Economics

Chart of the Week: While the US is slowing, Europe is slowing faster

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Radhika Rao
Economist
radhikarao@dbs.com

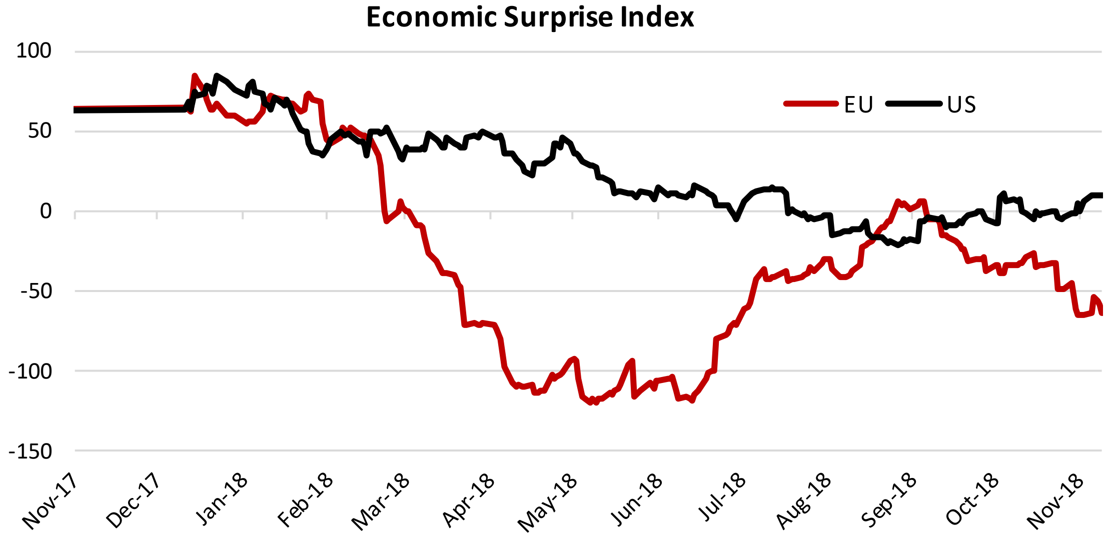
Please direct distribution queries to
Violet Lee +65 68785281
violetleeyh@dbs.com

Key Events:

- *China's data is likely to signal more softness in domestic demand.*
- *The ECB is due to end monthly asset purchases, but policy tightening expectations will be pushed back.*
- *BSP policy move is likely to be a close call. We still see scope for a last 25bp hike for the year*

Chart of the Week: US-EU growth divergence is widening again

Soft auto sales, slowing electronics demand, and a weakening residential market have caused US economic growth to ease from its torrid pace seen earlier this year. Atlanta Fed's GDP Nowcast shows growth around 2.5% lately, very good by US long-term trend, but lower than 3-4% tracked during the first three quarters of 2018. While the US has begun to slow, Europe has slowed faster. The economics surprise indices of the US and EU converged in Q3, but since then a spate of poor data releases have made Europe lagging the US considerably again. Looking ahead at 2019, we see the divergence persist during the first half, which would keep flows US centric and continue to keep the USD relatively strong.



Source: Bloomberg, DBS Group Research

Event	Actual	Consensus	DBS	Previous
Dec 11 (Tue)				
Philippines: trade balance (Oct)	-USD4.2bn	-USD3.7bn	-USD3.7bn	-USD3.9bn
-- exports	3.3% y/y	3.6% y/y	2.0% y/y	-2.6% y/y
--imports	21.4% y/y	16.1% y/y	15.2% y/y	26.1% y/y
China: M2 (Nov) 11-15Dec		8.0% y/y	8.3% y/y	8.0% y/y
China: new yuan loans (Nov) 11-15Dec		CNY1200bn	CNY1200bn	CNY697bn
Dec 12 (Wed)				
Malaysia: industrial production (Oct)		2.9% y/y	1.4% y/y	2.3% y/y
India: CPI (Nov)			2.6% y/y	3.3% y/y
India: industrial production (Oct)			6.0% y/y	4.5% y/y
India: trade balance (Nov) 11-15 Dec				-USD17bn
-- exports				17.9% y/y
--imports				17.6% y/y
US: CPI (Nov)		2.2% y/y	2.3% y/y	2.5% y/y
Dec 13 (Thu)				
Philippines: BSP overnight borrowing rate		4.75%	5.0%	4.75%
Eurozone: ECB main refinancing rate		0%	0%	0%
- ECB deposit facility rate		-0.4%	-0.4%	-0.4%
Dec 14 (Fri)				
China: retail sales (Nov)		8.8% y/y	8.2% y/y	8.6% y/y
China: FAI (Nov)		5.9% ytd	5.5% ytd	5.7% ytd
China: industrial production (Nov)		5.9% y/y	5.9% y/y	5.9% y/y

