

2020 in 72 charts

DBS Annual Chartbook



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Chartbook

- *Economic slowdown is on the cards, but central banks worldwide stand ready to keep the punch bowl of liquidity full for the markets*
- *A likely bottom in the electronics cycle would bring much-needed cheer for manufacturers and exporters in Asia*
- *We expect USD strength to sustain, as rate and growth differentials continue to favour the world's reserve currency*
- *A modest DM-to-EM rotation of flows by value seeking investors could support EMFX, as could a constructive engagement of its trading partners by the US, but we will keep our hopes in check*
- *As extreme risk aversion fades, the stock of negative yielding debt will shrink*
- *We will remain wary of high levels of corporate leverage, and keep an eye on Chinese and US high yield issuers*
- *Trade war, China and India slowdown, Hong Kong protests, fiscal policy as a complement to an already easy monetary stance, US elections, Brexit saga, food price inflation, greater urgency about climate change, populism, and social unrest will continue to dominate the headlines in 2020.*
- *Still unresolved geopolitical challenges over North Korea, South China Sea, and Iran could create phases of volatility, as could episodes of highly disruptive cyber-attacks.*

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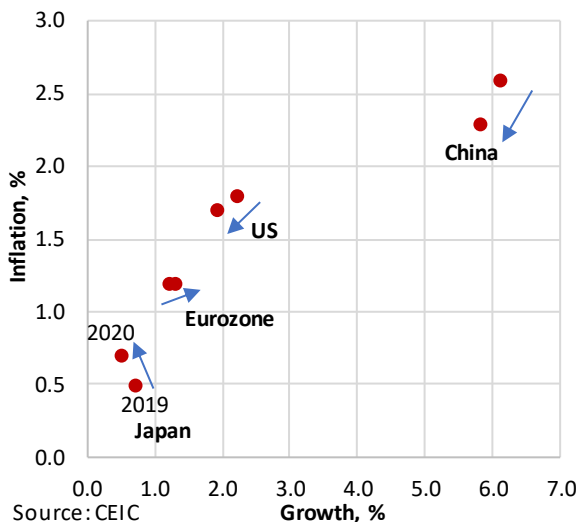
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Overview

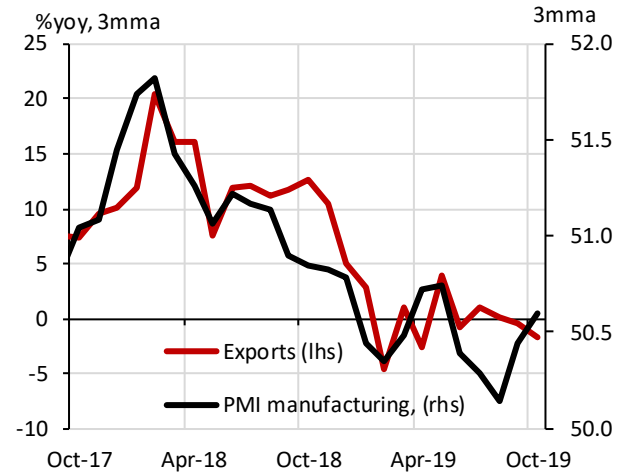
Modest slowdown in the world's largest economies is on the cards, driven by lacklustre trend in investment

After nearly 18 months of weakness, the slump in global trade may end in 2020, with electronics demand leading the recovery path

Key economies from 2019 to 2020



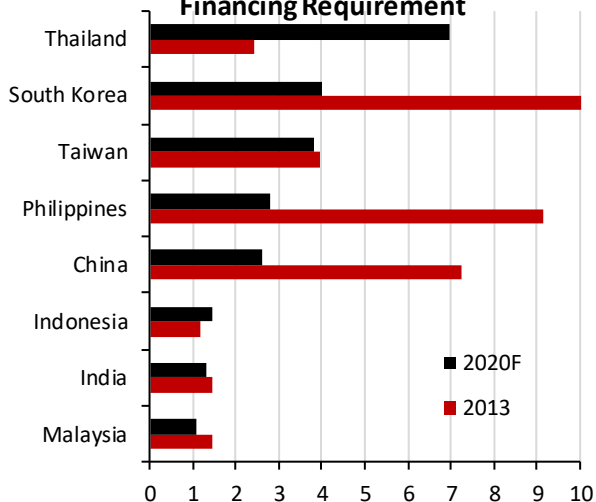
EM Asia's (ppp weighted) exports and PMI



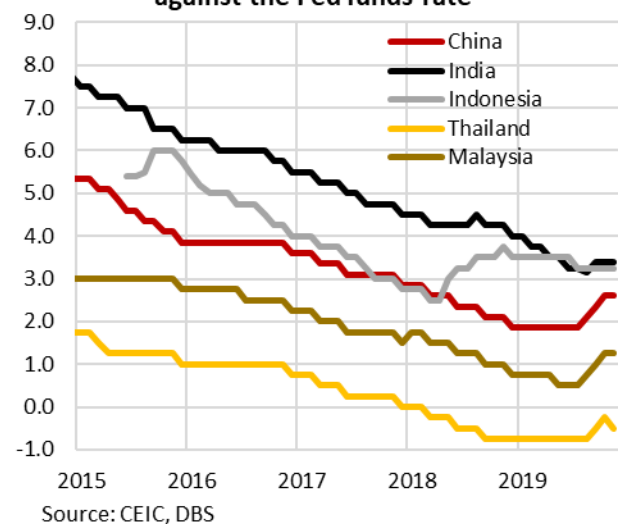
India, Indonesia, and Malaysia have the smallest buffers against short-term liabilities. China and the Philippines have growing vulnerabilities as well

Key Asian central banks have cut rates in recent decades to narrow their policy rate differential vis-à-vis the US Fed considerably. Could 2020 see a reversal of this dynamic?

Reserves to Gross External Financing Requirement



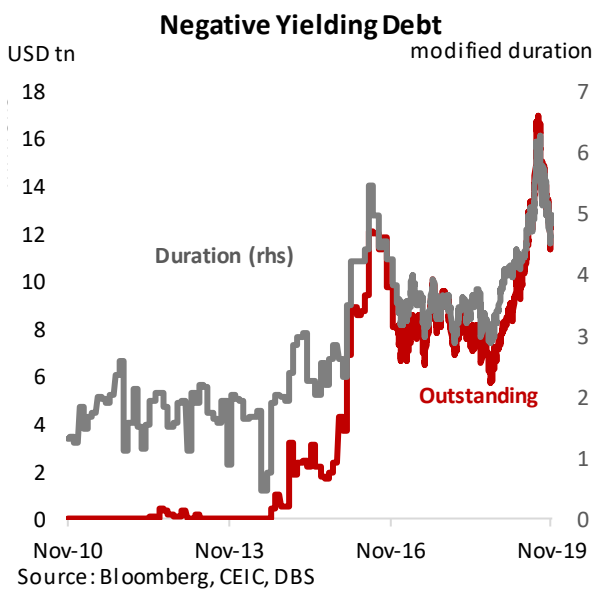
Policy rate differential against the Fed funds rate



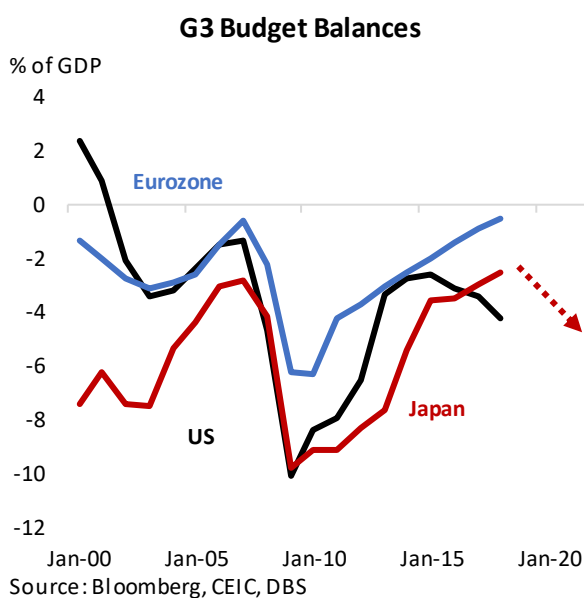
Taimur Baig

Rates

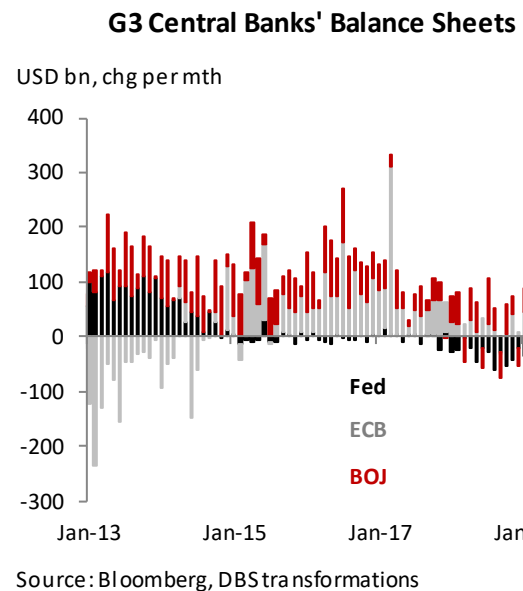
The amount of negative-yielding debt outstanding should drift lower as extreme risk aversion recedes



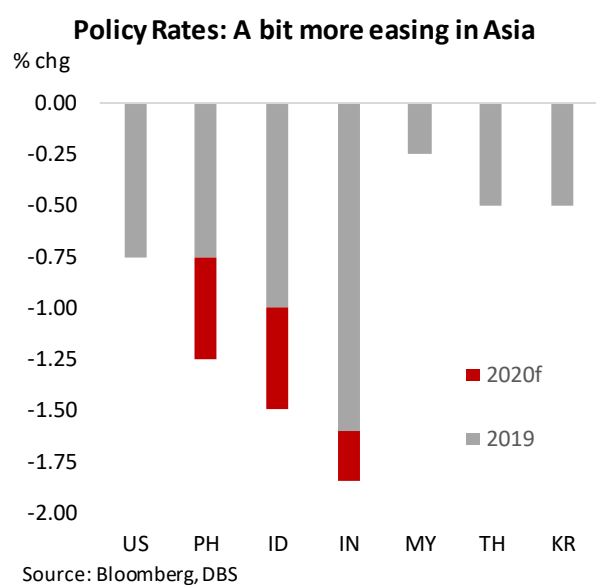
Fiscal policies will play a greater role in 2020. As monetary policies stay loose, curve steepening pressures will emerge



G3 central banks will be on pause as concerns on overly low rates mount. A bit more easing is likely for India, Indonesia and the Philippines



G3 central bank balance sheets are expanding again. However, the combined scale of purchases will be smaller than previous episodes

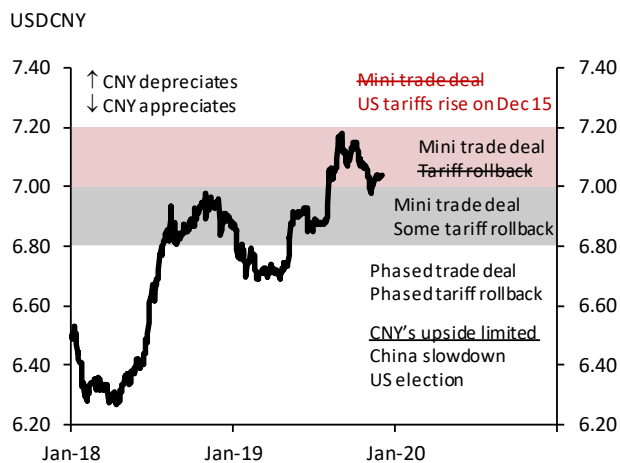


Eugene Leow

Currencies

A China-US Phase 1 trade deal is a necessary first step to extend the trade truce. Without one, trade and investor relations will be further strained into the 2020 US elections.

