

CHINESE GDP GROWTH WON'T TROUGH UNTIL Q3...
...THE WINDOW FOR BOJ ADJUSTMENTS IS NARROWING
...NOT BUYING INTO KOREA'S CONSENSUS-BEATING Q4 GDP

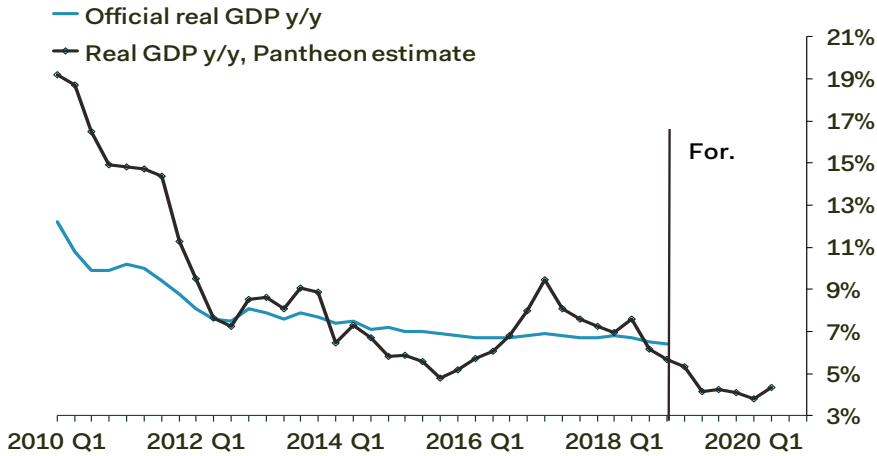
ASIA ECONOMIC CHARTBOOK, JANUARY 2019

Summary

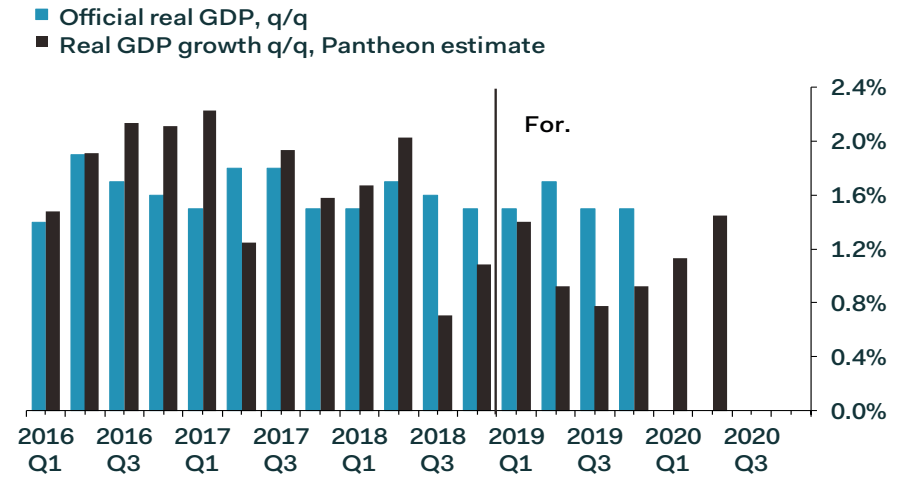
- The latest batch of national accounts from China were a Pandora's box, partly because of the substantial downgrades made to the final quarter of 2017. **The changes reflected more accurately the hit to activity from the authorities' stringent anti-smog efforts during that period.** We argued back then that the widespread production shut-downs probably had a greater impact on growth than the official figures had suggested.
- At this stage, that matters as it means the bar for year-over-year growth last quarter, was very *favourable*. And yet, official real GDP growth *slowed* to 6.4% from 6.5% in Q3. **In reality, it probably slowed to 5.7%, from 6.2%.** M1 growth including households, our preferred leading indicator, points to a continued growth slowdown until a likely trough in Q3. **Activity numbers for December indicate that the economy entered the new year with little momentum.**
- **Trade data for December were nasty and a reversal in fortunes is unlikely anytime soon.** Granted, we expect a deal to be struck between the U.S. and China by the spring. By most accounts the first round of bilateral talks held earlier this month in Beijing went well. But the trade slowdown was in the pipeline long before the tit-for-tat tariffs took off.
- Concerns over the risk of deflation in China were fuelled by December's price numbers. Both CPI and PPI inflation fell further, with factory gate prices nearing zero growth. **It still looks, however, as though China will avoid outright deflation.** While the plunge in global oil prices will continue to feed through to energy CPI, the fall in food prices in the first part of last year should be enough to reverse the current slowdown in headline inflation. **Meanwhile, last year's RMB sell-off likely should be sufficient to stave off PPI deflation.**
- The authorities have been extremely busy since the start of the year, announcing and implementing fresh fiscal and monetary stimulus measures. Effective tax cuts appear to be helping household spending, though the data remain distorted. The Bank, for its part, continues to ramp up liquidity injections, and is no longer defending the floor of its interest rate corridor. **A full-fledged rate cut is more likely than not.**
- **The economic data out of Japan have been mixed, though most signals point to a respectable growth recovery in Q4, following the natural disaster-hit Q3.** The bounce largely has been domestic demand-driven, in view of the encouraging services PMI surveys and tertiary indices. These probably overstate the scope of the fourth quarter rebound, however, as net trade looks set to be a bigger drag on growth.
- A Q4 revival in capex is on the cards, given recent strength in corporate loans for fixed investment. **The manufacturing PMI, however, paints a grim picture for Q1.** Meanwhile, a rebound in real wage growth, thanks partly to the early disbursement of large winter bonuses, also points to a solid consumption recovery. **But regular wage growth is starting to falter at the margins and the CPI probably will taste deflation in Q1, with core measures barely inflating.**
- The BoJ probably will shrug off the oil-price driven slowdown in headline inflation, and focus more on the parts of the CPI basket that are responsive to capacity constraints. **Nevertheless, the window for additional July-like tweaks to monetary policy is narrow, with Q2 providing the only real opportunity, before attention shifts to the scheduled consumption tax hike in Q4.**
- Korea ended 2018 on a higher-than-expected note, with GDP growth coming in at 1.0% quarter-on-quarter, following the 0.6% gain. Private and public consumption, together with massive restocking, came to the economy's rescue, more than offsetting the substantial drag from net exports. Investment also showed signs of turning the corner. **But the possibility of major downward revisions in the final report cannot be ignored.** Households, in particular, had a torrid Q4, according to high-frequency data, which jar with the rosy picture painted by the national accounts.
- The substantial boost to headline growth provided by inventories, following the big draw-down in stocks in Q3, should prove to be a one-off. **Korean exporters are in for a difficult year ahead, given the substantial headwinds posed by China's growth slowdown.** The abysmal 20-day export numbers for January, which showed a 14%-plus year-over-year contraction, likely mark just the start of a deeper downturn.



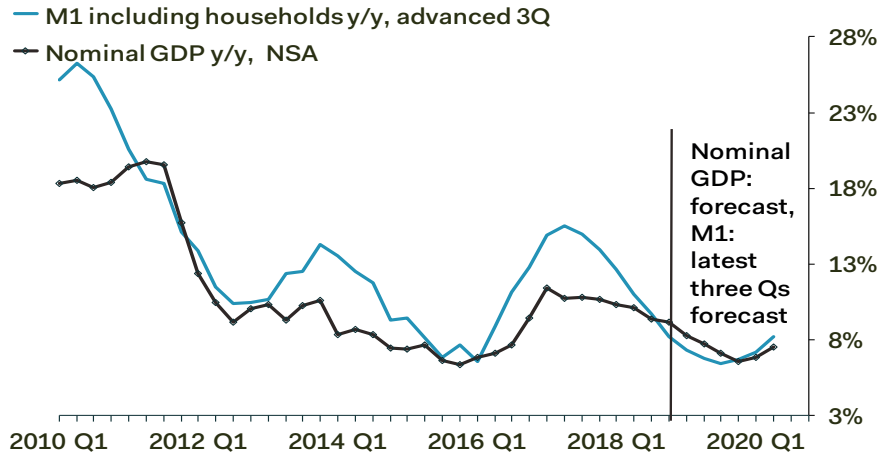
1. CHINESE GDP GROWTH SLOWED FURTHER IN Q4...



