

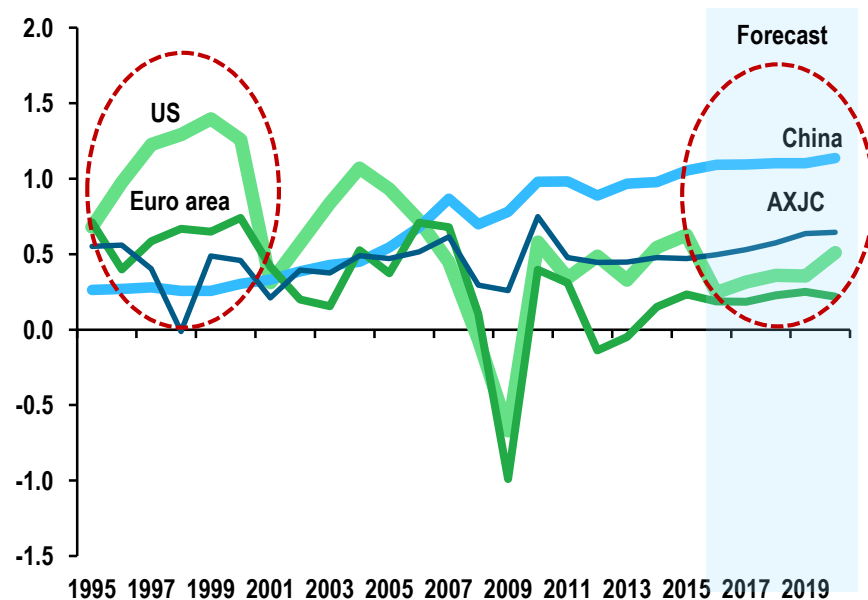
Asia – The best economic neighbourhood

David Mann
Standard Chartered Bank

Asia – The biggest contributor to global growth

China and AXJC will likely contribute c.60% of global growth in 2017

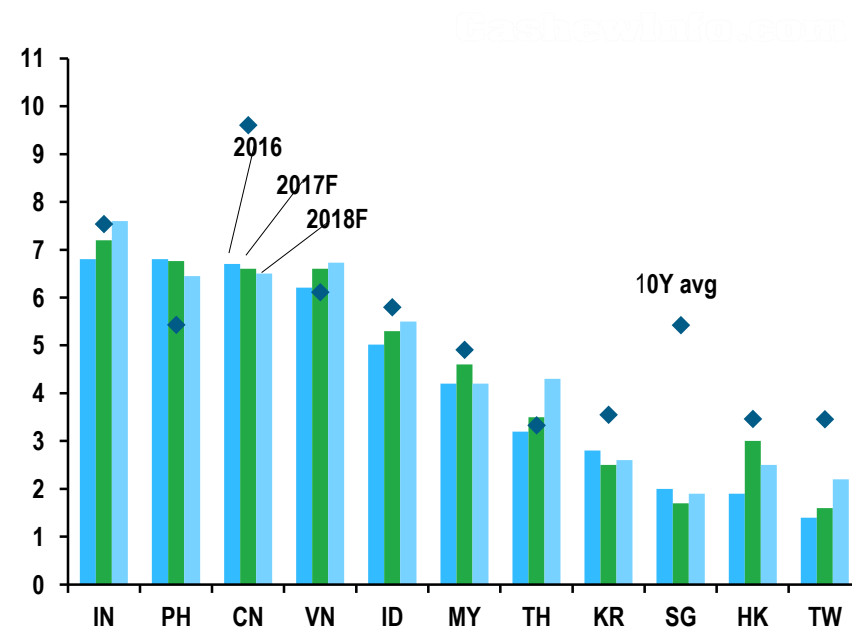
Contributions to global growth, ppt



Source: IMF, Standard Chartered Research

Mixed growth outlook for Asia

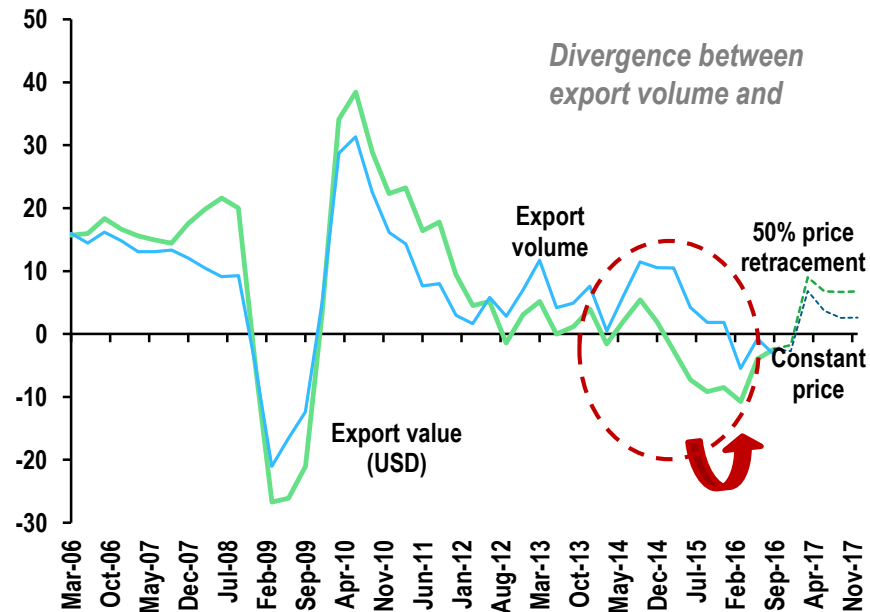
GDP growth, %



Source: Standard Chartered Research

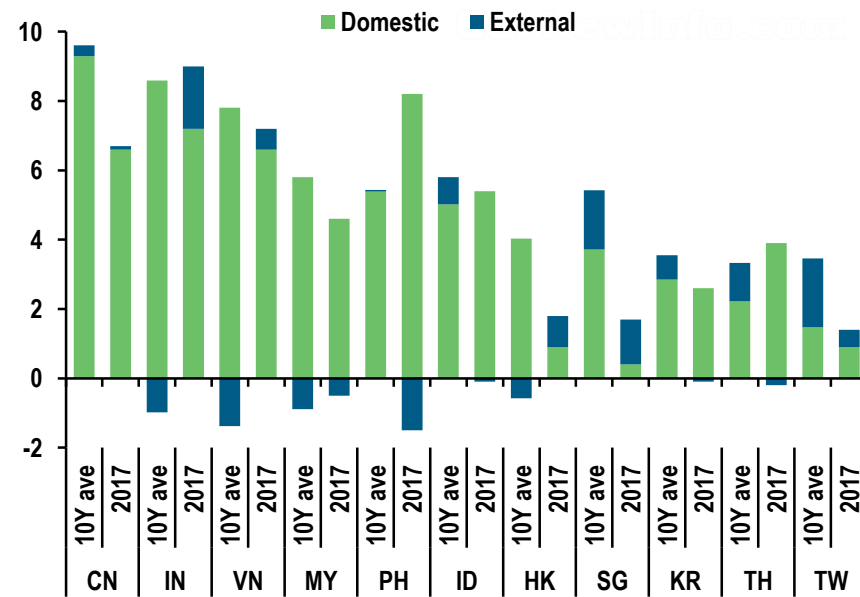
Asia – External sectors are now less important for growth, but ...

Asia's nominal exports should return to positive growth in 2017 (% y/y)



Note: We include Australia, Japan, China, Hong Kong, South Korea, Singapore, Taiwan, Malaysia and Thailand in Asia's composite exports; see On the Ground, 18 May 2016, 'Asia exports – reasons for optimism (in 2017)'; Source: WTO, Standard Chartered Research

External sector plays a marginal growth role for most of Asia (GDP growth contributions, ppt)

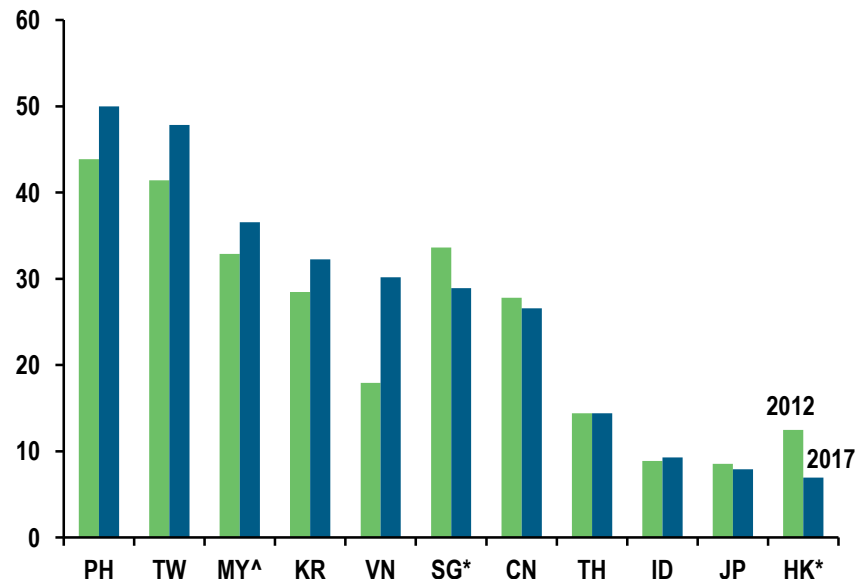


