

Confidence to be bold

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GLOBAL GROWTH: HEALTHY ALBEIT LESS SYNCHRONIZED

Global GDP growth forecasts (%)

	2016	2017	2018	2019
World GDP growth	2.6	3.2	3.3	3.1
United States	1.5	2.3	2.9	2.4
Latin America	-0.9	1.2	2.0	2.4
Brazil	-3.5	1.0	1.9	2.5
Eurozone members	1.7	2.6	2.1	1.9
Germany	1.9	2.5	2.2	1.9
France	1.1	2.3	1.8	2.0
Russia	-0.2	1.5	1.8	1.8
Turkey	3.2	7.4	3.7	3.0
Asia	5.0	5.2	5.1	4.9
China	6.7	6.9	6.6	6.3
Japan	1.0	1.7	1.2	1.0
India	7.1	6.7	7.3	7.3
Middle East	4.3	1.3	2.4	2.5
Saudi Arabia	1.7	-0.7	1.7	2.0
Africa	1.3	3.2	3.7	3.8
South Africa	0.6	1.3	2.0	2.5

1. World GDP growth remains on a solid footing albeit being less synchronized
2. The markets are likely to increasingly sanction the weakest in the loop: Stress for currencies in the some of the vulnerable emerging markets: Turkey and Argentina
3. Brent oil prices at 72 USD/bbl in 2018 and 69 USD/bbl in 2019. Spot price mid-June 2018 at 75 USD/bbl
4. A temporary surge in inflation expected in Q3 18 on the back of higher oil prices and depreciating currencies
5. USD to further appreciate in the next 6 months (+4.5%). EUR/USD: 1.10 at end-2018; 1.17 at end-2019

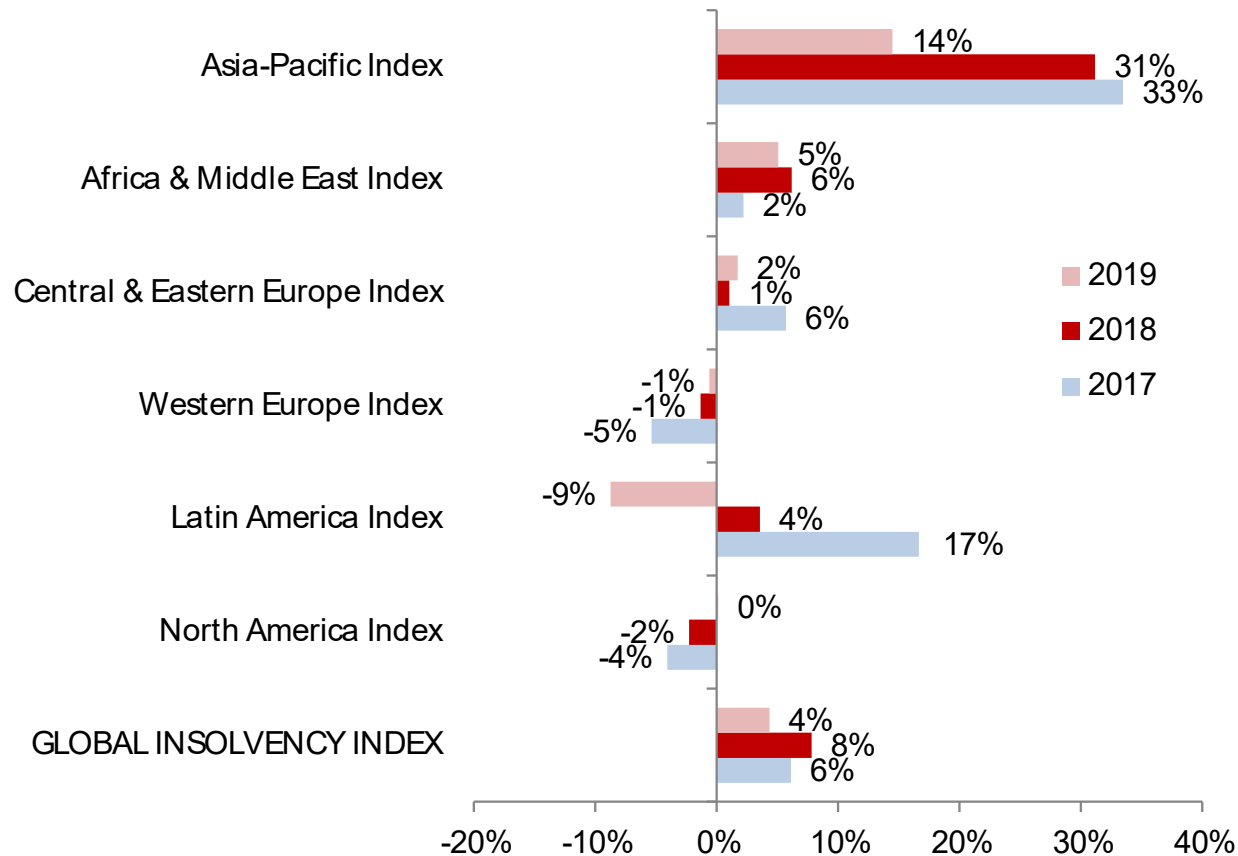
* Weights in global GDP at market price, 2017

NB: The revisions refer to the changes in our forecasts since the last quarter
Fiscal year for India

GLOBAL INSOLVENCIES DIVERGENCE



EH Global and Regional Insolvency Indices
(yearly change in %)

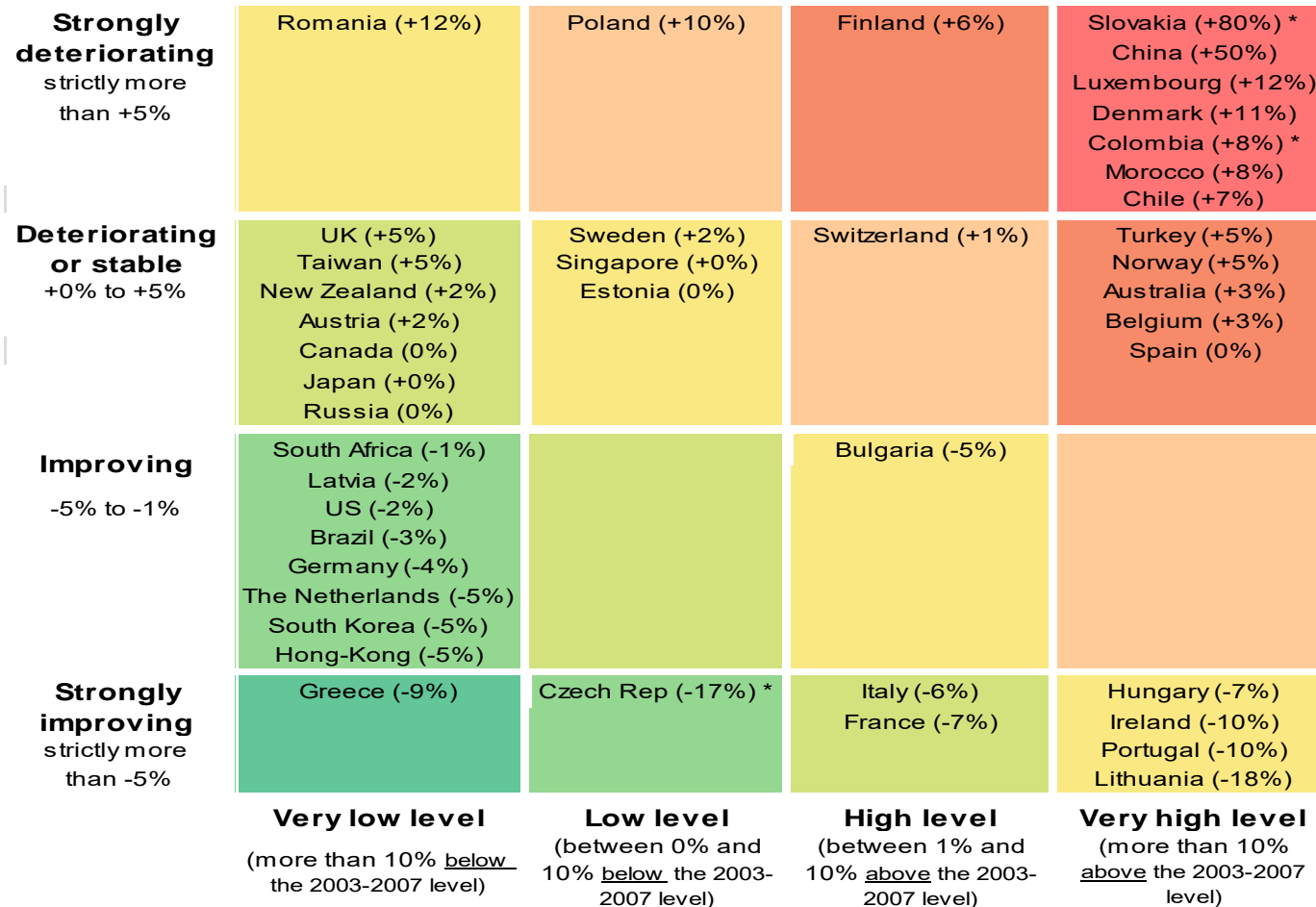


We expect our Global Insolvency Index to remain oriented on the upside for a second consecutive year in a row in 2018 (to +8% from +6% in 2017) and to keep on increasing in 2019 (+4%).

Yet beware of the divergence between regions.

GLOBAL INSOLVENCIES DIVERGENCE (2)

Insolvency Heat Map 2018



- Insolvencies to stabilize in Singapore
- In China, the surge in insolvencies is driven by the cleaning up of zombies companies