3. GDP GROWTH IN H2 WAS MUCH WEAKER THAN BILLED



2. ...AND THE SLOWDOWN HAS FURTHER TO RUN

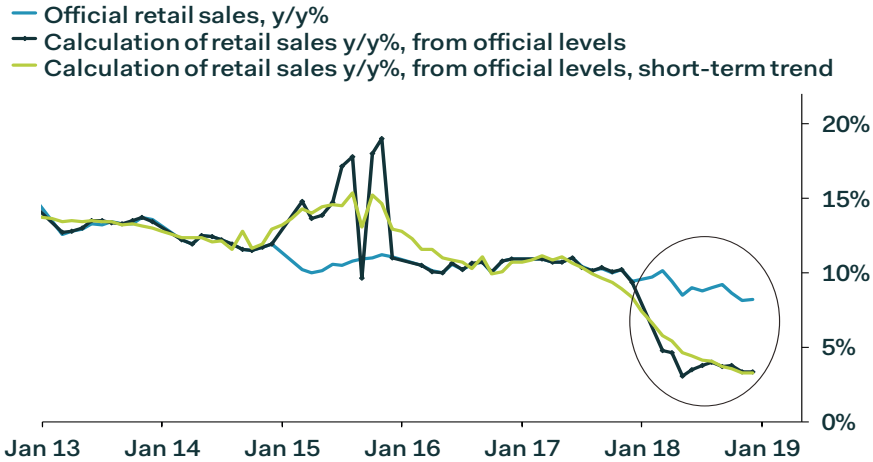


4. THE PMIS SUGGEST A SOFT Q4; FURTHER DETERIORATION TO COME

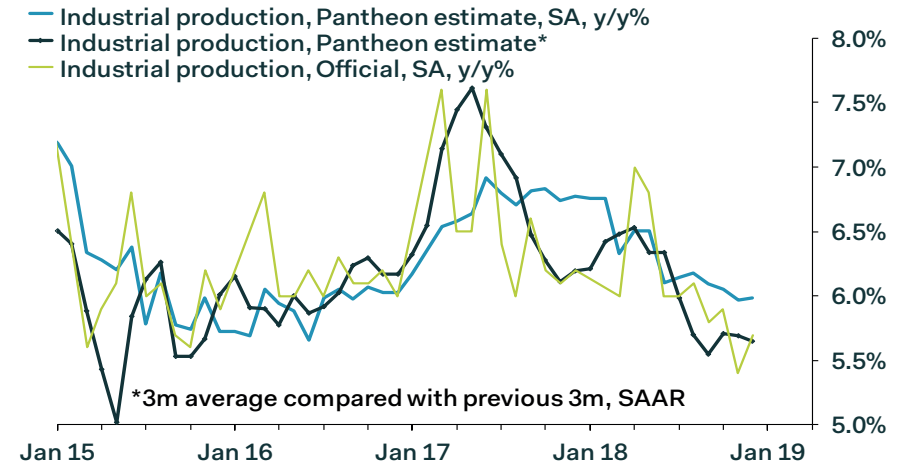




5. UNDERLYING SALES DATA SUGGEST NO PICK-UP IN DECEMBER..



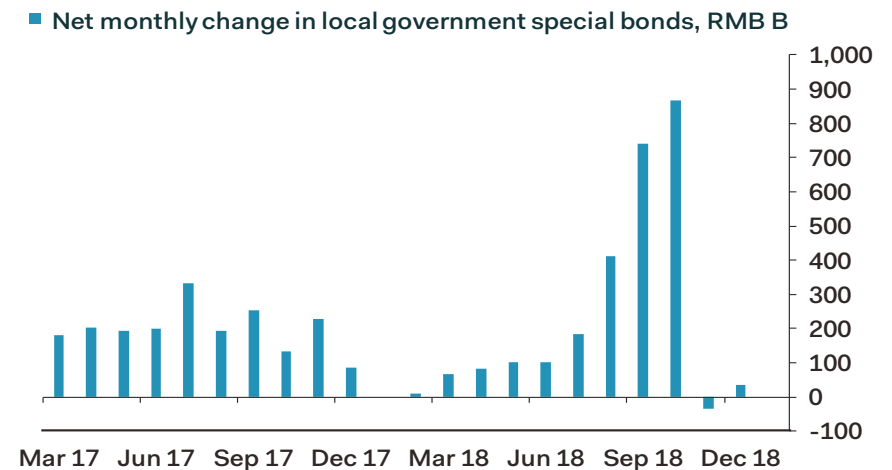
7. Q/Q INDUSTRIAL PRODUCTION GROWTH REMAINED TEPID IN Q4



6. ...THOUGH ONLINE SALES HAVE STAGED A RECOVERY

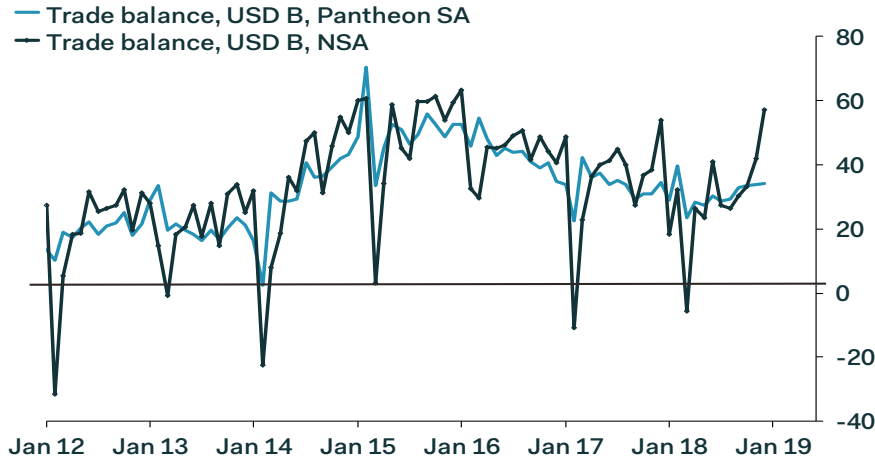


8. DEBT ISSUANCE FOR LOCAL PROJECTS WILL SOON REBOUND

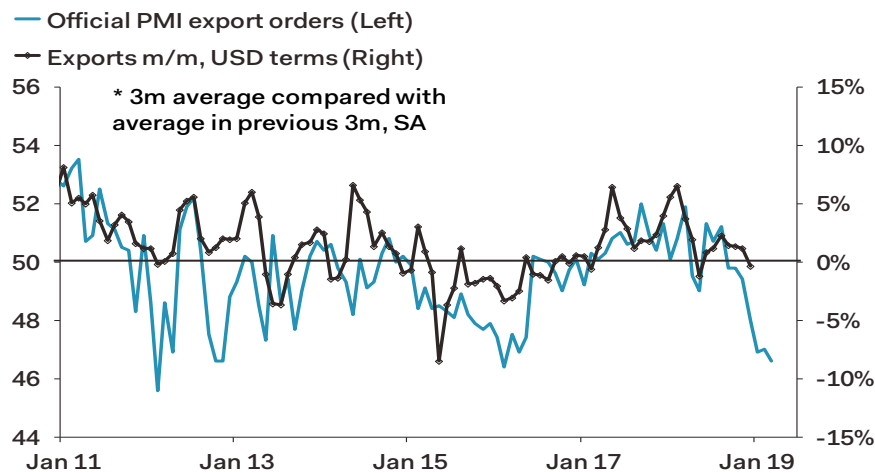




