Economics & Strategy Weekly

Weekly: Nowcast says room for cautious optimism

Economics/Strategy/Rates/FX/Equities

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- *We present the results of the latest iteration of our GDP Nowcast model for China, India, and Singapore.*
- *China is tracking 5.9% growth in Q4 and 5.8% in Q1 2020.*
- *India's real GDP growth likely dipped to 4.3% in July-September quarter, and would only recover to 4.9% in October-December.*
- *Our model is tracking Singapore's real GDP at 1.3% growth in Q4 and 2% in Q1 2020.*
- *Signs of a bottom in the electronics cycle and improved monetary conditions are the silver linings for Asia.*

Nowcast for China, India, Singapore

China, India, and Singapore are ending 2019 on a considerably weaker growth trajectory than they did in 2018. India and Singapore's last published real GDP growth outturns are about 200bps lower than they were four quarters earlier. China's is close to 50bps weaker, although given the size of its economy, that slowdown percolates through the global economy the most.

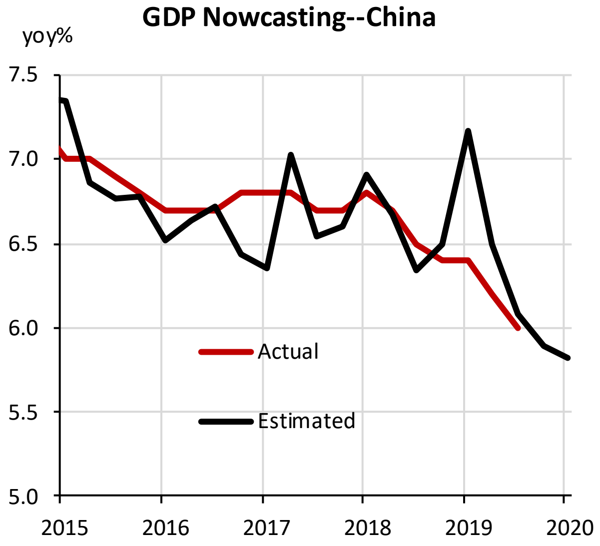
As 2019 draws to an end, do we see any evidence that the pace of slowdown may be arrested in the new year? Judging by the ongoing rally in asset markets, expectations appear to be coalescing around an upbeat 2020, helped by easy monetary policy and a likely trade deal. The hard data however provide less room for such exuberance.

China

Starting with China, our in-house Nowcasting model, which analyses an array of high frequency (monthly) indicators to make a call on the ongoing and coming quarters on a real time basis, finds growth continuing to weaken, but the pace of slowdown to be moderating. The latest iteration of the model estimates 5.9% growth in Q4 and 5.8% in Q1 2020.

What's driving these estimates? Hints of a trough in the growth rates of retail sales, industrial production, fixed asset investment, and non-oil imports. The credit impulse remains particularly weak and the exports outturn is mixed, but by and large, domestic demand may be stabilising.

A sub-6% growth outturn from the second-largest economy in the world still makes up for the largest contribution (nearly a third of the total) to global growth. As long as China manages to maintain its structural slowdown in an orderly manner, carries out economic recalibration (from heavy to smart investment, sustainable consumption, and focus on innovation), keeps the financial system stable, and protects social cohesion, global reliance on Chinese demand will continue to be fulfilled.

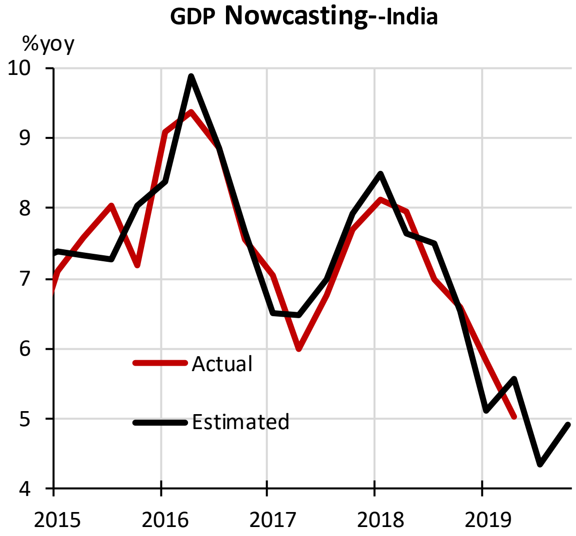


Source, CEIC, DBS

India

India's financial markets have been particularly cheerful lately, buoyed by corporate tax cuts, monetary policy easing, announcement of large-scale public asset sales, plans to court foreign investment in manufacturing, and efforts to expedite asset restructuring of beleaguered banks and non-bank financial companies. There won't be anything to cheer on the data-front for a while, however.

