

Monthly Update of the ASEAN+3 Regional Economic Outlook (AREO)

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

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This Monthly Update of the AREO was prepared by the Regional Surveillance team and approved by Dr Khor Hoe Ee (Chief Economist).

The analysis in this report is based on information available up to 6 July 2018. For the sake of brevity, "Hong Kong, China" will be referred to as "Hong Kong" in the text and figures.

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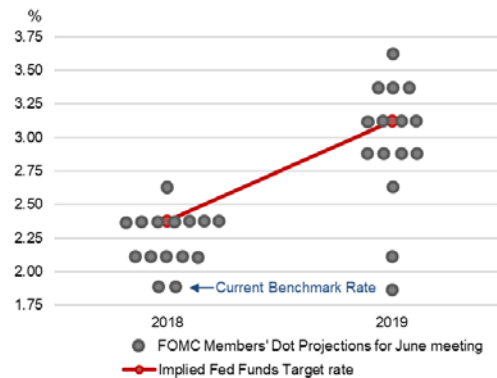
Global Economic Developments

Global financial conditions continue to tighten as the U.S Federal Reserve remains on its interest rate hike path. During the June FOMC, the Fed increased interest rates to a range of 1.75 – 2.00 percent, as widely expected by markets, on the back of the strong U.S. economy. The Fed also signaled another two rate hikes in 2018 to 2.25 – 2.50 percent as seen by the dot plot projections in Figure 1, and to 3.00 – 3.25 percent in 2019. The U.S. 10-year treasury yield has fallen to below 3 percent in the past few weeks as investors look towards safe haven assets. The USD, as a response to the Fed’s more favorable outlook of the U.S. economy, is continuing on its appreciation path.

The U.S economy, while slowing in Q1 2018 to 2.0 percent (qoq SAAR), is expected to report stronger growth in Q2 2018 (Figure 2). Inflation continued to increase further in May and the labor market remained solid, with the U.S. economy adding 213,000 jobs for June and wage growth remaining steady even with the unemployment rate increasing from 3.8 percent to 4 percent. The U.K. and Eurozone economies have also experienced some slowdown in Q1 2018 to 0.9 percent and 1.5 percent respectively. Manufacturing PMI data (Annex 2) show that business activity in these two economies, while still expansionary, has slowed over the past few months due to concerns about the impact of trade tensions between the U.S. and China, as well as uncertainty over the negotiations for Brexit.

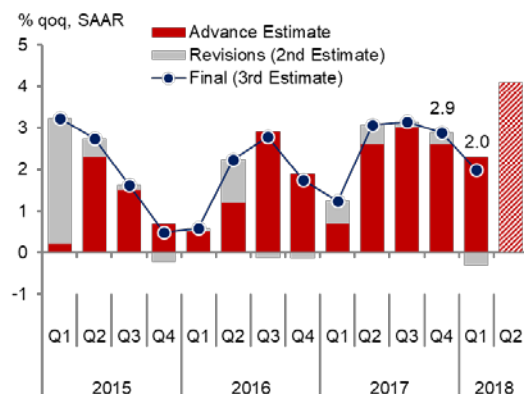
Increasing global oil prices, if continued, may also dampen global growth prospects. Oil prices continued on its upward trend, increasing by about USD10 per barrel over the last month to around USD 74 per barrel on the back of rising global demand. On the supply side, oil production in Venezuela and Libya is falling and there is a risk of lower output from Iran as a result of U.S. sanctions. However, in

Figure 1 In June, the U.S. Fed signaled another two interest rate hikes in 2018



Source: FOMC

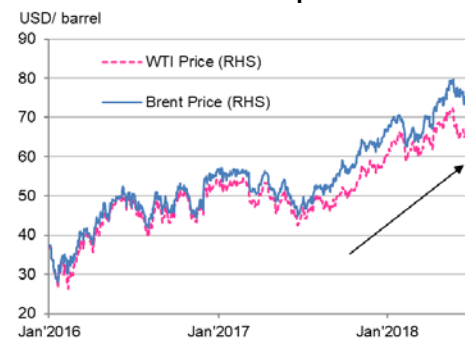
Figure 2 Growth in the U.S. economy expected to remain robust despite slight slowdown in Q1 2018



Source: Bureau of Economic Analysis, Federal Reserve Board of Atlanta

Note: The Atlanta Fed GDPNow estimate for Q2 2018 is a model-based projection, not an official forecast of the Fed.

Figure 3 Global oil prices continue to trend up



Data as of 7 July 2017.

Source: New York Mercantile Exchange, Intercontinental Exchange

late June, OPEC agreed to a modest increase in production in order to reduce market worries of a supply shortage.

