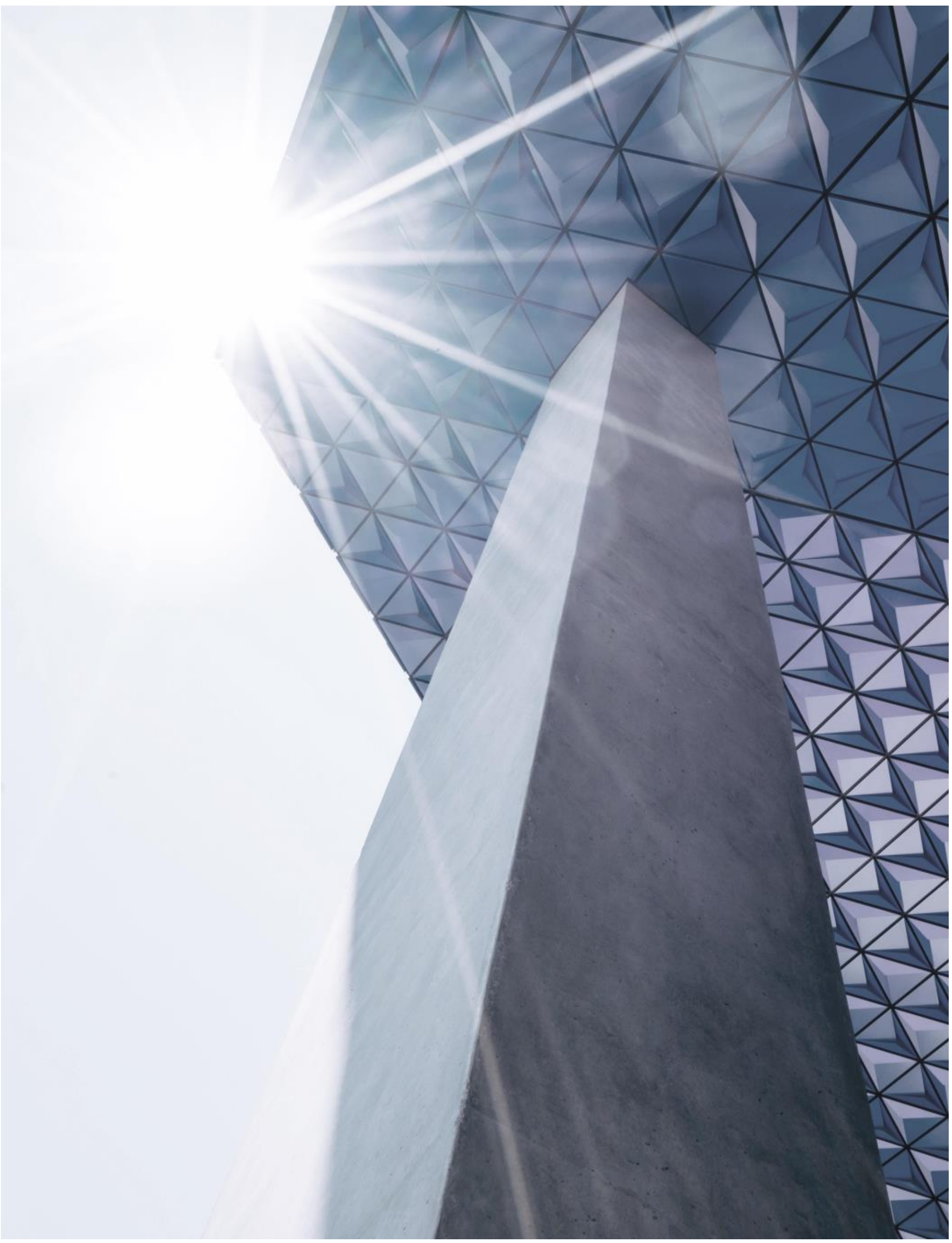
Economic Research

APAC Economic Snapshots: The Cyclical Tide is Receding

November 2018



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The Cyclical Tide Is Receding

Growth continues to ebb and flow across Asia-Pacific but the cyclical tide is receding. We have long expected growth to slow for the region and it is the pace of the slowdown that is the key uncertainty. For now the data and economic policies, which at a global level are still broadly supportive, suggest a gradual and benign slowdown. Still, some forward-looking indicators, especially confidence and export orders, do suggest a risk of a more pronounced slowdown in the months ahead.

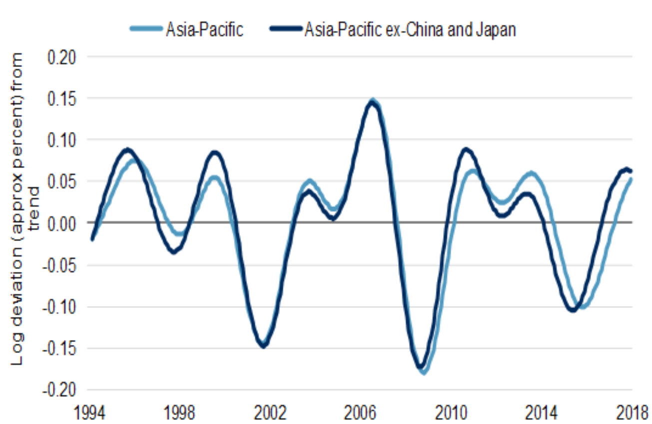
In large part, the regional slowdown reflects the influence of global factors, especially growth in China and U.S. dollar liquidity. The slowdown in China, driven by past policy tightening, is broadening out across the economy, including real estate, and starting to spill over across the region. Together with moderating external demand from other parts of the world, this is contributing to what now looks like a peak in Asia's trade cycle (see chart 1). The risk is that global trade tensions amplify what looks to be the start of a downswing in the trade cycle.