As per our Nowcast, real GDP growth dipped to 4.3% in the July-September quarter, and would only recover to 4.9% in October-December. Domestic demand is displaying chronic weakness, with an apparent credit crunch afflicting wide swaths of the economy. Production and sales are under pressure, and public spending is running out of room due to poor tax collection. Foreign investors however remain particularly optimistic about India's prospects, underscoring the divergence between markets and the economy.



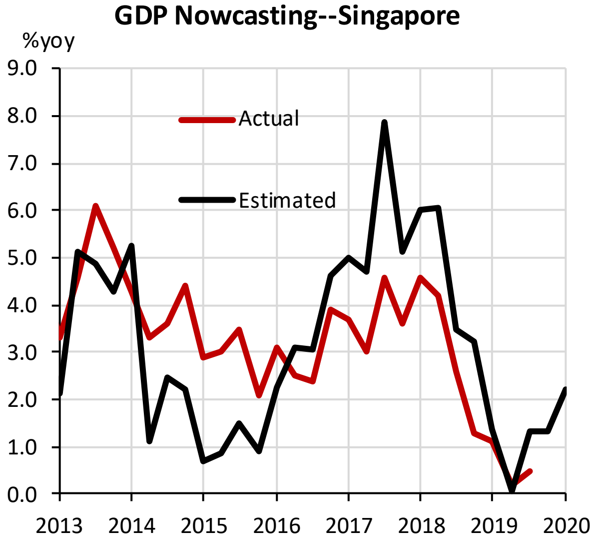
Source: CEIC, DBS

Singapore

We have been waiting for the electronics cycle to bottom for a while, and Singapore is our bellwether in this regard. Having observed semiconductor billing bottoming a couple of months ago, we are on the lookout for better shipment figures to emerge soon. Looking at regional PMIs, we are beginning to get optimistic that the year-and-a-half long soft patch in the global electronics cycle may be ending. This would of course brighten Singapore's prospects going into 2020.

Our Nowcast model is tracking Singapore's real GDP at 1.3% growth in Q4 and 2% in Q1 2020. We are seeing signs of a pick-up in the credit cycle, perhaps helped by the decline in interest rates this year. Additionally, tourism, residential transactions, production, and trade are on the road to recovery, in our view.

GDP Nowcasting--Singapore



Source: CEIC, DBS

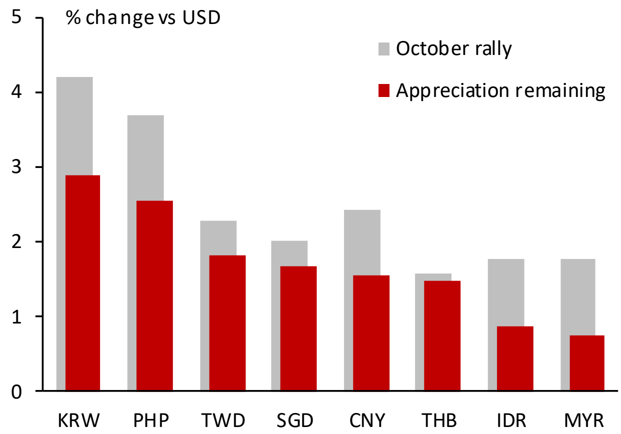
We therefore have reasons for cautious optimism. Global or regional growth is by no means reverting back to strength any time soon, and but there is some evidence to suggest that it won't continue to register disappointing outturns like 2019. Singapore may already be on the path to recovery; China's deceleration looks unlikely to exacerbate, although the jury is still out on India.

Taimur Baig

FX: Trade uncertainties return with Fed pause

Realism has forced Asian currencies to recalibrate their bullishness. The optimism for a China-US Phase 1 trade deal that fanned a risk rally in the past couple of months has diminished over the past fortnight. The US has pushed back against China's precondition to roll back existing tariffs for a deal. US President Donald Trump warned that US tariffs would rise without a deal. This has played down expectations for a deal signing this year and for US tariffs on Chinese goods to proceed on December 15 as planned.