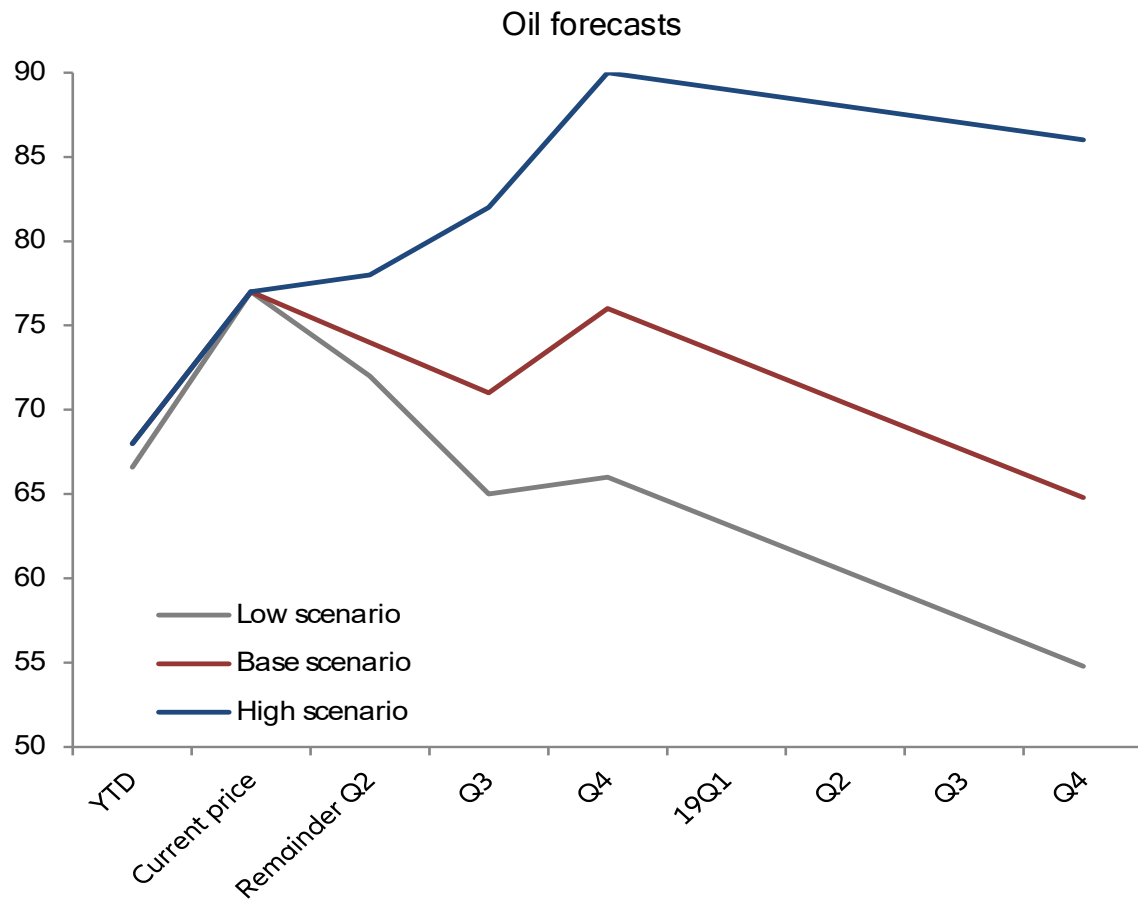
(*) Historical data are not fully consistent because of changes in law or national figures
 Sources: National statistics, Euler Hermes, Allianz Research

THREE SHOCKS TO CONSIDER FOR SINGAPORE COMPANIES

01



SHOCK #1: OIL PRICES TO DECLINE TO 69 USD/BBL IN 2019

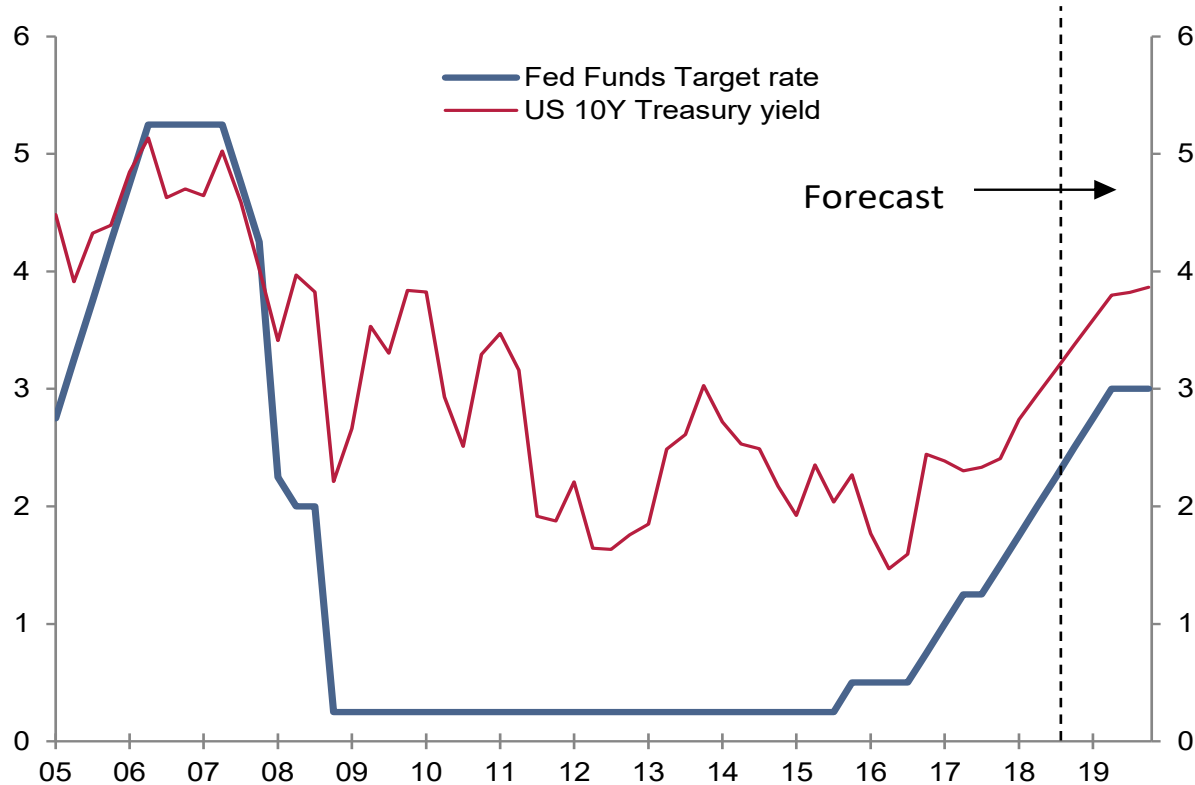


- We expect oil prices to be broadly stable until the end of 2018 and decline thereafter on the back of abundant supply absorbing net losses linked to Venezuela and Iran situation
- In that context, the upcoming surge of global inflation should be temporary as the contribution of energy prices is significant

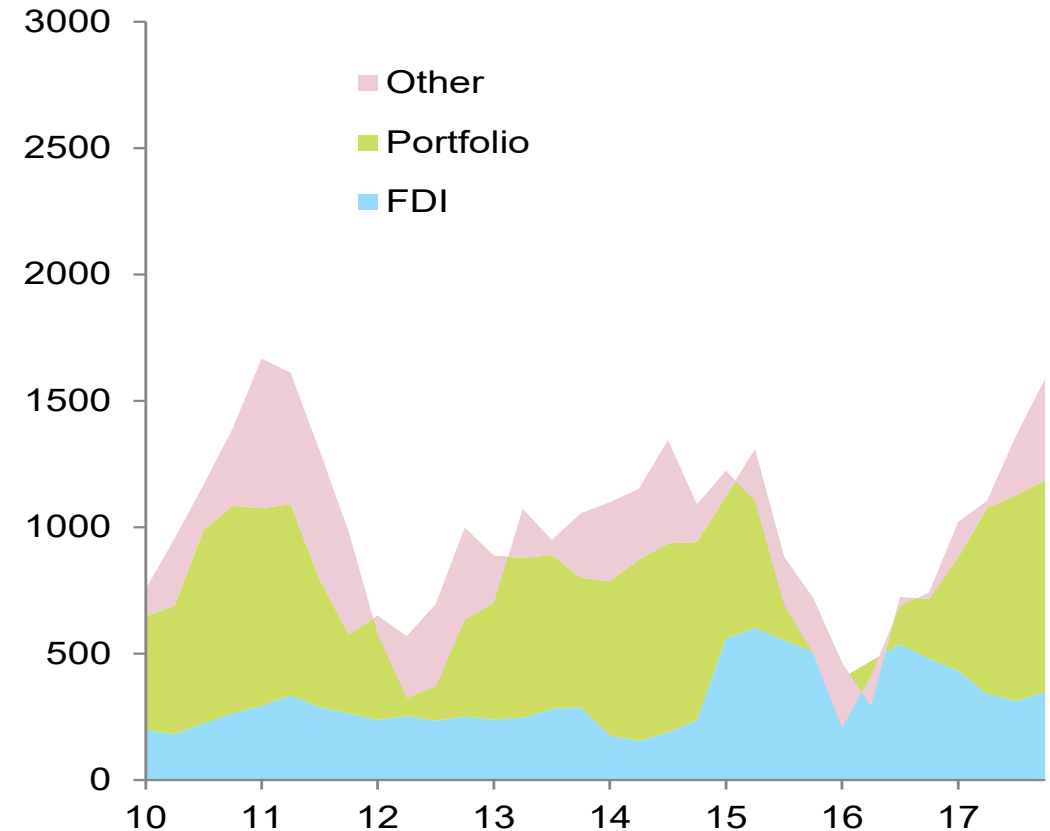
Sources: IHS, Bloomberg, Allianz Research

SHOCK #2A: US: FED GOES FASTER IN TIGHTENING

US 10Y Treasury yield (%)



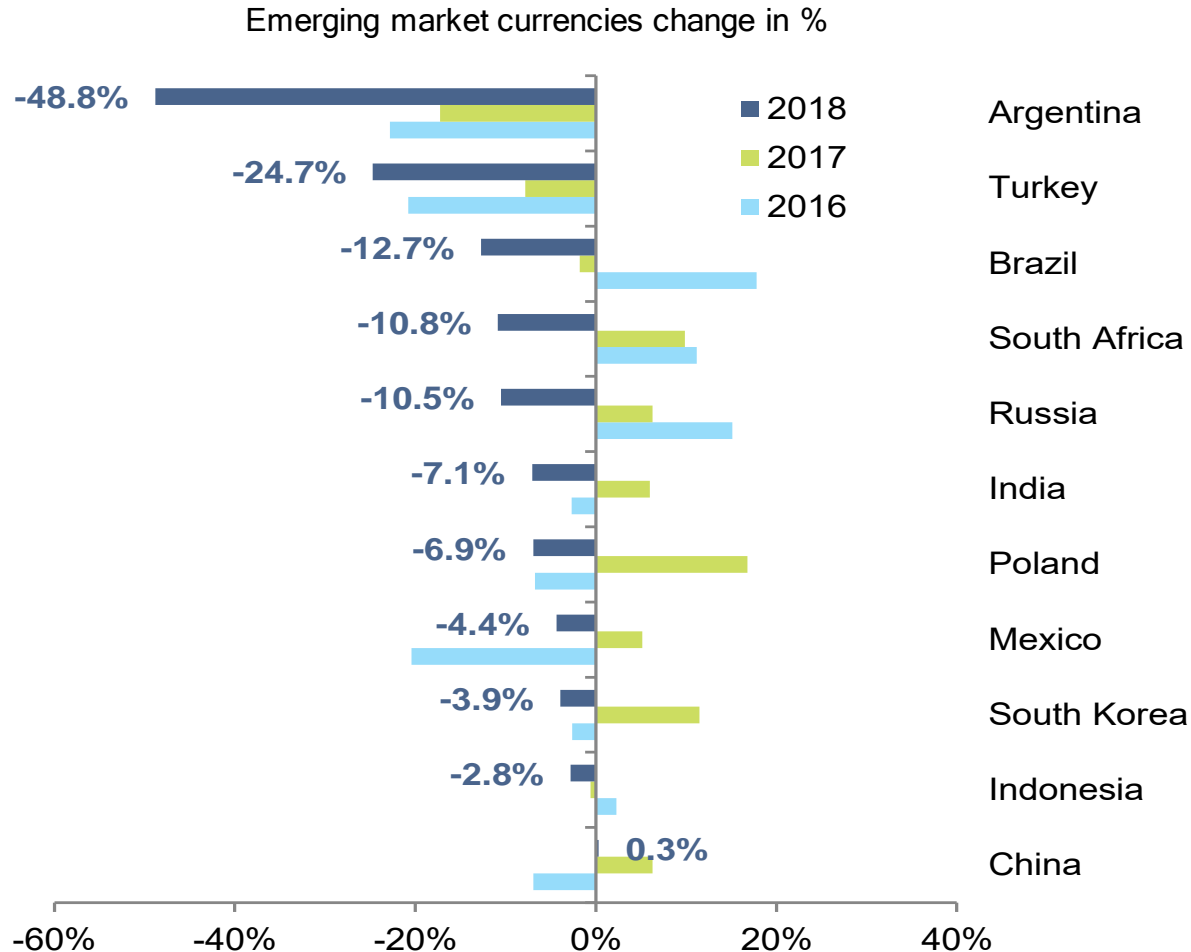
Capital inflows into the US (USD bn)



The Fed is expected to hike twice in 2018 and 2019.