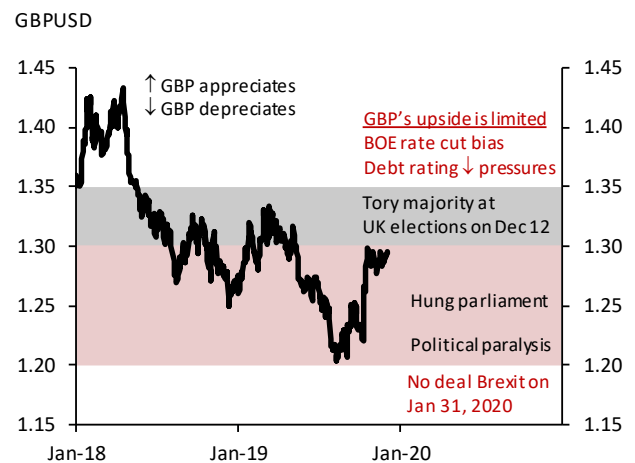
Chinese yuan vs possible trade deal outcomes



Sources: DBS Research, Bloomberg data

Looking beyond Brexit and domestic politics, GBP has become vulnerable to a weak UK economy, possible BOE rate cut, fiscal slippages and debt rating downgrade.

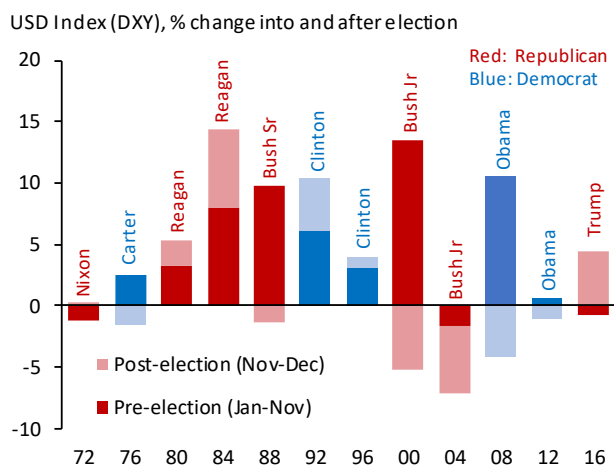
British pound is not out of the woods



Sources: DBS Research, Bloomberg data

Post-Bretton Woods USD has appreciated into most US presidential elections. Two exceptions were the re-election of Richard Nixon in 1972 and George W Bush in 2004.

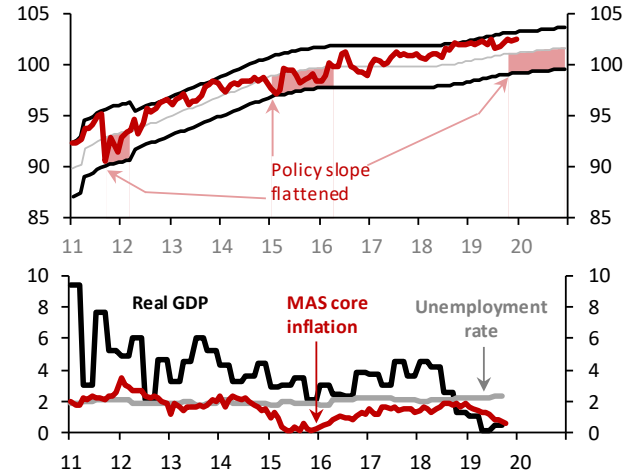
USD during US presidential election years



Sources: DBS Research, Bloomberg data

Singapore's fundamentals are weaker today compared to 2011 and 2015. Yet the SGD NEER has kept to the stronger half of its policy band after its latest policy easing in October.

SGD NEER is still strong despite flatter policy slope



Sources: DBS Research, Bloomberg data

Philip Wee

Credit

Chinese high yield corporate spreads have been driven by US-China trade relations, rising and falling as tensions wax and wane. An expected Phase 1 deal should cap spreads.

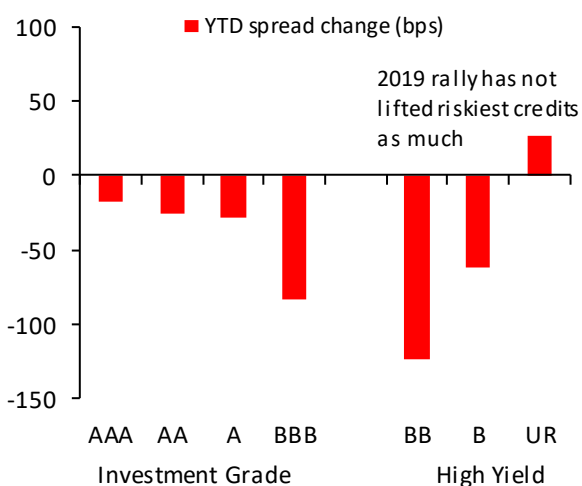
Bloomberg Barclays HY adjusted spreads (%)



Source: Bloomberg, DBS

An extended period of global policy accommodation, with three Fed cuts and the restart of ECB QE, should support credit but wariness remains for the riskiest Asian debt.

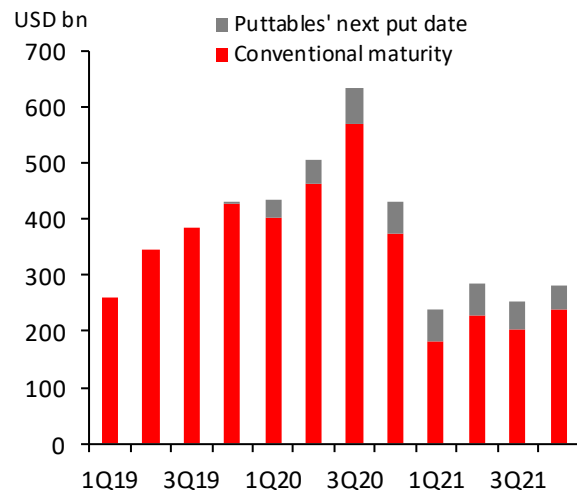
Bloomberg Barclays EM Asia spread changes



Source: Bloomberg, DBS Bank

A rising wall of maturities for Chinese corporates in 2020 poses increased refinancing risks, especially as domestic growth slows while liquidity remains tight for some.

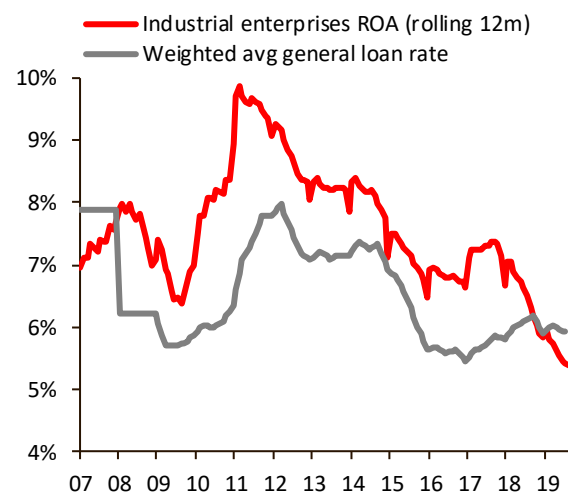
CN: Long-term credit maturities and put dates



Source: Bloomberg, DBS Bank

Chinese industrial companies continue to face headwinds to profitability, with returns to assets undershooting their cost of capital. Credit in the sector remains at risk.

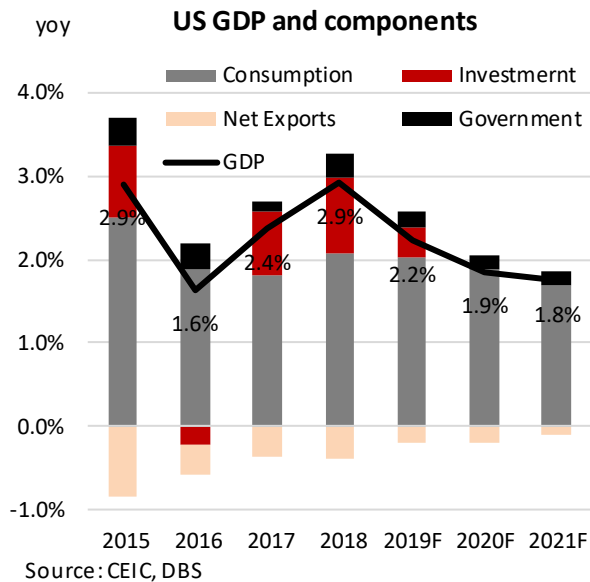
China: Industrial enterprises' ROA vs loan rate



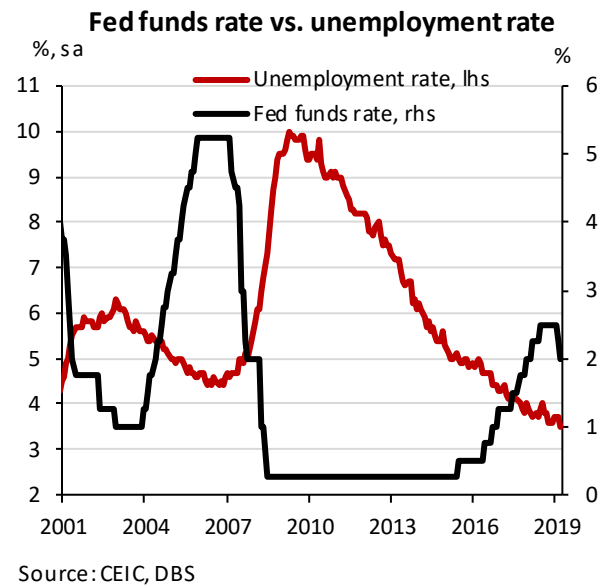
Source: Bloomberg, DBS

US

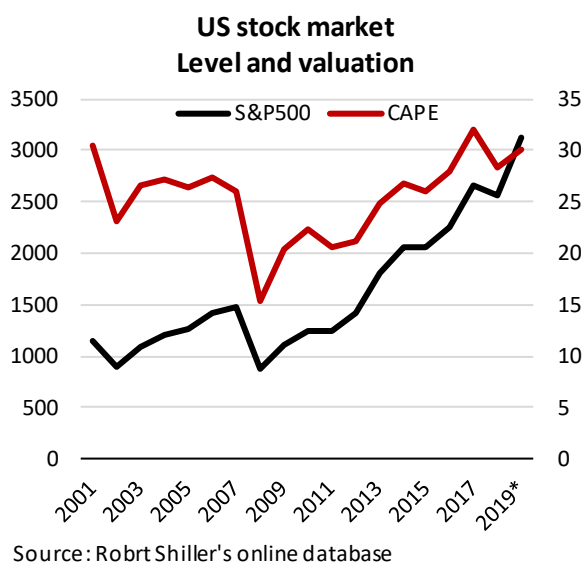
A gradual slowdown is in the pipeline on the back of weakening investment demand