Emerging Asian currencies have started to return some of their appreciation in October



Sources: DBS Research, Bloomberg data

The onshore Chinese yuan has depreciated to 7.03 against the USD vs 6.98 a fortnight ago. Excluding the Thai baht, Asian currencies that retraced most belonged to the top two beneficiaries (KRW and PHP) and underperformers (MYR and IDR). Apart from trade uncertainties, the USD is also no longer dragged down by US rate cut expectations. The Fed signaled the end of its mid-adjustment cycle after its last cut on October 30.

Philip Wee

Rates: Vacillating sentiment keeps US yields rangebound

The slow progress on China-US trade talks has led to vacillating sentiments over the past few trading days. While most market participants generally held to their core view that a scaled-down phase 1 deal will eventually be inked, considerable jitters were apparent amid extended unrest in Hong Kong. Notably, market participants became worried about US's Hong Kong rights bill and how this would impact ongoing trade negotiations. Notably, 10Y US Treasury yields dipped temporarily below 1.71% (down more than 20bps below the recent peak) on Thursday before better news flow from the Chinese (extending an invite to US negotiators for new talks) lifted yields.

We maintain our forecast of 1.75% (range 1.5-2.0%) for the short term. Excessive optimism on a trade deal has faded as 10Y yields retreated from 2% and USDCNH bounced back above 7. We think current levels are much more consistent with a trade truce and a limited rollback in tariffs. Over the coming quarters, we expect 10Y yields to head above 2% when better economic data starts to materialize in 2020. In the immediate term, we do not think US data justifies a sharp move higher in yields. It would probably be several more months before the bottoming out of the global electronics cycle to spillover to the US economy.

Eugene Leow

Credit: Chinese liquidity stresses on watch

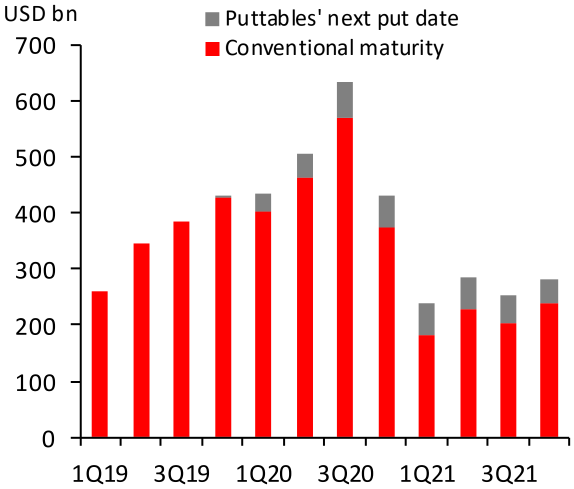
Liquidity remains an issue for heavily indebted Chinese firms. This problem was brought to the fore this week after a mid-size Chinese conglomerate (with CNY207bn of assets) entered talks with bondholders, seeking an extension for repayment of its subsidiary's debt.

Puttable bonds are also brought into the spotlight in this case, as the default was triggered by bondholders exercising their right for an early repayment of CNY1.97bn of principal and interest. The nature of puttable bonds is such that they are activated only when spreads are higher, making them more likely to exacerbate liquidity stresses that already exist. For this conglomerate, a confluence of excessive short-term liabilities and high debt ratios has limited its options to refinance despite resilient profits, positive operating cash flows, and significant accounting assets.

The upshot is that an overhang of short-term debt, including puttable debt, can be an Achilles heel for companies even if they are profitable. Companies can enter liquidity situations if they generate cash too slowly to meet obligations or pay for a rise in the cost of capital.

Keeping this in mind, we eye the coming wall of maturities in the Chinese bond market with some caution. Maturities of long-term debt will grow and likely peak in 3Q2020. Already, leverage is quite high amongst Chinese companies, which could imply roll-over risks when existing debt mature. The good news is that China has begun calibrated easing, with the 1y LPR cut by 5bps in Nov, and the 5y LPR also cut by the same for the first time.

CN: Long-term credit maturities and put dates



Source: Bloomberg, DBS Bank

Chang Wei Liang

Highlights of the week:

- Hong Kong Outlook 2020: Challenges Galore
- Singapore outlook 2020: Getting out of the woods
- Chart of the Week: Asia's softened equity markets

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

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