Capital flow back to the US.

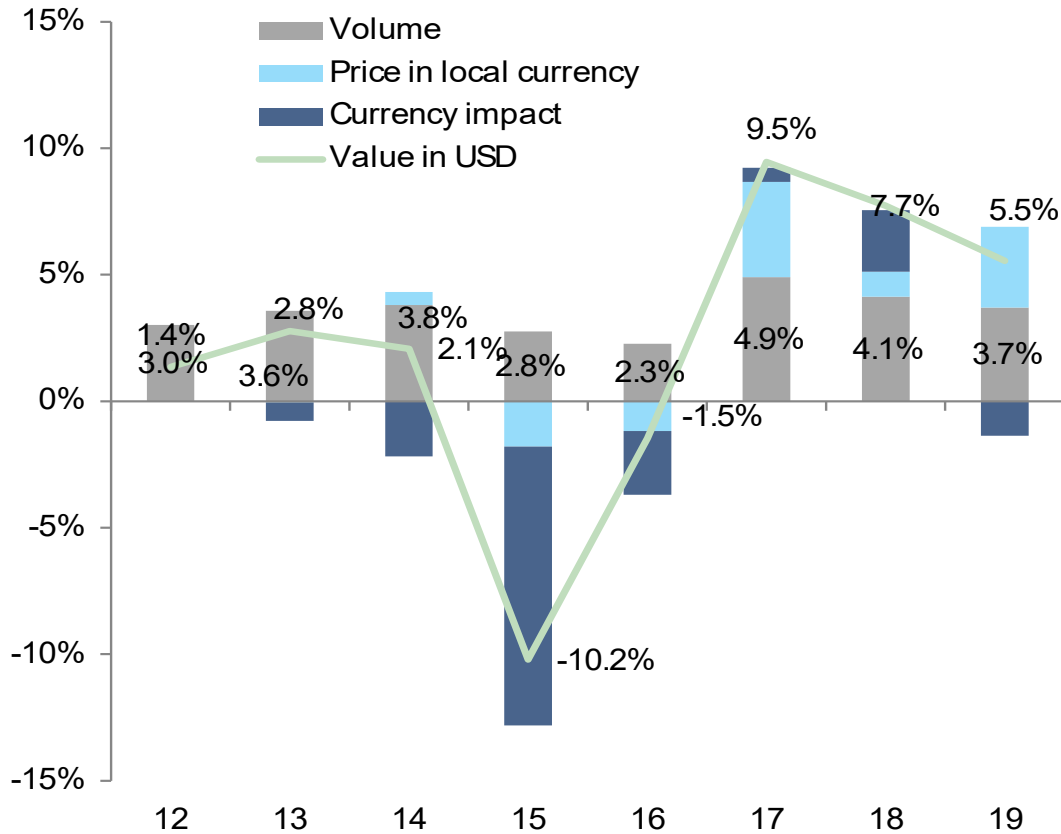
SHOCK #2B: MARKETS SANCTIONED EMERGING MARKETS, WHO'S NEXT



- Countries with wider current account deficits (Argentina and Turkey) have suffered the most.
- Second-round effects should trigger more depreciation in China, but in a benign way (-4%).
- USD is expected to appreciate by +4% against most currencies over the 6 coming months

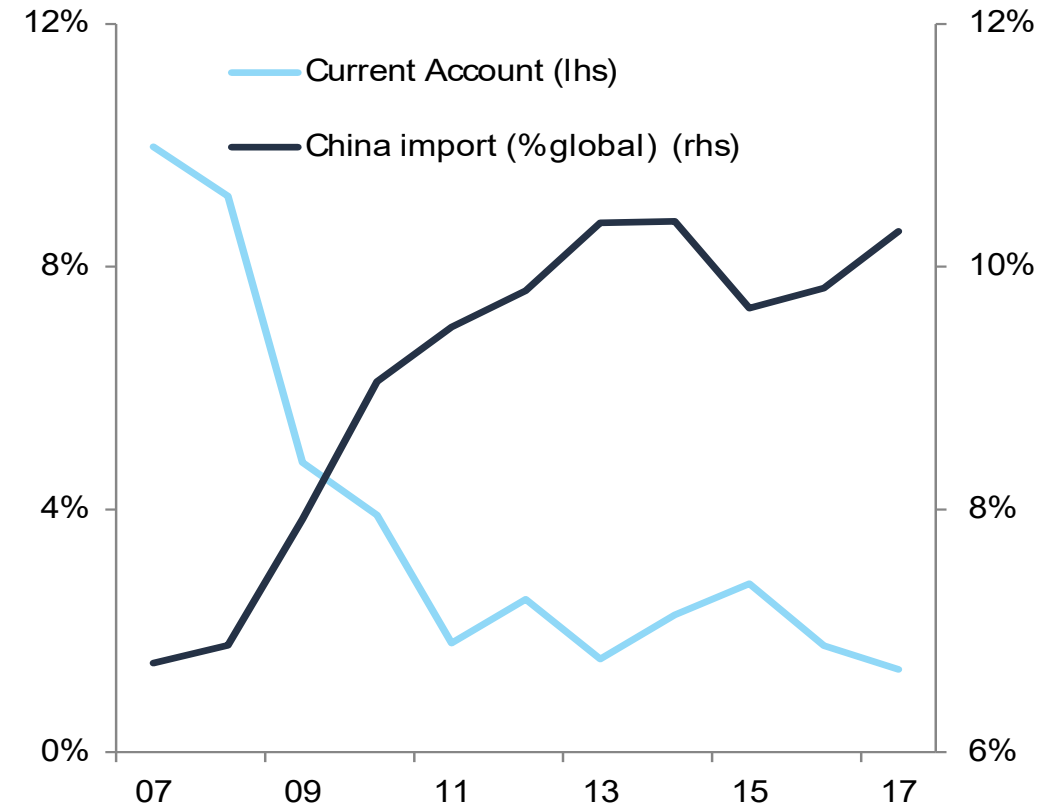
SHOCK #3A: GLOBAL TRADE: NO REGIME-CHANGE DESPITE RISKS

Global trade of goods and services



Global trade is expected to decelerate to 4.1% in volume in 2018 and to 3.7% in 2019

China current account and China imports

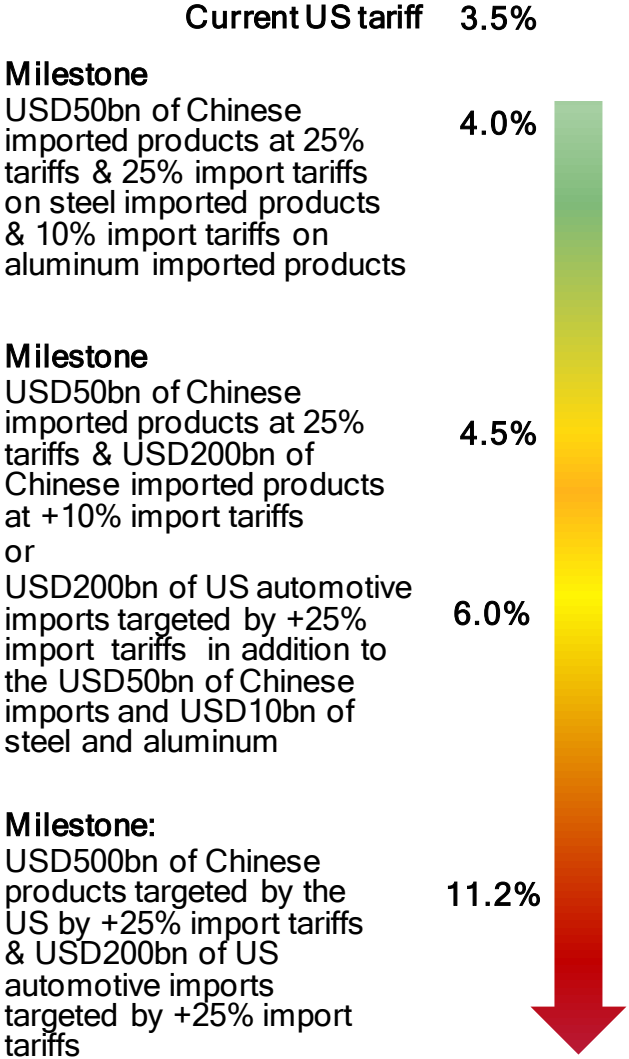
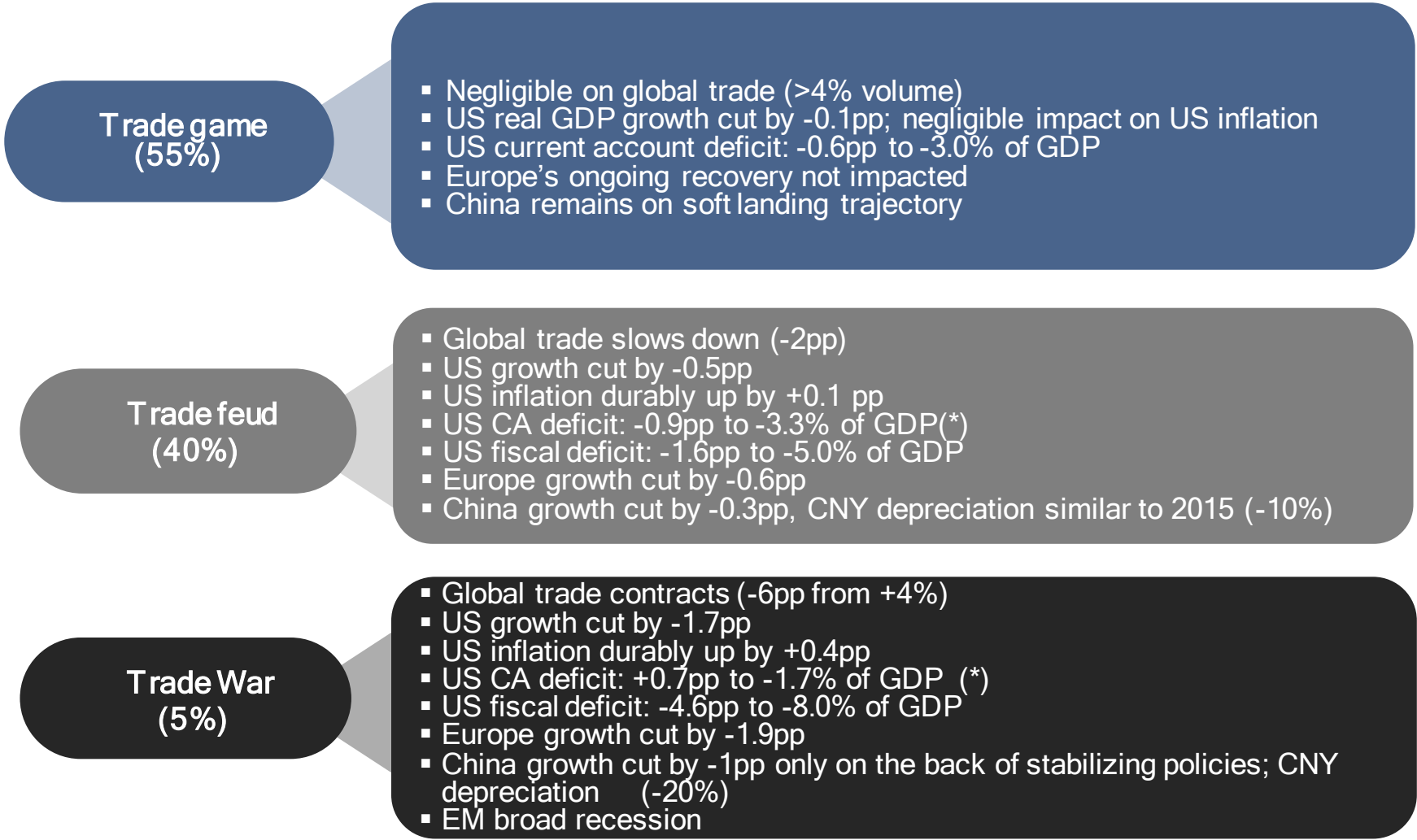