Tighter U.S. dollar liquidity cycle is also slowing growth. The effects vary across countries, as we show below, but by raising the cost of external borrowing and, in some cases, causing central banks to hike policy rates, this will tend to dampen demand. More recently, the dollar and U.S. Treasury yields have stabilized, which has eased pressures on some emerging markets in Asia. However, external financing remains much tighter now compared with the start of the year. This is underscored by two data points—the yield to maturity on non-investment-grade dollar bonds from Asian issuers has risen by over 300 basis points since the end of 2017 while issuance has more than halved.

The property cycle may be another drag on growth in some key economies. Following a prolonged expansion, macroprudential measures have been tightened to either limit financial stability risks or more directly cool what had become hot housing markets. This may now be having an effect including in Australia, China, Hong Kong, and Singapore. Weaker housing demand and falling home prices could slow residential investment growth and, through a wealth effect, dampen household consumption.

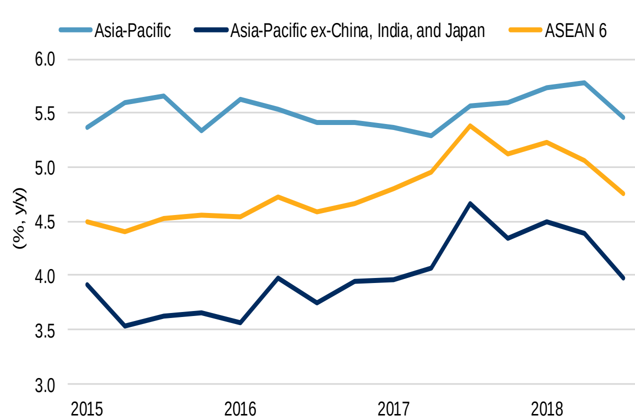
As trade, liquidity, and property cycles turn, downside risks still appear more pronounced. An escalation in global trade tension remains the largest threat to growth. While the measures announced so far, including the prospective rise in U.S. tariffs on China in January, have small direct effects, another ratcheting up of tension could further erode confidence and weaken business investment in 2019. Lack of policy traction in China and the risk of a sharper-than-expected slowdown has become more prominent over the last month. Finally, we continue to focus on the possibility of a further abrupt tightening in U.S. dollar liquidity conditions.

Chart 1: Asia-Pacific Manufacturing Trade Cycle



Sources: CEIC and S&P Global Economics. Manufacturing exports in U.S. dollar value terms. Asia-Pacific includes Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam. Cycle is extracted from an asymmetric band-pass filter with frequencies set between 3 and 12 years.

Chart 2: Asia Pacific Real GDP Growth



Sources: CEIC, IMF WEO, and S&P Global Economics. Asia-Pacific includes Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, and Vietnam. ASEAN-6 includes Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Aggregates weighted by current price PPP GDP in U.S. dollars.

In Focus: External Pressures And Domestic Policy Space

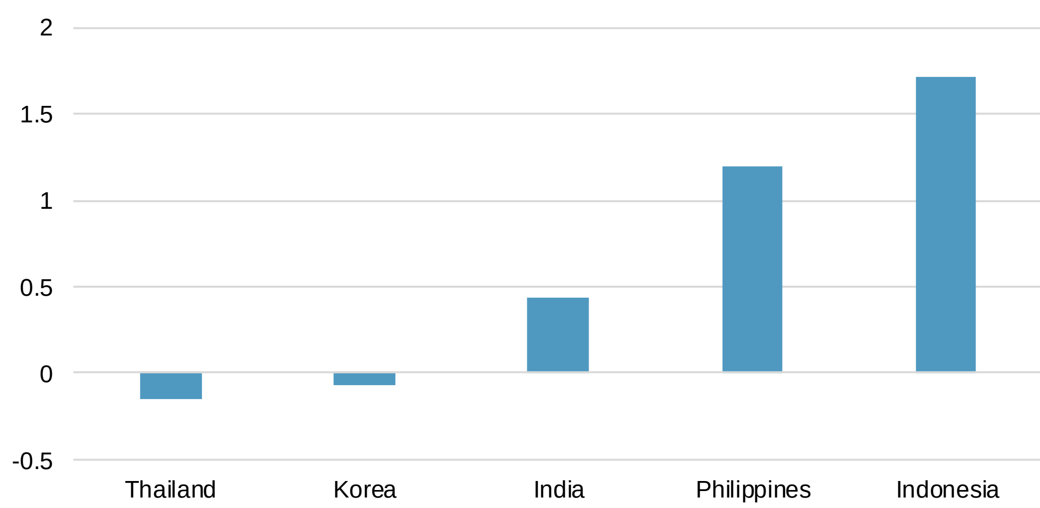
In last month's APAC Economic Snapshots, we looked at exchange market pressure indices, which showed how the intensity of capital outflows has increased markedly beginning in May this year. This month, we turn our focus to how these pressures have eaten into the policy space in some of the region's central banks and what this might mean for economic growth.

We think of monetary policy space as the ability of the central bank to set interest rates in accordance with the domestic economy's own output and inflation fundamentals, largely unhindered by external factors. Recently, this leeway was eroded in the region's net oil-importing, current account deficit economies (India, Indonesia, and the Philippines). For them, rising global oil prices together with a broadly stronger U.S. dollar, triggered a fairly rapid weakening of currencies. This combination generated higher inflation expectations and, in some cases, worsened the balance sheets of corporates with unhedged dollar debt. In turn, this compelled central banks in these economies to not only intervene in FX markets but also tighten monetary policy[1]. Indeed, real policy rates (netting out inflation expectations) have risen between 40-140 bps since the end of April this year.