Source: Official sources, Standard Chartered Research

Large spillover from exports to most economies in Asia

Electronics are increasingly important to Asia's exports

Electronics exports, share of total (%)



*We use domestic exports for HK and NODX for Singapore; ^Malaysia includes both electronics and electrical exports, without further granularity; Source: CEIC, Standard Chartered Research

Gross export growth is a key input to our Asia growth trackers

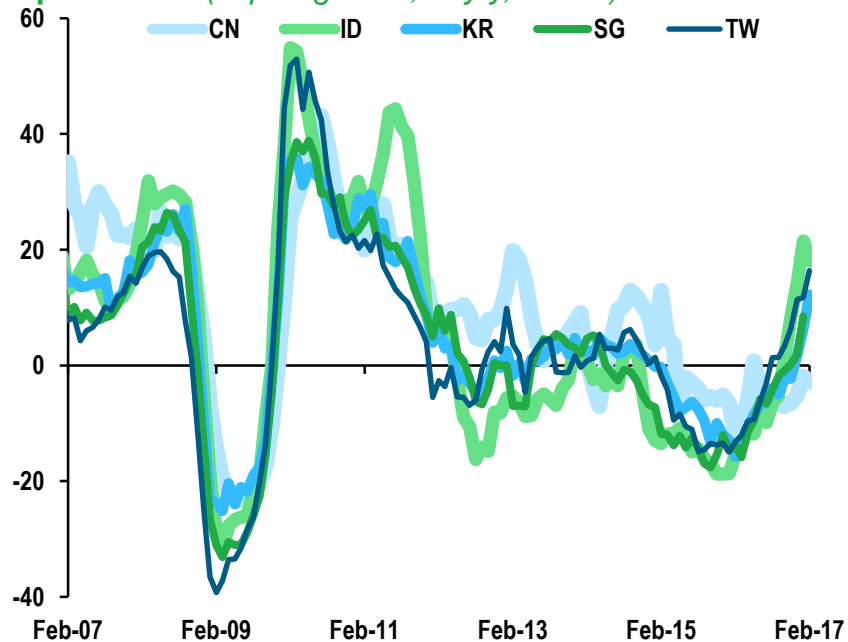
Economic inputs to our econometric GDP growth trackers

Country	Input 1	Input 2	Input 3	Input 4
Australia	Exports	Imports	Retail sales	Capex
China	Exports	IP		
Hong Kong	Exports	Retail sales	China PMI	
India	IP	Passenger vehicle sales	Bank credit	
Indonesia	Bank credit	JCI	CPI	
Japan	IP	Econ Watchers Survey	Construction orders	Leading index
Korea	Trade balance	IPI	BSI	
Malaysia	IP	Leading index	Bank loans	
Philippines	Exports	Imports	Business outlook	
Singapore	NODX	IP		
Thailand	Tourist arrivals	Consumer confidence	VAPI	
Taiwan	Exports	Leading index		

