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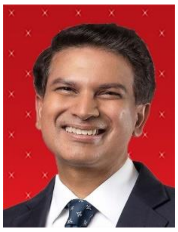
Macro Insights Weekly

When will Asia's export engine hum?

Group Research

September 11, 2023



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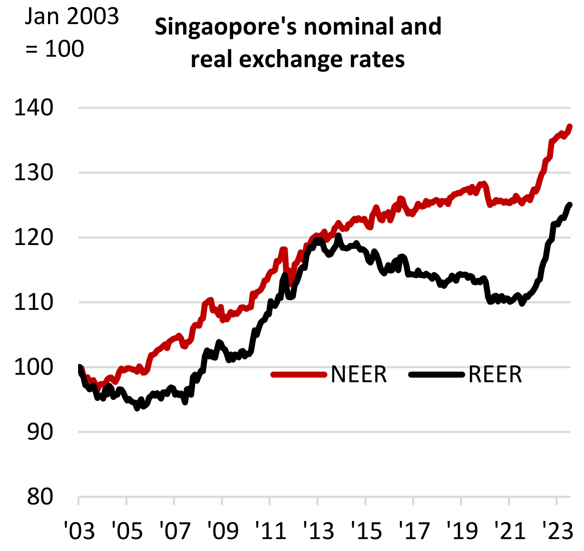
- *Asia's exports have been in contractionary territory most of this year. Trade data are about to get better, in our view.*
- *Price and volume demand has softened after the post-pandemic spurt of 2021.*
- *Despite the contraction of this year, regional exports are 40% higher than pre-pandemic years.*
- *Asian manufacturers' sentiments seem largely undented.*
- *Electronics sector has several encouraging dynamics at play.*
- *We expect to see upward trending exports numbers toward the end of this year.*

Key data release and events this week:

- *ECB is expected to pause on further rate hikes.*
- *PBOC is expected to maintain 1Y MLF rate at 2.50%.*
- *India's CPI inflation is likely to print above 7% yoy in August.*

Chart of the Week: Singapore's soaring currency

SGD has lost about 2% of its value against the USD this year, but that masks its gains against most other currencies. Aided by the Monetary Authority of Singapore's policy tightening, both the nominal and real effective exchange rates have soared since late-2021. Malaysian ringgit, Chinese yuan, and Japanese yen are three major currencies against which the SGD has gained most prominently. Over a two-decade period, Singapore's REER has appreciated by about 25%, reflecting strong fundamentals.

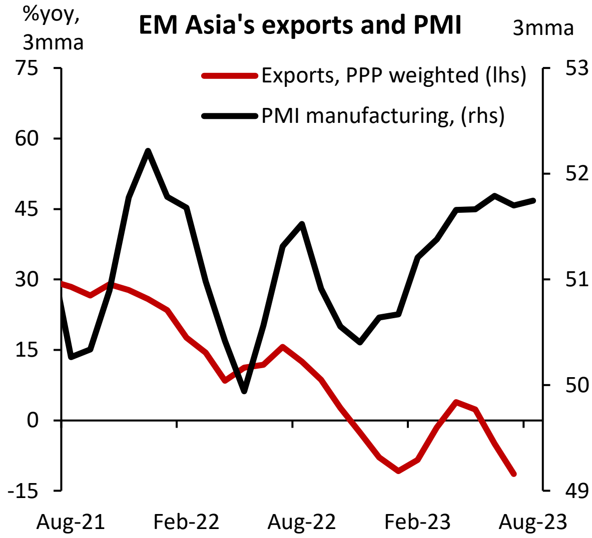


Source: MAS for NEER, BIS for REER, DBS

Commentary: When will Asia's export engine hum again?

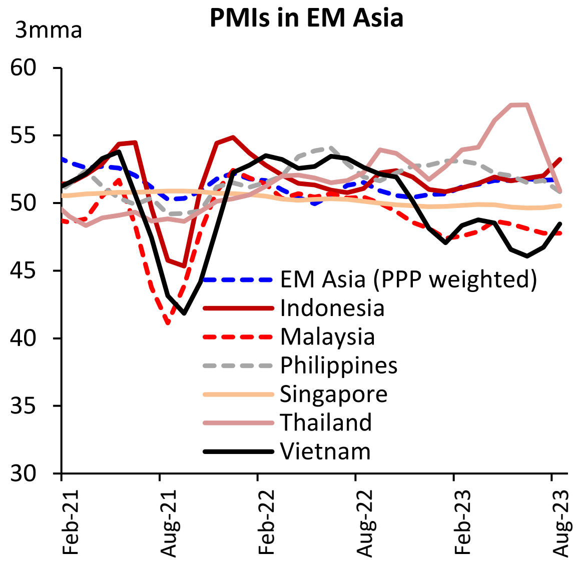
Asia's exporters, after basking in post-pandemic recovery through early 2022, have had a sobering year and a half. On the price side, they have seen chip and other electronics prices decline in post-reopening production normalization. Same has been the case with commodities and petro-chemical exports. On the demand side, there has been discernible import moderation in China and Europe, and even in the US.

