

## Good MornING Asia - 20 April 2018

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By Robert Carnell



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## Asia week ahead: Trade threat? Not yet

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### ➔ No evidence of trade hit to Asia's growth so far

We think the global trade war has displaced geopolitics as the main risk to Asia's GDP growth coming into 2018. Evidence of any impact of a trade war on growth at least in the first quarter of the year has been scant, though the war was only triggered in early March when President Trump announced hefty tariffs on steel and aluminium.

China and Singapore's GDP growth came in on the stronger side in the first quarter. We expect GDP releases from Korea and Taiwan next week to reinforce the message, with firmer exports growth leading us to forecast firmer GDP growth for both economies.

# 3.2%

ING forecast of Korea's 1Q GDP growth

Up from 2.8% in 4Q17

## ➔ Re-acceleration of Korea GDP growth

Korea's export growth accelerated to 10.3% year-on-year in 1Q18 from 8.6% in the previous quarter. Add to this positive consumer and investor sentiment from reduced North Korea tensions, and we could have GDP growth re-accelerating above the Bank of Korea's 3.0% forecast for the first half of this year. Our forecast is 3.2% growth in 1Q18.

However, in its latest quarterly Economic Outlook report the BoK scaled back its growth forecast for the first half from 3.2% to 3.0%, citing a still weak labour market, which has weighed on private consumption as well as the moderate growth of investment in the IT sector. We will wait for more evidence to this effect to reconsider our forecast of a 3Q18 BoK rate hike, while we also see upside risk to our forecast of USD/KRW ending the year at 1,000 (spot 1,059). These risks could be more pronounced in the event of a full-fledged trade war, not our baseline though.

## ➔ Taiwan is at greater risk from a trade war

In Taiwan, 10.6% YoY export growth in 1Q18 was little changed from the previous quarter, supporting our forecast of steady GDP growth in 1Q18 at the 3.3% pace of 4Q17, which was the fastest pace in almost three years.

Taiwan's GDP growth averaged 2.2% in the six years through 2016. Last year's growth spurt was the function of strong global demand rather than strong domestic demand. This lopsided state of the economy exposes it to potential trade weakness from restrictive policies elsewhere in the world. And there is nothing that domestic policy could do about it. We expect the Taiwan central bank (the Central Bank of China) to keep monetary policy on hold for an extended duration.

# 4.3%

## Singapore 1Q GDP growth

Advance estimate, at risk of downward revision

## ➔ Exports and manufacturing de-coupling in Singapore

Singapore's industrial production for March will indicate the direction of revision to 4.3% 1Q18 GDP growth as part of the advance estimate. In the face of disappointing exports in March the risk is tilted toward a downward GDP revision. The real non-oil domestic export growth slowed sharply to 4% YoY in 1Q18 from 14% in 4Q17. In contrast, real manufacturing GDP growth more than doubled to 10%, boosting total GDP growth to 4.3% from 3.6% over the same quarters.

A steady expansion path for the economy this year and upward pressure on core inflation resulting from an improving labour market were the driving forces behind the recent central bank (Monetary Authority of Singapore) policy change to a "modest and gradual" appreciation of the Singapore dollar nominal trade-weighted index. However, the decoupling of exports and manufacturing raises questions about where all that increased output is going, and whether the MAS was a bit too early to begin tightening.

## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Friday 20 April</b>					
China	1700	PBOC's Yi to Attend Closed-door Lunch at Forum in Washington			
Malaysia	0800	Apr 13 Forex reserves- Month end (US\$bn)	-	-	107.8
Taiwan	0900	Mar Export orders (YoY%)	6.8	0.25	-3.85
<b>Monday 23 April</b>					
Singapore	0600	Mar CPI (YoY%)	0.6	-	0.5
	0600	Mar CPI core (YoY%)	1.6	-	1.7
Taiwan	0900	Mar Industrial production (YoY%)	3	-	-1.93
Thailand	-	Mar Exports (Cust est, YoY%)	6	5.9	10.3
	-	Mar Imports (Cust est, YoY%)	11	11.2	16
Hong Kong	0930	Mar Composite CPI (YoY)	2.2	-	3.1
<b>Tuesday 24 April</b>					
Philippines	-	Mar Budget balance (PHP bn)	-	-	-61.7
Taiwan	0920	Mar Money supply (M2) (YoY%)	3.6	-	3.78
South Korea	2200	Apr BOK Consumer Sentiment Index	107.5	-	108.1
<b>Thursday 26 April</b>					
Singapore	0600	Mar Industrial production (MoM/YoY%)	-2.9/4.9	-/-	-0.5/8.9
South Korea	0000	1Q P GDP (QoQ/YoY%)	1.4/3.2	-/-	-0.2/2.8
	2200	May BOK Business Survey Index, mfg	79.7	-	78
	2200	May BOK Business Survey Index, non-mfg	80.5	-	80
Hong Kong	0930	Mar Exports (YoY%)	3	-	1.7
	0930	Mar Imports (YoY%)	5	-	-3.2
	0930	Mar Trade balance (HK\$ bn)	-63.9	-	-42.7
<b>Friday 27 April</b>					
China	0230	Mar Industrial profits (YTD, YoY%)	18	-	10.8
Singapore	0330	1Q Jobless rate (Q) (%), SA	2.1	-	2.1
Taiwan	0930	1Q P GDP (YoY%)	3.3	-	3.28
Thailand	-	Mar Manufacturing index (YoY%)	-	-	4.7

Source: ING, Bloomberg

# Australia: Distinctly unimpressive jobs data

We weren't really expecting this, but the latest Australian data could indicate a soft-patch



Source: Shutterstock

## The labour market is supposed to lag the rest of the economy...

If the labour market lagged the rest of the economy, as it usually does, then Australian labour data should continue to be picking up. But the March labour data were distinctly unimpressive and have us worried that this may be reflected in other demand sensitive areas of the economy...retail sales, business investment, confidence etc.

The figures are, as ever, a complicated combination of full-time and part-time jobs. In March, full-time job falls were more than offset by part-time jobs, though a full-time equivalent series we have created shows employment lower than it was in January. Downward revisions have further weakened the picture painted by these data.

# -19.9K

## Fall in full time jobs

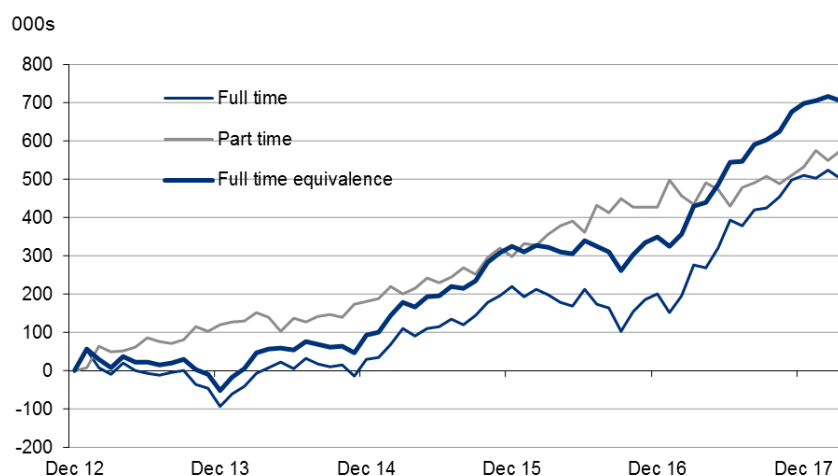
-40.8K downward revision to Feb full-time jobs too

Moreover, the only bright spot in the data, the fall in the unemployment rate, seems to owe as

much to a drop in labour participation rate than to anything positive. Such a fall is usually driven by falling optimism or a declining reward for working...not very positive in any case.

But as mentioned, the labour market should follow the rest of the economy, and purchasing manager indices, on a composite basis are positive, though have fallen recently for manufacturing. This might explain some of the full-time / part-time split, as part-time jobs are more likely in services. Wages are also generally poorer in the service industry, so that may weigh on the Reserve Bank, although they show few signs of any tightening bias currently. We have a tentative 4Q18 rate hike pencilled in, but have the eraser ready to hand in case we need to shift it back.