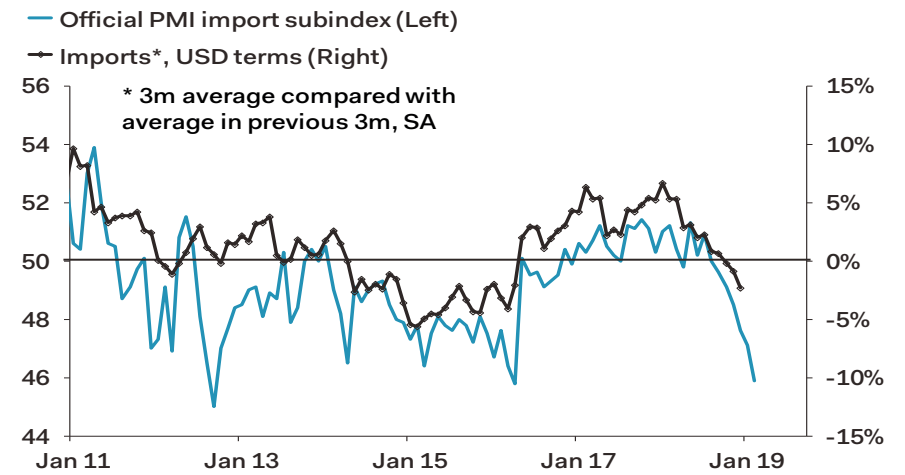
9. DECEMBER SEASONALS WERE STRONG, BUT THE SURPLUS IS GROWING



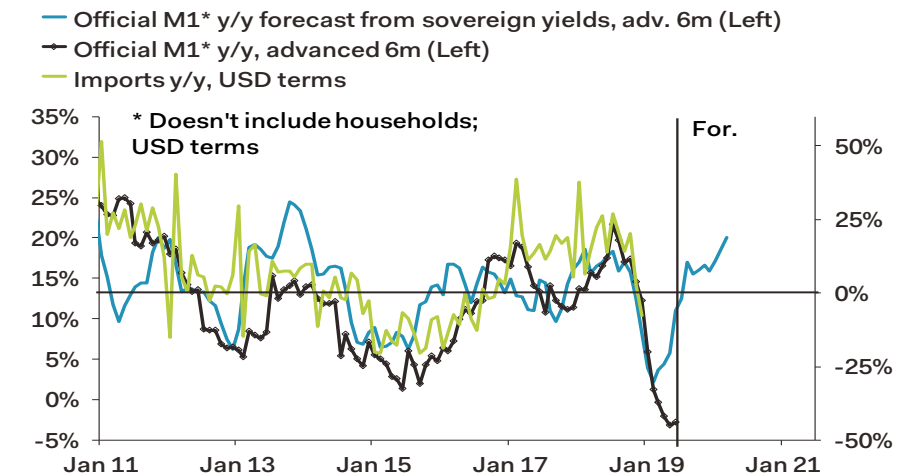
10. EXPORTERS FACE FURTHER HEADWINDS IN Q1...



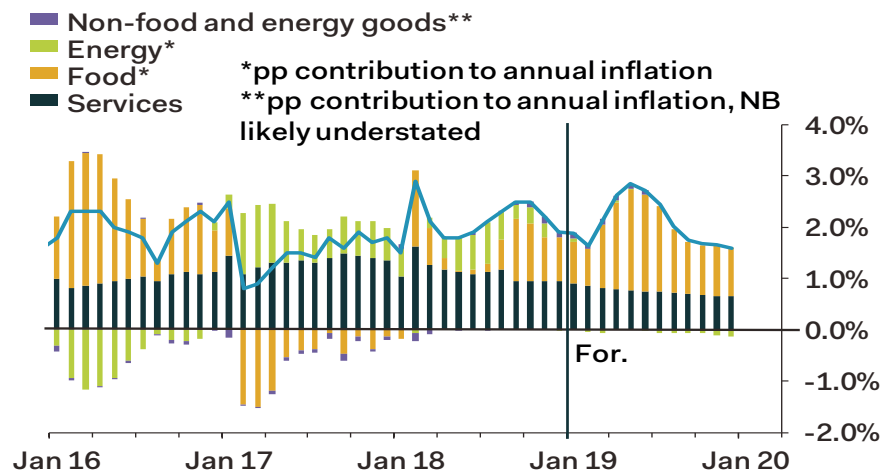
11. ...BUT PMIS POINT TO A FURTHER DETERIORATION IN IMPORTS



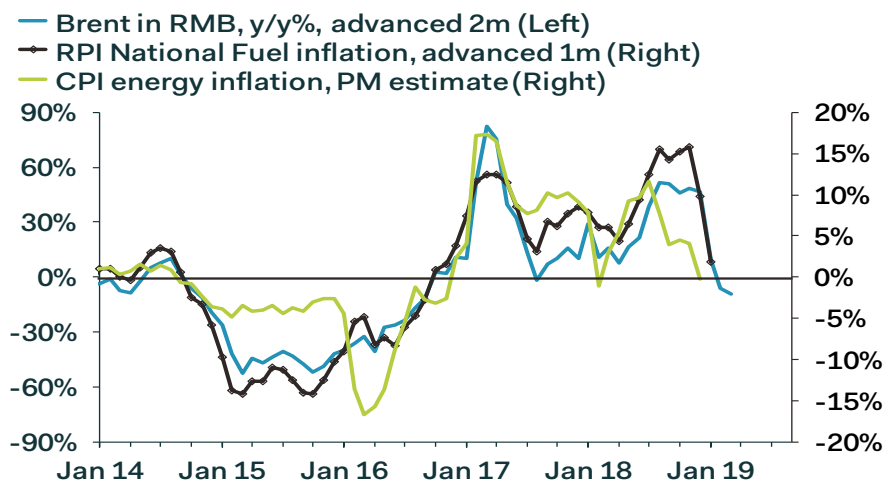
12. IMPORTS ARE LIKELY TO FALL FASTER BEFORE A V-SHAPED RECOVERY



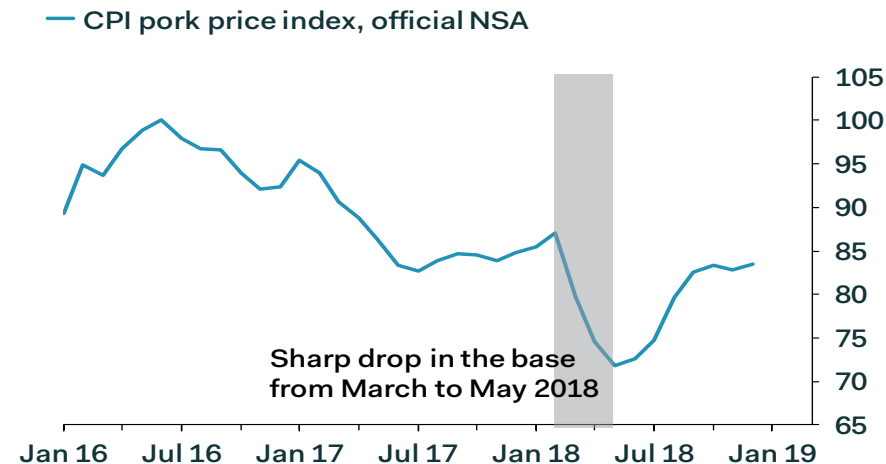
13. CPI INFLATION SHOULD BOTTOM OUT IN Q1



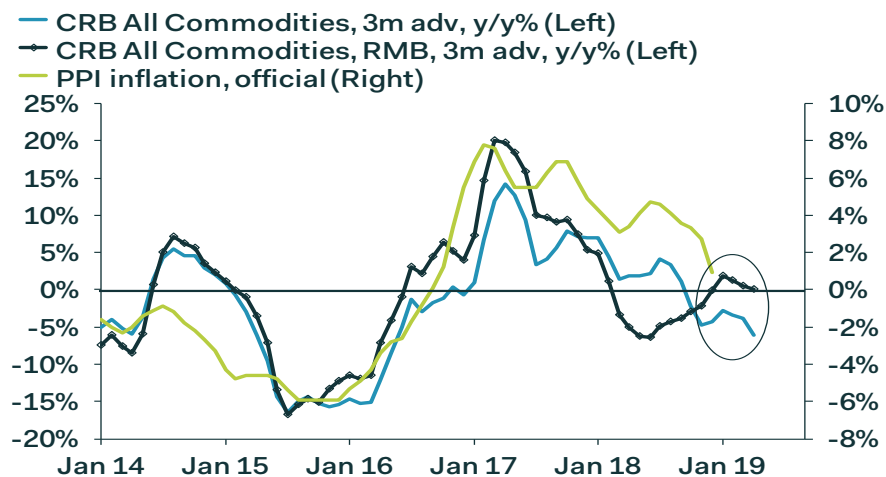
14. ENERGY INFLATION WILL FALL FURTHER BELOW ZERO...