Source: Standard Chartered Research

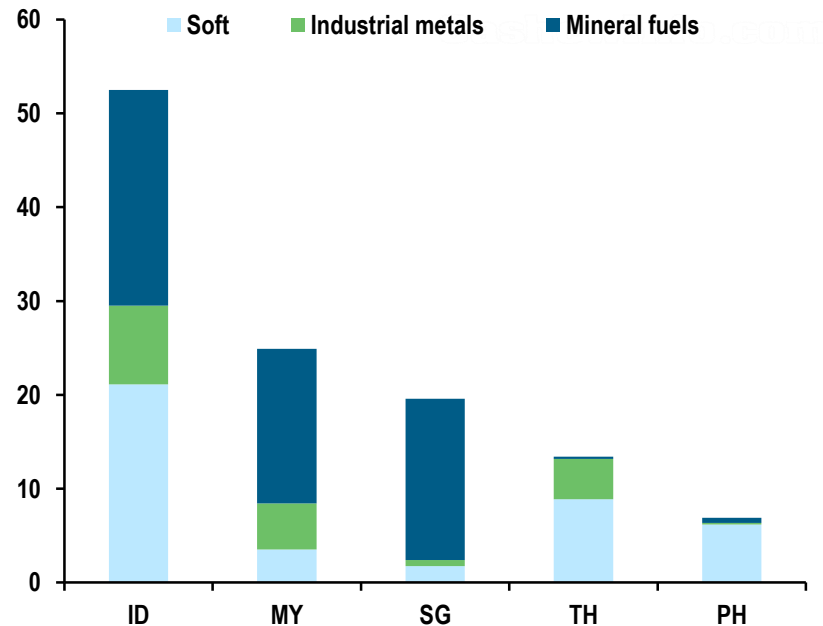
Asia – Don't get carried away

Exports picked up in early 2017, in line with our expectations (export growth, % y/y, 3mma)



Source: CEIC, Standard Chartered Research

Price recovery is supporting exports
% of total exports, 2015

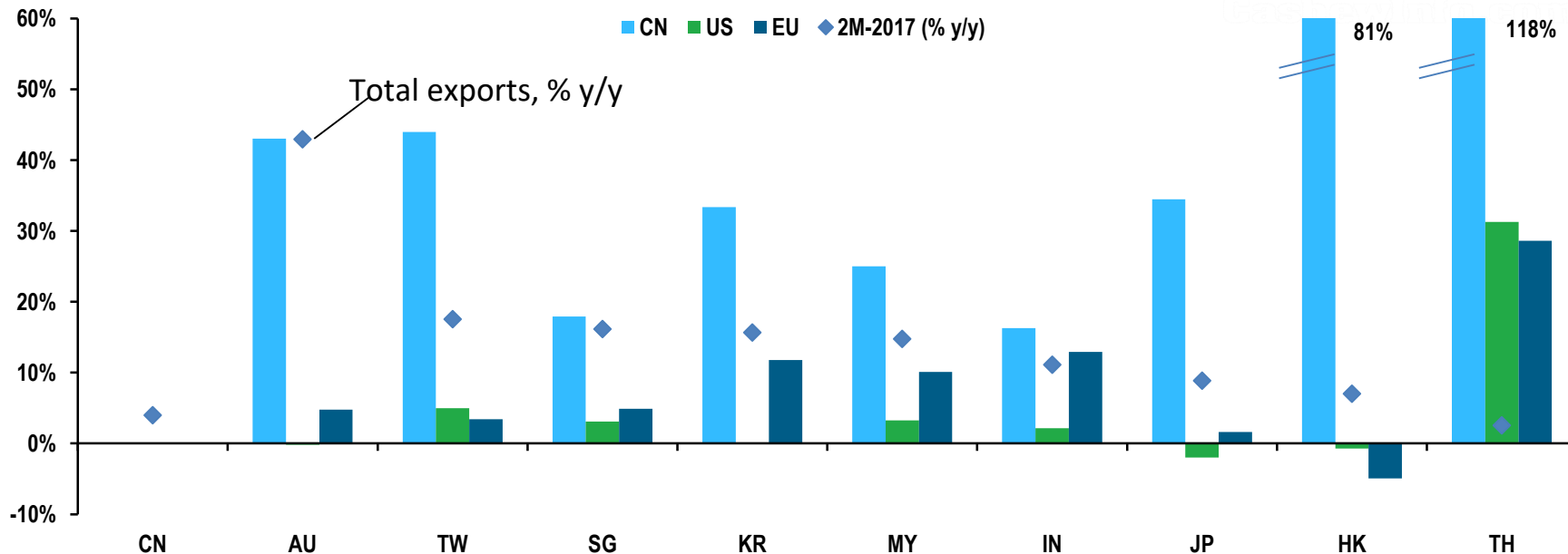


Source: WTO, Standard Chartered Research

Asia – Where are exports going?