## Cumulative employment - Jan 2013=0



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# China's residential property market is growing again

China's growing middle class continues to drive housing demand, but we believe restrictive policies are (still) working to avoid a bubble burst



Source: Shutterstock

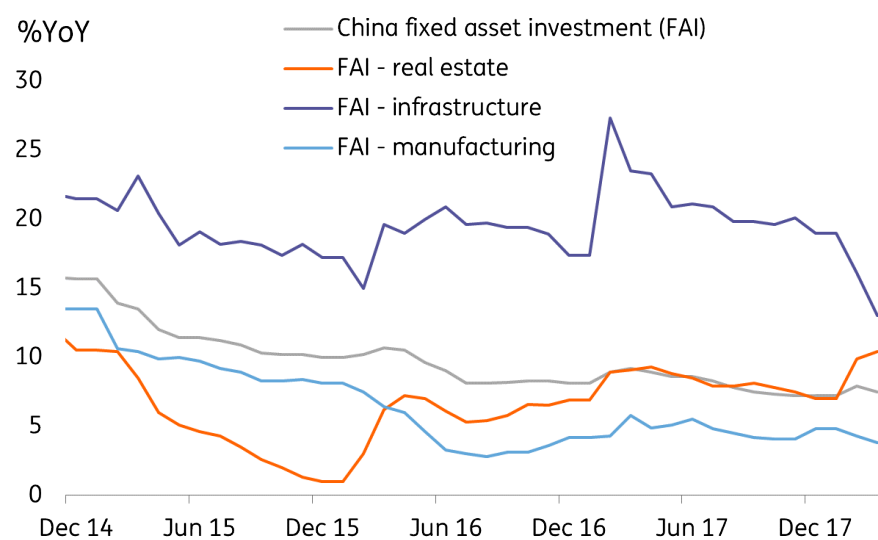
## Surprisingly strong growth in 1Q18

China's property development sector is well known to be under government's restrictive mortgage and administrative measures, especially the residential property market. By this logic, investment in the industry should remain controlled.

But 10.4% year on year growth of real estate investment in March is certainly a stronger than expected number for the market. The last time fixed asset investment in real estate grew at this speed was in February 2015. Growth in real estate investment was only 7.0% in 2017.

Interestingly, restrictive measures haven't deterred property developers experiencing good sales, which has driven them to invest more in the sector.

## Fixed asset investment growth by industry



Source: ING, Bloomberg

## Residential property drives growth

Sales of private residential properties were 11.4%YoY in the first quarter of 2018, not only beating the overall sector's 10.4% but also contributing to more than 84% of all property sales, which include office and retail too.

We believe strong home sales have led to the 12.2% rise in new home construction, which was above the overall real estate sector's 9.7% growth. Land sales value grew more than 20% even land sales area grew only mildly by 0.5%YoY. All in all, these activities have pushed up fixed asset investment in the residential real estate by more than 13%.

## Better home sales came from higher prices

Sales have been stronger than expected because house prices have continued to rise. Though the [Statistic Bureau reported](#) that out of the 15 major cities, seven of them suffered from falling new home prices on a monthly basis in March, the phenomenon did not apply to a larger picture of 70 cities.

Out of the 70 cities in China, 55 cities experienced rising home price on a monthly basis, and 60 cities had a higher home price on a year-on-year basis in March.

## Home buyers moving to affordable cities

Our view is that restrictive policies are still working to avoid a bubble burst.

The responsibility of housing policies lies with the local government rather than the central government which is why different cities have different restrictive measures on down payment for mortgages, eligibility of potential buyers to buy their first home or additional homes; and home pricing policy on property developers. And, these measures change from time to time among cities.

So when buyers end up buying in cities, they have not lived in just because of lower house prices



and slightly looser policies, this drives up the prices in lower-tier cities.

But so far this has not created a large crowd arbitraging different policies in different cities mainly because buyers are expected to have a job in the city that they would like to buy a home in. This is a big decision for most people. More, not many buyers are willing to invest in homes that are located in a remote location of the country because they risk a low resale value in cities that have a small population.

So the central government's delegation of housing policies to the local level is still effective to control housing bubble, and the objective of the government is not to suppress home price to a level that leads to bubble burst.

## Investment in real estate will continue

We believe the growing middle class will continue to be the main driver of demand that supports the housing market as many are eager to own a home, and worried rising house prices will curb their affordability.

Home price would continue to rise when there are different tightness of home price measures among cities so that potential home buyers can take advantage of.

But on average, the speed of house price increase is moderate at the national level, which makes us believe that it is unlikely the government will apply stringent measures to squeeze the property bubble hard, which could yield an unexpected bursting effect.

As property developers expect better home sales to continue, their investments in real estate would also continue. We believe that the residential property market would enjoy a comeback.

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