Policy tightening came at a time when, just before the EM selloff, these economies had been experiencing largely steady growth and inflation at or around the central bank's target. That suggested monetary policy was about where it needed to be, given domestic fundamentals. In contrast, economies with current account surpluses and, in some cases, more firmly anchored inflation expectations (e.g., Korea and Thailand) saw less pressure on their currencies, and were better able to absorb the oil price shock, allowing central banks to keep real policy rates largely stable.

As we noted last month, recent regional currency stability notwithstanding, we continue to see the risk of further capital outflow and depreciation pressures for current account deficit economies in the year ahead given how markets continue to price in a lower Fed rate trajectory than our U.S. team's forecast. As such, we will also be watching the potential for policy space in India, Indonesia, and the Philippines to deteriorate further, especially if this coincides with more oil price increases.

Chart 3: Change In Real Policy Rate (end April to end Oct 2018)



Note: Policy rates deflated by 1-year-ahead inflation expectations, calculated using a weighted average of 2018 and 2019 consensus forecasts.

[1] In the Philippines, the pass-through to inflation from oil prices and FX depreciation was immediate. Indonesia held key prices down administratively, but will likely need to raise prices after elections next year. India's fuel as well as core inflation have been rising, but it has had the fortune of a better-than-expected food supply to hold headline inflation down. Nonetheless, inflation expectations in the latter two seem to be rising, justifying a tightening bias from the central banks.

Australia

State Of Play

Growth appears to have peaked in part due to softer consumption. While employment growth remains resilient and labor markets continue to tighten, real wage growth remains anemic and falling house prices may be exerting a negative wealth effect. For now, softer consumption is being partially offset by investment and exports. Inflation remains steady at the low end of the target range and the Reserve Bank of Australia (RBA) kept policy on hold in November.

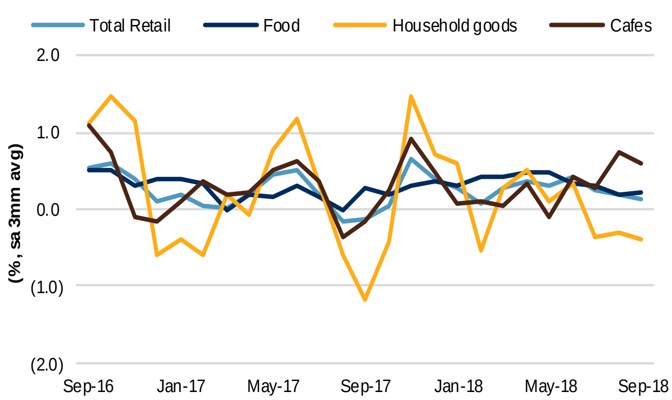
Outlook

Growth should continue to edge lower toward trend but at a gentle pace, helped by still-supportive monetary policy. The emerging weakness in the housing market, stubbornly low wage growth, and rising external uncertainty should keep the RBA on hold for now.

Risks

Downside risks to growth have risen over recent months. The slowdown in China, especially if it spreads to the housing market, could hit export volumes, the terms of trade, and weaken business confidence. The downturn in the domestic house price cycle is gradual for now but it may start to have a larger impact on both residential investment and household consumption.

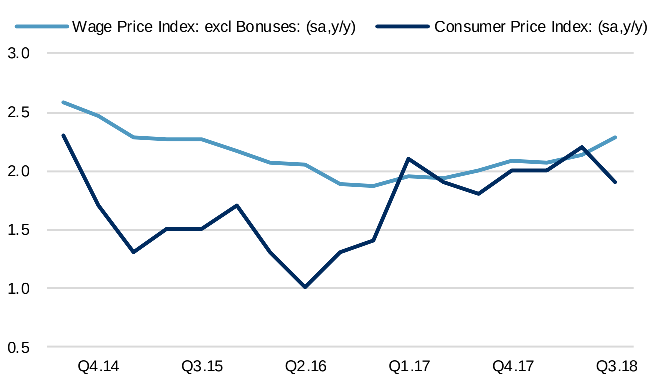
Retail Sales Growth Eased In September



Source: CEIC.

- Seasonally adjusted retail sales growth slowed down in September due to decline in household goods sales.
- Falling house prices and weak wage growth may be offsetting effects of strong labor market.

Real Wage Growth Edges Slightly Higher In Q3



Source: CEIC.

- Growth in nominal wages edged up in Q3, led by mining sector wages.
- Inflation inched down in Q3, spurred by easing property prices.
- Real wage growth inched up to 0.4% y/y in Q3, led by increase in minimum wage rate.

Australia Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Exports: SITC (y/y- US$)	12.6	13.5	16.0	9.4	15.3	10.7	9.9	4.4	
Exports: SITC, Crude Materials, Inedible, Except Fuels(y/y- US$)	13.3	(0.6)	1.1	16.7	24.5	6.5	(4.9)	(4.4)	
Imports: SITC (y/y- US$)	12.6	20.7	18.0	0.7	9.4	(20.8)	(5.7)	(12.8)	
Trade Balance: SITC (US$mn)	481.3	696.9	2,082	1,579	3,170	3,088	2,294	3,014	
Bank Lending (y/y)	5.7	5.0	5.2	4.9	4.6	4.6	4.7	4.9	
Retail Sales (y/y)	1.6	2.3	1.2	3.3	2.6	2.6	4.2	2.8	
Unemployment Rate (sa)	5.4	5.5	5.6	5.4	5.3	5.3	5.3	5.0	5.0

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	1.8	2.5	1.8	2.0	2.8	2.3	3.2	3.4	
Real Private Consumption (y/y)	2.6	2.9	2.4	2.5	2.7	3.1	3.1	3.0	
GFCF (y/y)	(3.5)	0.6	1.5	2.5	6.4	3.3	3.8	3.5	
Current Account Balance (US$bn)	(13.2)	(4.6)	(4.3)	(7.3)	(11.9)	(12.9)	(8.2)	(9.0)	
CPI (y/y)	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.1	1.9
IP: Mining excl. services to Mining (y/y)	3.0	5.6	3.0	6.0	2.1	0.8	4.7	4.5	