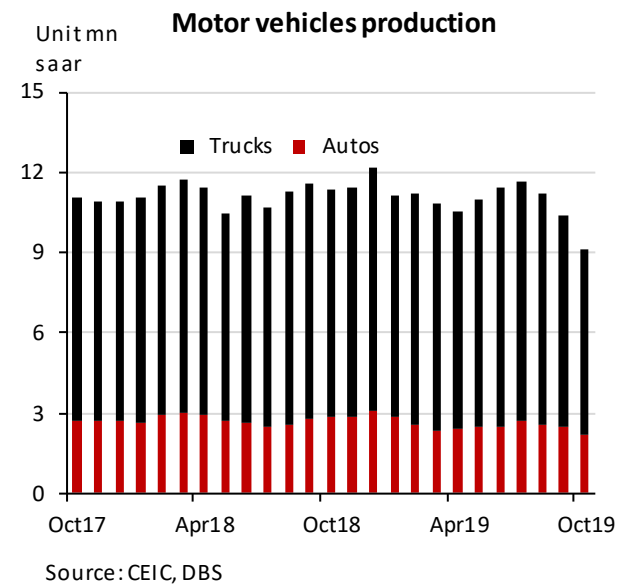
An exceptionally strong labour market may flatten in 2020; Fed pause may be prolonged



Thanks to Fed's rate cuts and liquidity injections, equity markets had a strong run in 2019; very hard to repeat in 2020



Tighter emission standards and changing preferences are structural sources of headwind for the auto sector



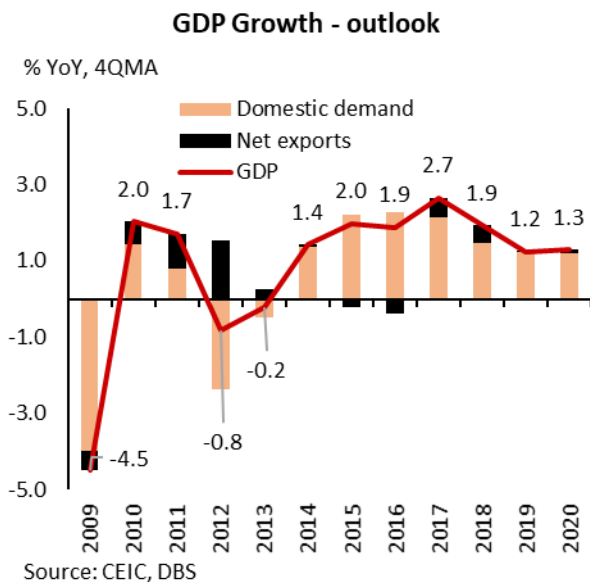
Note: Shiller PE ratio for the S&P 500 is based on average inflation-adjusted earnings from the previous 10 years, known as the Cyclically Adjusted PE Ratio (CAPE Ratio)

Taimur Baig

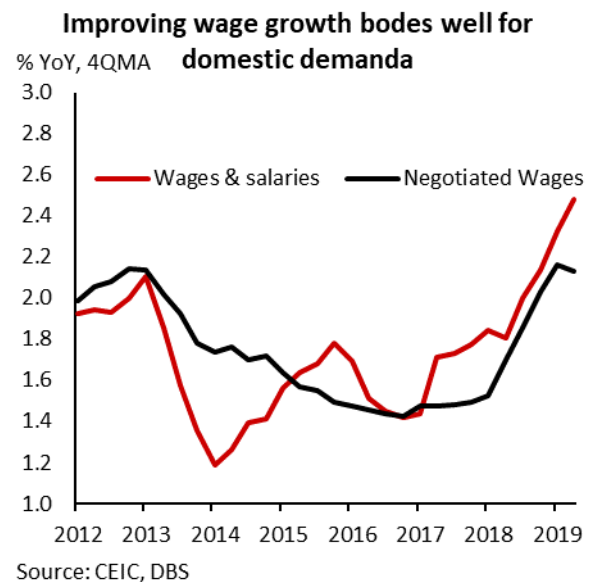
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Eurozone

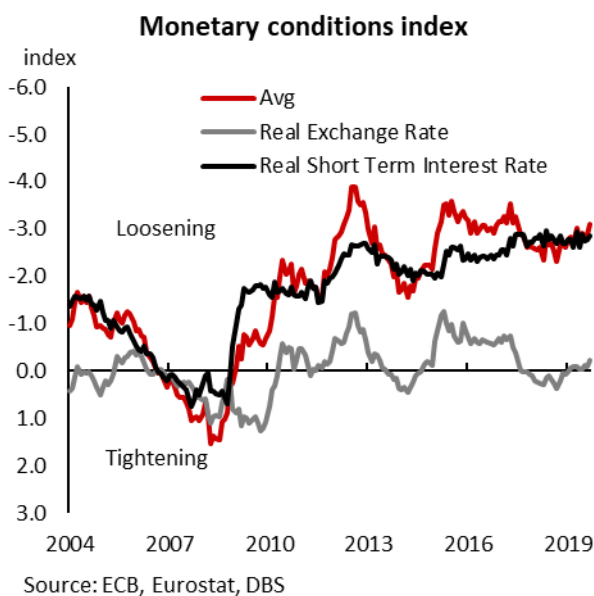
Manufacturing and trade weakness have bogged Eurozone growth. From 1.2% YoY in 2019, the bloc is expected to expand 1.3% in 2020, but below the 5Y average of 2%.



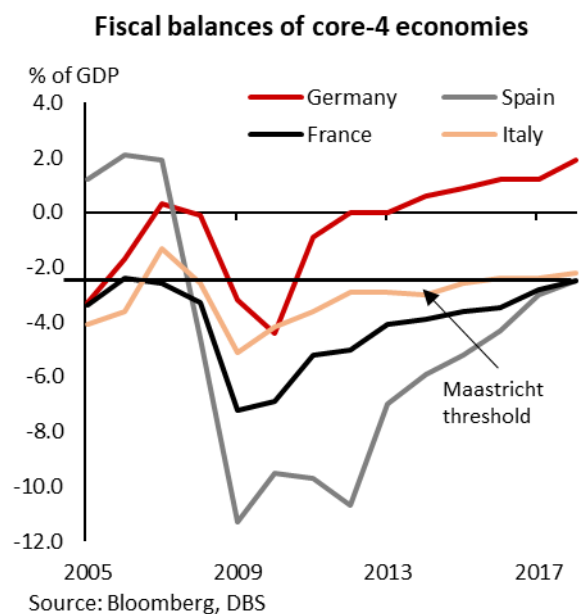
Consumption is helping to offset trade related weakness. Wage growth continues to firm up, which along with benign inflation is supportive of real purchasing power.



Monetary conditions index shows that policy bias has been accommodative for the past decade, led by low real rates



After more than six years of mending fiscal balances, a modest 20-30bps slippage in the cumulative fiscal deficit is unlikely to antagonize the European Commission



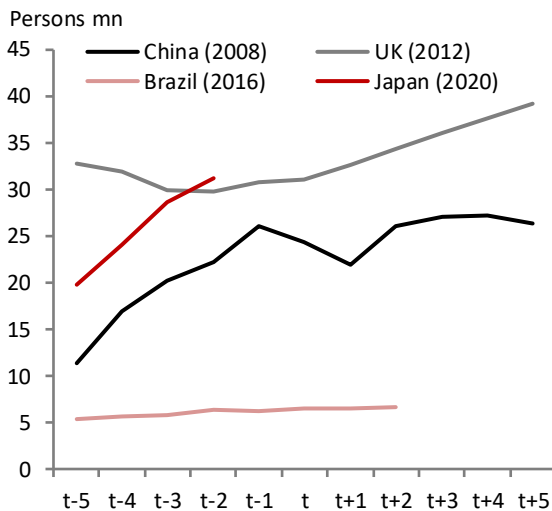
Radhika Rao

Japan

The 2020 Tokyo Olympics Games are expected to boost inbound tourism and domestic consumer confidence.

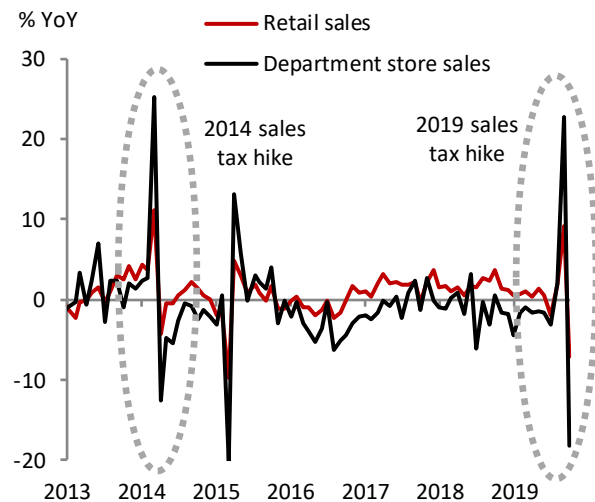
Private consumption, which has been seriously disrupted by the October 2019 sales tax hike and typhoon disaster, is set to recover.

Olympic host countries: Visitor arrivals



Sources: CEIC, DBS

Japan: Consumption indicators

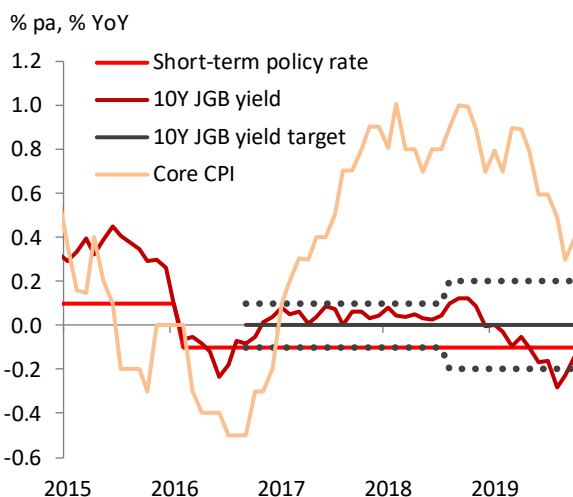


Sources: CEIC, DBS

The Bank of Japan has pledged to maintain short-term and long-term interest rates “at present or lower levels”, due to concerns that inflation might be losing momentum.

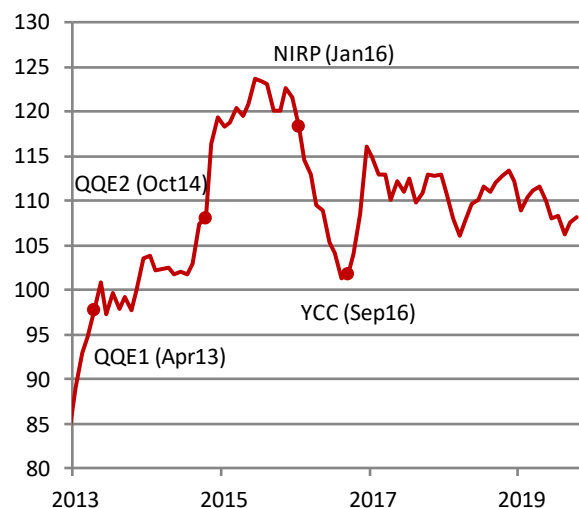
The USD/JPY remains range-bound, driven by a combination of domestic and external factors – BOJ’s monetary policy and risk appetite in the global financial markets.