15. ...BUT LOW BASE EFFECTS WILL SOON LIFT PORK PRICE INFLATION

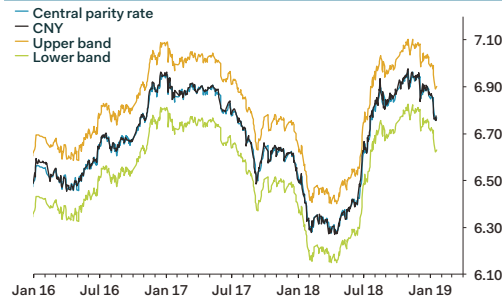


16. 2018'S RMB SELL-OFF WILL STAVE OFF OUTRIGHT PPI DEFLATION

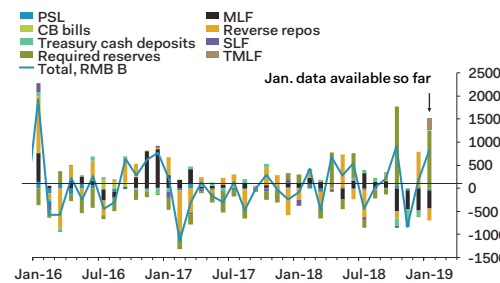


MONETARY POLICY/FINANCIAL REGULATORY DASHBOARD

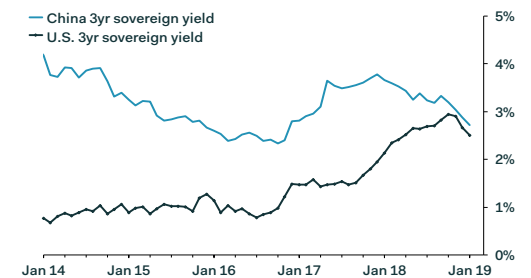
17. A TRADE DEAL SHOULD RELIEVE THE RMB



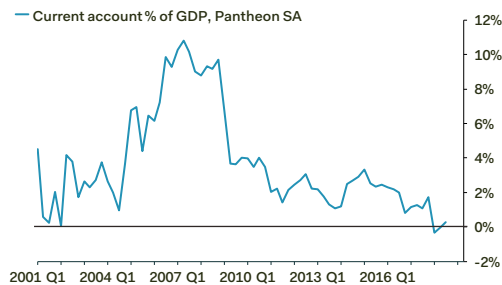
20. PBOC INJECTIONS SURGE ON RRR CUT, TMLF ISSUE



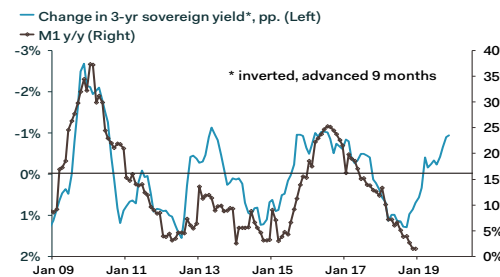
23. THE YIELD DIFFERENTIAL REMAINS PAPER THIN



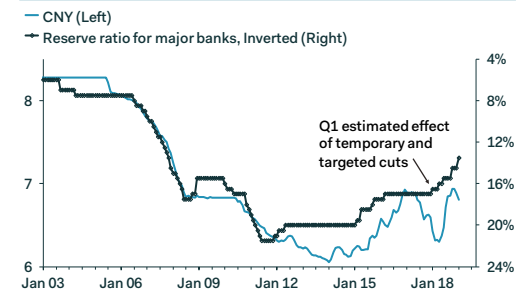
18. SCOPE FOR MASSIVE FISCAL STIMULUS IS LIMITED



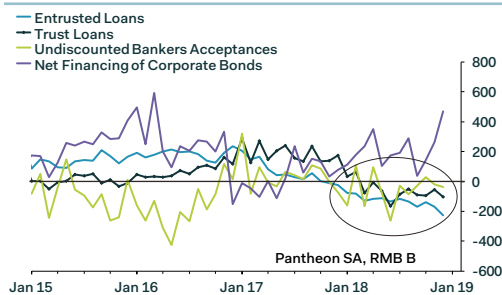
21. YIELDS POINT TO IMMINENT MONETARY LOOSENING



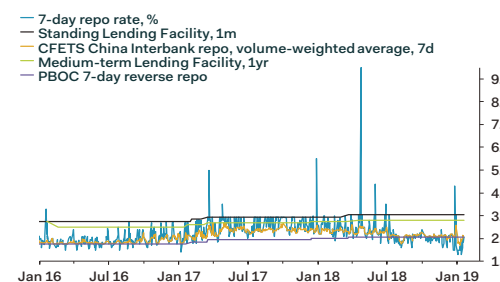
24. EXPECT TWO MORE RRR CUTS IN 2019



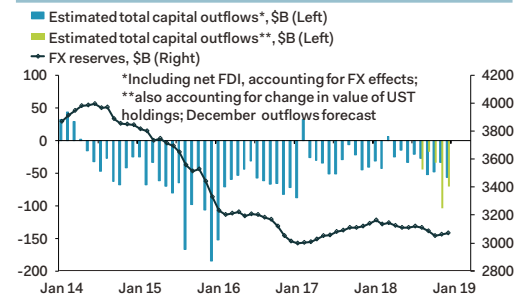
19. NO LET UP ON THE SHADOW BANKING REINS