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.2	2.6	2.5	2.6	2.2	3.1	3.0	2.9	2.8
CPI Inflation %	2.4	2.5	1.5	1.3	1.9	2.1	2.2	2.3	2.4
Unemployment Rate %	5.7	6.1	6.0	5.7	5.6	5.4	5.3	5.2	5.2
Policy Rate %	2.74	2.50	2.11	1.73	1.50	1.50	1.66	1.97	2.22
Policy Rate % (EOP)	2.50	2.50	2.00	1.50	1.50	1.50	1.75	2.00	2.25
Exchange Rate (A$ per US$)	0.97	0.90	0.75	0.74	0.77	0.75	0.74	0.75	
Exchange Rate (A$ per US$) EOP	0.93	0.85	0.72	0.75	0.77	0.73	0.74	0.75	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

China

State Of Play

Growth continues to slow as policy easing gains little traction. The ripple effect of past policy tightening and eroding domestic confidence is now evident across the economy. The property market cycle appears to have peaked and consumption growth is slowing. Financial conditions have eased but the transmission to the real economy, evident in flagging credit, may be weaker and delayed in this cycle.

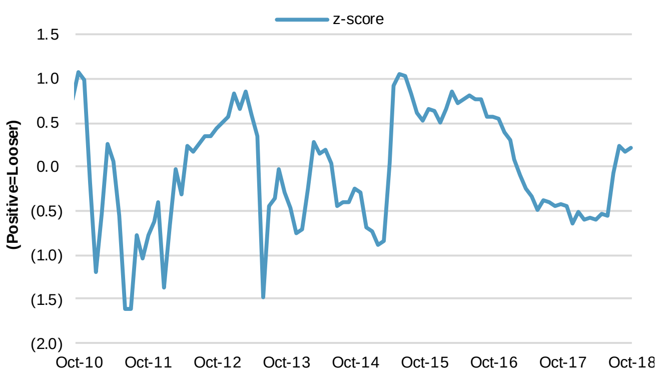
Outlook

We expect growth to continue slowing, which is consistent with deleveraging. There are clear, but not large, downside risks to our 6.3% official growth forecast. The authorities still have policy space and we expect them to use it should growth slow dramatically. At the same time, we do expect a greater tolerance for slower growth as this is a necessary side effect of preventing a further run-up in debt-related vulnerabilities.

Risks

Risks remain tilted toward the downside. Aside from a lack of policy traction, an escalation of U.S.-China economic friction remains a threat, less directly in terms of net exports, but more in terms of the potential impact on investment and employment, especially in manufacturing.

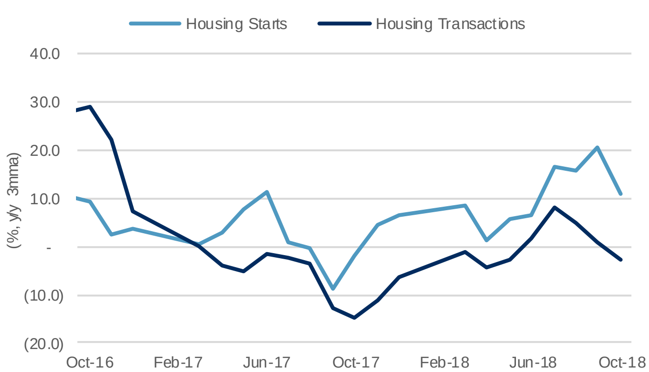
Financial Conditions Remained Neutral In October



Sources: CEIC; S&P Global Economics.

- Financial conditions remained broadly neutral in October following the Q3 easing.
- Real market interest rates are low but credit quantities remain somewhat weak.
- The credit channel of monetary policy has been affected by recent deleveraging policies.

Real Estate Is Showing Signs of Cooling



Source: CEIC.

- Housing starts momentum eased in October after picking up in the last three months.
- Housing transactions momentum declined with drop in transaction volumes in major cities.
- Housing policies have remained fairly tight despite the easing in other policies.

China Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	1.9	1.5	1.8	1.8	1.9	2.1	2.3	2.5	2.5
Core CPI (y/y)	2.3	1.9	2.0	1.9	1.9	1.9	2.0	1.7	1.8
Exports (y/y- US$)	6.2	9.7	11.1	11.4	10.2	11.3	9.0	14.4	15.0
Imports (y/y- US$)	16.8	37.1	20.9	25.1	13.8	27.7	20.4	14.9	21.5
Trade Balance (US$bn)	38.2	20.3	28.4	24.9	41.5	28.0	27.9	31.7	34.0
Industrial Production (y/y)	6.2		7.0	6.8	6.0	6.0	6.1	5.8	5.9
Retail Sales (y/y)	10.0		9.4	8.5	9.0	8.8	9.0	9.2	8.6

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	6.7	6.8	6.9	6.9	6.8	6.8	6.8	6.7	6.5
Primary Industry (y/y)	3.5	3.3	3.0	3.5	3.7	3.9	3.2	3.2	3.4
Secondary Industry (y/y)	6.3	6.3	6.4	6.4	6.3	6.1	6.3	6.1	5.8
Tertiary Industry (y/y)	7.5	7.7	7.7	7.7	7.8	8.0	7.5	7.6	7.7
Current Account Balance (US$bn)	75.4	14.7	15.7	52.6	34.3	62.3	(34.1)	5.3	16.0