China: Domestic demand should have eased further in November. Retail sales and industrial production growth are projected to moderate to 8.2% and 5.5% YoY from 8.6% and 5.9% in October respectively. This largely mirrors the continued decline in the official manufacturing PMI. In particular, the new export order component of the official manufacturing PMI contracted for 6 consecutive months (below 50), due to external uncertainties. Fixed asset investment would have bounced back to 5.9% in November, thanks to an accommodative monetary policy. Looking ahead, the PBOC will likely offer more longer-term cash via MLF and RRR cuts to cope with the deterioration of corporate and local government cash flow. Money supply is therefore expected to increase. New increase in total social financing should hold stable. Yet, off-balance sheet products is set to shrink further after falling for 8 months in a row alongside the government's effort of controlling financial risk.

Eurozone: This week's European Central Bank rate review will be key, as policymakers wind down monthly asset purchases. Clear guidance in the run-up leaves the markets well-prepared for an end to QE, with any delay to be construed as a sign of concern over the economy's growth outlook. Details on reinvestments are also awaited. From an economic perspective, revisions to growth (2018f at 2.0%, 2019f at 1.8%) and inflation (2018f and 2019f at 1.7%) will be eyed, along with fresh forecasts for 2021. Political concerns, softness in real activity and global risks will, however, keep them from committing to further policy normalisation, including changes in the main refinancing and deposit facility rate.

India: We head into a busy period for data releases. The phase of low inflation is set to continue, with November CPI inflation to ease to 2.6% YoY from October's 3.3%, way below the mid-point target at 4%. Signs of easing deflation in pulses will not be enough to lift overall food inflation to black in the month, in red for a second month this year. Low oil (cuts in local retail prices) and rupee rebound would have helped at the margin, reinforcing the RBI's preference to remain on an extended pause. Industrial production likely inched up to 6% YoY in October, lifted by better resource-industries output and cement, along with a bounce in PMI-manufacturing indices. The latter inched up further in November, likely encouraged by easing input cost pressures and hopes of better margins. Apart from data, results of the recently concluded state elections will trickle in Tuesday onwards.

Malaysia: Industrial output for October could see further weakness. Headline industrial production index is expected to moderate to 1.4%, from 2.3% previously. Although the potential adverse impact from the trade war could be a reason but we reckon this could also be due to the current down-cycle in global electronics demand. The electronics cluster is a key driver for the overall manufacturing sector. With global shipment and billing of semiconductors easing despite the festive season, this Christmas is turning out to be relatively quiet for electronics manufacturers. Expect this to weigh on the overall GDP growth in 4Q18 as well.

Philippines: BSP policy meeting will be held this Thursday, prior to Fed's December meeting, another 25bps policy rate hike is likely, in our opinion, for at least two reasons. Firstly, even though CPI has eased by more than what market had expected to 6% from 6.7% previously, core CPI has continued to inch up to 5.1% from 4.95% indicating that demand-side drivers remain quite robust. Easing oil prices give a small window of easing inflationary pressure in addition to the fact that the supply-side contributors will also dissipate in 2019. Inflation would ease from an average 5.2% this year to 4.7% in 2019, but still stay above BSP upper limit of 4%. Secondly, Philippines real rates are still one of the lowest among peers, we think several more rate hikes between December and mid-2019 are warranted to close this gap.

Group Research

Economics & Strategy Team

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

Neel Gopalakrishnan
Credit Strategist
+65 68782072 neelg@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
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).