China tends to absorb a growing share of world demand



TREND #3B: PROTECTIONISM.

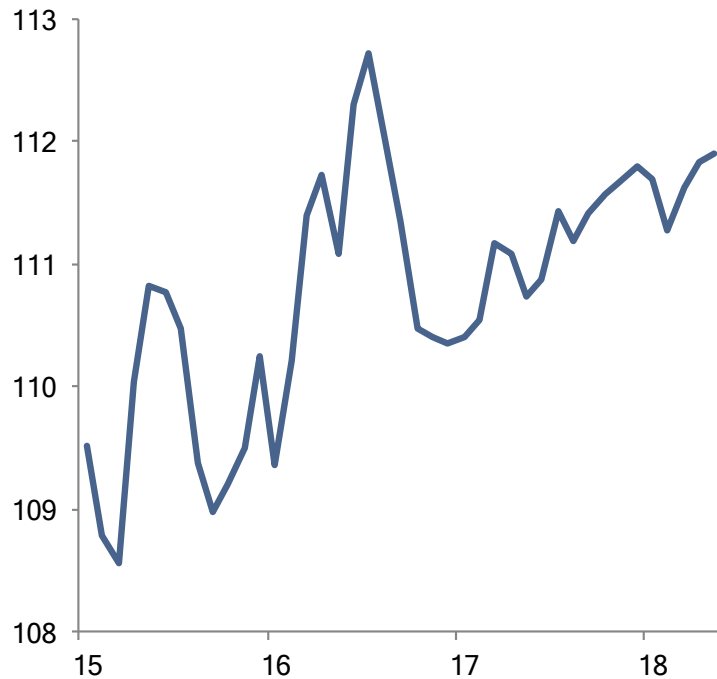
BETWEEN TRADE GAMES AND TRADE FEUD





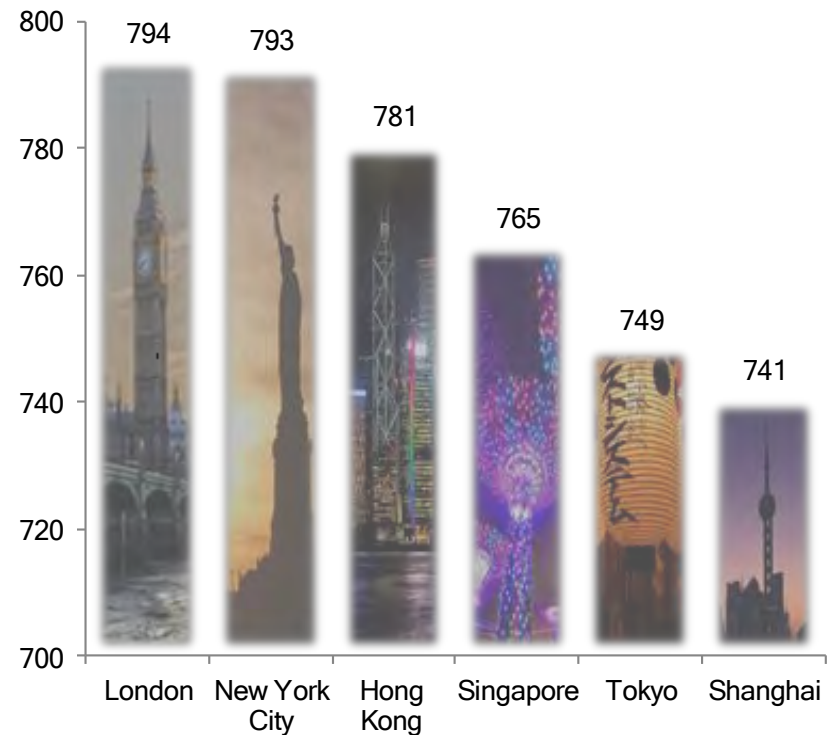
SINGAPORE: PROACTIVE POLICIES ARE THE FIRST LINE OF DEFENSE

Nominal Effective Exchange Rate, Broad Indices (61 economies) (2010)



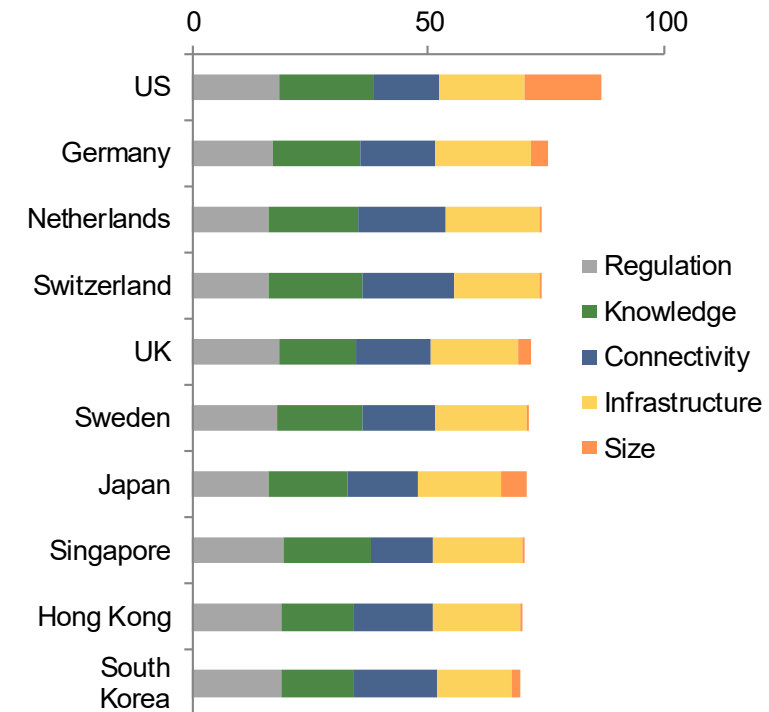
Defense #1: proactive macro-policies

Global financial index (top 6 economies)



Defense #2: the reform mindset

Euler Hermes Enabling Digitalization Index (100 = best, top 10)

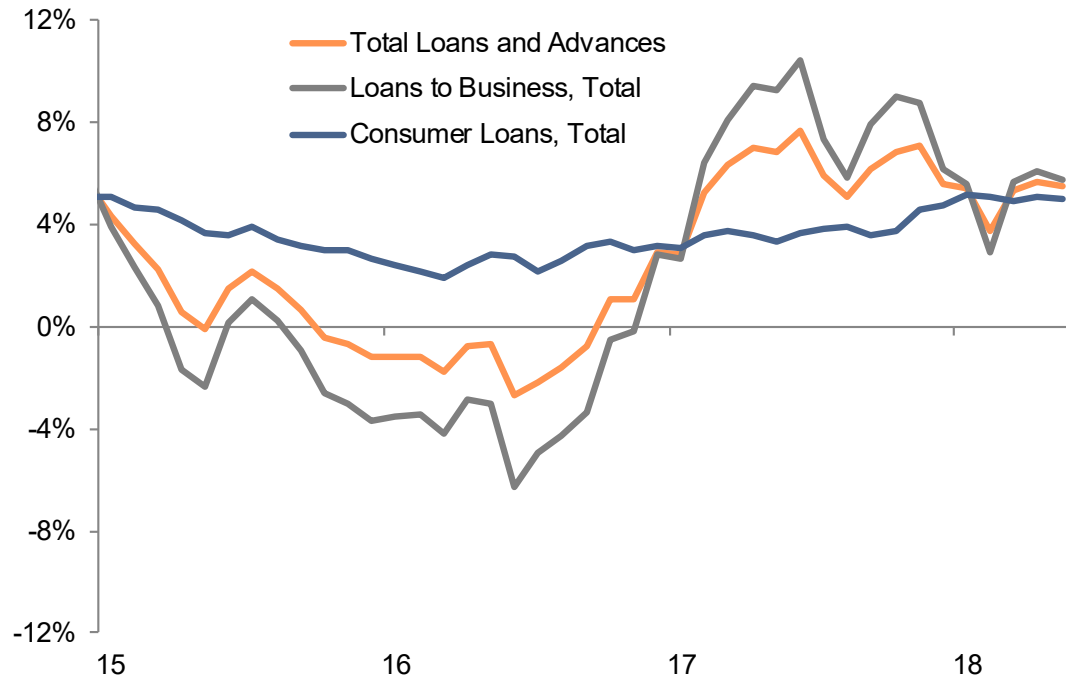


Defense #3: the innovation edge



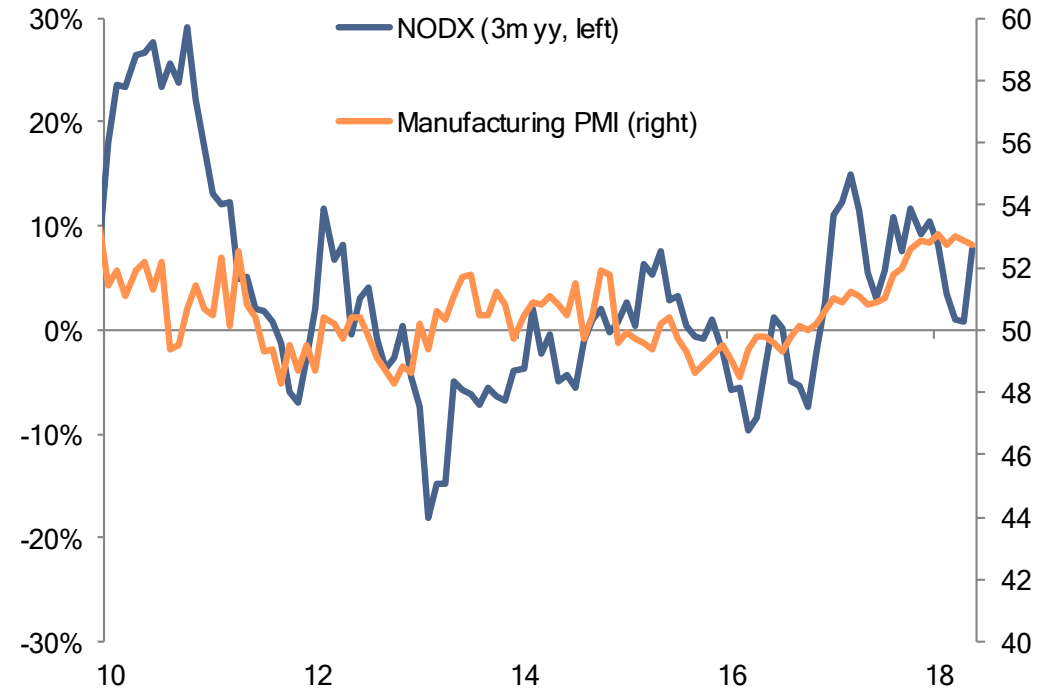
SINGAPORE: ECONOMIC GROWTH TO RISE BY +3% IN 2018

Credit growth (y/y)



Demand for credit is growing at a decent pace. Yet the peak is behind.