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	7.8	7.3	6.9	6.7	6.9	6.5	6.3	6.1	6.0
CPI Inflation %	2.6	2.0	1.4	2.0	1.5	2.2	2.2	2.3	2.5
Unemployment Rate %	4.1	4.1	4.0	4.0	3.9	3.9	3.9	3.9	4.0
Policy Rate %	6.00	5.96	4.97	4.35	4.35	4.35	4.35	4.35	4.35
Policy Rate % (EOP)	6.00	5.96	4.97	4.35	4.35	4.35	4.35	4.35	4.35
Exchange Rate (Per US$)	6.1	6.2	6.3	6.6	6.8	6.6	6.7	6.6	
Exchange Rate (Per US$) EOP	6.1	6.1	6.4	6.8	6.6	6.8	6.7	6.6	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Hong Kong

State Of Play

Q3 growth missed market expectations as private consumption growth slowed. Retail sales activity has weakened amid lower consumer confidence and slower visitor arrivals. Domestic interest rates are rising on tighter U.S. monetary policy. The residential property market looks to have peaked and is now in a downturn, with prices falling in month-on-month terms. Hong Kong's property market has significantly elevated valuations despite stringent price-cooling measures in place.

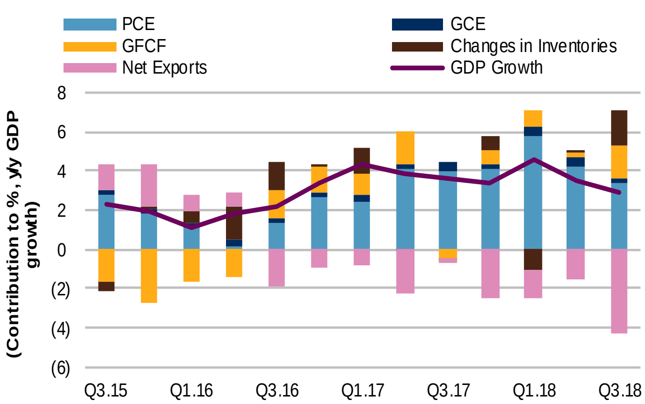
Outlook

The ongoing moderation in growth in China will dampen economic activity in Hong Kong, which has tight trade, financial, and service activity links to the mainland. Property prices look set to fall further given the elevated valuations and tighter financing conditions, which will weigh on consumer confidence and private sector demand. Trade activity should continue to moderate as well given the regional trade slowdown and global trade disruptions.

Risks

A sharp property market downturn presents a risk to the economy as households could feel forced to save to compensate for their wealth reduction. The financial sector should be able to weather the property market downturn given the tight macroprudential measures in place. In addition, greater-than-expected weakness in trade and a further slowdown in China present additional risks for the economy.

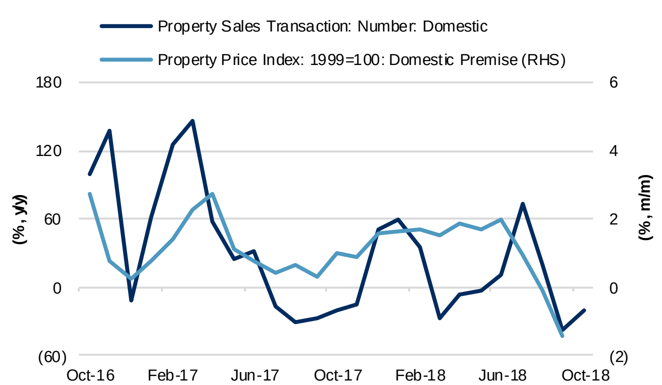
GDP Growth Moderated In Q3, Lowest In Two Years



Source: CEIC.

- Real GDP growth receded to 2.9% y/y in Q3, led by slower household spending and a decline in net exports.
- Private consumption growth slowed to 5.2% y/y from 6.0% y/y in Q2.
- Higher interest rates and weaker exports were relevant growth headwinds in Q3.

Property Prices Declined For First Time In 29 Months



Source: CEIC.

- Prices fell and transactions slowed in September as residential property markets turned.
- Tighter credit conditions driven by higher domestic market interest rates were partly responsible.
- Tighter U.S. monetary policy has been driving up market interest rates in Hong Kong.

Hong Kong Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	1.5	1.6	1.9	2.1	2.4	2.4	2.3	2.7	2.7
CPI excluding Govt.'s one-off relief measure(y/y)	1.5	1.7	2.2	2.4	2.7	2.7	2.6	3.1	3.0
Exports (y/y- US$)	6.0	17.2	7.1	15.0	2.7	9.4	12.7	4.2	
Imports (y/y- US$)	7.2	22.8	10.0	15.6	3.8	13.5	16.0	4.5	
Trade Balance (US$bn)	(5.6)	(4.1)	(6.0)	(5.5)	(6.9)	(6.0)	(6.6)	(6.1)	
Tourist Arrivals (Numbers in million)	5.3	5.3	5.3	5.0	4.7	5.5	5.9	4.7	
Retail Sales (y/y)	3.9	4.2	12.2	12.8	11.9	7.8	9.4	2.4	

Source: CEIC.