22. A MATTER OF TIME BEFORE THE PBOC CUTS RATES

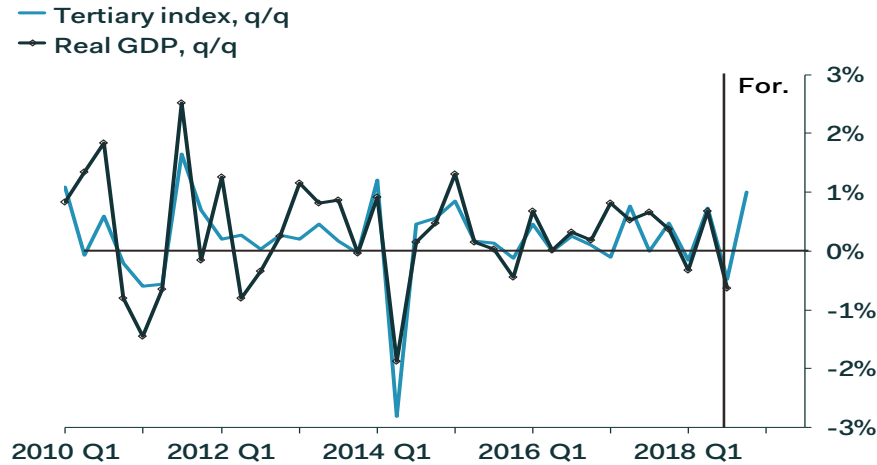


25. CAPITAL OUTFLOWS ARE RE-BUILDING

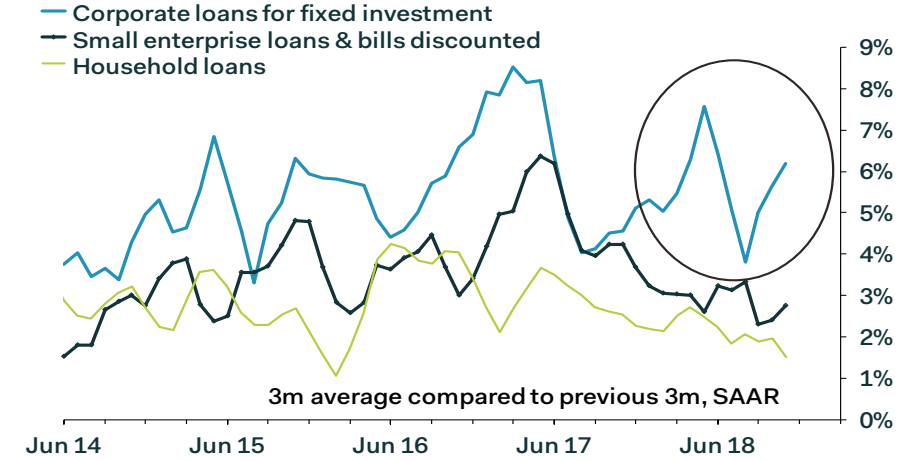




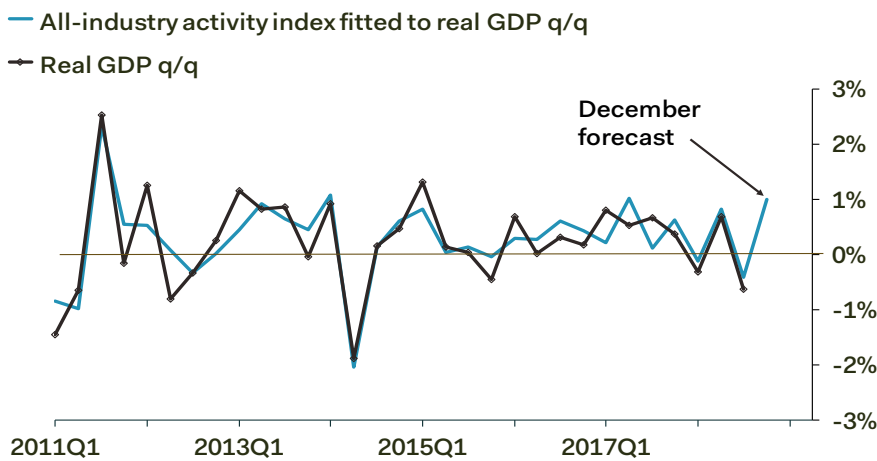
26. TERTIARY INDEX PROBABLY OVERSTATES JAPAN'S Q4 GDP GROWTH



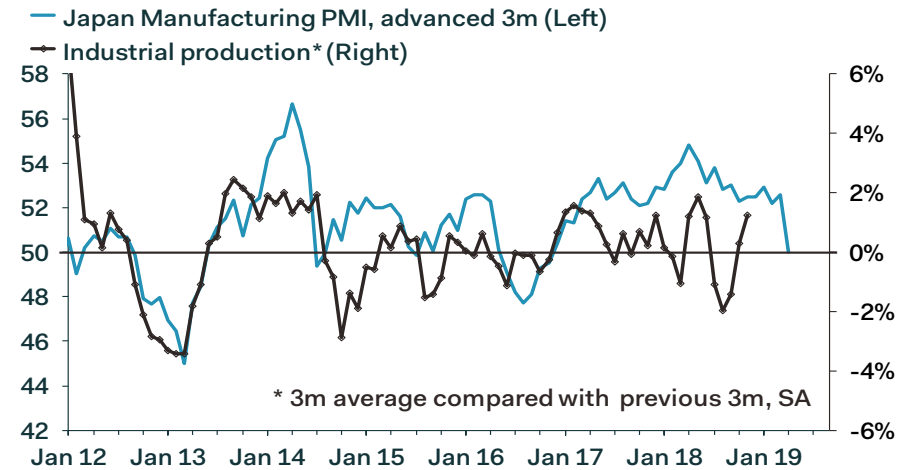
28. MANUFACTURING PMIS, HOWEVER, HAVEN'T BEEN AS IMPRESSIVE



27. ALL-INDUSTRY ACTIVITY INDEX ALSO POINTS TO A STRONG Q4 BOUNCE

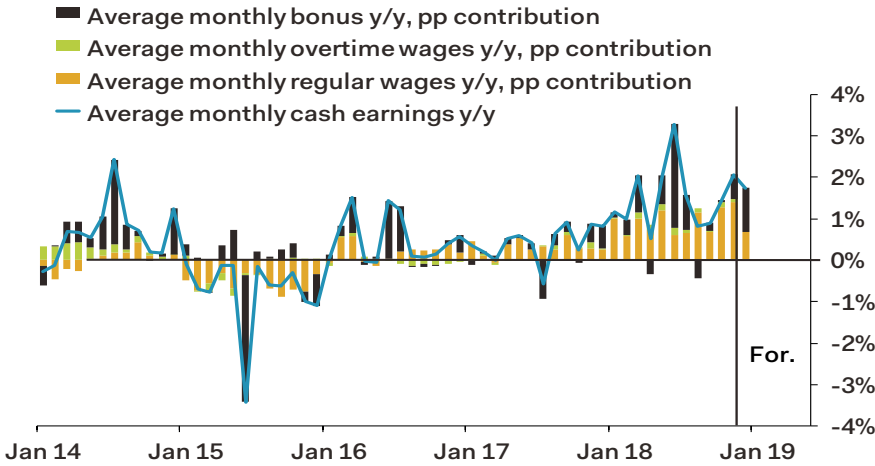


29. THE MANUFACTURING PMI PAINTS A GRIM PICTURE OF Q1

