Economics

Chart of the Week: Asia's softened equity markets

Economics/Strategy

Group Research

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Radhika Rao
Economist
radhikarao@dbs.com

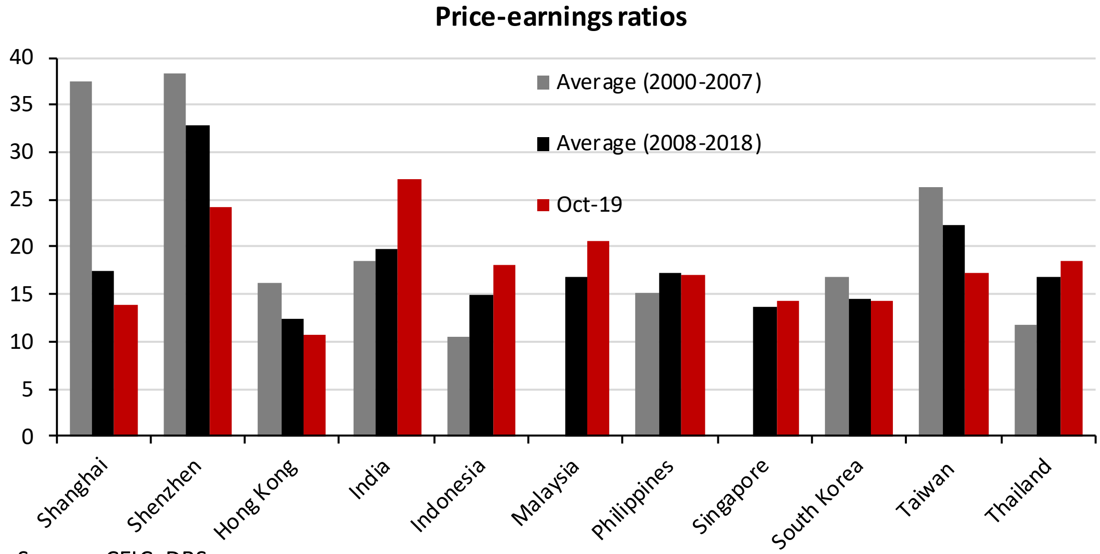
Please direct distribution queries to
Violet Lee +65 68785281
violetleeyh@dbs.com

Key Events:

- *After frontloading rate cuts, Bank Indonesia is expected to pause this week*
- *Thailand 3Q19 GDP is likely to register a modest increase from quarter before*
- *A smaller fall in Taiwan export orders is on the cards*

Chart of the Week: Asia's softened equity markets

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 equity markets in recent years. While the level of prices is by no means low, there is a tell-tale lack of exuberance in the markets. Recent rally notwithstanding, North Asian stocks are particularly 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 substantially improved 2020 for these economies.



Source: CEIC, DBS

Event	Consensus	DBS	Previous
Nov 18 (Mon)			
Singapore: NODX (Oct)	10.1% y/y		-8.1% y/y
Thailand: GDP (3Q)	2.8% y/y	2.5% y/y	2.3% y/y
Singapore: GDP (3Q) till 25 Oct	0.3% y/y		0.1% y/y
Nov 20 (Wed)			
Japan: exports (Oct)	-7.6% y/y	-7.2% y/y	-5.2% y/y
- imports	-15.9% y/y	-10.6% y/y	-1.5% y/y
- trade balance	JPY251bn	-JPY159.3bn	-JPY124.8bn
Malaysia: CPI (Oct)	1% y/y		1.1% y/y
Taiwan: export orders (Oct)	-4.6% y/y	-4.6% y/y	-4.9% y/y
Nov 21 (Thu)			
Indonesia: BI 7D reverse repo rate	5.0%	5.0%	5.0%
Thailand: exports (Oct)	-4.5% y/y	-5.6% y/y	-1.4% y/y
- imports	-6.5% y/y	-9.0% y/y	-4.2% y/y
- trade balance	USD0.4bn	USD0.6bn	USD1.3bn
Nov 22 (Fri)			
Japan: CPI (Oct)	0.3% y/y	0.3% y/y	0.2% y/y

Indonesia: Bank Indonesia will hold its policy meeting this week. We expect Bank Indonesia to pause as growth has proven to be resilient in 3Q19, still registering overall growth of 5.02% driven by stable private consumption and positive contribution of trade balance. 3Q19 balance of payments has improved as well, albeit still registering a deficit. Both current account and financial account have improved. Interestingly, FDI has continued to improve with a total of USD16bn in the first three quarters vs ~USD11.7bn same period last year. We still see room for another 50bps rate cuts in 2020, however the timing depends on the US Fed, global financial volatility in the face of shifting probability of a trade truce and overall global growth slowdown especially in the US and China. We see risks that growth might fall below 5% on slower consumption and investments' lead indicators. These indicators include retail sales, automotive sales, consumer confidence, PMI, cement sales and capital and raw material imports. In addition, trade deficits could widen in 2020 as imports accelerates as government starts new projects while exports remain soft in line with weak global trade demand. Upside to growth could come from government stimulus from both consumption and investments.

Japan: Inflation data are the focus this week. Based on the preliminary figures in Tokyo, the nationwide CPI is likely to stay flat at about 0.3% YoY in October. The 2ppt hike in consumption tax failed to lift inflation last month. This was because its boosting impact on prices was largely offset by a free pre-school education program introduced by the government. To reflect these technical distortions, we recently have lowered the annual CPI inflation forecasts to 0.5% for 2019 and 0.7% for 2020. On the other hand, we maintain a conservative view on the short-term growth outlook. The disrupting impact of consumption tax hike on domestic demand appears to be bigger than expected. The country's four major department store operators reported a sharp 20% YoY decline in their sales in October. Falling consumption and still weak exports suggest that GDP numbers would disappoint in 4Q19.

Taiwan: October export orders are due this week. A year-on-year decline of -4.6% is expected, similar as the -4.9% in September, but slightly better than the -5.4% averaged in 3Q. New orders should mainly come from the electronics sector, driven by seasonal demand in the Apple supply chains and rising momentum in the 5G smartphone market. But the non-electronics sector would continue to languish, given the ongoing growth slowdown in US/China, unresolved US-China trade war, and weakness in global commodity prices. Export orders are expected to continue to contract in the next several months and return to growth (YoY) only from 1Q20 onwards.

Thailand: 3Q19 GDP numbers are due at the start of the week following by the Oct trade numbers later in the week. We expect growth to have inched up to 2.5% YoY in 3Q vs 2.3% in 2Q, with a modest decline on QoQ basis. Official growth forecasts for 2019 continue to be trimmed in recent weeks as weak trade coupled with subdued manufacturing and delayed government spending put a dampener on recovery prospects. Contraction in the manufacturing sector deepened in 3Q to -4.3% YoY vs 2Q's -2.4%. Weak exports explain part of this sluggishness, with domestic demand also coming under strain as evidenced by falling car sales and downbeat consumer confidence indices. A better trade balance, as imports fell faster than imports, will provide some counterbalance, as will favourable base effects for tourism receipts.

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

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

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

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

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

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

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

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

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

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

Duncan Tan
FX and Rates Strategist - Asean
+65 6878-2140 duncantan@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).