

Good MornING Asia - 9 May 2019

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China

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5.9%

Philippines 1Q19 GDP growth

ING forecast, below consensus

EM Space: No respite from risk-off just yet

- **General Asia:** A surprising fall in China's exports in April suggests that the impact of the trade war with the US is finally coming through and it could broaden out to the rest of Asia. Asian central banks are admitting the potential downside growth risks. Joining the easing wave, New Zealand's central bank cut rates by 25bp yesterday and Philippines' is expected to follow suit today.
- **Indonesia:** Foreign exchange reserves in end-April were steady at the \$124bn a month ago. Thomas Lembong, chairman of Indonesia's Investment Coordinating Board, warned about energy trade deficit being a persistent long-term challenge for the economy and the currency (IDR).

- **Philippines:** 1Q19 GDP data due at 10 am local time will be followed by the central bank's (BSP) policy announcement at 4 pm today. Underlying our below-consensus 5.9% GDP growth forecast, the consensus median is 6.0%, is weak government spending owing to the delayed passage of the budget for the current year. The BSP governor Diokno recently indicated that he was open to adjusting both the policy rate and the reserve requirement ratio (RRR). We expect a 25bp policy rate cut today.
- **Thailand:** No surprises from the Bank of Thailand yesterday as its monetary policy committee decided to leave the policy on hold yesterday. A growing number of central banks are now moving to ease policies. We are reviewing our view of an on-hold BoT policy this year. The GDP growth is poised to slow going forward, while persistently low inflation provides scope for the BoT to at least reverse the hike implemented in November last year, if not cut rates more than that.

What to look out for: Developments on US-China trade war

- China CPI (9 May)
- Philippines 1Q19 GDP and BSP policy meeting (9 May)
- US trade balance and PPI (9 May)
- UK 1Q19 GDP (10 May)
- US CPI (10 May)

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China: Why imports outperformed exports

Exports contracted 2.7% year-on-year in April while imports enjoyed a rise of 4.0% YoY. These numbers reflect the negative outlook for smart devices and automobile sales globally, and at the same show that China is importing more crude oil for domestic use



Source: Shutterstock

Weak exports reflect structural changes in smart devices and automobiles

Exports shrank by 2.7% YoY in April. Two sectors, which are undergoing structural change, continued to see exports contract:

- Smart devices fell 19% year-to-date. This export item alone contributed more than 5% of

- total imports.
- Automobiles and related parts fell 1.2% YTD and 3.5% YTD, respectively.

Imports were supported by crude oil

In contrast, imports grew 4% YoY. But don't get too excited; the details show that most items actually contracted on a year-on-year basis. Crude oil imports are an exception, growing 16% YoY, probably to fulfil the strategic needs of the government.

The structural changes in smart devices and automobiles are also evident in imports. Both smart device-related and automobile-related imports experienced negative growth year-to-date. Integrated circuits shrank 6.5% YTD and automobiles fell 9.3% YTD.

Escalating trade war will make the trade situation worse

We are not particularly optimistic on China's export and import data in coming months.

- First, the escalation of the trade war means it is likely there will be more tariffs imposed on China's exports, and China's retaliation means more expensive imported goods from the US. So both China's exports and imports will be hit.
- Second, the structural change in smart devices and automobiles will continue. Consumers have been delaying purchases of new smart devices because of a lack of new technology and as they await the rollout of 5G. For automobiles, ride-hailing apps globally, especially in China, have reduced demand for cars. Unless there are big improvements in the convenience of driving and charging a new energy car or even mass production of driverless cars, we believe this structural change in private cars will continue.
- Third, if the trade dispute escalates further, we expect the US to push even harder on its Western allies not to use China-made 5G products and parts, which will dampen China's future exports.

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