Export growth moderation is also a function of base effects. The 20-40% export growth enjoyed by various Asian economies in 2021 was clearly unsustainable. But even after considering the regional exports contraction so far this year, the trend is not particularly poor. Asia's exports amounted to USD1.1trln during Jan-July, which is a good 40% higher than what was typically seen in the pre-pandemic years.



Source: CEIC, DBS. PMI through August, exports through July

Perhaps this why manufacturers don't come across as gloomy in most regional surveys. While exports are in double digit contraction territory, the composite PMI for the region (GDP weighted) has stayed well over 50 through the course of this year.



Source: CEIC, DBS

It may also be the case that regional producers are seeing signs of a trough. The outlook at the electronics space, in particular, has a few promising industry dynamics in place:

- Demand for electronic components have begun to bottom, especially in China.
- Electronics de-stocking has picked up pace, which, by 4Q, should lead to a turnaround in shipment.
- New phone models from Apple and Huawei ought to raise consumer spending.
- AI wave has pushed global tech giants to ramp up their orders of GPUs, which should add momentum for Asia's exporters.

High interest rates and great power rivalry can spoil the picture, but heading into the fourth quarter, Asia's exporters are not particularly gloomy. Commodity prices are up a tad, electronics demand is bottoming, better numbers are about to come.

Taimur Baig

Key forecasts for the week

Event	DBS	Previous
Sep 11 (Mon)		
China: M2 (Aug)	10.7% y/y	10.7% y/y
Malaysia: industrial production (Jul)	-1.8% y/y	-2.2% y/y
Sep 12 (Tue)		
India: CPI inflation (Aug)	7.4% y/y	7.5% y/y
Sep 13 (Wed)		
India: exports (Aug)	-13.6% y/y	-15.9% y/y
- imports	-14.3% y/y	-17.0% y/y
- trade balance	-USD 21bn	-USD 20.7bn
US: CPI (Aug)		3.2% y/y
Sep 14 (Thu)		
Eurozone: ECB main financing rate	4.25%	4.25%
Sep 15 (Fri)		
China: 1Y MLF Rate	2.50%	2.50%
China: industrial production (Aug)	3.9% y/y	3.7% y/y
- retail sales	3.0% y/y	2.5% y/y
- fixed asset investment	3.4% ytd y/y	3.4% ytd y/y
Indonesia: exports (Aug)	-28% y/y	-18.0% y/y
- imports	-16.5% y/y	-8.3% y/y
- trade balance	USD 1.5bn	USD 1.3bn

Central bank policy meetings

People's Bank of China (Sep 15): The PBoC is expected to put the 1Y MLF rate on hold at 2.50% this week as economic activities should have rebounded somewhat in August as reflected by improving leading indicators. Official Manufacturing PMI went up by 4 months in a row from 48.8 in May to 49.7 in Aug. Caixin Manufacturing PMI, which track SMEs' outlook, also returned to expansion zone of 51.0. As such, industrial production growth is expected to increase from 3.7% YoY in Jul to 3.9% in Aug. Likewise, retail sales are projected to go up from 2.5% to 3.0% alongside the improving headline and core CPI. Fixed asset investment growth is expected to remain unchanged at 3.4% YoY YTD. Investment into strategic sectors and infrastructure is offsetting the shortfall of real estate investment.

European Central Bank (Sep 14): The ECB faces a dilemma in the upcoming rate review, with inflation staying above the target, whilst activity indicators continue to weaken. August inflation rose 5.3% yoy, steady from July, while core ticked down a notch to 5.3%. Energy prices are correcting at a slower pace than before, while services hold up, keeping the headline inflation at levels above the US (~3% handle). We expect the Governing Council to lean towards "a data-dependent approach to determine the appropriate level and duration of restriction in the months ahead". We see a lower probability of a follow up hike in September, with a pause looking likely, whilst official staff GDP projections are tempered. An extended pause at the peak rate will continue to underscore the policymakers' hawkish stance, until inflation heads closer to the target.