China is providing key support

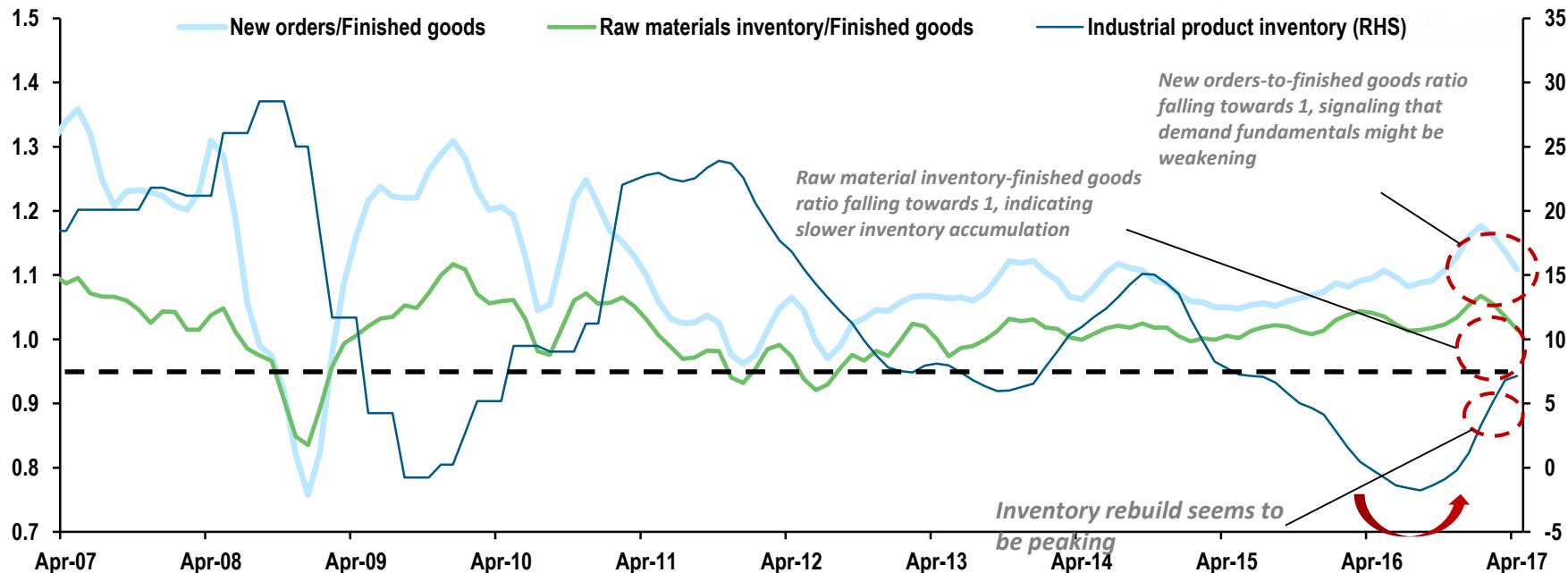
% of total export increase accounted for by exports to China



Source: CEIC, Standard Chartered Research

China's inventory rebuild may be showing signs of peaking

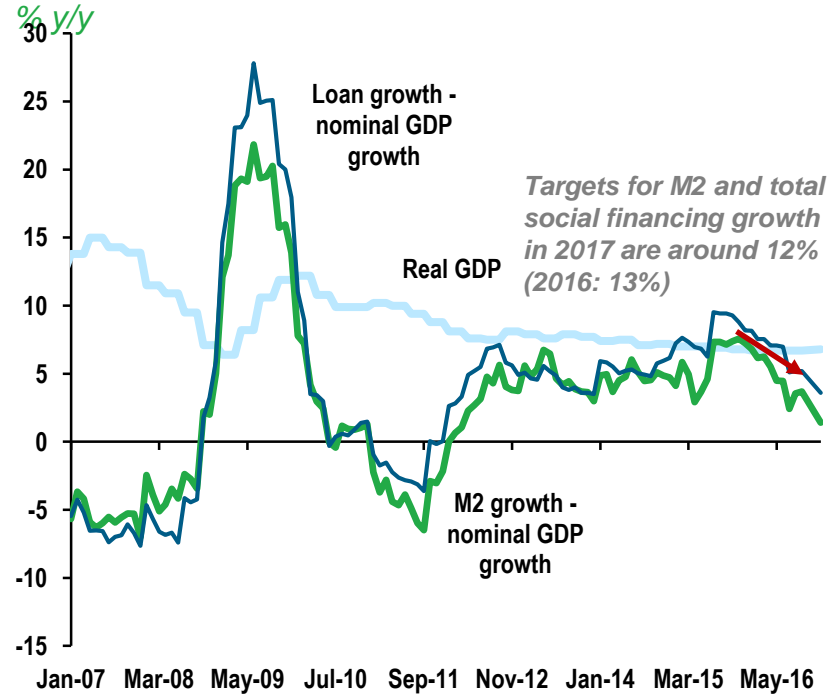
% y/y, 3mma



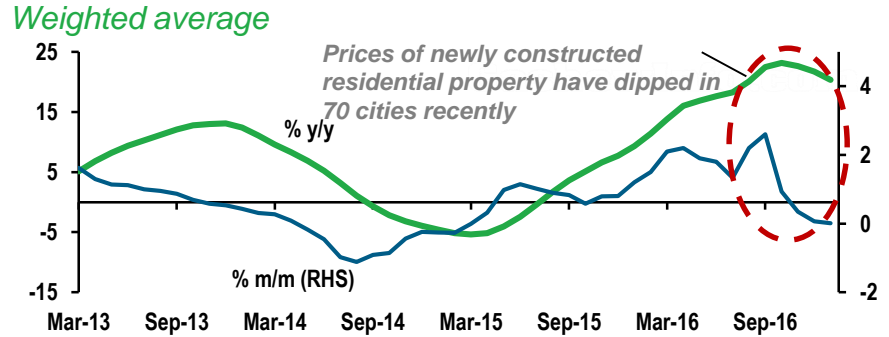
Source: CEIC, Standard Chartered Research

China growth may slow versus 2016 on tighter monetary conditions, property cooling measures and softer domestic demand