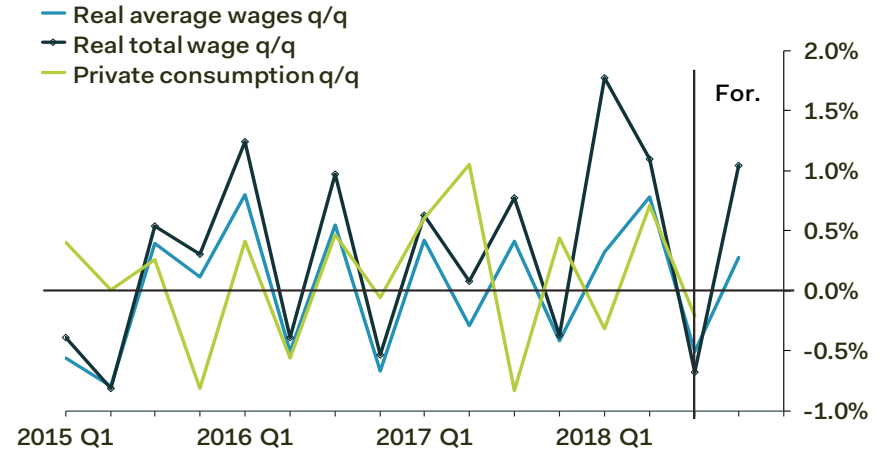




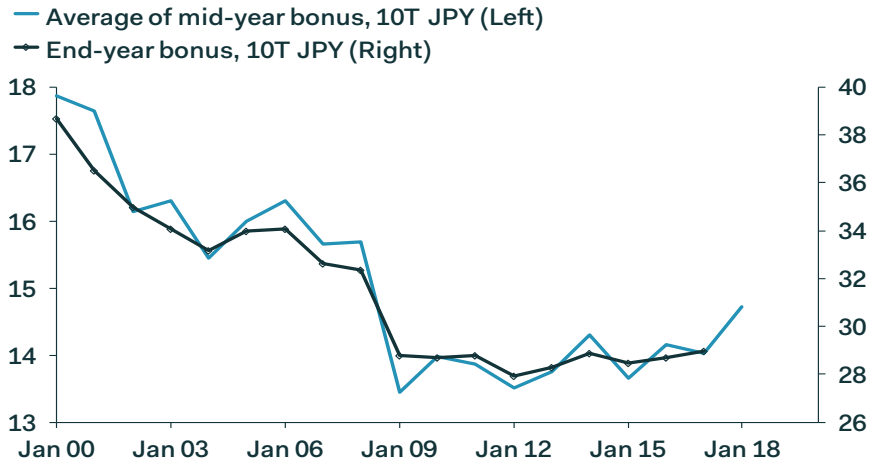
30. WAGE GROWTH LIKELY FELL LAST MONTH AFTER THE NOVEMBER POP



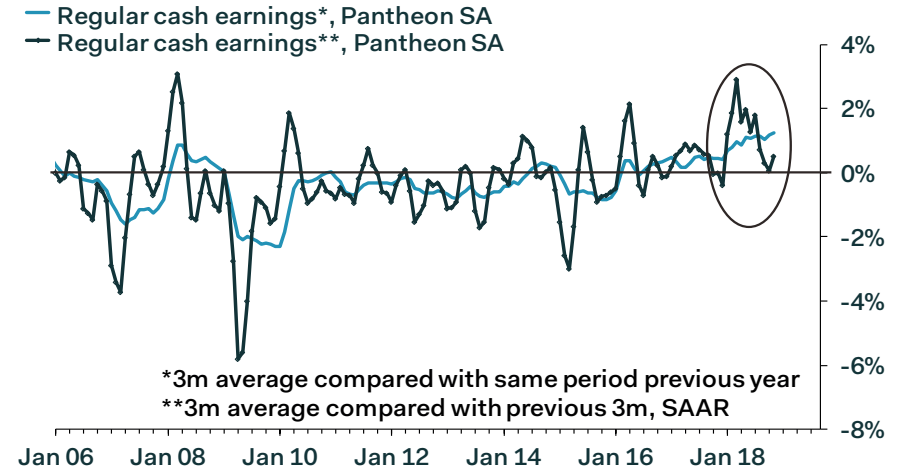
32. LABOUR INCOME IMPLIES A SOLID Q4 CONSUMPTION BOUNCE BACK



31. END-YEAR BONUSES PROBABLY WERE MORE GENEROUS IN 2018

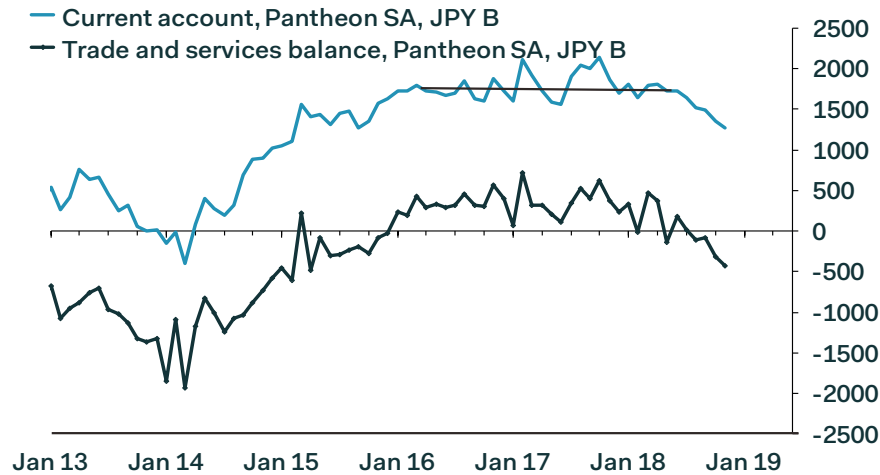


33. WORRYINGLY, REGULAR WAGE GROWTH LACKS MOMENTUM

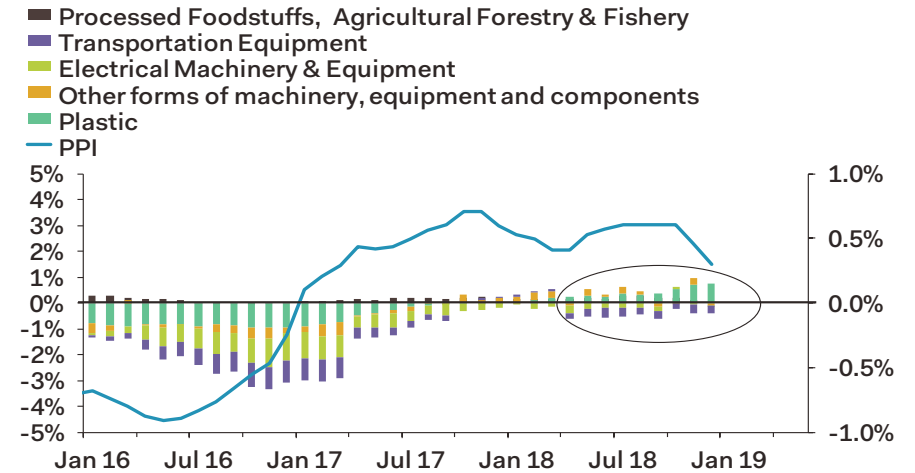




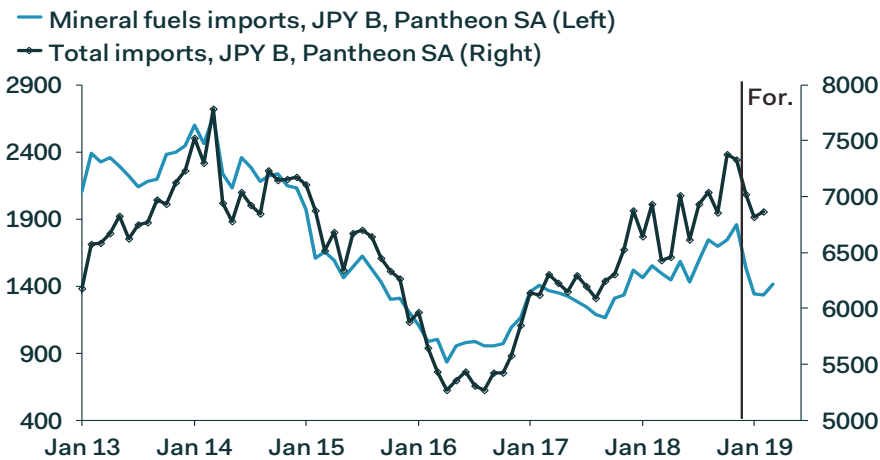
34. THE CURRENT ACCOUNT SURPLUS SHOULD SOON RE-BUILD...