Japan: Interest rates and inflation



Sources: CEIC, DBS

USD/JPY, spot rate



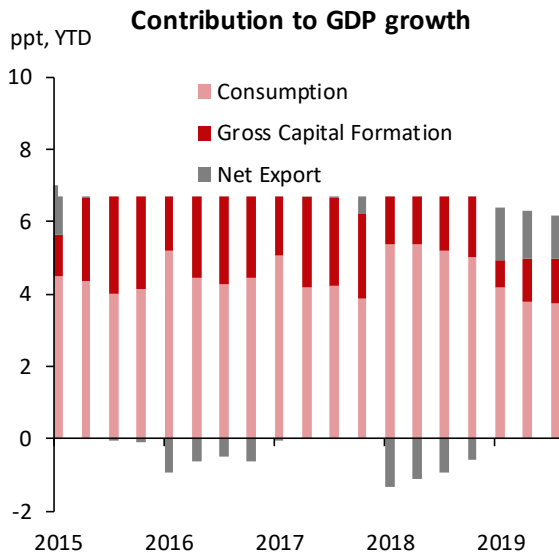
Sources: CEIC, DBS

Ma Tieying

Japan

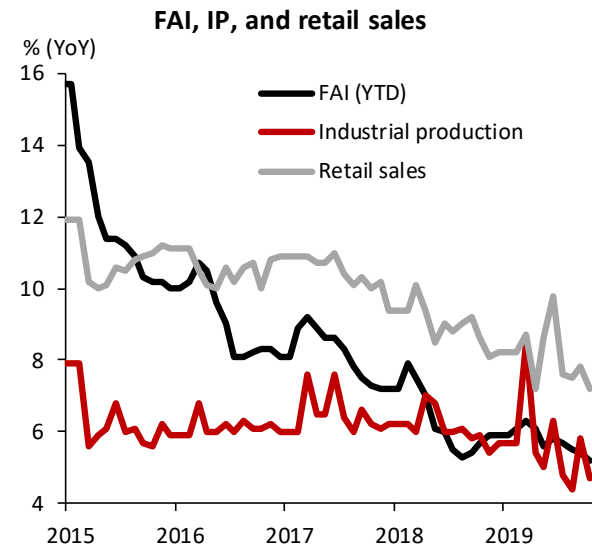
China

The economy will continue to moderate amid ongoing trade dispute with the US. GDP growth for 2020 is projected to slow to 5.8%.



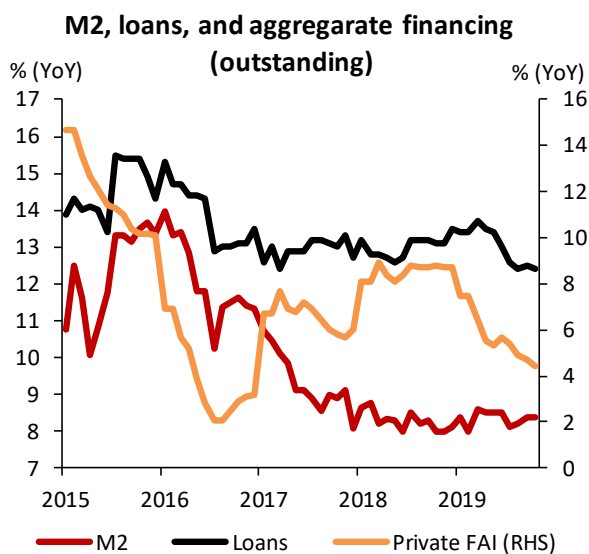
Source: CEIC, DBS

Industrial production and retail sales will slow further. Infrastructure to remain the major growth engine.



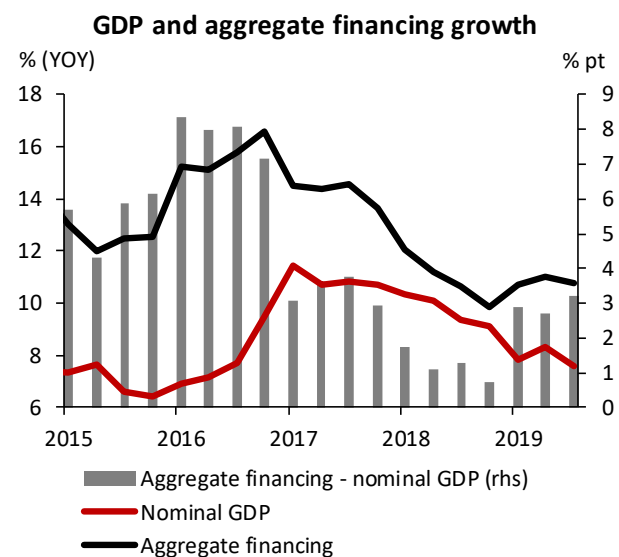
Source: Bloomberg, DBS

Monetary policy easing through a combination of the reserve requirement ratio and interest rate cuts is warranted in the face of benign core inflation and falling producer prices.



Source: CEIC, DBS

Leverage ratio is expected to pick up modestly. Gap between heading GDP growth and aggregate financing rebounded from 0.7%pt at end-2018 to 3.2%pt in 3Q19.

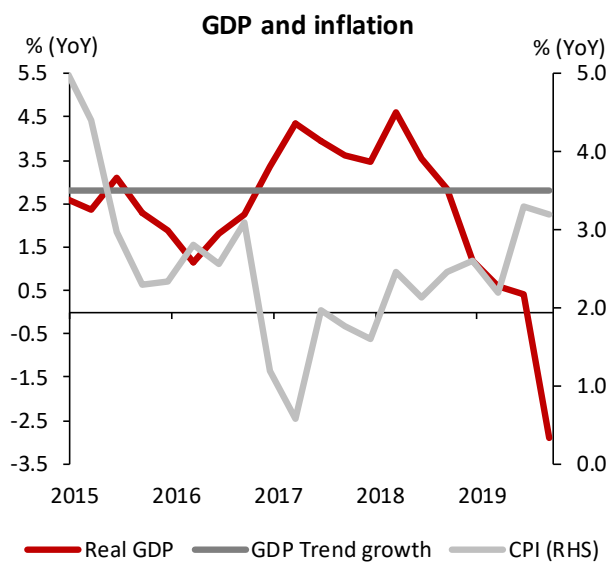


Source: CEIC, DBS

Chris Leung and Nathan Chow

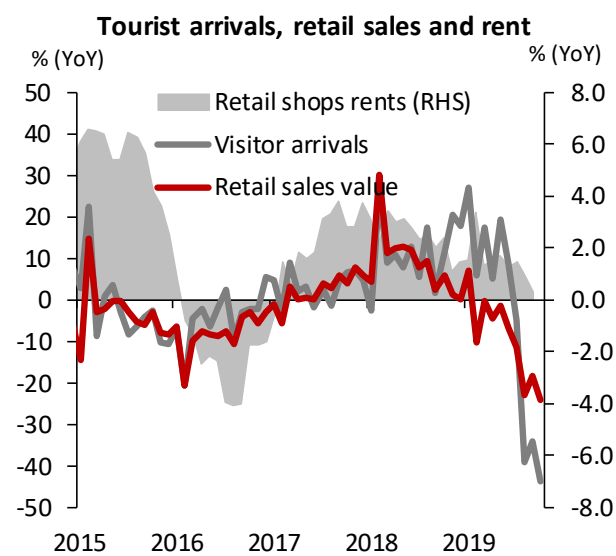
Hong Kong

The ongoing social movement and China-US trade war pushed Hong Kong to a technical recession in 3Q. Risk of stagflation is rising amid soaring import food costs.



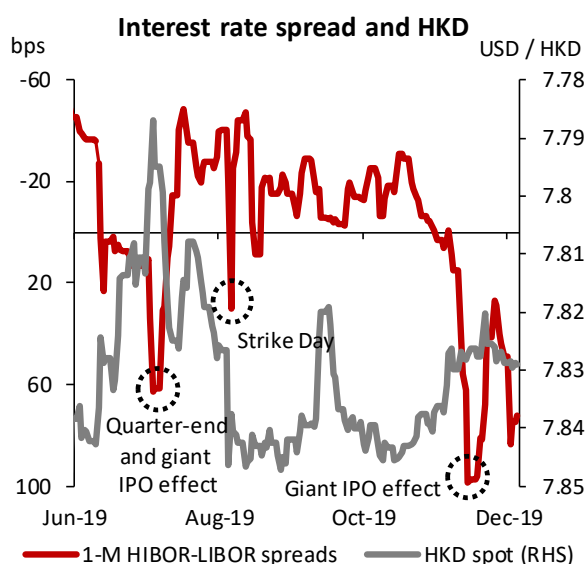
Source: CEIC, DBS

Retail sales fell by 24.3% YoY in October, with visitor arrivals slumped by 43.7%. But the temporary rental adjustments could contain the risks of large-scale closure of businesses.



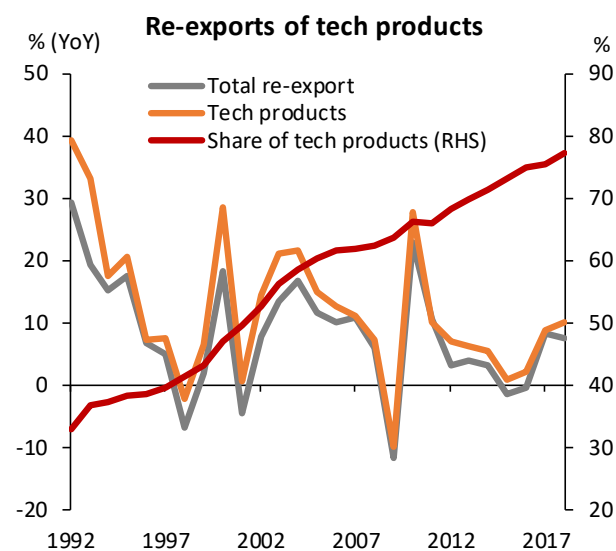
Source: CEIC, DBS

Capital outflow remains manageable. HIBORs and USD/HKD was largely calm except some upticks due to large-scale IPOs.



Source: Bloomberg, DBS

Immediate impact of the Hong Kong Human Rights and Democracy Act is minimal. But there will be potential restrictions on the city's technology re-export.