Non Oil domestic exports Manufacturing PMI



The export engine is still running and business surveys suggest resilience

WHERE TO GROW?

02



ASIA: A SHELTER IN THE STORM?



Global GDP growth forecasts (%)

	2017e	2018f	2019f
Asia-Pacific	5.1	4.9	4.8
China	6.9	6.6	6.3
Japan	1.6	1.2	1.0
India	6.7	7.3	7.3
Philippines	6.7	6.8	6.6
Vietnam	6.8	7.0	6.7
Indonesia	5.1	5.2	5.4
Malaysia	5.9	5.4	4.9
Thailand	3.9	3.8	3.4
South Korea	3.1	2.9	2.7
Singapore	3.6	3.0	2.7
Hong Kong	3.8	3.6	2.6
Taiwan	2.9	2.6	2.5
Australia	2.3	2.7	2.4
New Zealand	2.7	2.8	2.5

- Activity - Economic growth is set to slow to +4.9% in 2018 (revised up from +4.8%) and +4.8% in 2019 as China's soft landing continues, Japan's fiscal stimulus effects fade away. Emerging ASEAN to maintain firm growth rate supported by strong domestic demand solid export growth
- Financing conditions - Financing conditions tighten to reduce debt (China, e.g.), because of inflation (South Korea, Malaysia, Philippines, e.g.) and to reduce pressure on the currency (India, Indonesia).

CHINA: A MULTIFACETED STRATEGY IN RESPONSE TO THE US

Economic patriotism

- Anti-US campaign and boycott of US products (as done with South Korea), tighter regulation at the borders and different treatment for US corporates

Diplomatic retaliations

- Partnership against US strategy to increase (with Asian markets such as Japan and South Korea, with the EU)

Protectionism on services

- Measures to reduce trade deficit in services to be considered. First in line would be financial services.

Mild RMB depreciation with RMB per USD kept below 6.9

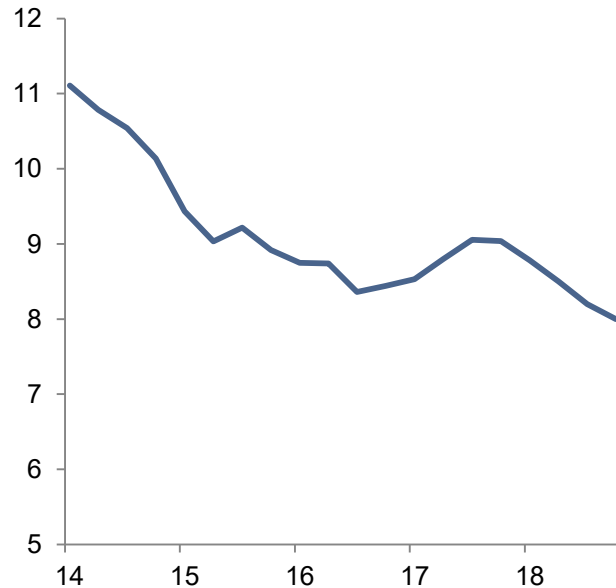
- Currency depreciation to be used carefully to keep national purchasing power in check.
- Marginal depreciation expected with RMB/USD at 6.6 in H2 2018 (-4% from H1) and 6.7 in 2019

Threats on US Treasuries

- Threats (some turbulences) but no significant sell off is expected

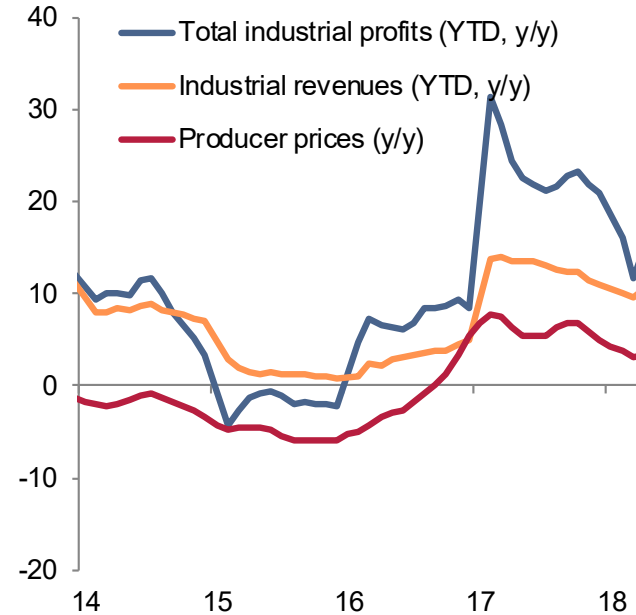
CHINA: THE ECONOMY WOULD BE ABLE TO MAINTAIN A GROWTH AROUND +6.5%

Nominal disposable per capita income



Sources: IHS, Allianz Research

Households: solid income growth (8%+) will continue to support private consumption



Sources: IHS, Allianz Research

Corporates: improved corporate profitability will act as a buffer for debt repayments and tighter financing conditions

Policy tracker

		2017	2018	2019
Fiscal policy	Gen. Gov. Net lending (% GDP)	-3.9	-4.0	-4.2
	Benchmark lending rate (eop)	4.35	4.35	4.60
	7 days - Reverse Repo (eop)	2.50	2.60	2.70
Monetary Policy	M2 growth	9.7	8.7	8.7
	Reserve requirement ratios*	16.5	15.5	15.5
	RMB per USD (average)	6.8	6.6	6.7
	RMB per USD (eop)	6.5	6.7	6.7
Capital account liberalization progress	Inward	Modest	Significant	Significant
	Outward	Neutral	Modest	Modest

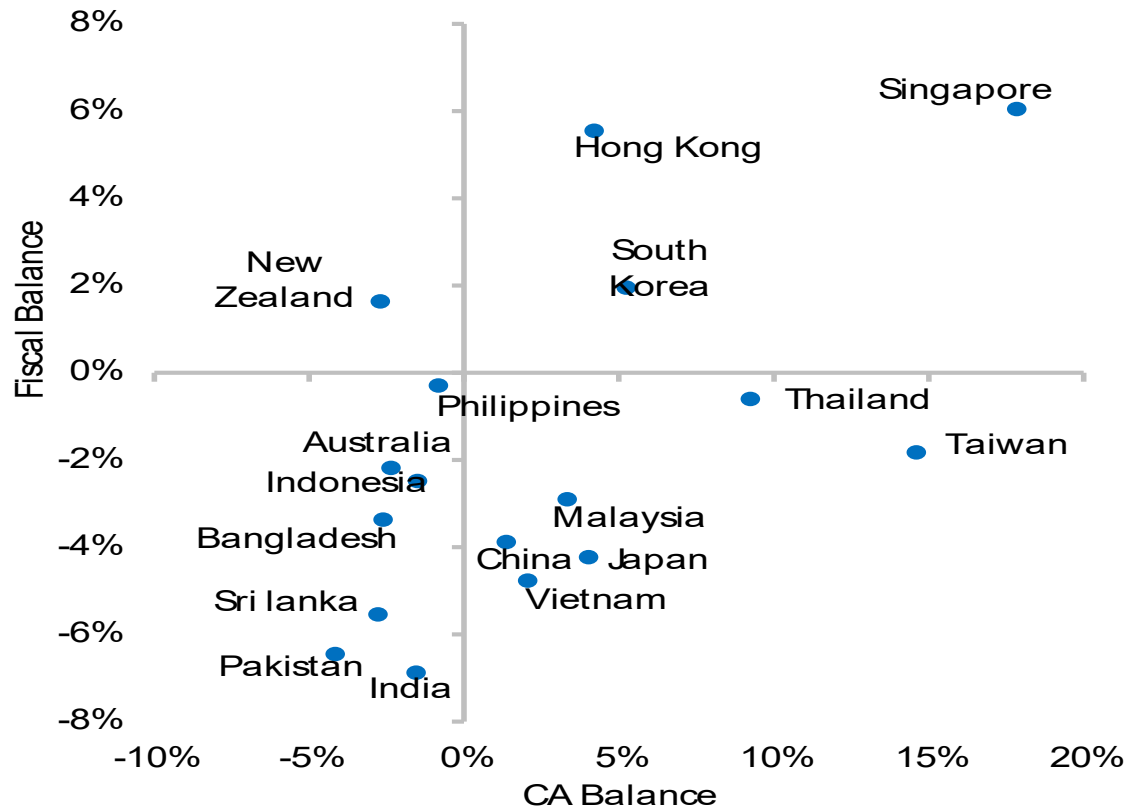
* For large banks
Sources: IMF, Allianz Research

Policymakers to adopt a defensive strategy :

- Fiscal support to increase
- Central bank to keep liquidity in-check (RRR cut) but maintain deleveraging efforts through regulation
- Capital liberalization progress to be maintained but with further moves on inflows (financial opening)

ASIA: CURRENCY TURBULENCES BUT LIMITED IMPACT ON GROWTH

Current account balance vs fiscal balance



N.B. Fiscal balance refers to general government balance (IMF definition)
Sources: IMF, Allianz Research

Monetary policy (end -year)

	17	18	19
Australia	1.50	1.75	2.00
China	4.35	4.35	4.60
India	6.00	6.50	6.75
Indonesia	4.25	5.50	5.50
Japan	-0.10	-0.10	0.10
South Korea	1.50	1.75	2.00
Malaysia	3.00	3.25	3.50
Philippines	3.00	3.50	3.75
Taiwan	1.375	1.375	1.500
Thailand	1.500	1.500	1.750

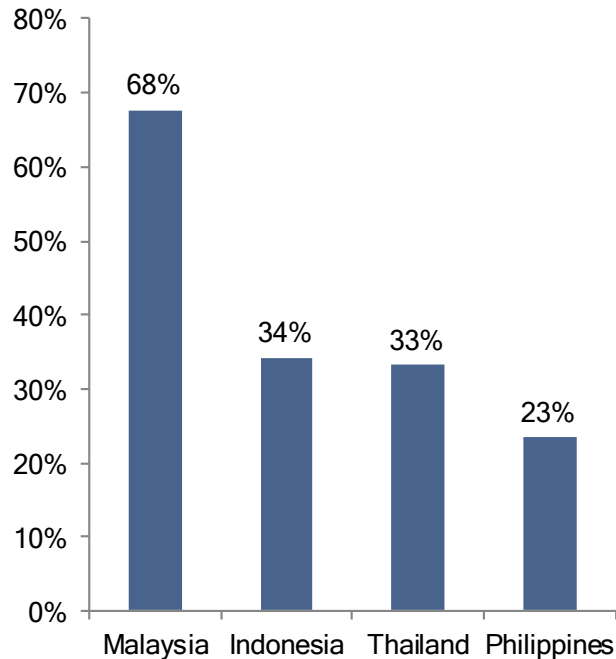
Sources: IHS, Allianz Research

Expect some turbulences on the currencies of markets with twin deficits. Yet, pre-emptive tightening should ease tensions going forward.