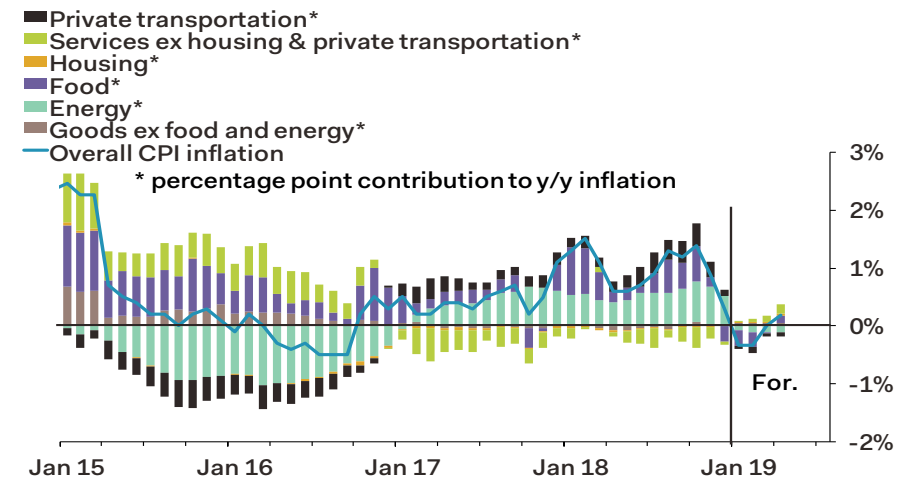
36. THE DOWNSIDE OF OIL IS THAT PPI INFLATION IS SET TO SLOW FURTHER



35. ...AS LOWER OIL PRICES PULL DOWN MINERAL FUEL IMPORTS

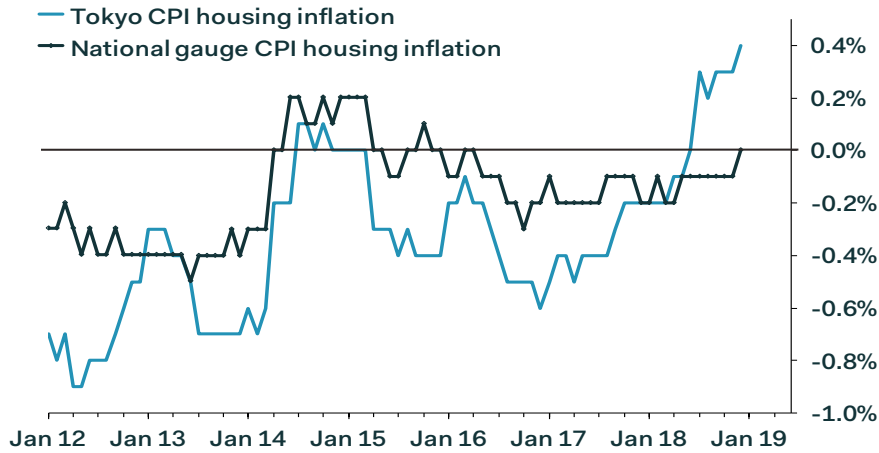


37. FALLING INFLATION WILL GIVE THE BOJ A HEADACHE...

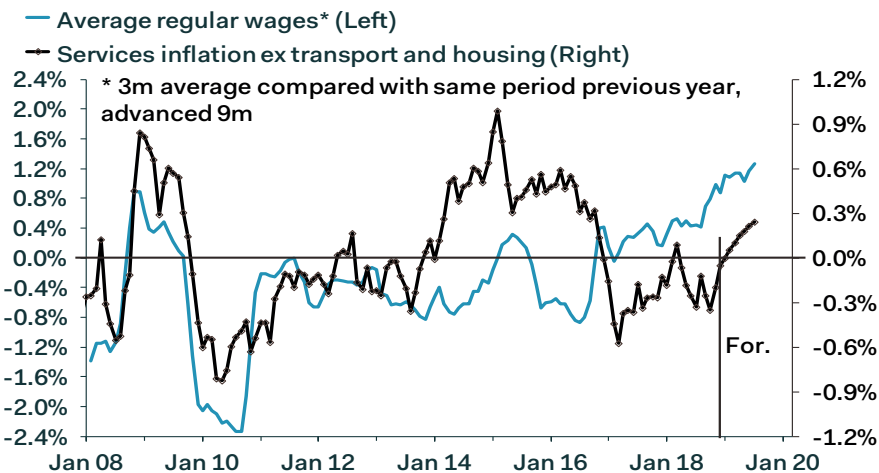




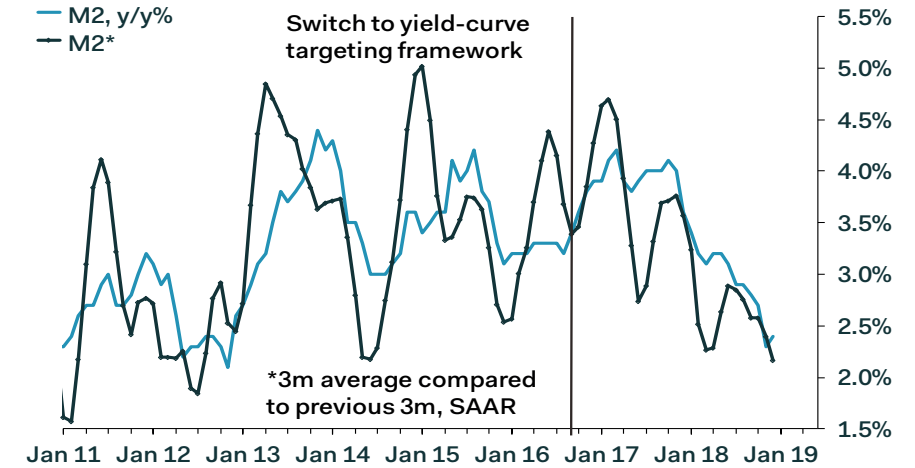
38. ...BUT HOUSING FINALLY IS NO LONGER A DRAG



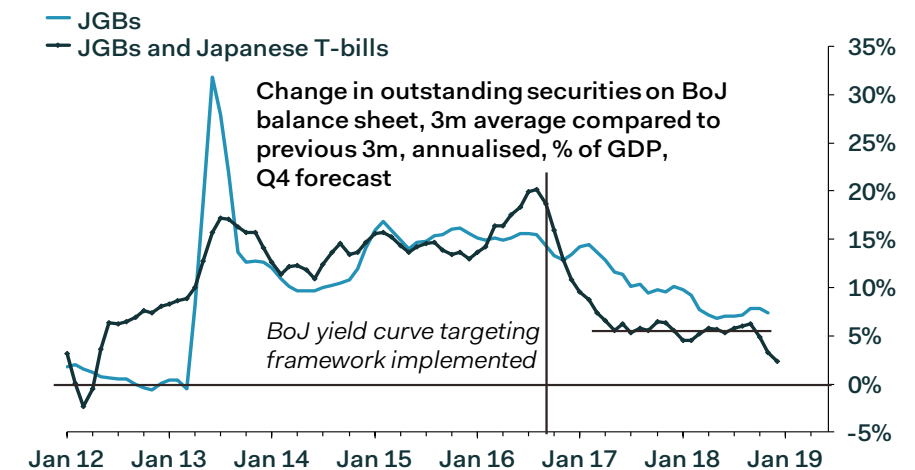
39. ...AND SERVICES PRICES ARE LOOKING LESS TEPID



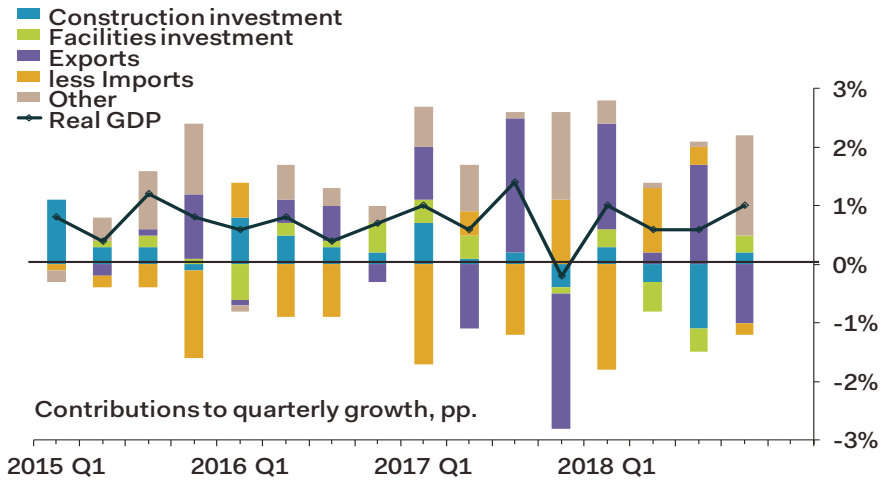
40. MONETARY GROWTH HAS YET TO STABILISE