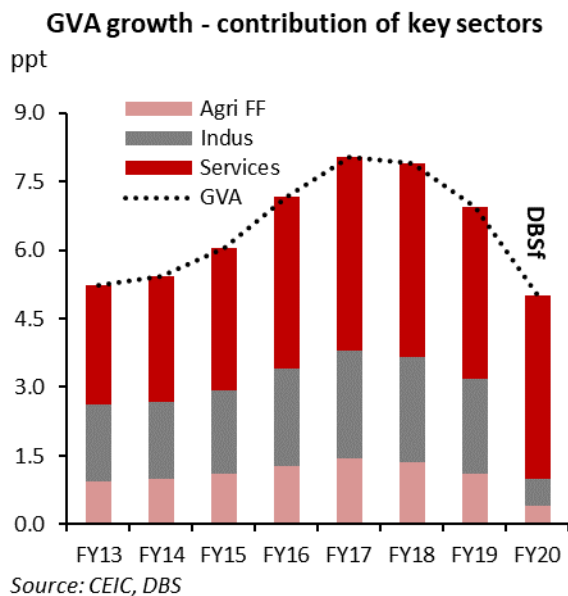
Source: CEIC, DBS

Chris Leung and Samuel Tse

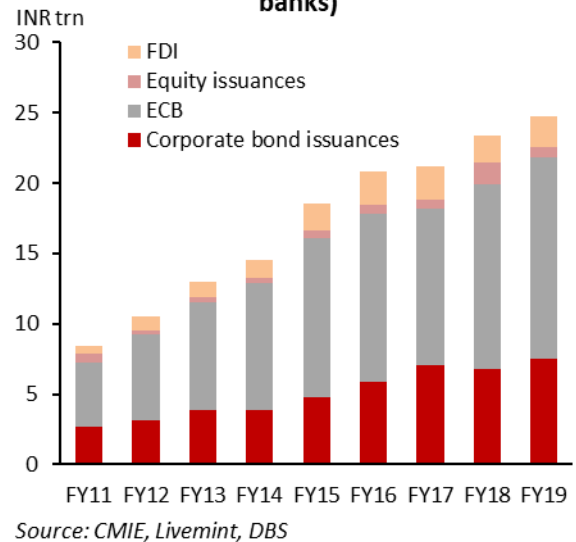
India

India's growth is expected to slip to 5% YoY in FY20 on broad-based weakness in sectors excluding public administration; modest recovery likely in FY21

Private sector is raising more funds via external commercial borrowings and bonds as banks tighten their due diligence

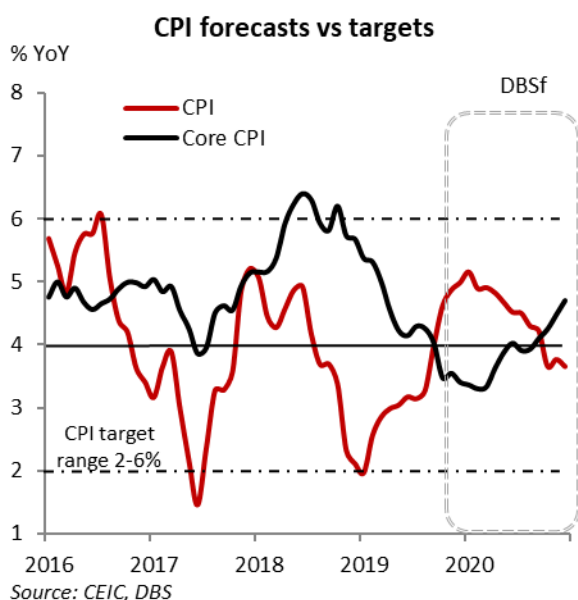


Private sector sources of finance (apart from banks)

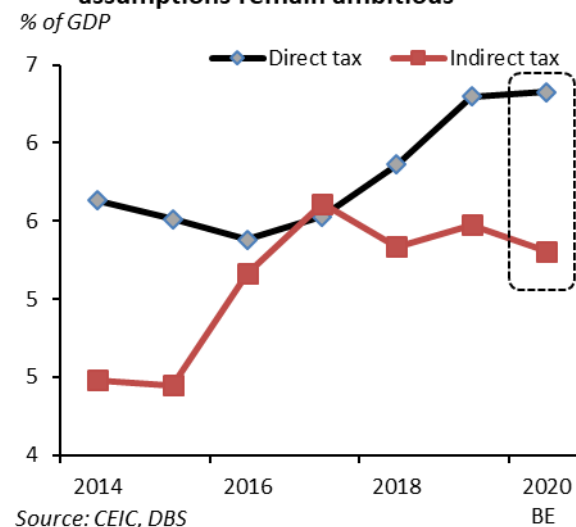


Idiosyncratic supply factors in the near-term, and base effects in 2020, will keep inflation near or above 4% target next year

Evolving run-rates suggest that FY20 full year assumptions are optimistic for both direct (personal and corporate) & indirect (GST) tax collections



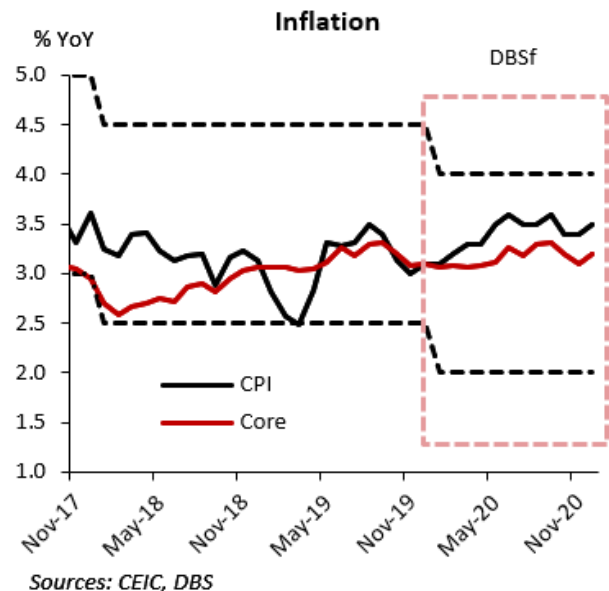
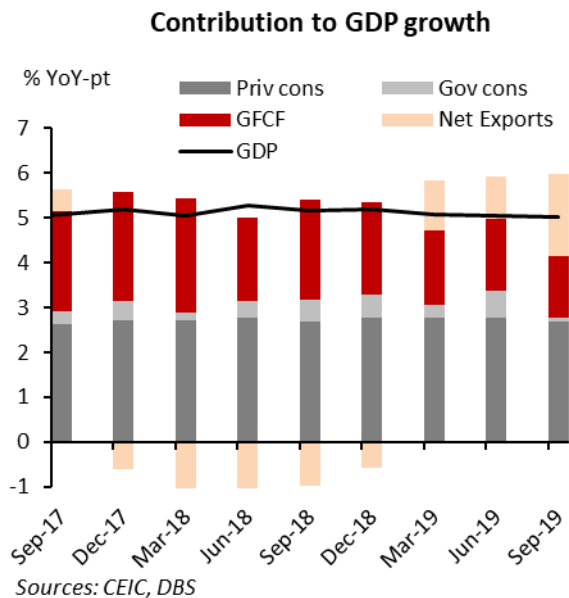
Revenues: Tax receipts budgetary assumptions remain ambitious



Indonesia

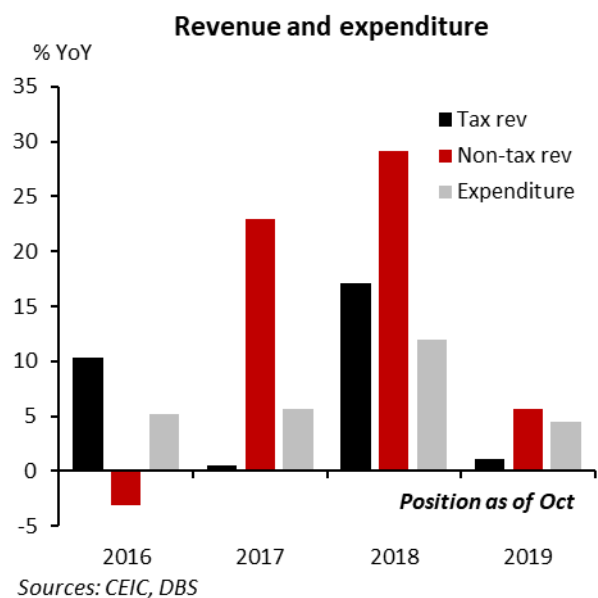
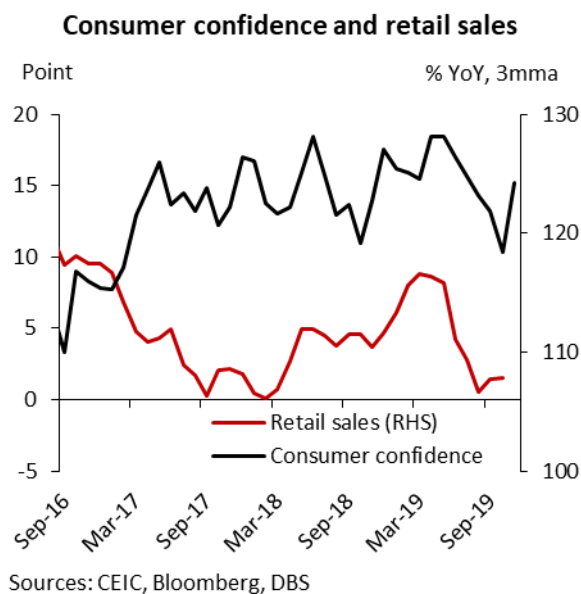
We expect growth to stabilize at 5% YoY in 2020 driven by better investment growth as political ease. Trade deficit could widen in 2H20 on the back of higher capital and raw material good imports.

Inflation could rise in 2020 on the back of higher administered price including electricity. Yet, we think as the increase is still within BI's target band, there are rooms for 50bps more rate cuts most likely in 1Q20.



Consumption sentiment has rebounded and is likely to stabilize in 2020, supported by 270 regional elections in Sep20.

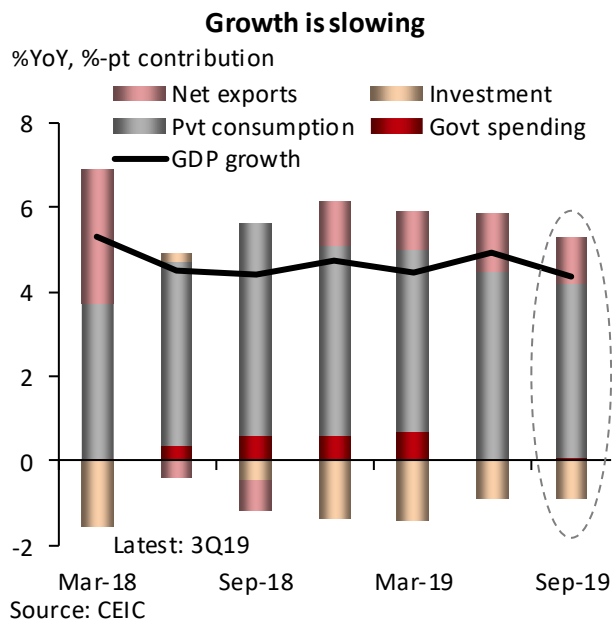
Fiscal lever might be more limited than 2019 as revenue collection is likely to ease further given softer economic activities.