Regional Economic Developments

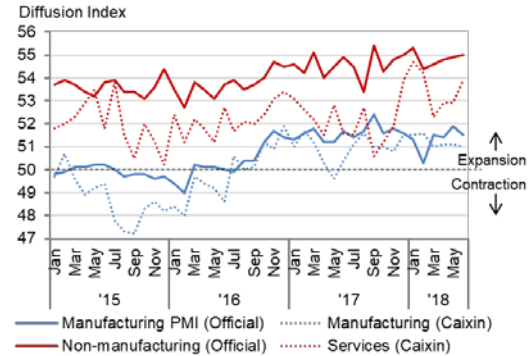
While economic activity continues to pick up in China, trade tensions have weighed on the currency. On the production side (Figure 4), automobiles and IT equipment production maintained relatively high growth. The services sector, especially internet economy-related activities, also grew rapidly. The trade surplus in May fell slightly with exports rising 12.6 percent (yoy) but imports surged by 26.0 percent (yoy), partly due to higher oil and other commodity prices. CPI inflation remained stable, while PPI inflation edged up in May. Recently, the RMB has depreciated against the USD, falling by about 2.8 percent since June 15 when the U.S. released a list of USD50 billion worth of Chinese imports subject to additional tariffs.

In Japan, Q1 2018 growth slowed to 1.1 percent (yoy) from 1.9 percent in the previous quarter (Annex 1). The latest Tankan survey shows that business confidence amongst Japanese firms declined slightly in Q2 2018 (Figure 6). Escalating trade tension may have led to the dip in corporate business sentiment, while capex plans for FY2018 remain solid. Inflation continues to be well below the Bank of Japan's price stability target of 2 percent.

Monthly manufacturing PMI readings in the region (Annex 2) along with other indicators suggest that economic activity generally remains robust. Trade data for the region (Figure 7) shows that exporting activity continues to be strong despite increased global trade tensions.

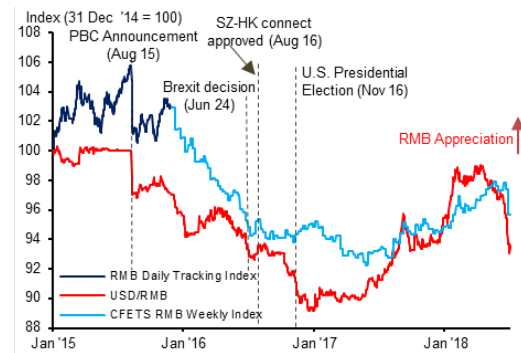
With tightening global financial conditions, coupled with other risks such as trade

Figure 4 Economic activity in China remains robust as shown by PMIs



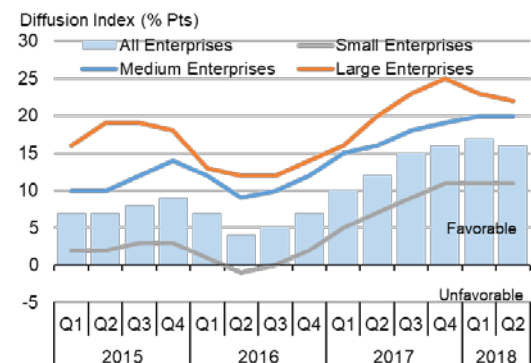
Source: China National Bureau of Statistics, Markit

Figure 5 RMB depreciated due to U.S.-China's increasing trade tensions



Source: People's Bank of China

Figure 6 Tankan survey of business conditions in Japan show a dip in business confidence

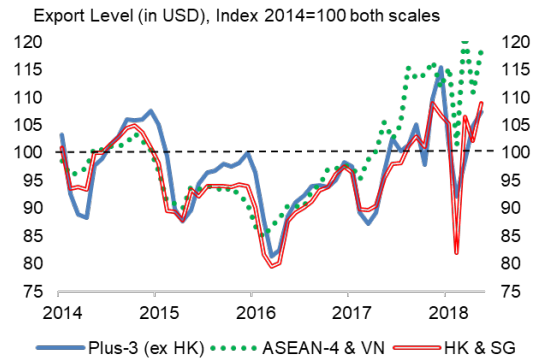


Source: Bank of Japan

protectionism, financial markets within the region are under increasing pressure of capital outflows and currency depreciation. Figure 8 shows that regional bond markets continues to receive net inflows but equity markets are experiencing net capital outflows. Regional currencies continue to depreciate against the rising U.S. dollar, similar to the depreciation trend in the RMB.