Real GDP components, fiscal position, and balance of payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	2.2	3.4	4.4	3.9	3.6	3.4	4.6	3.5	2.9
Real Private Consumption (y/y)	2.0	4.1	3.7	5.8	6.3	6.3	8.8	6.0	5.2
GFCF (y/y)	7.2	6.0	5.7	7.6	(2.1)	3.1	4.2	1.1	8.2
Current Account Balance (US$mn)	4.9	3.0	2.6	2.4	7.6	2.0	2.1	2.0	
Trade Balance (US$bn)	(13.6)	(15.1)	(14.3)	(15.2)	(14.1)	(18.4)	(16.6)	(18.4)	(18.7)

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	3.1	2.8	2.4	2.2	3.8	3.6	3.0	2.9	2.8
CPI Inflation %	4.3	4.5	3.0	2.4	1.5	2.3	2.3	2.3	2.4
Unemployment Rate %	3.4	3.3	3.3	3.4	3.1	2.8	2.9	3.0	3.1
Exchange Rate (Per US$)	7.76	7.75	7.75	7.76	7.79	7.84	7.82	7.78	
Exchange Rate (Per US$) EOP	7.75	7.76	7.75	7.76	7.81	7.85	7.81	7.76	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

India

State Of Play

Activity remains steady if not spectacular and external pressures have eased for now. Industrial production growth is moderating from the recovery peak in early 2018 but manufacturing PMI surveys suggest some stabilization. Inflation continues to ease, helped by a normal monsoon and food prices. External pressures have receded with a weaker U.S. dollar and falling oil prices triggering some appreciation in the rupee. Policy uncertainty has risen somewhat as the government questions some aspects of Reserve Bank of India (RBI) policy.

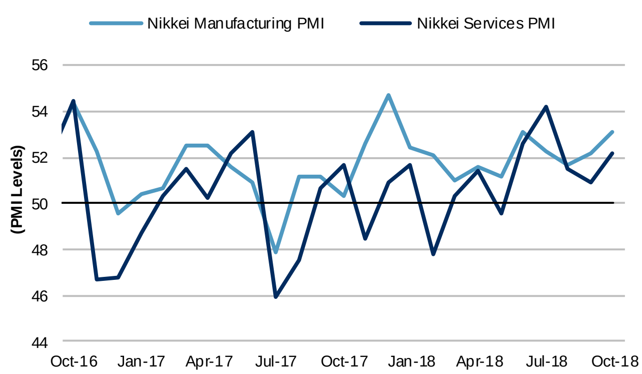
Outlook

We expect growth to remain steady over the coming quarters. The external backdrop may become less supportive in the coming quarters, especially if regional trade slows further and as global financial conditions tighten further. However, the normal monsoon will support rural incomes and government policies may boost demand heading into an election year. We maintain our view that the RBI is likely to shift to a shallow hiking cycle in the coming quarters.

Risks

Temporary relief has been provided by stability in the U.S. dollar and falling oil prices but external risks remain prominent. Should markets re-focus on the prospects for U.S. policy rate hikes, renewed rupee depreciation could lift inflation and raise the prospect of accelerated RBI tightening. A key domestic risk remains a potential tightening in broader financial conditions due to stress in the non-bank financial sector.

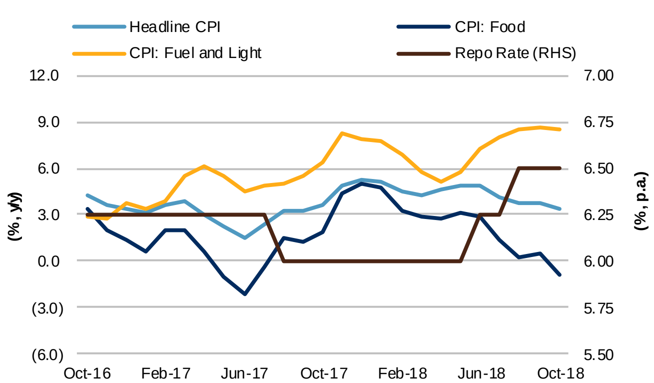
New Orders Boost Business Sentiment In October



Source: Bloomberg.

- Overall business conditions continued to improve in October with sharpest rise in domestic new orders.
- Upbeat manufacturing sentiment was accompanied by a rise in output and employment.
- Services sentiment complemented manufacturing with strongest expansion in private sector activity.

Headline Inflation Eased Further In October



Source: CEIC.

- Headline inflation edged lower for the fifth-straight month to a one-year low in October.
- Food prices fell for the first time since 2017 due to decline in prices for vegetables, pulses, sugar etc.
- Inflation remained below target for a third month ahead of the central bank's policy meeting next month.

India Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	3.6	5.1	4.6	4.9	4.9	4.2	3.7	3.7	3.3
WPI (y/y)	3.7	3.0	3.6	4.8	5.7	5.3	4.6	5.1	5.3
Exports (y/y- US$)	(2.0)	13.6	4.3	20.9	18.7	16.4	19.5	(2.3)	17.9
Imports (y/y- US$)	8.7	26.2	2.0	14.6	20.9	28.0	25.6	10.5	17.6
Trade Balance (US$bn)	(14.6)	(15.3)	(14.0)	(14.9)	(17.5)	(17.9)	(17.4)	(14.0)	(17.1)
Industrial Production (y/y)	1.8	7.5	4.5	3.8	7.0	6.5	4.7	4.5	
Manufacturing Production (y/y)	2.0	8.7	4.9	3.6	6.9	7.0	5.1	4.6	

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Real GDP (y/y)	8.1	7.6	6.8	6.1	5.6	6.3	7.0	7.7	8.2
Private Consumption Expenditure (y/y)	8.3	7.5	9.3	4.2	6.9	6.8	5.9	6.7	8.6
Government Consumption Expenditure(y/y)	8.3	8.2	12.3	22.5	17.6	3.8	6.8	16.9	7.6
GFCF (y/y)	15.9	10.5	8.7	6.0	0.8	6.1	9.1	14.4	10.0
Current Account Balance (US$mn)	(382.5)	(3,450)	(7,964)	(2,554)	(14,966)	(6,944)	(13,704)	(13,047)	(15,807)

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	6.4	7.5	8.1	7.1	6.7	7.5	7.8	7.8	8.0
CPI Inflation %	9.4	5.9	4.9	4.5	3.6	4.8	4.5	4.5	4.5
Policy Rate %	7.55	7.93	7.04	6.38	6.08	6.45	6.63	6.50	6.50
Exchange Rate (Per US$)	60.47	61.15	65.46	67.09	64.45	68.39	69.58	70.70	
Exchange Rate (Per US$) EOP	60.10	62.59	66.33	64.84	65.04	68.50	69.90	71.30	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values. Data for all years is for fiscal years. For instance, 2016 means April 2016-March 2017.