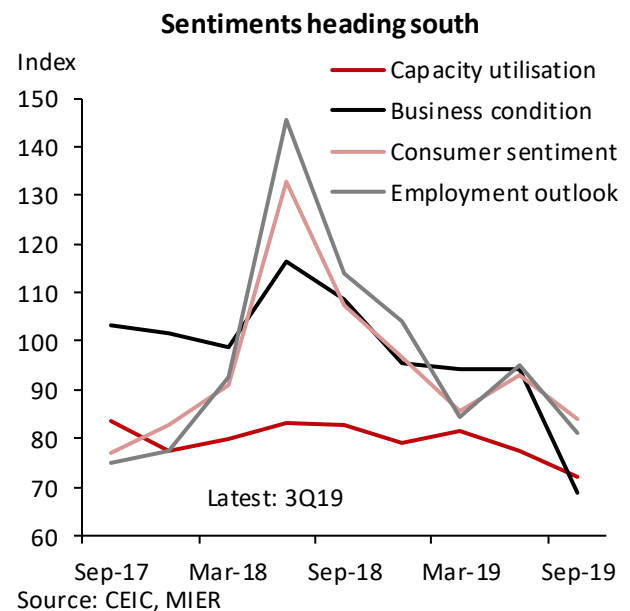
Masyita Crystallin

Malaysia

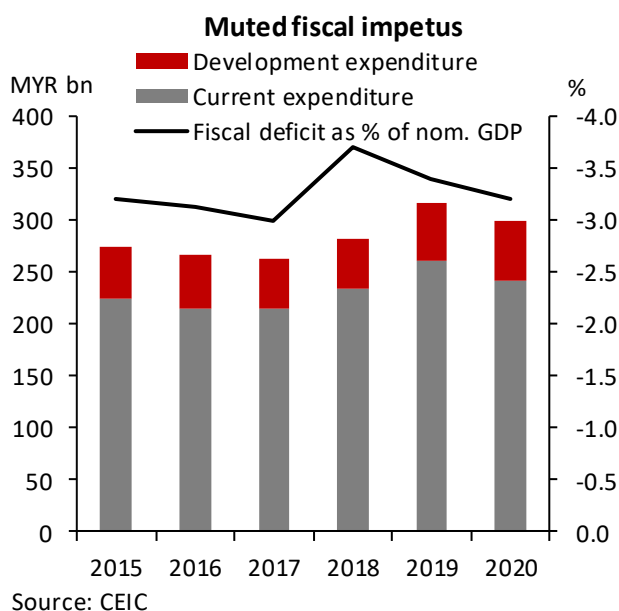
Growth is slowing due to weaker private consumption and net exports. Overall GDP growth is expected to register 4.6% in 2020, up just a tad from a projected 4.5% in 2019



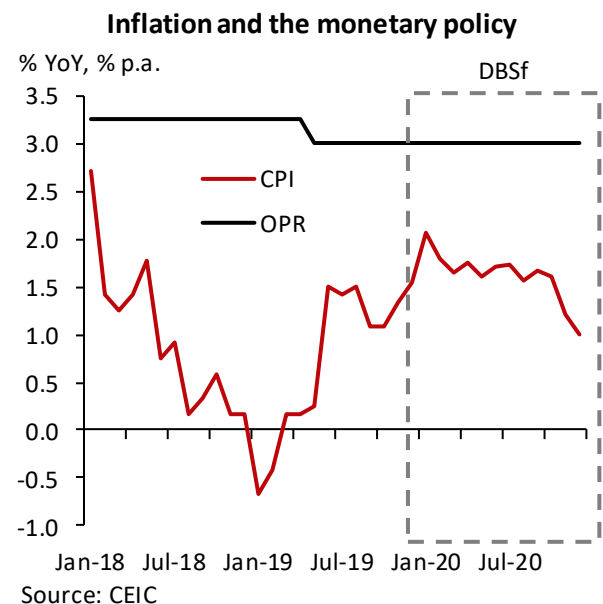
While external demand is expected to remain weak, all sentiments related indexes are headed southward, hinting of slower domestic growth in the coming quarters



While the fiscal deficit is expected to narrow to 3.2% in 2020, the expansionary effect of the budget is likely to fall short of expectation amid lower expenditure

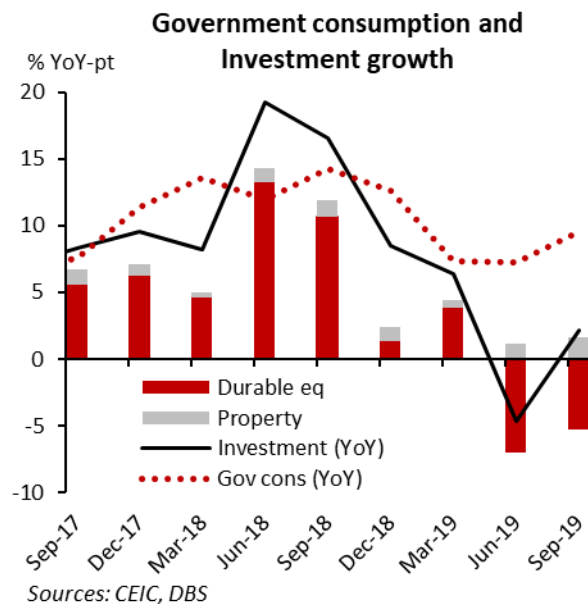


Although inflationary pressure will remain manageable, it will be higher at 1.6%, which implies lesser room for Bank Negara to ease monetary further

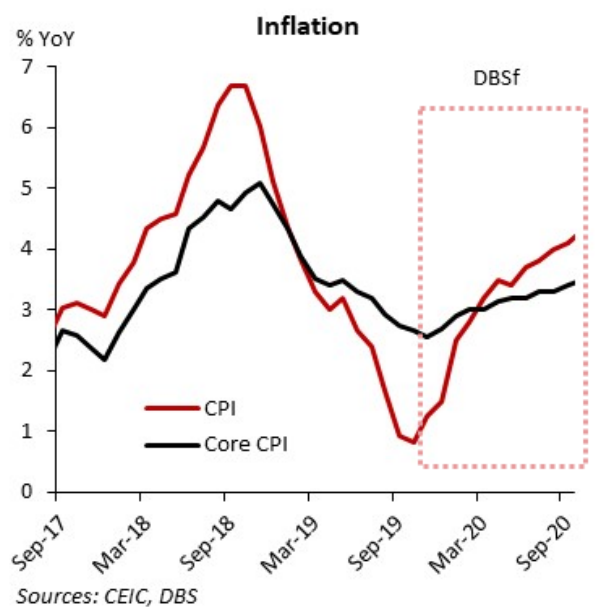


Philippines

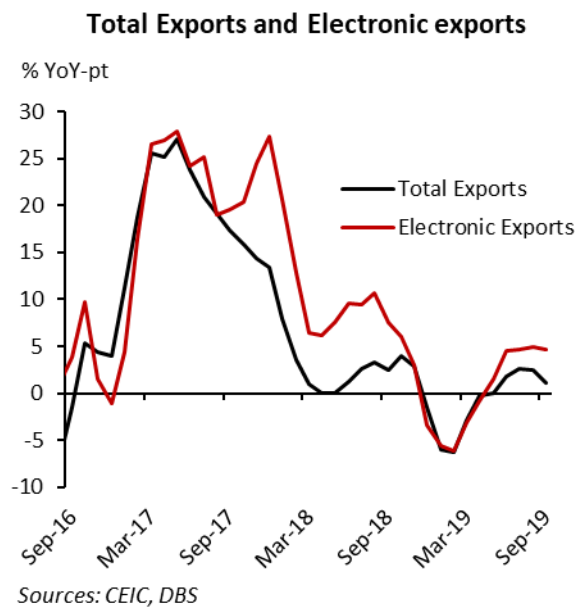
Growth is likely to pick up to 6.3% in 2020 after a soft 2019, supported by government investment and consumption, as the government can spend the extended 2019 budget validity on top of 2020 budget.



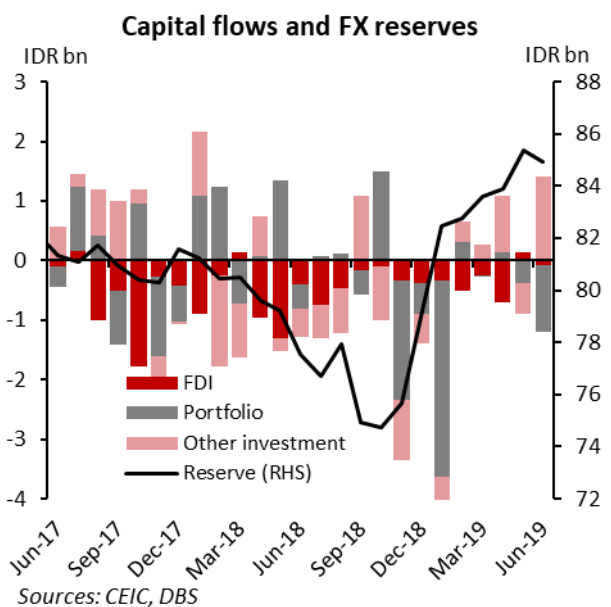
Inflationary pressure will increase due to improved economic activity as well as low base effect, reaching 3.5%. Since inflation is still well below BSP upper limit of 4%, there is room for further easing in 1Q20.



Exports is likely to pick up as electronic exports, accounting for 56% of Philippines's total exports has bottoming out in line with recovery in the global electronic demand.



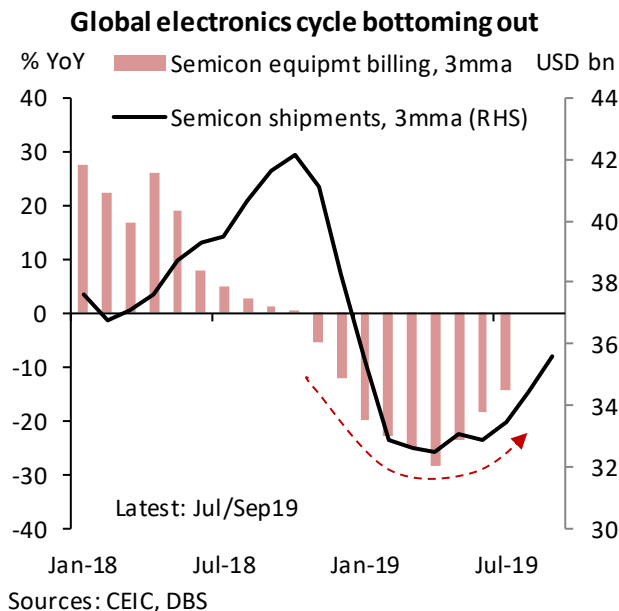
FX reserve is likely to continue to improve in 2020 due to both capital inflows especially from other inflows and improved trade deficit from better electronic global demand.



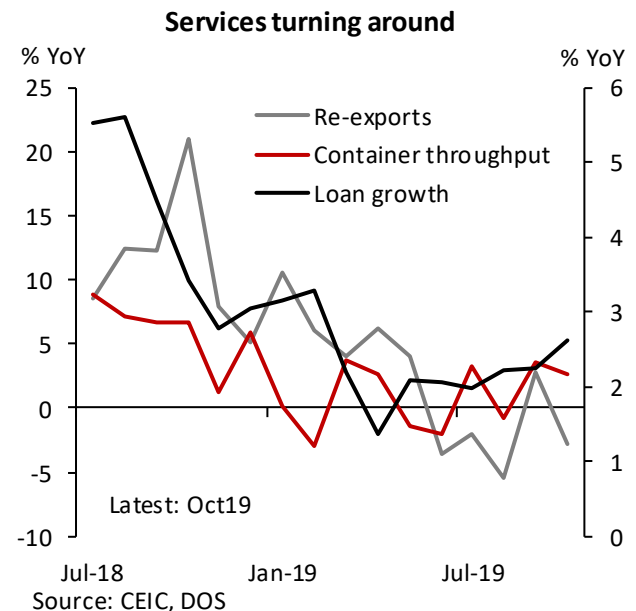
Masyita Crystallin

Singapore

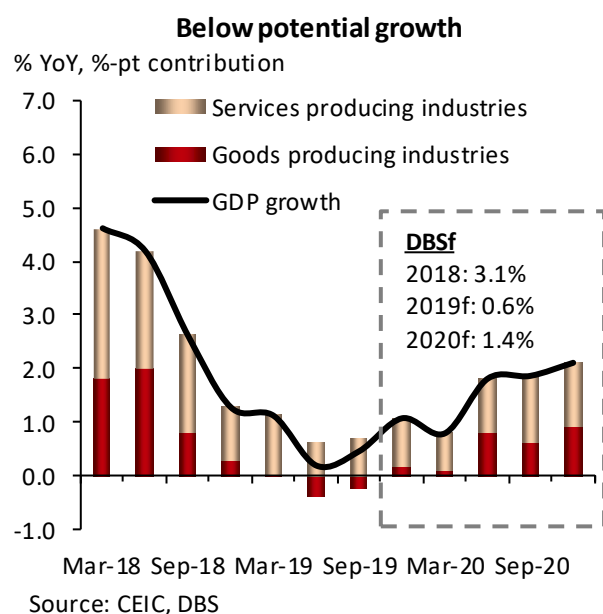
Global electronics cycle is turning, suggesting that a trough in the manufacturing sector could be forming. This is despite lingering uncertainties from the trade war



