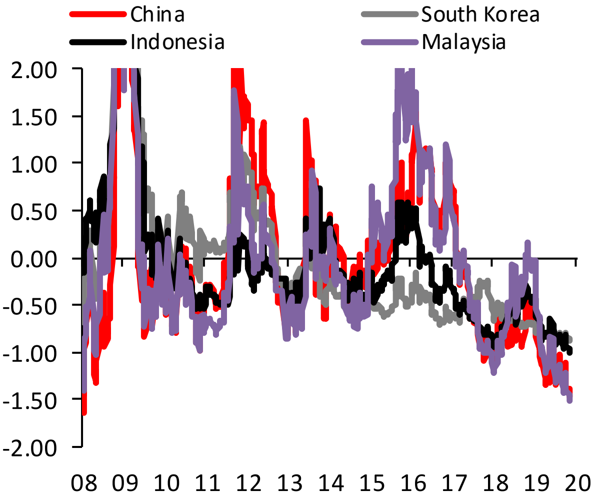
**Over the medium term, we see 10Y yields heading into the 2.0-2.5% trading range.** This is contingent on a bottoming out of the electronics cycle within the next few months that should provide a tailwind to global growth. The signing of the China-US limited trade deal (if delivered) should also bolster sentiment and could eventually revive investment spending. Moreover, we think that **the policy mix for 2020 will be much more balanced – more fiscal loosening and less monetary easing in the DM space – allowing the UST curve to steepen** as economic data firms up.

*Eugene Leow*

## Credit: Sovereign CDS at pre-GFC lows despite elevated uncertainty

**Given wider economic uncertainty** stemming from the US-China trade war, on top of a structural and cyclical growth slowdown around the world, **one could expect that a higher cost of insuring sovereign USD credit in 2019**. On the contrary, 5Y sovereign CDS prices across Asia have now sunk to pre-GFC lows in recent months.

**EM Asia: Sovereign USD 5Y CDS (Z-score)**




Source: Bloomberg, DBS Bank

Part of the decline in CDS premiums may be warranted by upgrades in the sovereign ratings. Notably, Korea and Indonesia have seen rating upgrades since 2008. However, for China and Malaysia, ratings were largely unchanged, and cannot be a factor for the sharp fall in CDS premiums.

Given the broad-based declines in CDS across Emerging Asia, systematic factor may be a bigger driver rather than idiosyncratic country risks. **The lack of sovereign defaults in Asia since the Asian Financial Crisis, and the general paucity of quality debt with good yields are all factors supporting risk in the sovereign USD credit space**.

That said, **richly priced sovereign CDS could face a normalization at some juncture**. The growth outlook has not improved significantly for many Asian economies, especially with China seeing a structural slowdown of growth to its lowest since the 1990s. Meanwhile, tailwinds from rate cuts are abating, as the Fed signals an end to its mid-cycle adjustment.

*Chang Wei Liang*

**Highlights of the week:**

- China: Sub-6% growth ahead
- India: Dovish policy to stay the course
- China 2020 – A Better Year Ahead
- KRW Rates: Overshooting
- Chart of the Week: Asia's 2020 funding requirement

# Key Forecasts

| | GDP growth, % YoY | | | | CPI inflation, % YoY, ave | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019f | 2020f | 2017 | 2018 | 2019f | 2020f |
| **China** | 6.9 | 6.6 | 6.1 | 5.8 | 1.6 | 2.1 | 2.6 | 2.3 |
| **Hong Kong** | 3.8 | 3.3 | -1.7 | 1.5 | 1.5 | 2.5 | 2.7 | 2.5 |
| **India** | 6.9 | 7.4 | 5.3 | 6.0 | 3.3 | 4.0 | 3.3 | 4.0 |
| *India (FY basis)** | *8.2* | *7.1* | *6.8* | *5.5* | *4.5* | *3.6* | *3.4* | *3.6* |
| **Indonesia** | 5.1 | 5.2 | 5.0 | 5.1 | 3.8 | 3.2 | 3.2 | 3.4 |
| **Malaysia** | 5.9 | 4.7 | 4.5 | 4.6 | 3.8 | 1.0 | 0.9 | 1.6 |
| **Philippines**** | 6.7 | 6.2 | 5.7 | 6.1 | 2.9 | 5.2 | 3.1 | 3.1 |
| **Singapore** | 3.9 | 3.1 | 0.6 | 1.4 | 0.6 | 0.4 | 0.6 | 1.1 |
| **South Korea** | 3.1 | 2.7 | 2.1 | 2.4 | 1.9 | 1.5 | 0.5 | 1.5 |
| **Taiwan** | 3.1 | 2.6 | 2.3 | 2.0 | 0.6 | 1.3 | 0.7 | 1.0 |
| **Thailand** | 3.3 | 4.1 | 2.5 | 3.0 | 0.7 | 1.1 | 1.0 | 1.3 |
| **Vietnam** | 6.8 | 7.1 | 6.9 | 6.8 | 3.5 | 3.5 | 2.5 | 2.9 |
| **Eurozone** | 2.5 | 1.9 | 1.0 | 1.1 | 1.5 | 1.8 | 1.2 | 1.3 |
| **Japan** | 1.9 | 0.8 | 0.7 | 0.5 | 0.5 | 1.0 | 0.5 | 0.7 |
| **United States***** | 2.3 | 2.9 | 2.2 | 1.9 | 2.1 | 2.4 | 1.7 | 1.6 |