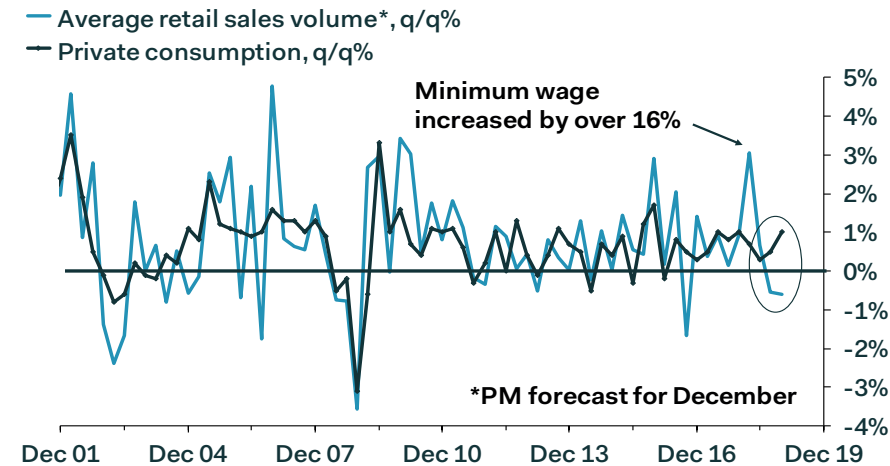
41. BOJ TAPERING WILL IMPINGE UPON MONETARY CONDITIONS



42. CONSUMPTION AND INVENTORIES CAME TO KOREA'S RESCUE IN Q4...



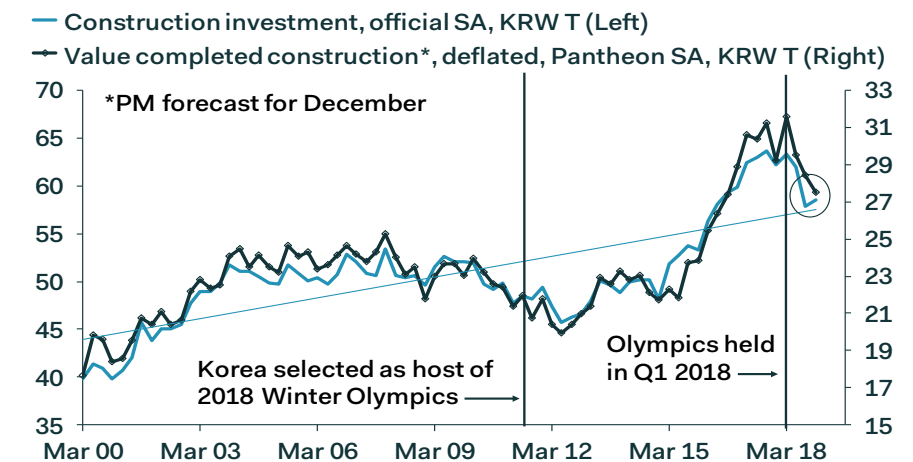
43. ...BUT RETAIL SALES DATA PAINT A MUCH WEAKER PICTURE



44. THE BOUNCE IN HIRING ACTIVITY STALLED AT THE END OF 2018

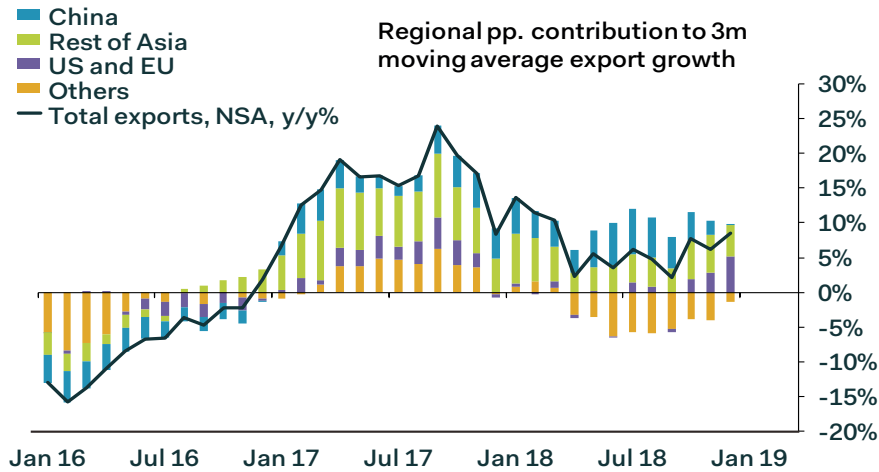


45. EXPECT TO SEE A RETURN TO TREND GROWTH IN CONSTRUCTION

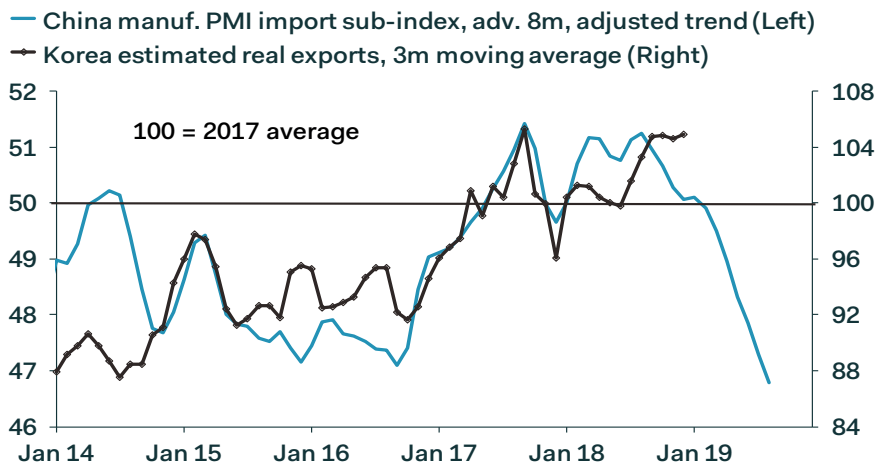




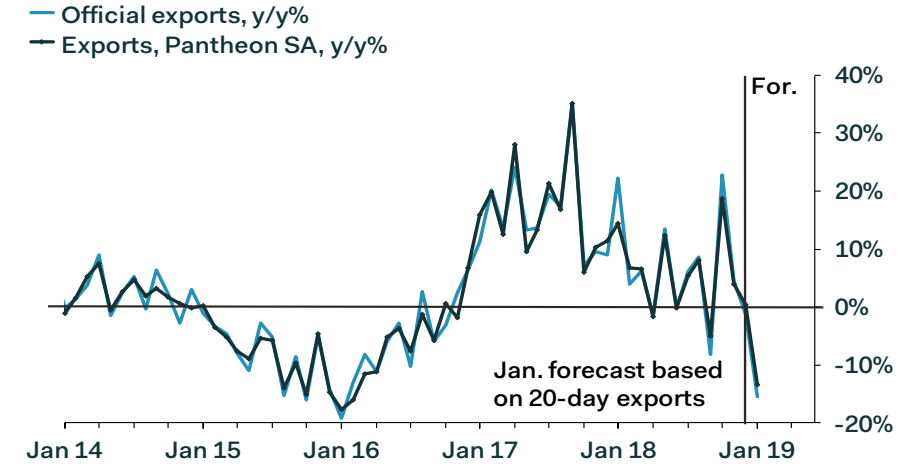
46. DEVELOPED MARKETS AND ASIA EX-CHINA LIFTED EXPORTS IN Q4...



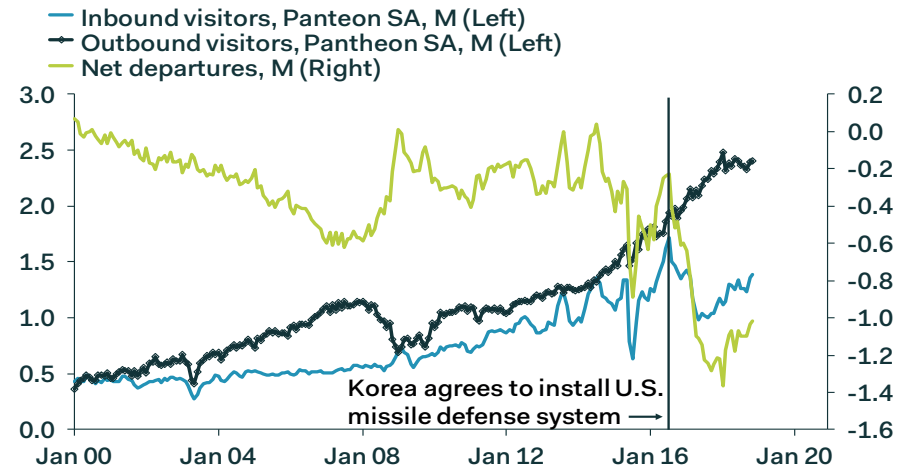
47. ...BUT A SHARP DOWNTURN IS ON THE CARDS, DUE TO CHINA



48. JANUARY'S POOR 20-DAY EXPORTS ARE A SIGN OF THINGS TO COME



49. TOURISM BOUNCE SHOULD CUSHION THE CURRENT ACCOUNT SLIDE





Economic Activity (full year/full year, %) **2016** **2017** **2018F** **2019F** **2020F**

China GDP					
Official	6.9	6.7	6.6	6.3	6.0
PM estimate	6.6	8.2	6.4	4.2	<5.0
Japan GDP	0.6	1.9	0.7	0.5	0.2
Korea GDP	2.9	3.1	2.7	2.3	2.0

Prices (end-year, %)

China					
CPI inflation	2.1	1.8	1.9	1.6	1.6
CPI excl. food and energy inflation	1.9	2.2	1.8	1.3	1.1
PPI inflation	5.5	4.9	0.9	2.4	3.3
Japan, 2019 ex. consumption tax hike					
CPI inflation	0.3	1.1	0.3	0.3	0.4
CPI excl. food and energy inflation	0.0	0.1	0.1	0.6	0.5
Korea					
CPI inflation	1.3	1.4	1.3	1.2	1.1
CPI excl. agriculture and oil inflation	1.3	1.4	1.3	1.4	1.3

Monetary Policy

PBoC 7-day Reverse Repo Rate	2.25	2.50	2.55	2.45	2.45
BoJ Policy Balance rate	-0.10	-0.10	-0.10	0.00	0.00
BoJ 10-year yield target	0.00	0.00	0.00	0.20	0.20
BoK base rate	1.25	1.50	1.75	1.75	1.50