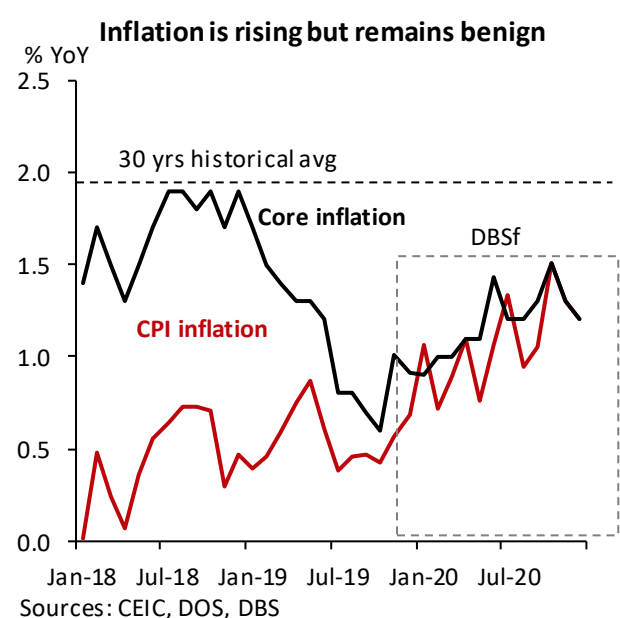
High frequency data is showing similar signs of bottoming out in the services sector, which is significant given that services accounts for two-thirds of the economy



GDP growth in 2020 is expected to pick up to 1.4% on the back of the improvement in global economic conditions although this will still be below Singapore's potential growth rate



Inflation should rise to 1.1% in 2020, from 0.6% previously. The likelihood of further monetary easing will reduce should the improvement in growth continues amid higher inflation

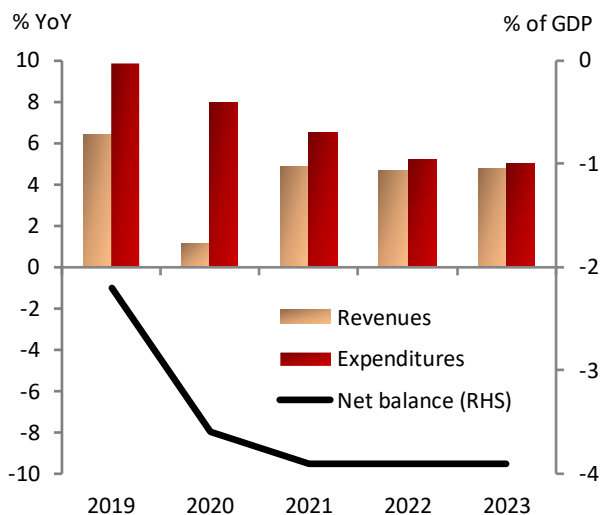


Irvin Seah

South Korea

Fiscal policy will be more expansionary in 2020, providing stronger support for consumption and investment growth, but resulting in a faster rise in public debt.

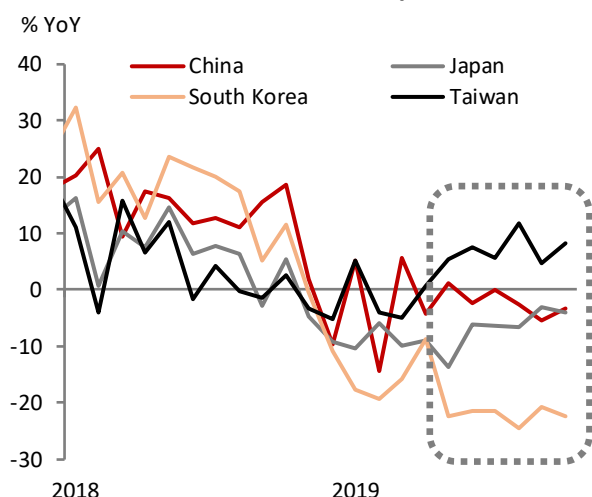
South Korea: Fiscal projections 2019-23



Sources: Ministry of Economy and Finance, DBS

Electronics exports are expected to bottom out but continue underperforming, given the rise in 5G smartphone demand and on the other hand, the supply-chain disrupting impact of South Korea-Japan trade tensions.

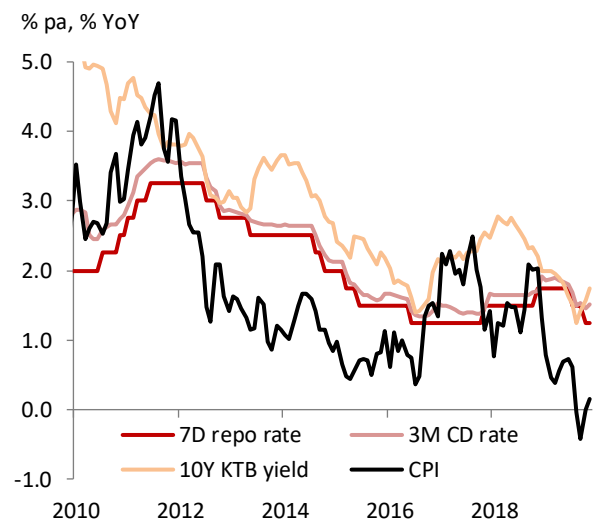
Asia 4: Electronics exports



Sources: CEIC, DBS

Short-term interest rates will stay at record lows as inflation remains muted. KTB yield curve is likely to show a steepening bias as government bond supply increases.

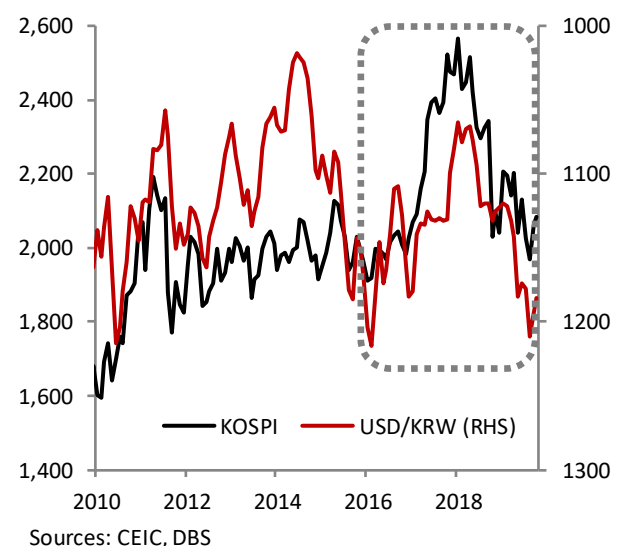
South Korea: Interest rates and inflation



Sources: CEIC, DBS

The USD/KRW is showing a rising correlation with the KOSPI. GDP growth and corporate earnings are expected to recover in 2020 but remain weak compared to historical levels.

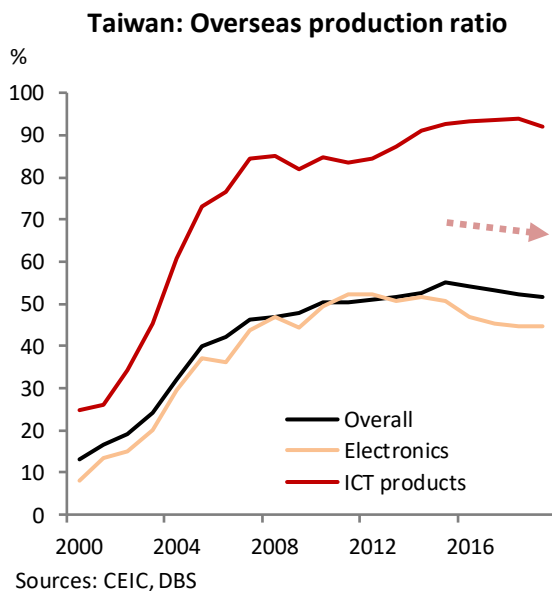
USD/KRW vs KOSPI



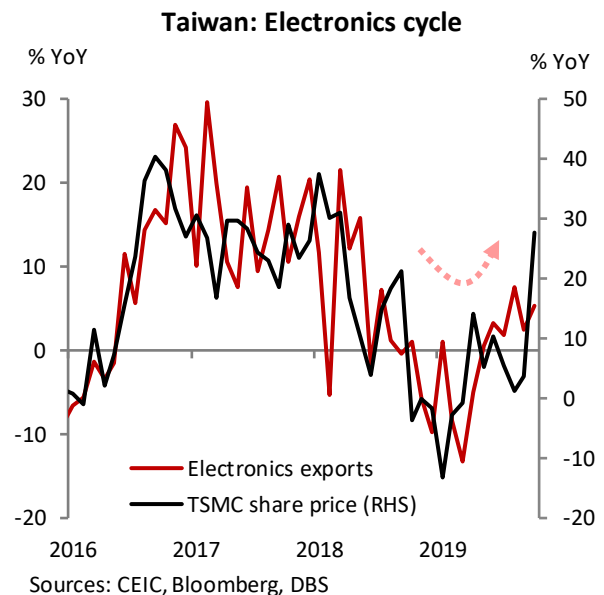
Sources: CEIC, DBS

Taiwan

Overseas production ratio has continued to decline, as the mainland-based Taiwanese firms moved production back to Taiwan to avoid the increase in US tariffs.

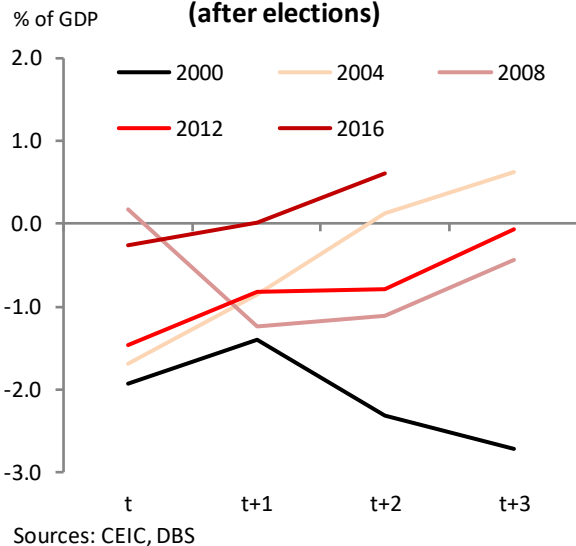


Electronics exports are back to growth, thanks to the trade diversion effect of the China-US trade war, the rise of Made-in-Taiwan, and meanwhile, the bottoming of global tech cycle.