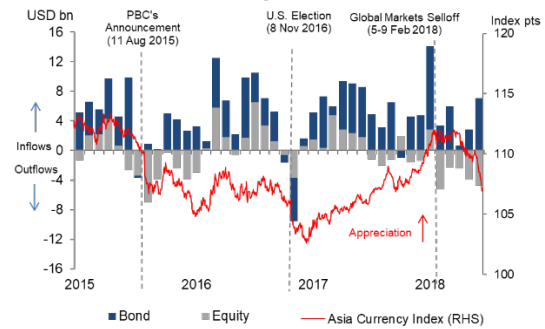
Monetary conditions in the region remain generally accommodative, albeit on a tightening bias. Inflation within the region continues to be benign, which has provided monetary space for regional economies. However, with risks of faster than expected tightening of global financial conditions and capital outflows, some central banks in the region have already begun to tighten monetary policies (Annex 3).

Figure 7 Regional trade continues to be robust despite trade tensions



Source: National Authorities

Figure 8 The region is receiving net capital inflows into bond markets but equity markets are seeing outflows



Source: National Authorities

Annex 1: GDP Growth for Selected ASEAN+3 Economies

Economy	Annual GDP Growth, % y-o-y							
	2016	2017	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18	2Q'18
China	6.7	6.9	6.9	6.9	6.8	6.8	6.8	-
Hong Kong	2.0	3.8	4.4	3.9	3.6	3.4	4.7	-
Japan	0.9	1.6	1.4	1.6	2.0	1.9	1.1	-
Korea	2.8	3.0	2.9	2.8	3.8	2.8	2.8	-
Brunei	-2.5	1.3	-1.3	0.2	1.3	5.2	-	-
Indonesia	5.0	5.1	5.0	5.0	5.1	5.2	5.1	-
Malaysia	4.2	5.9	5.6	5.8	6.2	5.9	5.4	-
Philippines	6.9	6.7	6.5	6.6	7.2	6.5	6.8	-
Singapore	2.0	3.6	2.5	2.8	5.5	3.6	4.4	-
Thailand	3.3	3.9	3.4	3.9	4.3	4.0	4.8	-
Vietnam	6.2	6.8	5.2	6.3	7.5	7.7	7.5	6.8

Source: National Authorities, Bloomberg, CEIC

* Table shows economies with latest GDP data releases since the last edition of the Monthly Update of the AREO. Data released as of 6 July 2018.

Annex 2: Global Manufacturing PMI Heatmap

Economies	2015				2016				2017												2018						Change from Prev. Month	Trend (with min and max pts)
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Global	[Heatmap cells]																								↓ -0.1	[Trend]		
Developed Markets	[Heatmap cells]																								↓ -0.3	[Trend]		
U.S.	[Heatmap cells]																								↓ -1.0	[Trend]		
U.K.	[Heatmap cells]																								↑ 0.1	[Trend]		
Eurozone	[Heatmap cells]																								↓ -0.6	[Trend]		
Austria	[Heatmap cells]																								↓ -0.7	[Trend]		
France	[Heatmap cells]																								↓ -1.9	[Trend]		
Germany	[Heatmap cells]																								↓ -1.0	[Trend]		
Greece	[Heatmap cells]																								↓ -0.7	[Trend]		
Ireland	[Heatmap cells]																								↑ 1.2	[Trend]		
Italy	[Heatmap cells]																								↑ 0.6	[Trend]		
Netherlands	[Heatmap cells]																								↓ -0.2	[Trend]		
Spain	[Heatmap cells]																								↔ 0.0	[Trend]		
Emerging Markets	[Heatmap cells]																								↑ 0.1	[Trend]		
Brazil	[Heatmap cells]																								↓ -0.9	[Trend]		
India	[Heatmap cells]																								↑ 1.9	[Trend]		
Russia	[Heatmap cells]																								↓ -0.3	[Trend]		
South Africa*	[Heatmap cells]																								↑ 0.9	[Trend]		
China	[Heatmap cells]																								↓ -0.1	[Trend]		
Hong Kong*	[Heatmap cells]																								↓ -0.1	[Trend]		
Japan	[Heatmap cells]																								↑ 0.2	[Trend]		
Korea	[Heatmap cells]																								↑ 0.9	[Trend]		
ASEAN	[Heatmap cells]																								↓ -0.4	[Trend]		
Indonesia	[Heatmap cells]																								↓ -1.4	[Trend]		
Malaysia	[Heatmap cells]																								↑ 1.9	[Trend]		
Philippines	[Heatmap cells]																								↓ -0.8	[Trend]		
Singapore*	[Heatmap cells]																								↓ -0.8	[Trend]		
Thailand	[Heatmap cells]																								↓ -0.9	[Trend]		
Myanmar	[Heatmap cells]																								↓ -2.6	[Trend]		
Vietnam	[Heatmap cells]																								↑ 1.8	[Trend]		