Forthcoming data releases

India: Into August, 45% of the food segments for which high frequency retail data is available, eased on month-on-month basis, including one of the key pain points i.e., tomatoes. On year-on-year basis, however more than 60% of the items continued to increase. Onions joined the camp, up 17% yoy in Aug vs 4.5% in Jul. Our consolidated weighted average proxy for August continues to point towards an overall stickiness in food inflation. Building this into the headline, we expect August CPI inflation to stay above 7% yoy at 7.4% y/y before returning into the 6% handle in Sep23. LPG prices have been lowered, alongside which more impact of the easing measures is likely to reflect in the Sep prices. We will also monitor the rigidity in international oil prices, even as domestic fuel remains unchanged.

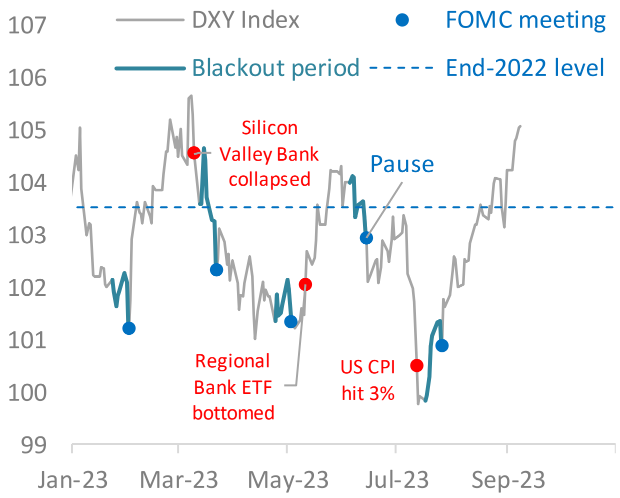
Malaysia: July's industrial production likely remained stuck in contraction, falling by 1.8% YoY, extending June's drop of 2.0%. This would be in line with the muted goods exports trend. Factory activity remained subdued, as manufacturers still faced global external headwinds. That said, Bank Negara Malaysia in its Sep policy decision statement mentioned 'a stronger recovery from the E&E (electrical & electronics) downcycle' as an upside growth risk. Despite the uncertain global economic environment, this might suggest signs that the manufacturing downturn might be bottoming.

Economics Team

FX Daily: Looking for USD resilience into FOMC

For the third time this year, the USD Index (DXY) rallied above 103.5 (its end-2022 level) on the Fed's push for "higher for longer" rates. The greenback was also a haven on global growth worries surrounding the disappointing Chinese and Eurozone economies. **Compared to March and June, the DXY has a better chance of holding above 103.5** during the Fed's blackout period into the FOMC meeting on 20 September. **Some profit-taking is likely this week** after the DXY's eight-week rally, with **USD bulls looking at better levels to re-establish long positions** into the final quarter.

Will DXY stay above 103.5 into FOMC?



Sources: DBS Research, Bloomberg data

First, **Fed staff stopped predicting a US recession in July**, satisfied that the **financial stress** triggered by Silicon Valley Bank's collapse had **subsided**. Despite the Fed pause expected next week, markets are wary of the Fed paving the way for a hike in November. As per its Summary of Economic Projections in June, the Fed has one more hike to deliver this year. The **DXY's sell-off** to sub-100 levels **in early July on US disinflation hopes was short-lived**. US CPI inflation bottomed at 3% YoY in June and, for the first time since May 2022, rose to 3.2% in July. Hence, **Wednesday's US CPI will be this week's most important data**. Economists polled by Bloomberg see a stronger increase in CPI inflation to 3.6% YoY (0.6% MoM) in August from 3.2% (0.2% MoM) YoY in July. However, core inflation could hold at 0.2% MoM for the third month, slowing to 4.3% YoY from 4.7% YoY on base effects.

The DXY's outlook also depends on its components. EUR/USD depreciated to 1.07 last week and returned this year's gains. The aggressive tightening of the past year is filtering across many EU nations. Unlike the first seven months, markets fear additional hikes would tip their economies into recession. Consensus sees the **European Central Bank delivering its first pause at its meeting on 14 September**. It remains to be seen if the ECB will tone down its deteriorating economic outlook for the Eurozone. Budgetary battles have started between Brussels and the EU nations prioritizing economic growth. Italy wants to keep suspending the Stability and Growth Pact on hold since 2020 because of the Covid-19 pandemic and Russia's invasion of Ukraine. Germany and France have called on the European Commission to reduce the bureaucratic burdens on companies to stimulate private-sector investment. Next week, the Bank of England and Swiss National Bank may deliver their final hikes and steer towards their first pauses. Overall, **stagflation risks are pushing the Western narrative away from hikes towards keeping rates high for an extended period**.

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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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