Indonesia

State Of Play

Pressure on the currency remained relatively lighter in recent weeks, but Bank Indonesia continued pre-emptively raising the policy rate, with another 25bp hike in mid-November. Nonetheless, other parts of the policy apparatus are beginning to exert themselves more in the effort to prevent a further deterioration in external financing difficulties. The government is looking at attracting more stable external financing (FDI) by reducing the negative list for foreign investment sectors, extending tax holidays, and cutting some sectoral corporate taxes.

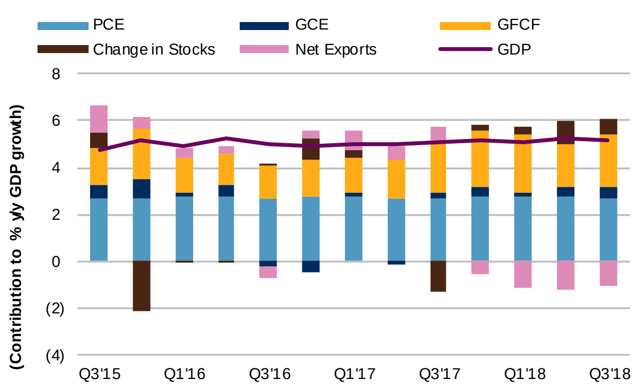
Outlook

We expect GDP growth of slightly above 5% in 2018 and 2019, but the much-awaited grind upward to about 5.5% will remain challenging. On top of the lagged effects of this year's rate hikes on domestic demand, tariffs and the (likely) post-election rise in key administered prices would provide headwinds for consumption, while infrastructure investment is moderating.

Risks

The key risk is still the potential resumption of emerging market currency pressures, given the existing difference in the market pricing for the Fed funds rate path and the Fed's own median forecasts. Besides balance sheet effects for externally indebted firms, EM selloffs also eat into BI's policy space, forcing tighter monetary conditions for the domestic economy (see feature note on page 3).

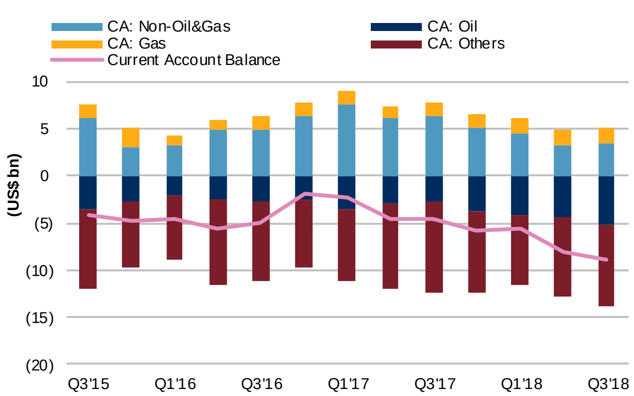
GDP Growth Edged Lower In Q3



Source: CEIC.

- Real GDP growth was marginally lower in Q3 at 5.2%, from 5.3% in Q2.
- Net exports detracted from growth; private consumption contributed less than in Q2.
- On the production side, wholesale and retail trade led growth amid slowdown in manufacturing and construction.

Current Account Deficit Broadened In Q3



Source: CEIC.

- Current account deficit widened to a four-year high in Q3 in line with robust domestic demand.
- Oil and gas trade deficit increased due to weak trade performance; services account deficit also widened.
- Cumulatively, the current account deficit was still within a safe threshold at 2.86% of GDP set by Bank Indonesia.

Indonesia Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	3.6	3.3	3.4	3.2	3.1	3.2	3.2	2.9	3.2
Core CPI (y/y)	3.1	2.7	2.7	2.7	2.7	2.9	2.9	2.8	2.9
Exports (y/y- US$)	19.6	8.6	9.6	13.1	11.3	19.7	4.5	2.4	3.7
Oil and Gas Exports (y/y- US$)	40.2	4.1	17.8	27.0	31.7	22.9	16.3	(11.6)	0.1
Imports (y/y US$)	23.8	27.9	35.2	28.2	12.8	31.7	24.5	14.2	23.7
Trade Balance (US$mn)	1,001	(756.0)	(1,625)	(1,454)	1,707	(2,007)	(944.2)	314.0	(1,820)
Industrial Production (y/y)	6.4	8.5	6.5	1.9	(9.8)	1.3	1.4	1.5	
Retail Sales (y/y)	2.2	(1.8)	4.1	8.3	2.3	2.9	6.1	4.8	3.9

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.3	5.2
Real Private Consumption (y/y)	5.0	5.0	4.9	4.9	4.9	5.0	4.9	5.1	5.0
GFCF (y/y)	4.2	4.8	4.8	5.3	7.1	7.3	7.9	5.9	7.0
Current Account Balance (US$bn)	(5.0)	(1.8)	(2.2)	(4.6)	(4.6)	(5.9)	(5.6)	(8.0)	(8.8)
Trade Balance (US$mn)	2,283	3,120	4,088	3,550	3,192	996.5	314.4	(1,372)	(2,637)

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	5.6	5.0	4.9	5.0	5.1	5.2	5.3	5.5	5.6
CPI Inflation %	6.4	6.4	6.4	3.5	3.8	3.3	3.7	3.5	3.5
Unemployment Rate %	5.9	5.8	6.0	5.5	5.4	5.0	5.0	5.1	4.8
Policy Rate %	5.2	6.3	6.3	5.3	4.6	5.0	5.8	4.9	4.5
Policy Rate % (EOP)	6.1	6.4	6.3	4.8	4.3	5.8	5.8	4.5	4.5
Exchange Rate (Per US$)	10,420	11,850	13,394	13,304	13,379	13,793	13,693	13,536	
Exchange Rate (Per US$) EOP	11,552	12,252	13,769	13,259	13,534	13,786	13,649	13,445	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Japan

State Of Play

Natural disasters hit growth in Q3, leading to a 0.3% sequential contraction, but underlying conditions remain buoyant for now. In particular, employment growth is robust—albeit driven mainly by new lower-paid, part-time positions—and this should support consumption. Export growth is softening and there are clear signs emerging that Japan's trade cycle has peaked.