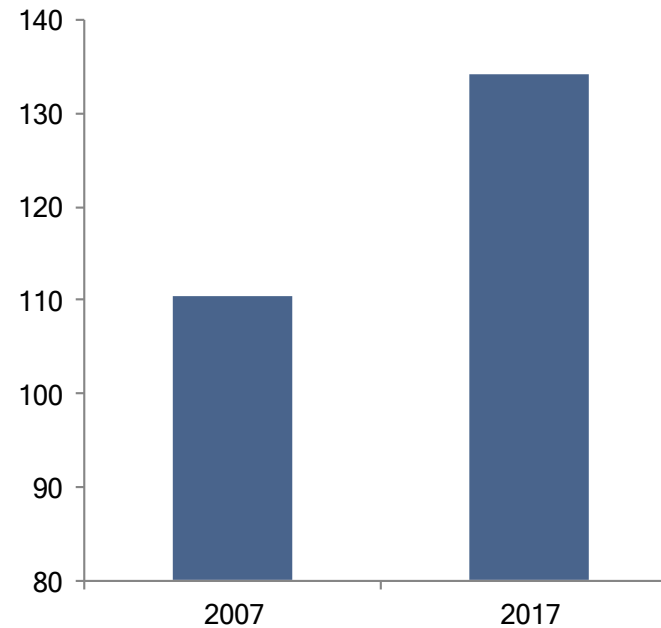
MALAYSIA THREE CRITICAL VULNERABILITIES

External debt (% GDP, 2017 estimates)



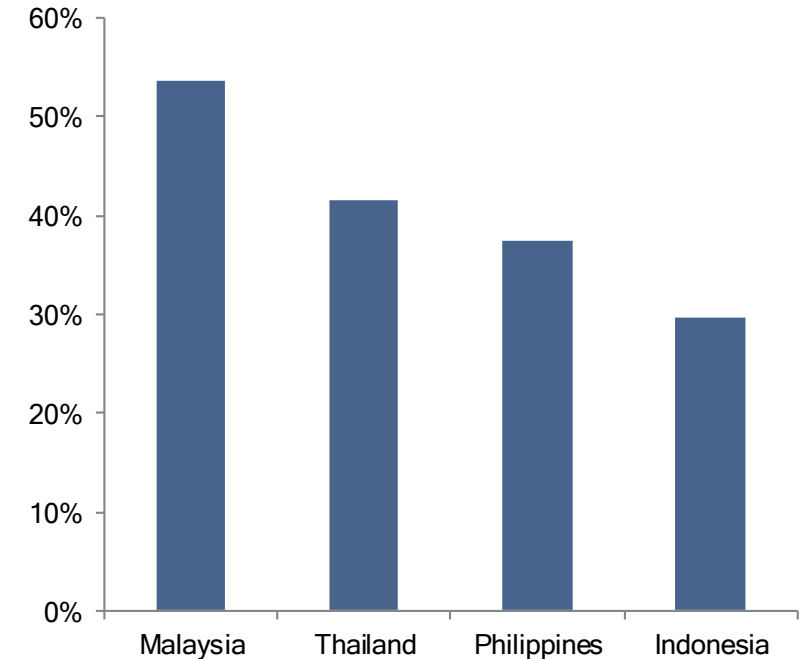
Sources: IHS, Datastream, Allianz Research

Private debt : Corporate and households' debt summed (% GDP)



Sources: BIS, Allianz Research

Public debt (% GDP, 2018 estimates)



Sources: IHS, Datastream, Allianz Research

Vulnerability #1: high external debt

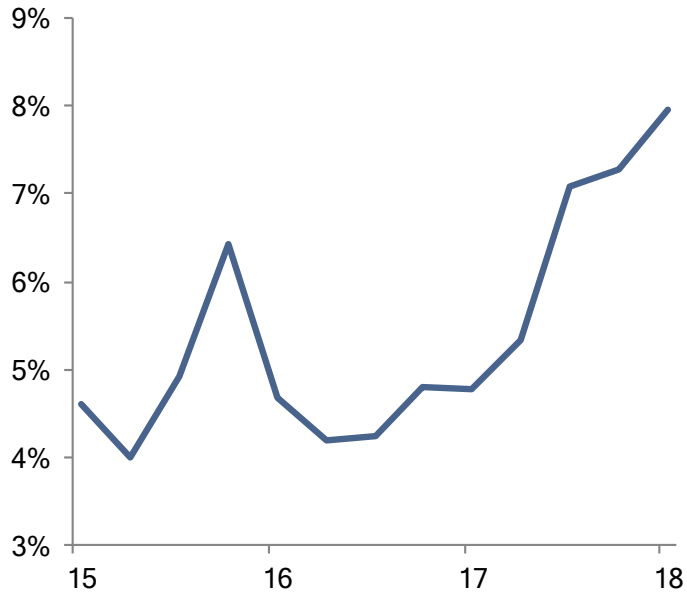
Vulnerability #2: elevated private leverage

Vulnerability #3: high public debt compared to regional peers



INDONESIA IMPROVING LOWLY BUT SURELY

Real investment (y/y)



Sources: IHS, Datastream, Allianz Research

Investment to be the main growth driver supported by easier regulation for foreign investors and rising risk appetite towards emerging markets

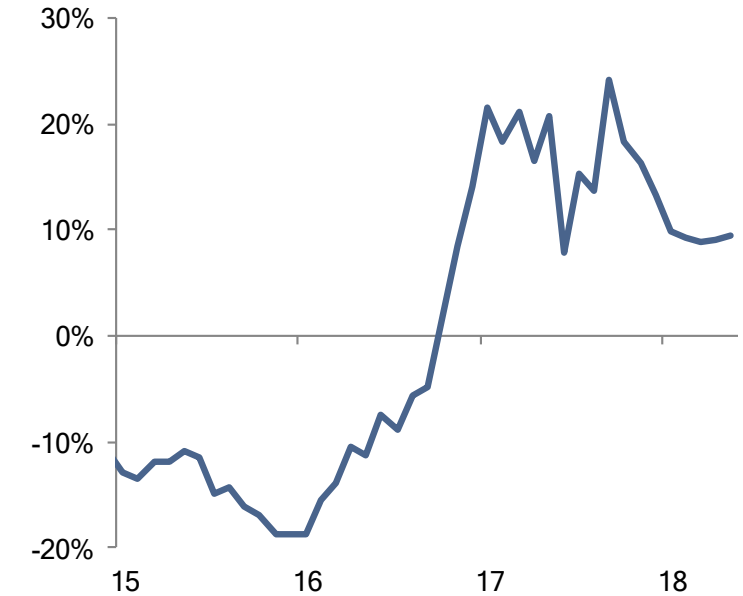
Consumer confidence (3 months moving average)



Sources: IHS, Datastream, Allianz Research

Private consumption to pick up speed driven by solid job market and high consumer confidence

USD denominated exports growth (3m y/y)



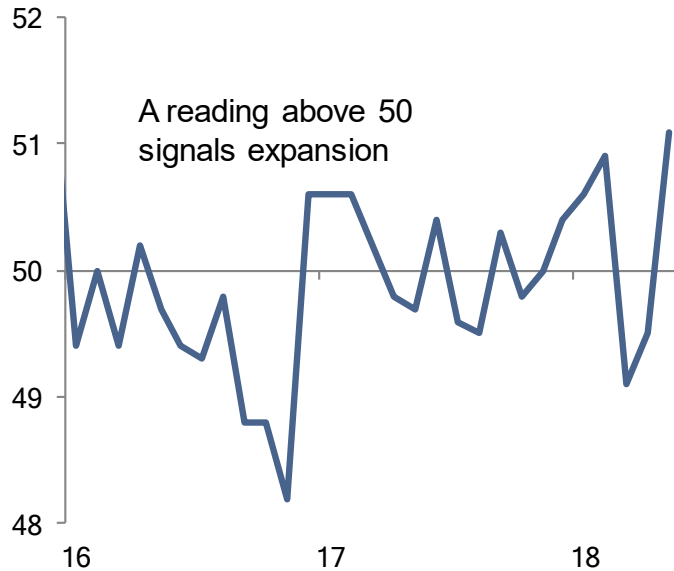
Sources: IHS, Datastream, Allianz Research

Exports to continue to expand but at a slower pace reflecting (i) fading base effect of commodity prices recovery, (ii) slower economic growth in China



THAILAND A LIGHT AT THE END OF THE TUNNEL?

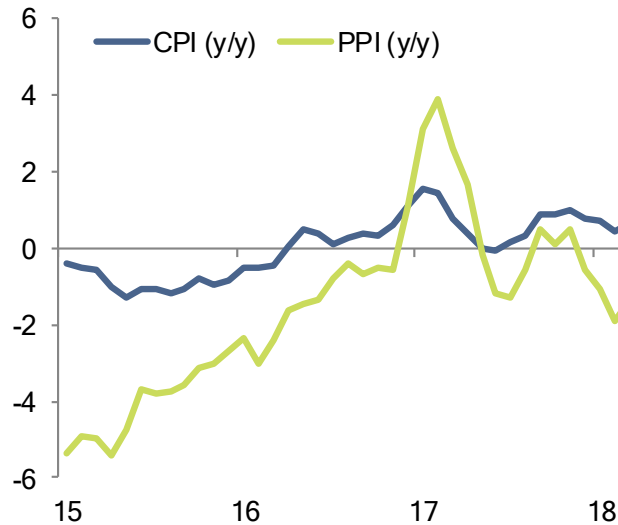
Manufacturing PMI



Sources: IHS, Datastream, Allianz Research

Business sentiment is finally improving driven by rising exports

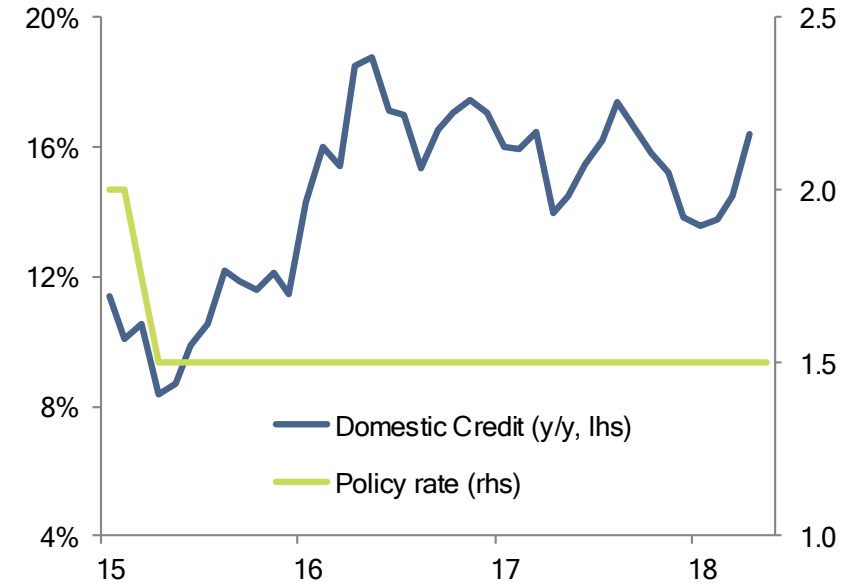
Consumer and producer prices



Sources: IHS, Datastream, Allianz Research

Consumer prices are slowly getting traction but deflationary pressures in the manufacturing sector is still a problem

