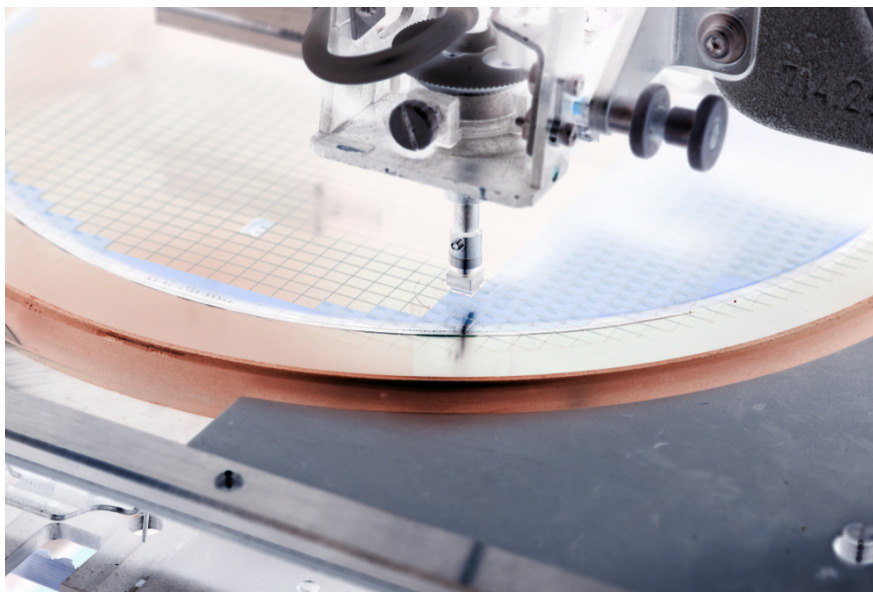


Second order improvement

Could Korean March production data point to a slowdown in the rate of the slowdown? What else should we look for?



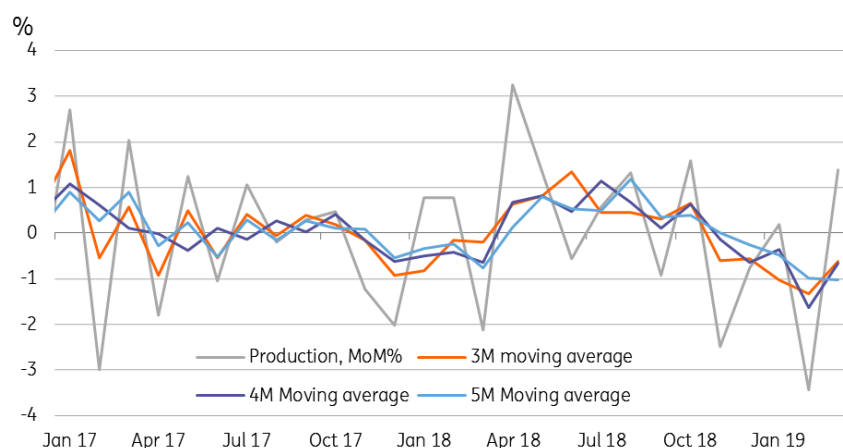
1.4%

March industrial production

MoM% (sa)

Better than expected

Korean Industrial production, MoM%



Month on month production was up 1.4%

While much of the business news industry has been fixated on the US-China trade war (which is topical today as trade talks resume in Beijing), we have been far more worried about the impacts of the global tech slump on the region. Korea, the global powerhouse for semiconductors and indeed most things electronic, has been particularly badly hit (Taiwan too - watch for moribund GDP data for 1Q today as a result).

So today's month-on-month increase in Korean production looks as if it is good news. Production bounced by 1.4%MoM, a shade higher than the 1.0% consensus expectation, but from a downward revised 3.4% decline in February.

One reason not to get too excited is that Korean production data exhibits what one might describe as a negatively autocorrelated process. Or in English, it "saw-tooths". Almost (though not quite) without exception, a good month is followed by a bad month. March was due a bounce. What is noteworthy, is that this seems (based on eyeballing a few moving average series), to be showing some slowdown in the rate of month-on-month decline.

Production is a function of exports - here the news is mixed

To build a stronger case for a leveling-out of production, we first need to see what is going on in the export markets, which is where most of Korean production ends up.

Here, the evidence is less compelling. March exports also fell a bit less than the February figures, down 8.2%YoY from an 11.4% fall in February. But looking at a series of moving average trends, it is less clear that this series is turning the corner. 20-day preliminary export data for April are also down 8.7%YoY, worse than at the same point in February, and suggest that the export picture remains difficult.

Recent company specific commentary on the electronics sector, in particular semiconductors, also remains very cautious. So on balance, I would say that the global tech slump and Korea's problems have further to run before we can begin to call the bottom.

One small glimmer of hope, Korean business surveys for May posted small 1-point increases for both manufacturing and non-manufacturing. Perhaps they are seeing something ahead of the

somewhat lagging economic data...?

Asia day ahead - Its PMI day

Across the region, PMIs will start to be released this morning. The releases include both official and Caixin PMIs for China, which will all be expected to register some positive response to the considerable stimulus that has been unleashed in recent months on the Chinese economy.

(And from Prakash Sakpal)...Thailand's March manufacturing index and balance of payments data due today will indicate the risks to our 1Q19 GDP growth forecast of 3.1%. The accelerated export decline in March leads us to expect much weaker manufacturing growth of -3.5% YoY (consensus -2.1%). And for the same reason, we expect the current account surplus to narrow to \$4.4bn in March from \$6.5bn in February. The finance ministry yesterday cut its GDP growth forecast for 2019 to 3.8% from 4.0% on a view of much slower export growth than previously expected (3.4% vs. 4.5%). Yet, the central bank's (BoT) persistent hawkish tone keeps us from expecting policy support with a rate cut this year.

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