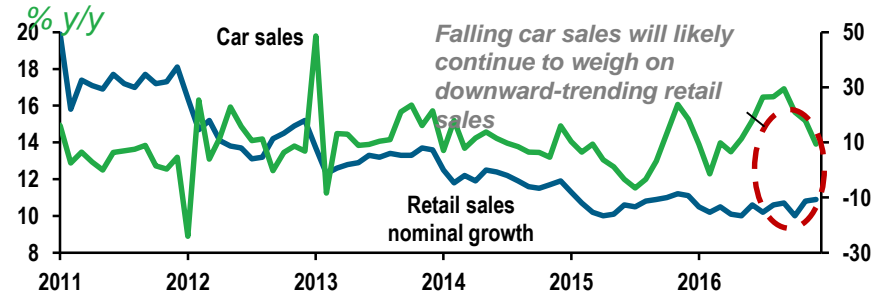
Credit conditions and GDP growth



Residential property prices



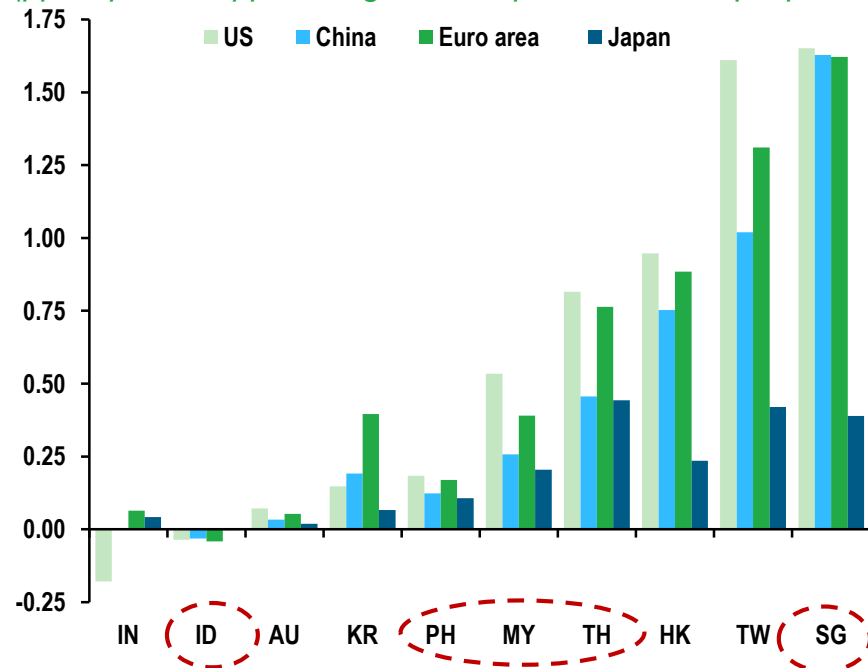
Retail sales and passenger car sales



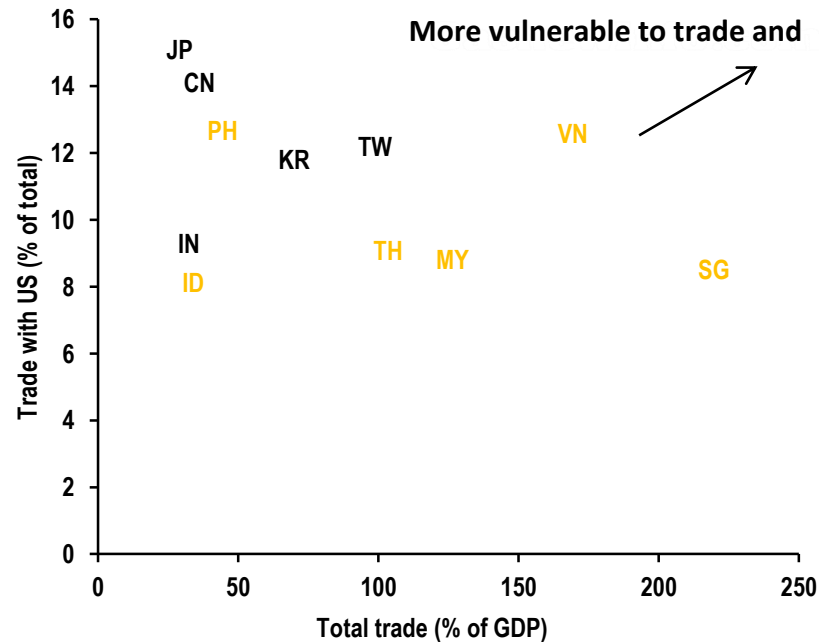
Source: CEIC, Standard Chartered Research

Asia – Small, open economies are vulnerable

Singapore, Taiwan are most vulnerable to US slowdown
(ppt impact of 1ppt GDP growth drop, 2000-15 sample period)



Large domestic market-oriented economies are more resilient in this environment (%)

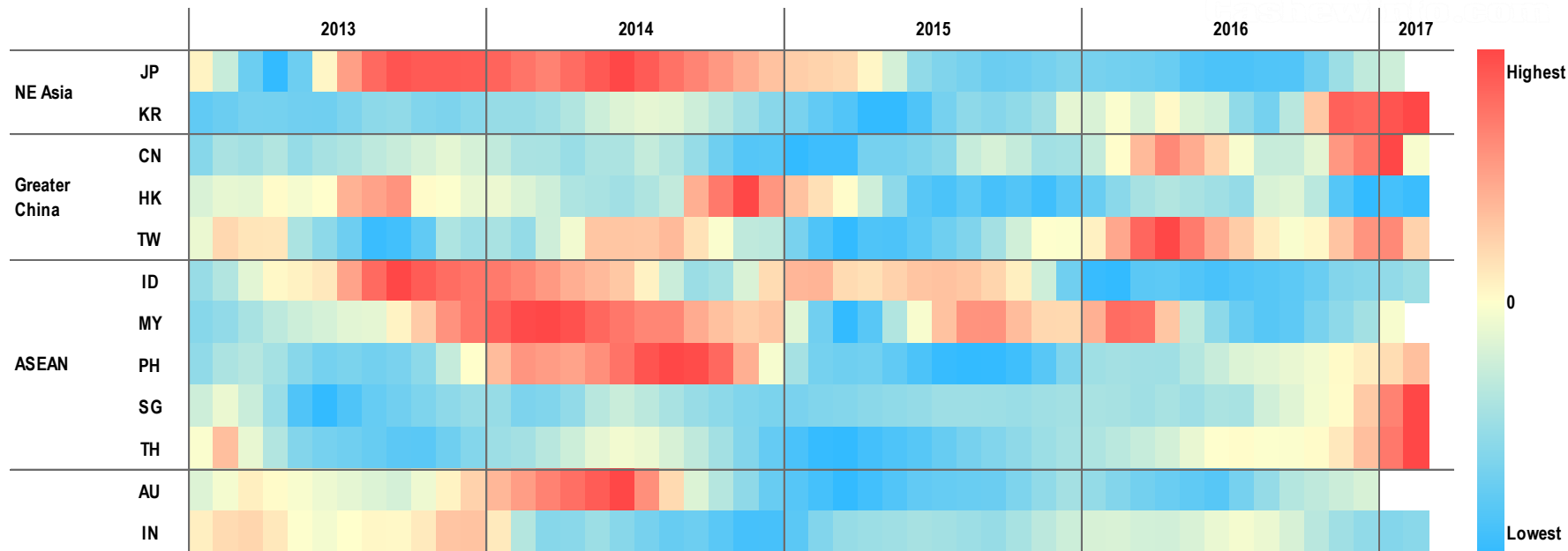


Source: CEIC, IMF, Standard Chartered Research

Asia – Rise in headline inflation

Headline inflation – Upside risks on a low base effect

Shades of red (or blue) indicate higher (lower) inflation compared to the past three years; darker shades show a stronger signal