Credit conditions



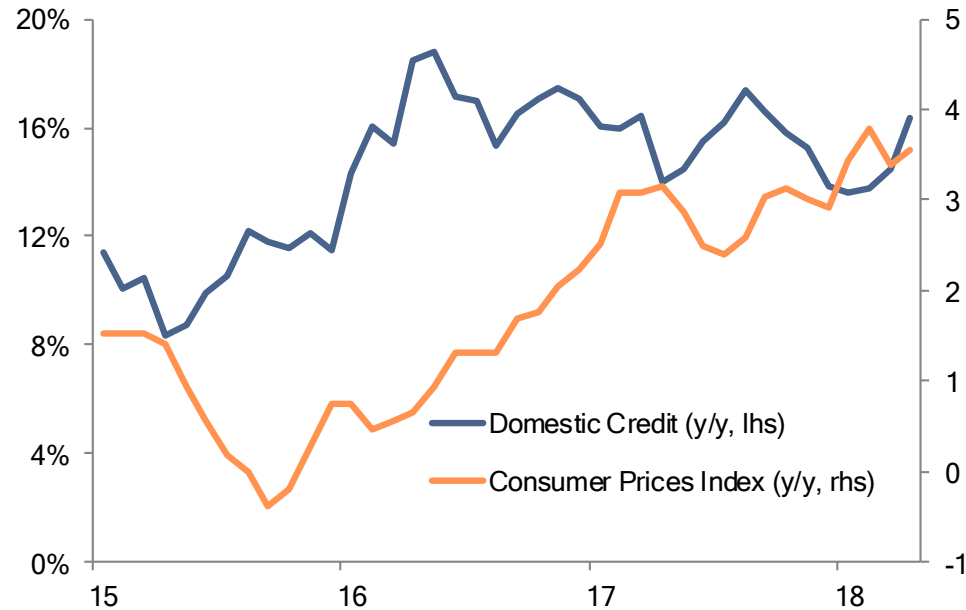
Sources: IHS, Datastream, Allianz Research

Demand for credit is finally picking up but pace is still relatively low



PHILIPPINES AND VIETNAM: PRUDENT POLICIES WILL BE KEY

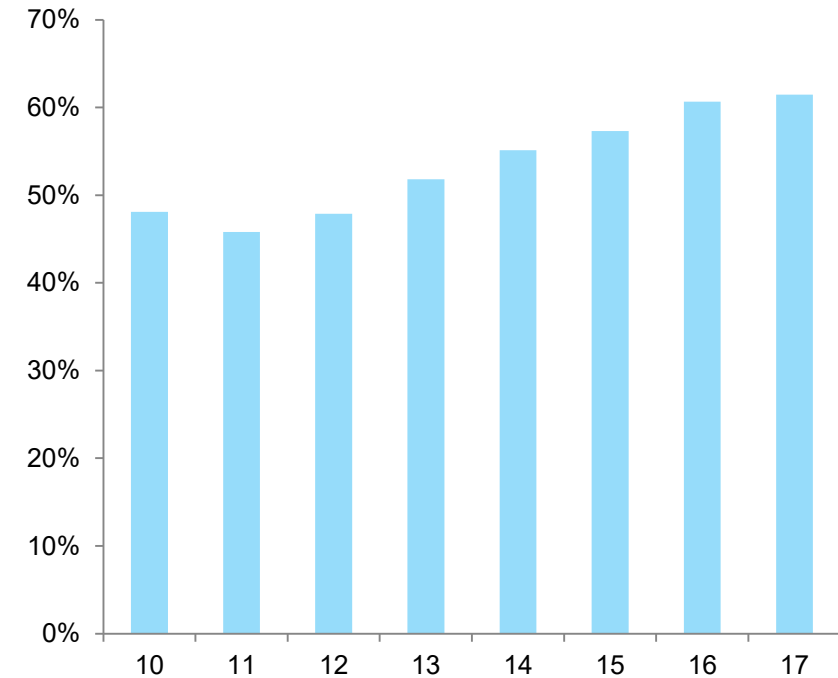
Philippines: credit growth and inflation



Sources: National statistics, Allianz Research

Philippines: rising inflationary pressures and fast credit growth call for prudence

Vietnam: public debt (% GDP)

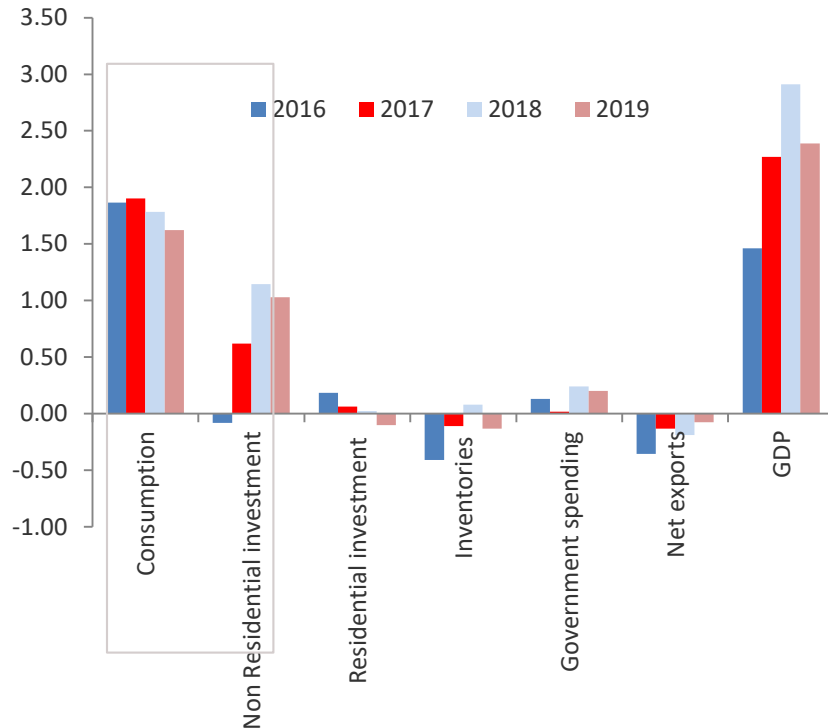


Sources: IMF, Allianz Research

Vietnam: getting public debt under control will be pivotal

US: CLOSER TO OVERHEATING DUE TO FISCAL STIMULUS

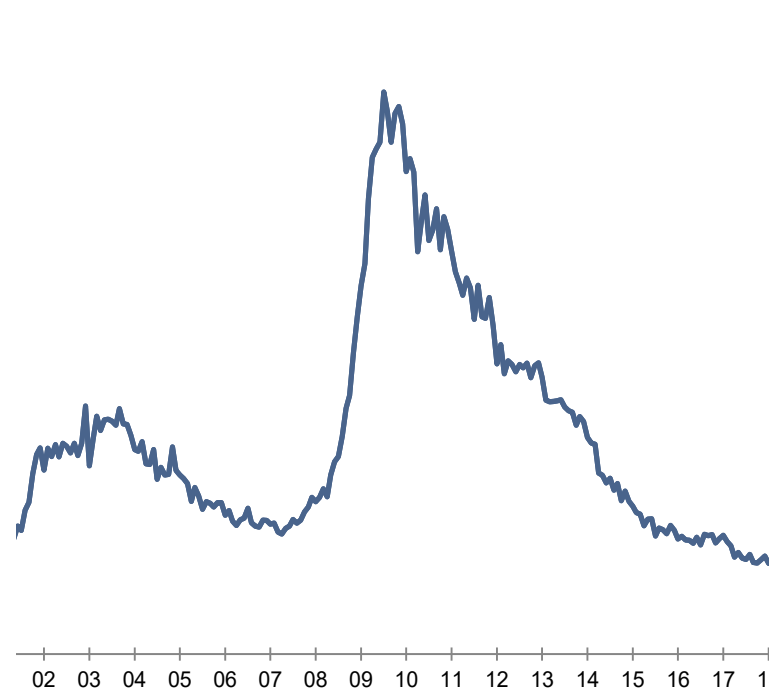
Contribution to US GDP growth (% , y/y)



Sources : Euler Hermes, Allianz Research

Higher rates will weigh on consumption and residential investment at a 2-year horizon

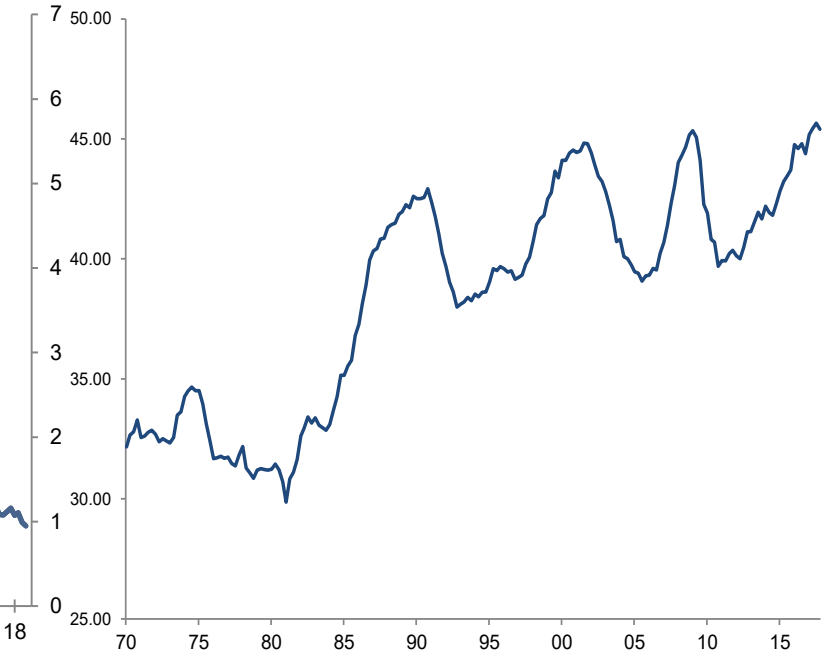
US unemployed to jobs openings ratio



Sources : Euler Hermes, Allianz Research

For the first time since 1970s the number of US job offers is above the number of unemployed people.