Note: These seasonally adjusted PMI readings are coded by colors:

- Darker shades of red in the reading denote readings further below (< 45) the diffusion level of 50; conversely, greener shades in the readings denote readings further above (> 55) the diffusion level of 50.
- The trend lines shown in the right-most column represent the PMI readings since January 2015, the red dots denote minimum and maximum points in that period.
- Global PMI is as aggregated by JP Morgan. China's PMI refers to Caixin/ Markit PMI.
- (*) denotes whole economy PMI

Source: Markit, JP Morgan

Annex 3: Major Policy Developments (6 June – 6 July 2018)

<p>China</p>	<p>[29 June 2018] The NPC (the National People’s Congress) released the draft on amendments to the People’s Republic of China personal income tax law, and public comment was invited. According to the draft, tax will only be levied for monthly income from 5000 yuan, up from the current 3500 yuan. It also increases the special additional deductions for education expenditure, continuing education expenditure, medical expenditure for major diseases, interest on housing loans and housing rent for the first time.</p> <p>[6 July 2018] China filed an additional lawsuit through WTO against the tax measures formally implemented by the U.S. in its 301 trade investigation on China.</p> <p>[24 June 2018] The People’s Bank of China (PBC) decided to lower banks’ reserve requirement ratio by 0.5 percentage points, effective on 5 July 2018. Banks are also encouraged to implement the "debt to equity swap" policy in accordance with the principle of market-based pricing. The PBC reiterated the policy intent that the targeted RRR reduction should not be used to support "debt that is dressed up as equities" and "zombie enterprises", and that banks should use the released funds mainly for loans to small and micro enterprises.</p>
<p>Japan</p>	<p>[15 June 2018] The Policy Board of the Bank of Japan decided to keep policy rates and asset purchases on hold with a view to maintaining the momentum toward achieving the price stability target.</p>
<p>Singapore</p>	<p>[5 July 2018] The Government announces adjustments to the Additional Buyer’s Stamp Duty (ABSD) rates and Loan-to-Value (LTV) limits on residential property purchases, to cool the property market and keep price increases in line with economic fundamentals. The current ABSD rates for Singapore Citizens and Singapore Permanent Residents purchasing their first residential property will be retained at 0 percent and 5 percent respectively. For other individuals and entities, the ABSD will be raised by 5 and 10 percentage points, respectively. An additional ABSD of 5 percent that is non-remittable under the Remission Rules for developers purchasing residential properties for housing development will also be introduced. LTV limits will be tightened by 5 percent for all housing loans granted by financial institutions</p>
<p>Indonesia</p>	<p>[22 June 2018] Ministry of Finance of Indonesia lowered the final income tax rate for small and medium-sized enterprises of annual revenue of less than IDR4.8 billion (equivalent to about USD340,000) from 1.0 percent to 0.5 percent, effective 1 July 2018.</p> <p>[29 June 2018] The Bank Indonesia (BI) Board of Governors agreed to raise the BI 7-day Reverse Repo Rate by 50 basis points to 5.25 percent, while also</p>

	<p>raising the Deposit Facility and Lending Facility rates by 50 basis points to 4.50 percent and 6.00 percent, respectively, effective 29 June 2018.</p> <p>[29 June 2018] BI also implemented accommodative macroprudential policy to maintain domestic economic recovery momentum by (i) relaxing the loan-to-value (LTV) for property loans and financing-to-value (FTV) for property financing; (ii) relaxing the number of credit or financing facilities available through the pre-order mechanism; and (iii) amending the stages and limits applicable to loan/financing disbursement. Those relaxations are effective 1 August 2018.</p>
<p>Thailand</p>	<p>[20 June 2018] The Bank of Thailand (BOT) decided to keep the policy rate at 1.5 percent as the Committee viewed that the current accommodative monetary policy stance remained conducive to the continuation of economic growth and should support the rise of headline inflation toward target in a sustainable manner.</p>
<p>The Philippines</p>	<p>[20 June 2018] The Monetary Board of the Philippines raised policy rates by 25 basis points. This follows a 25 bps hike in the previous policy meeting on May 10. In raising the policy rates, the Monetary Board noted that inflation expectations for 2018 remain elevated, with the risk of second round effects of inflation requiring a follow through in monetary policy action. The BSP's inflation forecast for 2018 is 4.5 percent, which is above the inflation target range of 2-4 percent. BSP expects inflation to go down to 3.3 percent in 2019, within the target band.</p>