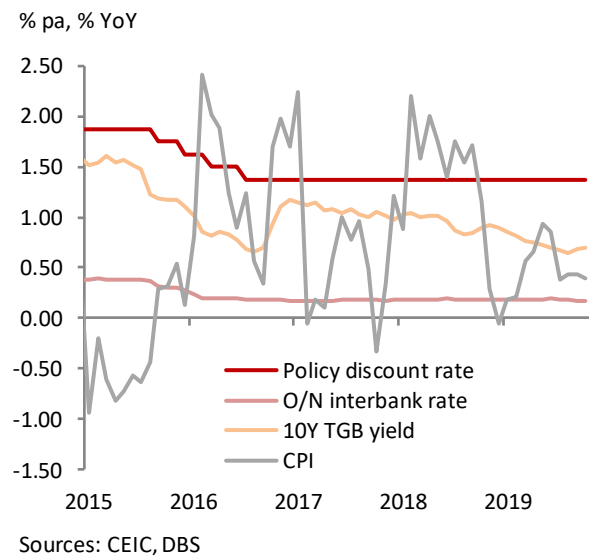
Fiscal stimulus appears unlikely in 2020 despite elections. Both the DPP and KMT parties tend to prioritize fiscal consolidation after elections (barring economic shocks/recessions).

Taiwan: Central government's fiscal balance (after elections)



The central bank is expected to maintain status quo on monetary policy in 2020, thanks to a stable growth/inflation outlook and favourable liquidity conditions.

Taiwan: Interest rates and inflation



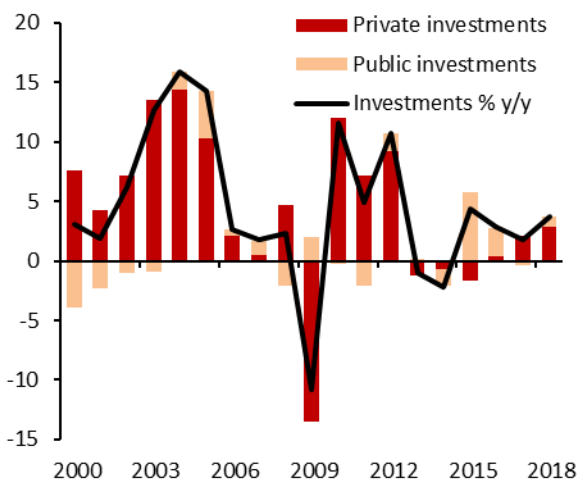
Ma Tieying

Thailand

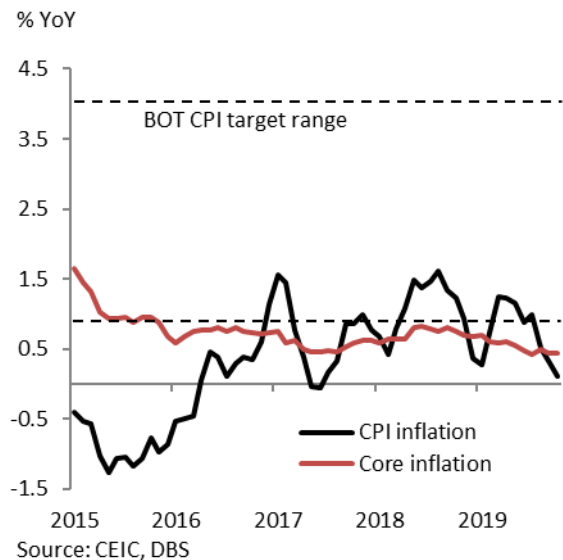
Delay in Budget approvals limited the extent of boost to growth from government spending. Into 2020, we expect spending to be frontloaded to offset a weaker trade outlook

Inflation run rate is weak on subdued supply-side pressures, with 2019 CPI to average 0.8% YoY below the central bank's target.

Recent investment growth has been subdued
contribution in ppt, % y/y



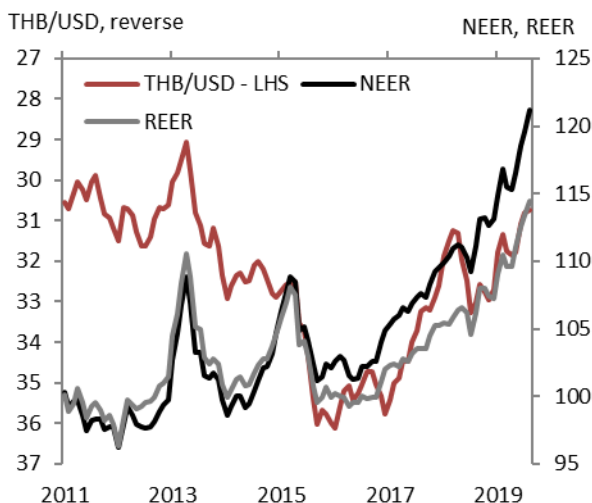
Headline and core inflation - still benign



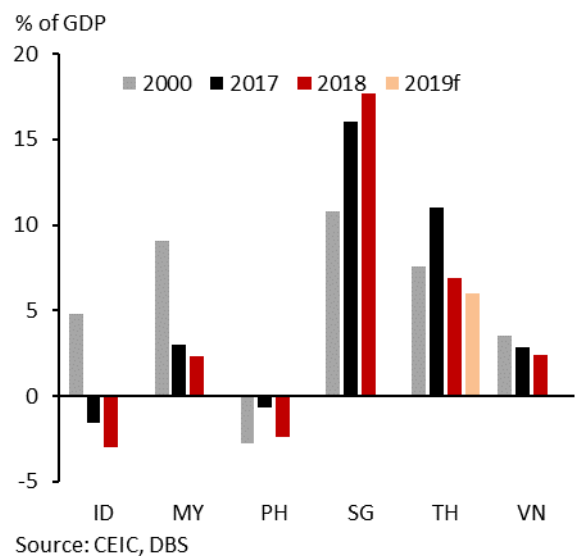
Thai Baht outperformance vs USD (+7.4%) YTD and sharp gains on effective exchange rate terms bode unfavourably for trade and manufacturing competitiveness

Thailand's current account is expected to register a sizeable surplus in 2019 and 2020 of 5-6% of GDP as weak exports are being offset by a sharp correction in imports due to weaker investment-related spending

USDTHB and effective exchange rates



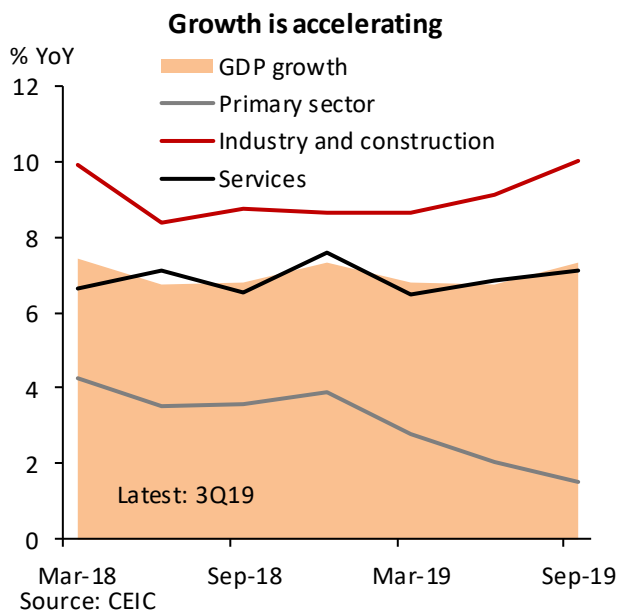
Thailand current account surplus vs ASEAN



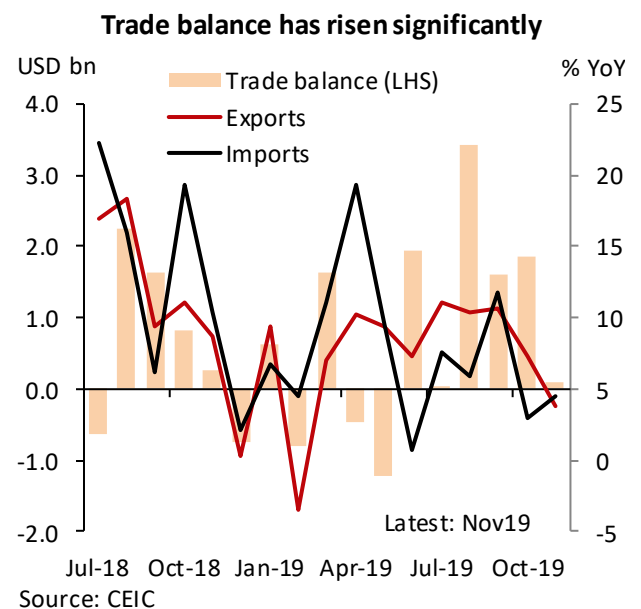
Radhika Rao

Vietnam

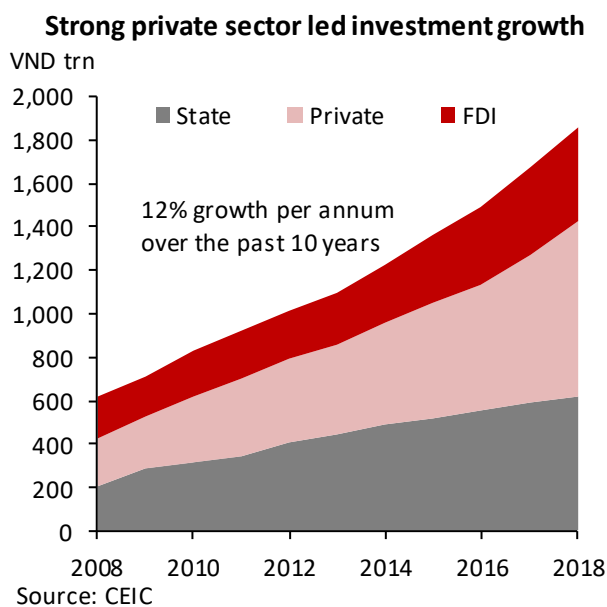
GDP growth accelerated to 7.3% YoY in 3Q19. Overall growth outlook will remain sanguine with robust GDP growth performance of 6.8% expected in 2020



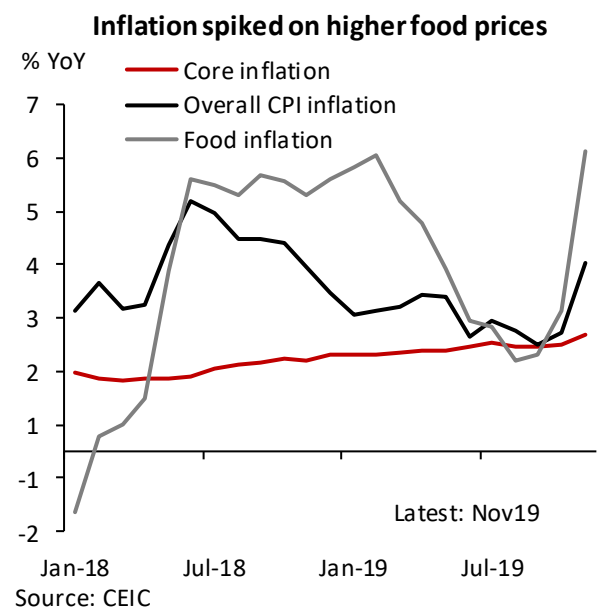
Despite slower export growth, overall trade balance between Jan-Nov19 has risen significantly by about 15.5% YoY, which should continue to support VND



Amid diversification by global companies away from China, investment is expected to remain a key driver of economic growth in Vietnam going forward



Inflation has spiked up due to higher food prices. This implies less room for the SBV to cut policy rate further. We expect the central bank to stand pat throughout 2020



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

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