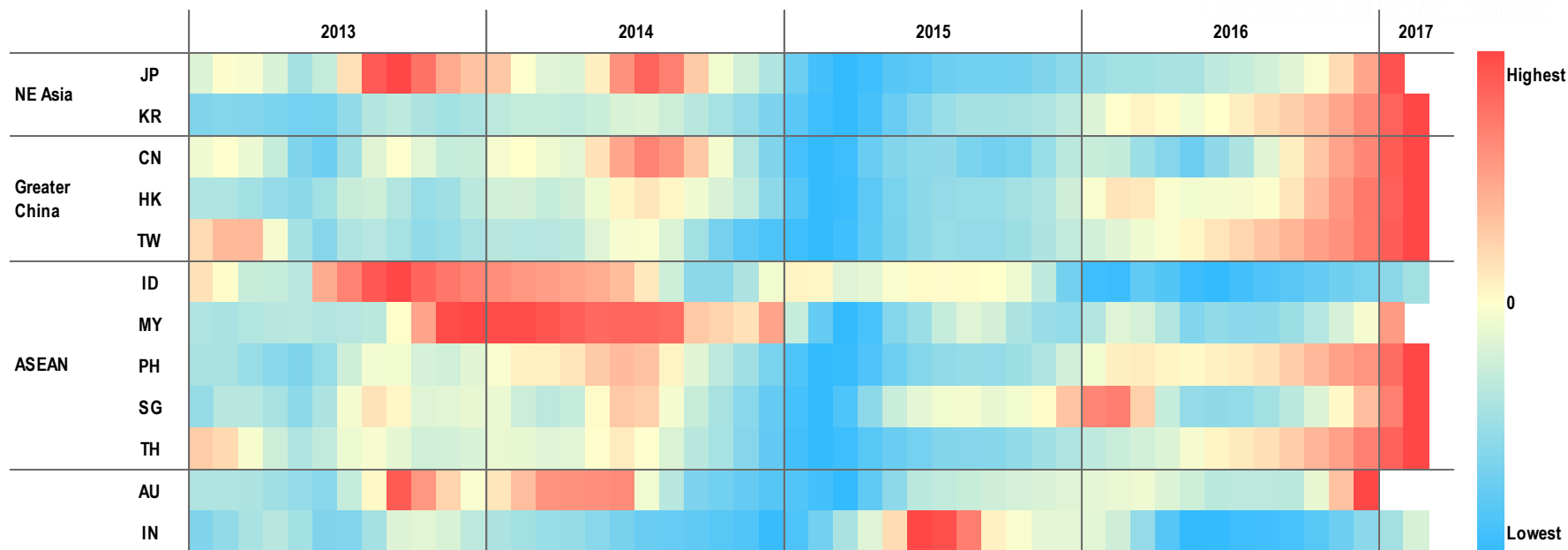


Source: CEIC, Standard Chartered Research

Asia – Oil prices provide main boost to inflation

Energy inflation – Likely to remain elevated in the near term

Shades of red (or blue) indicate higher (lower) inflation compared to the past three years; darker shades show a stronger signal

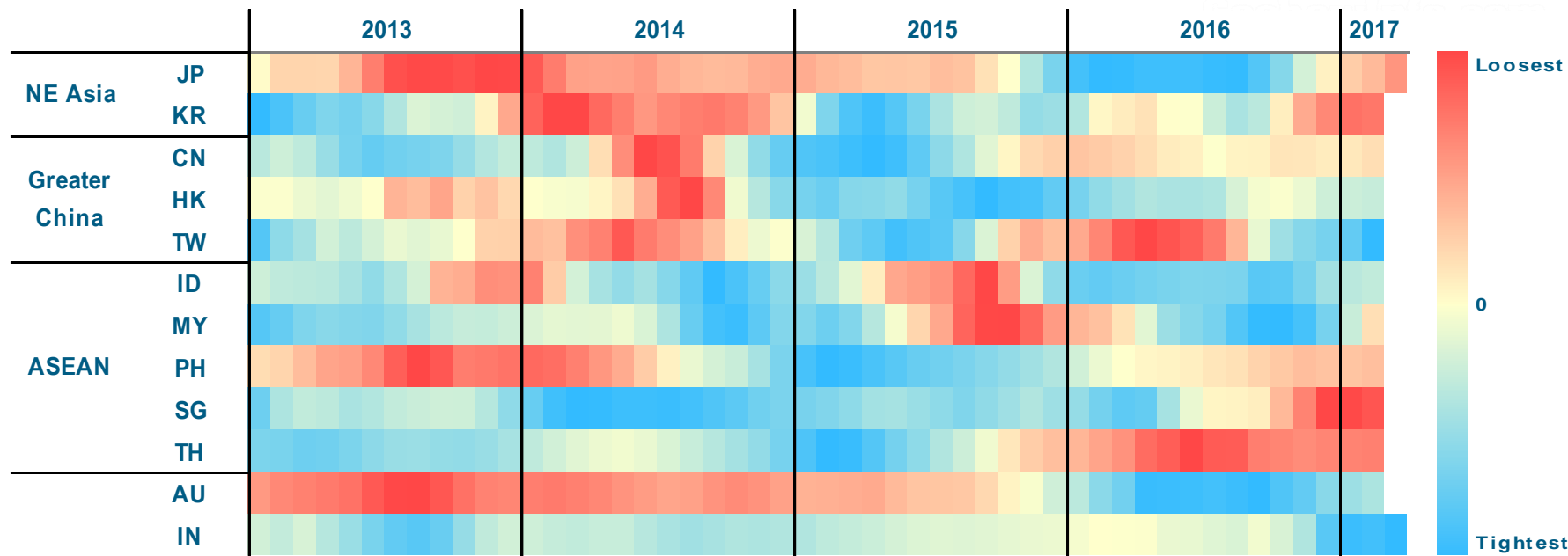


Source: CEIC, Standard Chartered Research

Monetary conditions are tight in Taiwan, India; loose in South Korea, Singapore

Monetary conditions are loose in South Korea, Singapore; tight in Taiwan, India and Australia