US corporate debt (as % of GDP)



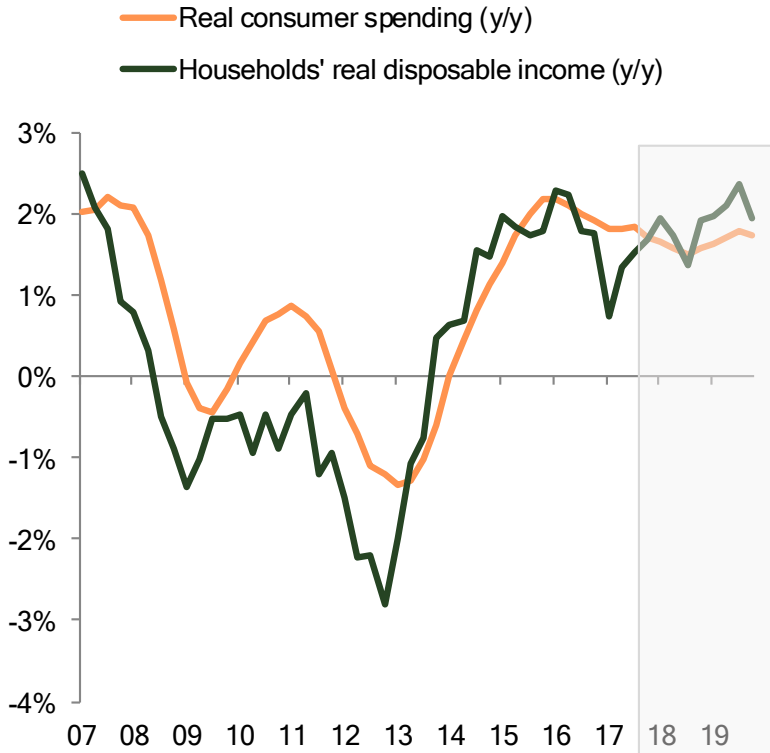
Sources : Euler Hermes, Allianz Research

US non-financial corporate sector is already stretched in terms of debt.



EUROPE: STILL ENOUGH BUFFERS

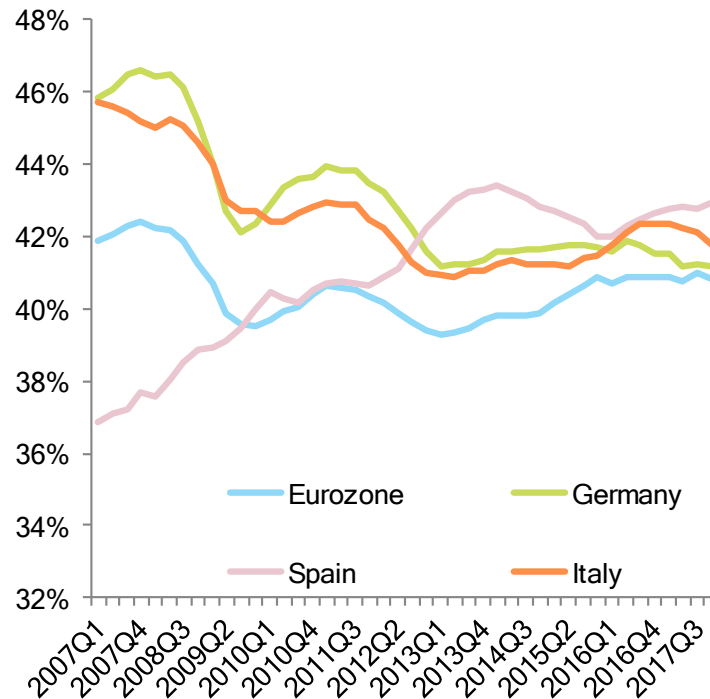
Eurozone: consumer spending and disposable income



Source: IHS, Euler Hemes Allianz Research

Higher purchasing power to support consumption

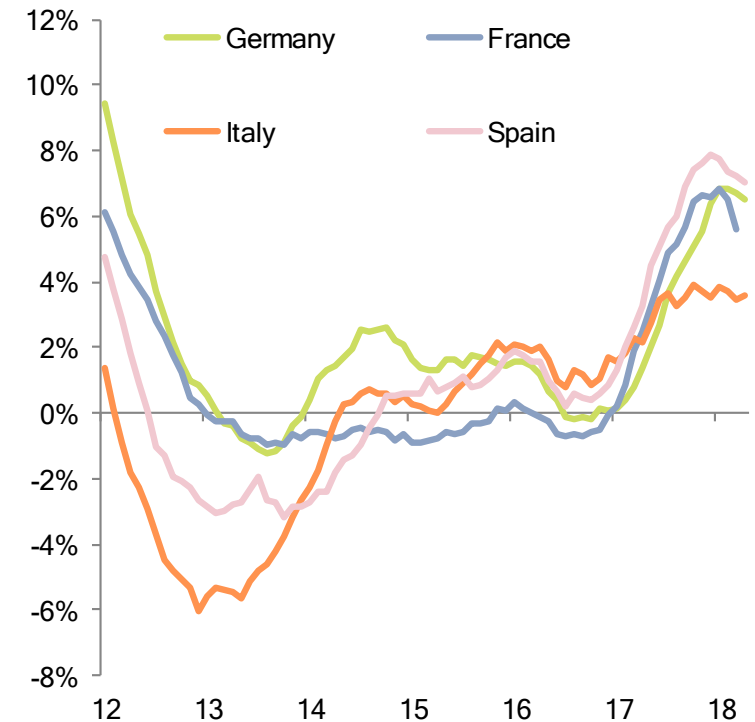
Non-financial corporations margins, % of value added



Source: IHS, Euler Hemes Allianz Research

Margins remain at a relatively high level, but they are expected to have peaked at end-2017, notably in **Spain** and **Italy**.

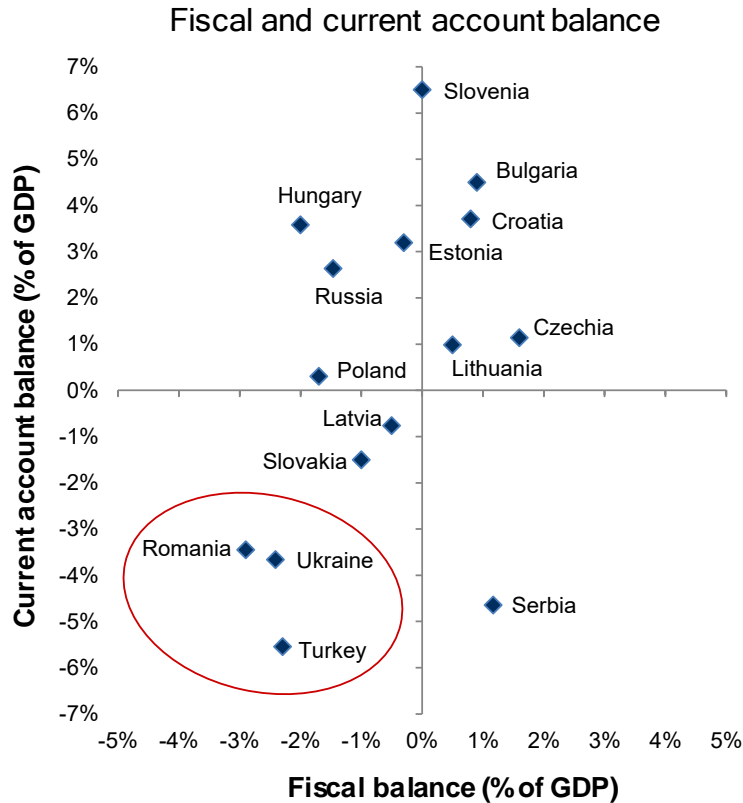
Manufacturing turnover growth, 12m/12m



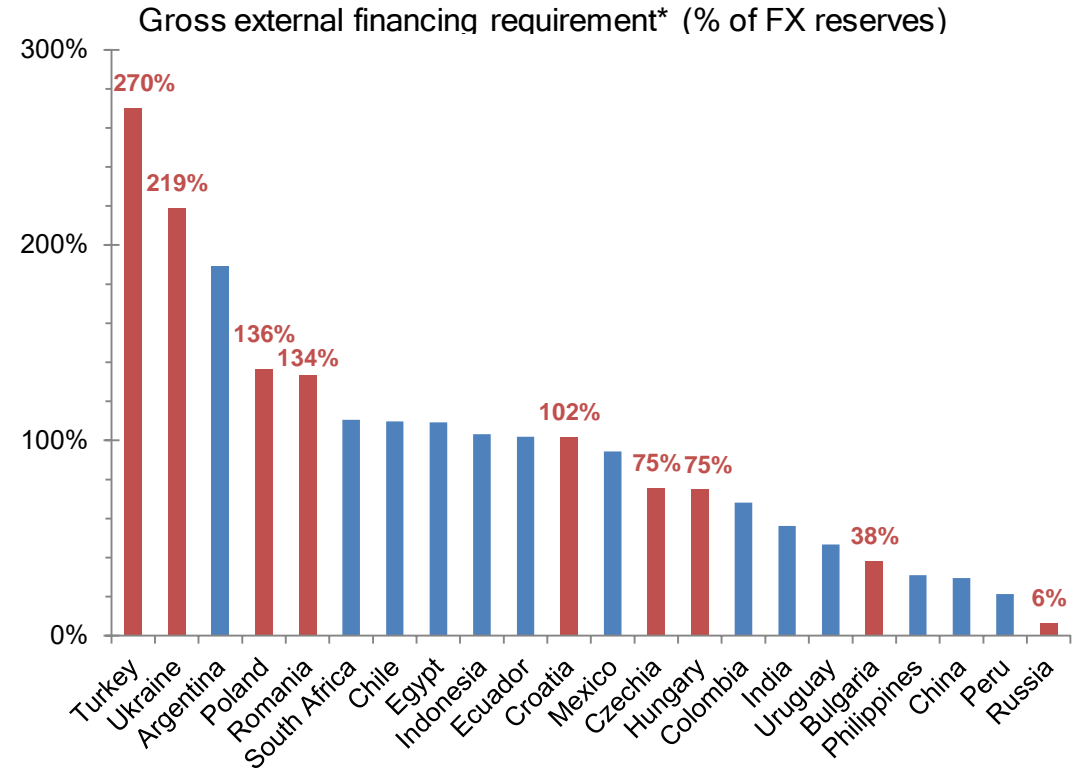
Sources: IHS, Euler Hemes Allianz Research

Turnover growth has cooled down but remains above pre-crisis average.

EMERGING EUROPE: WHO IS THE MOST VULNERABLE (2)



Sources: National statistics, IHS Markit, Allianz Research



* Defined as sum of current account deficit and external debt maturing within the next 12 months.

Sources: National statistics, IMF, IHS Markit, Allianz Research

- **Turkey, Ukraine and Romania** have relatively large twin deficits and very high external financing requirements in relation to their FX reserves
- **Hungary** has a current account surplus and acceptable fiscal deficit. Its external financing needs are also adequate
- **Poland** has external financing requirements in relation to its FX reserves but otherwise relatively solid macro fundamentals (e.g. twin surplus, low inflation)

THANK YOU!

Economic Research Department

