

Good MornING Asia - 16 April 2019

Taking a cue from the US market, players in Asia may turn defensive today ahead of China's GDP report on Wednesday, which may provide some direction.

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By Nicholas Mapa



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EM Space: Awaiting important data from the US and China

- **General Asia:** Investors will likely take their cue from the pullback on Wall Street and play defensive ahead of China GDP and US retail sales data. Crude oil prices slipped on reports Russia may break away from a pact to curb production.
- **Indonesia:** The trade balance posted surplus for the second consecutive month in March. The \$540m surplus in the last month was a result of the continued fall in imports with inbound shipments down 6.8% YoY, while exports remained in the red with another 10% decline. This puts the 1Q trade balance at \$190m deficit on the back of a sharp slowdown in capital goods and raw materials imports. Although the improved current account balance may seem positive, the pullback of investment-related imports could hit sap the growth momentum in the period ahead.
- **Philippines:** February remittances by overseas Filipino remittances surprised on the downside with only 1.5% YoY growth to \$2.3bn as against the consensus of 3.9% growth. Still, this remains a stable source of foreign dollar inflows with the year to date growth pegged at 2.9%.
- **Philippines:** The President finally signed the PHP 3.7tr 2019 budget after months of delay, bringing to an end a public squabble between lawmakers over appropriations. In signing the

law, the President removed roughly PHP 95bn in appropriations for smaller infrastructure projects added on by select lawmakers. Growth projections for 2019 have been shaved after budget delays are seen to hamper government spending. The government is now targeting only 6-7% growth for the year.

What to look out for: China GDP data and Fed speakers

- US industrial production (16 April)
- Singapore exports (17 April)
- Fed Kaplan (17 April)
- China GDP (17 April)
- EU inflation (17 April)
- US retail sales (18 April)
- Korea BoK meeting (18 April)
- Fed Bullard and Harker speak (18 April)
- Fed Bostic (19 April)

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Chinese GDP report card should be better than everybody expects

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Source: Shutterstock

✓ Fixed asset investments should jump

The 'two sessions' meetings held in early March this year set a fiscal stimulus package of CNY 4 trillion, of which around half was tax and fee cuts. The other half comes from local government infrastructure projects, including new metro lines and toll roads. Aside from the stimulus, some local governments have quietly relaxed housing regulations too. As a result, fixed asset investment should jump with fiscal money propping up infrastructure.

Investments in 1Q19 will mainly be supported by fiscal stimulus projects, including metro lines, toll roads and water management systems. But bear in mind that these are not market-driven investments instead, they're government efforts to cushion the economy from heading south too fast. Our forecast on fixed asset investments is 6.5%YoY year-to-date in March from 6.1% a month ago.



Retail sales will show that the job market is just fine

As the government continues to spend on new metro lines and toll roads, we expect the construction sector to add job vacancies to the market, which should hopefully keep the job market stable.

The gauge of job stability, in the absence of a good unemployment indicator, will be the growth of consumption and retail sales. We forecast retail sales to increase to 8.9%YoY in March from 8.2% in January-February. If the improvement in retail sales is like we forecast, it should reflect a healthy job market.

✔ Industrial production details should give hints about the export environment

We expect industrial production to increase to 6.2% in March from 5.7% in January to February.

The headline figure is likely to look positive because of all the infrastructure projects but we'll need to see the details to evaluate if there is an export-related sectors' production rebound. We're not optimistic as export-related manufacturers should not be willing to expand their production line when the trade talks between China and the US are still ongoing.

✔ Trade doesn't look that bad

First quarter exports grew by 1.4% YoY while imports shrank by 4.8% YoY. Trade with the EU was 15.8% of total trade while trade with the US was 11.6%. But this is only goods trade.

Trade of services has been in deficit since Chinese tourists' outbound tourism activities keep rising. This may change in 2019 as Chinese consumers will be cautious about spending on big-ticket items.

For the first quarter of 2019, combining the two, the growth of net exports of goods and services should be near zero assuming tourism spending rises 5%YoY. We could be too optimistic about the Chinese spenders, but we all shall be revealed on Wednesday, 17 April.

✔ Growth should be above the government's lower bound

Considering all of the above, we forecast GDP growth at 6.2%YoY in 1Q19, which will be lower than 6.4%YoY in 4Q18. But this is better than the government's lower bound target of 6.0%.

There is a real need to keep credit growth continuing to keep GDP growth above 6%. That's why we still expect a 0.5 percentage point RRR cut in April.

But we don't think there is a need for the government to increase fiscal stimulus as growth should continue to increase in 2019 when money is put into infrastructure production and so long as monetary easing continues.

✔ The yuan was almost flat in 1Q19

USD/CNY in 1Q19 depreciated by 0.18% but the high-low volatility was still quite small at 1.8% and this tells us that the central bank has carefully managed exchange rate movements.

The central bank has to make the yuan flexible enough to follow the dollar index's movements, i.e. when the dollar rises, the yuan weakens. But it also had to cater to political needs by depreciating the yuan when there were trade talks to defy what President Trump said: "the yuan cannot depreciate if there is any trade deal"

Our forecasts for USD/CNY at 2Q19 and 3Q19 are 6.85, which may have to be revised as the central bank has managed the yuan in a very narrow range. But our year-end forecast at 6.75 seems to match what the central bank is doing. At least for now.

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