* refers to year ending March i.e. 2020 represents FY20 - year ending March 2020 ** new CPI series *** eop for CPI inflation

| | Policy interest rates, eop | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 |
| **China*** | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| **India** | 6.25 | 5.75 | 5.40 | 4.90 | 4.65 | 4.65 | 4.65 | 4.65 |
| **Indonesia** | 6.00 | 6.00 | 5.25 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| **Malaysia** | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| **Philippines** | 4.75 | 4.50 | 4.25 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 |
| **Singapore**** | 1.95 | 1.95 | 1.80 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 |
| **South Korea** | 1.75 | 1.75 | 1.50 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| **Taiwan** | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 | 1.38 |
| **Thailand** | 1.75 | 1.75 | 1.50 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| **Vietnam***** | 6.25 | 6.25 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |
| **Eurozone** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Japan** | -0.10 | -0.10 | -0.10 | -0.20 | -0.20 | -0.20 | -0.20 | -0.20 |
| **United States** | 2.50 | 2.50 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |

* 1-yr lending rate; ** 3M SOR ; *** prime rate

| | Exchange rates, eop | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 19 | Q2 19 | Q3 19 | Q4 19 | Q1 20 | Q2 20 | Q3 20 | Q4 20 |
| **USD/CNY** | 6.71 | 6.87 | 7.15 | 7.10 | 7.20 | 7.15 | 7.10 | 7.05 |
| **USD/HKD** | 7.85 | 7.81 | 7.84 | 7.85 | 7.85 | 7.84 | 7.84 | 7.83 |
| **USD/INR** | 69.2 | 69.0 | 70.9 | 71.5 | 72.0 | 72.5 | 73.5 | 74.0 |
| **USD/IDR** | 14243 | 14126 | 14195 | 14100 | 14200 | 14300 | 14400 | 14500 |
| **USD/MYR** | 4.08 | 4.13 | 4.19 | 4.15 | 4.20 | 4.18 | 4.16 | 4.14 |
| **USD/PHP** | 52.6 | 51.3 | 51.8 | 51.0 | 52.0 | 51.5 | 51.0 | 50.5 |
| **USD/SGD** | 1.36 | 1.35 | 1.38 | 1.38 | 1.40 | 1.39 | 1.38 | 1.37 |
| **USD/KRW** | 1135 | 1155 | 1196 | 1170 | 1180 | 1175 | 1170 | 1165 |
| **USD/THB** | 31.7 | 31.0 | 30.6 | 30.5 | 31.0 | 30.8 | 30.6 | 30.4 |
| **USD/VND** | 23189 | 23301 | 23203 | 23200 | 23300 | 23300 | 23300 | 23300 |
| **AUD/USD** | 0.71 | 0.70 | 0.68 | 0.66 | 0.64 | 0.65 | 0.66 | 0.67 |
| **EUR/USD** | 1.12 | 1.14 | 1.09 | 1.09 | 1.08 | 1.09 | 1.10 | 1.11 |
| **USD/JPY** | 111 | 108 | 108 | 109 | 110 | 109 | 107 | 106 |
| **GBP/USD** | 1.30 | 1.27 | 1.23 | 1.25 | 1.20 | 1.21 | 1.22 | 1.23 |

Australia, Eurozone and United Kingdom are direct quotes

# Group Research

## Economics & Macro Strategy


**Taimur Baig, Ph.D.**
**Chief Economist - G3 & Asia**
+65 6878-9548 taimurbaig@dbs.com

**Chang Wei Liang**
Strategist
+65 6878-2072 weiliangchang@dbs.com

**Ma Tieying, CFA**
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

**Nathan Chow**
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

**Radhika Rao**
Economist – Eurozone, India, & Thailand
+65 6878-5282 radhikarao@dbs.com

**Masyita Crystallin, Ph.D.**
Economist – Indonesia & Philippines
+62 21-2988-4003 masyita@dbs.com

**Irvin Seah**
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

**Joanne Goh**
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

**Samuel Tse**
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

**Eugene Leow**
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

**Duncan Tan**
FX and Rates Strategist - Asean
+65 6878-2140 duncantan@dbs.com

**Chris Leung**
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

**Philip Wee**
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com


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