Shades of red (blue) indicate looser (tighter) conditions than in the past three years; darker shades show a stronger signal



Source: CEIC, Standard Chartered Research

Asia – Our leverage heatmap

China has the biggest concentration of credit risk (in the corporate sector); Malaysia's and Korea's households are also stretched

		CN#	IN#	ID	KR	MY	PH	TW	TH	HK	SG	AU	JP
Economy	Total credit/GDP	242%↑	138%↓	68%	235%	240%	92%	137%	188%	299%	261%	243%	410%
	Credit-GDP growth gap (5Y avg, bps)	734↑	103	514↑	115↑	274↓	205↑	-137↓	292↓	470↓	215↓	391↑	33↓
Private non-financial	Total borrowings/GDP	182%↑	70%↓	40%↓	196%	183%	56%	100%	162%	299%	162%	206%	164%↓
	Credit-GDP growth gap (5Y avg, bps)	708↑↑	85↑	718	75↑↑	326↑↑	669↓	-150↓	315↑↑	476↑↑	432↑↑	289↑↑	-134↓
- Corporates	DSR	17%↓	11%↓	5%↓	20%↓	14%↓			14%↓	26%↓	15%↓		
	Business borrowings/GDP	137%↑	56%↓	23%↓	106%↓	93%↓	48%	58%	81%	233%	88%	83%	98%↓
- Household	Credit growth less LT average (ppt)	6.7	6.7	9.4	-2.9	5.3			3.1	7.2	7.5		
	Household borrowing/GDP	45%	14%	17%	90%	90%	8%	42%↓	80%↓	66%↓	75%	123%	66%
- Household	Credit-HH income gap (1Y avg, ppt)	10.7↑	8.4↑↑	-0.7↓	5.7↑	-2.2↓	14.7↑	-0.8	0.3↓	4.2↓	-1.0↓	8.1↑↑	1.3
	Borrowing/household income	67%↑	26%↑	28%↑	153%↑	191%↑	19%↑	62%↑	135%↑	92%↑	147%↑	187%↑	115%↑
Government	Debt service ratio	7%	4%	5%	16%	22%↓	3%	6%	15%	8%	14%↓	20%↑↑	11%↓
	Government debt/GDP	60%↓	68%↓	28%	39%	57%	36%↓	37%	31%↓			37%	246%
External debt	Int. payments/govt revenue	2%	15%	11%	5%	14%	14%	3%	5%			4%	6%
	External debt/GDP	5%↓	16%↓	32%↓	15%↓	47%↓	19%↓	33%↓	23%↓	76%↓	79%↓	47%	44%↑
External debt	Total ext. debt (incl fin. sector)/GDP	13%↓	23%↓	36%↓	28%↓	72%↓	27%↓	34%↓	36%↓	408%↓	427%↓	117%	71%↑
	FCY share of total external debt	60%	75%	83%	71%	58%	97%		72%	93%		26%	35%
External debt	External debt/FX reserves	0.2x↑	1.0x	2.7x↑	0.6x↓	1.5x↑	0.7x↓	0.4x	0.5x	0.7x↓	1.0x	13.2x↓	1.8x↑↑
	M2/FX reserves	7.0x↑↑	5.3x	3.3x	5.5x	4.2x	2.1x	2.9x	3.0x	4.2x↓	1.6x	32.0x↑	7.6x
External debt	Short-term (<1Y) share of external debt	52%↑	24%	8%↓	16%↓	18%↓	5%	92%	31%	31%↓	68%↓	3%	68%↓
	Private-sector share of external debt	66%↑	71%↓	46%↓	54%	55%↓	41%↓	99%	72%↓	99%	100%↓	62%↓	40%↓
External debt	Moody's* External Vulnerability Indicator	18.9	74.3	56.6	45.1	119.9	30.2	39.9	45.2				

Colours indicate leverage and potential stress

Low

Moderate/sustainable

High

Arrows indicate change from June 2015:

↑ Moderate increase

↑↑ Fast increase

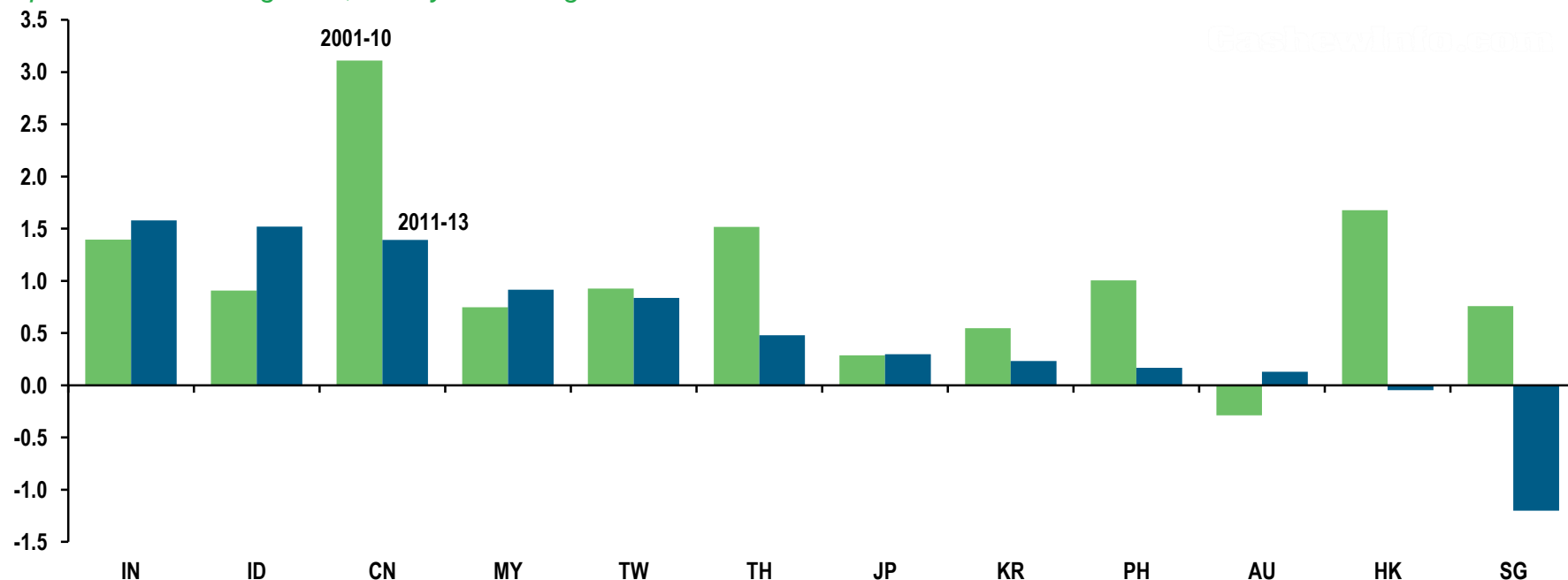
↓ Decrease

*The difference between 5Y CAGR of credit growth and 5Y CAGR of nominal GDP growth; a difference of more than 5ppt (500bps) is our threshold for a red flag; #China and India data is as of December 2016, all other numbers are as of June 2016; Source: Bloomberg, BIS, IMF, Standard Chartered Research

Lack of reforms and slow global growth may have hit productivity

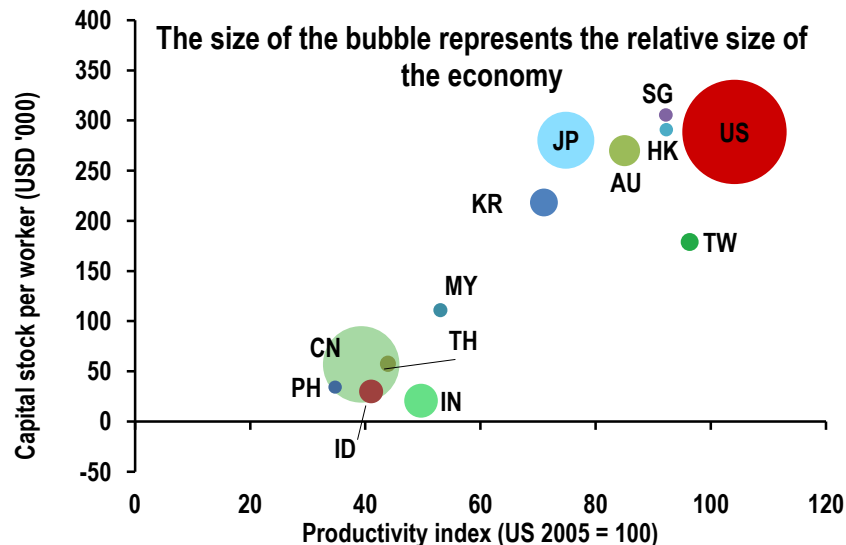
Productivity's positive momentum has faded in recent years

Ppt contributions to growth, multi-year average



Source: Penn World Tables, Standard Chartered Research

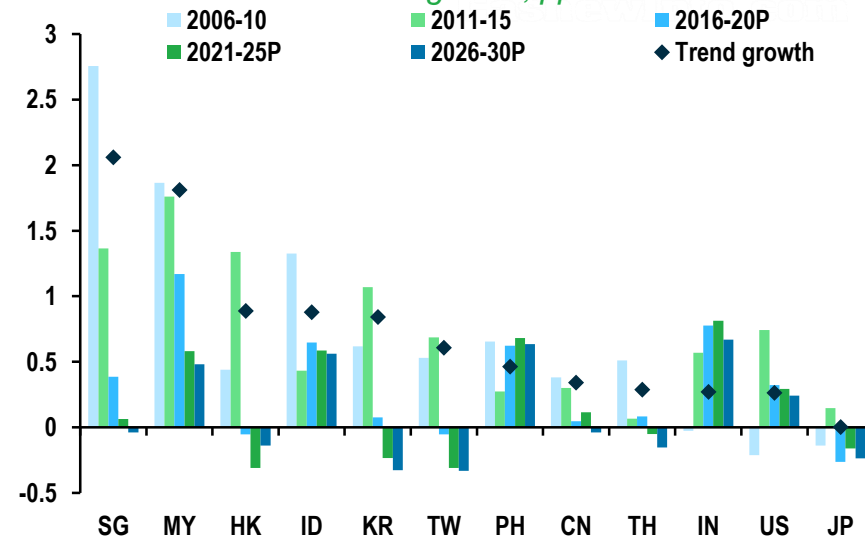
Plenty more room for investment in ASEAN and China *Economy size (bubble area)*



Source: IMF, Penn World Tables, Standard Chartered Research

ASEAN benefits from still-positive labour force contributions to growth

Labour contributions to GDP growth, ppt



Note: We use UN working-age population data for our projections for 2016-40, while actual numbers on employed personnel for 2001-15 are from Penn World Tables. The key assumption here is that labour growth is equal to working-age population growth;

Source: UN, Penn World Tables, CEIC, Standard Chartered Research

- Advanced economies: Policy divergence widens
 - US post-Trump: Envisaging tighter monetary policy (rate hikes) and looser fiscal policy
 - Europe: Extension of QE amid Brexit and major elections
 - Japan: QQE may last longer than expected as the BoJ pursues yield curve control
- China: Achieving growth of around 6.5%, but at a cost
 - Monetary policy turning tighter; fiscal policy takes the baton
 - CNY faces short-term pressure, but medium-term depreciation is not sure
 - Trade frictions with the US inevitable; trade war can be avoided
 - Structural reforms lagged in key areas, undercutting long-term growth potential
 - Race to the 19th Party Congress: Reshuffling likely to improve policy implementation
- Key risks: Trade war, rising leverage, capital outflows, housing bubble, policy missteps

Source: Standard Chartered Research

- ASEAN is a consistently fast-growing region vs other EM
 - ASEAN is the fastest-growing region in our coverage
 - But it is not insulated from slow global growth; the region will grow below trend in 2017
- Within ASEAN
 - Indonesia, the Philippines, Thailand and Vietnam are expected to perform better
 - Public investments are key, and regional governments are playing their part
 - Malaysia and Singapore may underperform
 - Vietnam remains an FDI magnet

Source: Standard Chartered Research

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