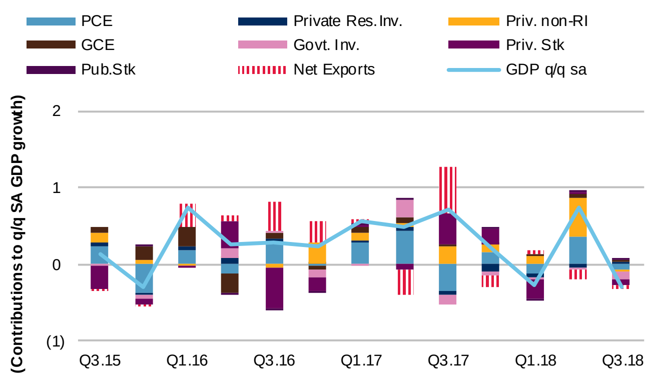
Outlook

The runway for above-trend growth is shortening. We expect the consumption tax hike planned for late 2019 to bring forward some purchases but then depress household demand going into 2020. Export growth may also continue to soften as major trading partner demand slows. In turn, moderating demand is likely to weigh on investment. In this more uncertain environment, we see the Bank of Japan keeping monetary policy broadly steady through 2019.

Risks

External risks dominate for the next two to three quarters, especially escalating global trade friction and the ongoing slowdown in China. These risks could amplify what already appears to be a peak in the trade cycle. The main domestic risk remains the consumption tax hike with the impact on consumption still highly uncertain.

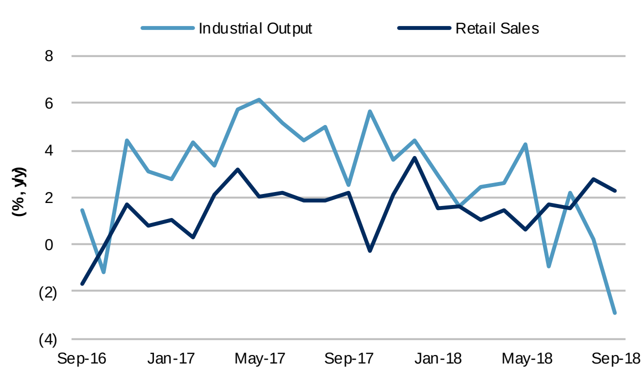
GDP Growth Fell In Q3 Due To Disruptions



Source: CEIC.

- Real GDP growth fell at an annualized rate in Q3 due to a decline in private consumption.
- The contraction was due to temporary supply and demand disruptions from natural disasters.
- Private consumption, exports, and inventories deducted significant percentage points from growth.

Natural Disasters Also Affected Other Indicators



Source: CEIC.

- Natural disaster are making it hard to interpret higher-frequency indicators.
- Both retail sales and industrial production were likely affected.

Japan Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	0.2	1.3	0.6	0.6	0.7	0.9	1.3	1.2	
Core CPI (y/y)	0.8	0.8	0.8	0.7	0.8	0.8	0.9	1.0	
Exports (y/y- US$)	4.9	16.3	10.2	10.6	7.6	4.7	5.5	(2.5)	8.4
Exports to China (y/y- US$)	15.9	35.5	13.4	16.6	11.9	12.8	10.9	(2.8)	9.2
Imports (y/y- US$)	9.5	11.7	8.4	16.7	3.4	15.6	14.3	5.7	20.1
Trade Balance (US$mn)	5.9	3.2	7.5	5.8	(5.3)	6.5	(2.1)	(4.0)	1.2
Industrial Production (y/y)	5.7	2.9	2.6	4.2	(0.9)	2.2	0.2	(2.9)	
Retail Sales (y/y)	(0.3)	1.5	1.5	0.6	1.7	1.5	2.8	2.3	
Current Account Balance (US$bn)	19.4	5.3	17.6	17.2	10.9	18.0	16.6	16.3	
Household Consumption Expenditure: Real(y/y)	0.0	2.0	(1.3)	(1.4)	(1.2)	0.4	2.8	(0.5)	

Source: CEIC.

Real GDP components, fiscal position, and balance of payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (SAAR)	1.1	0.9	2.3	1.9	2.9	0.8	(1.1)	3.0	(1.2)
Private Consumption Expenditure (SAAR)	1.8	(0.1)	2.0	3.2	(2.5)	1.1	(0.9)	2.6	(0.5)
Government Consumption Expenditure(SAAR)	1.9	(0.8)	1.3	1.4	0.3	0.1	0.1	0.8	0.7
GFCF (SAAR)	0.9	2.7	1.9	5.7	1.0	(0.6)	0.5	7.2	(1.9)

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.0	0.3	1.4	1.0	1.7	1.0	1.2	0.2	1.4
CPI Inflation %	0.3	2.8	0.8	(0.1)	0.5	0.8	1.1	2.0	1.9
Unemployment Rate %	4.0	3.6	3.4	3.1	2.8	2.6	2.7	2.7	2.6
Policy Rate %	0.08	0.07	0.07	(0.03)	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)
Policy Rate % (EOP)	0.07	0.06	0.08	(0.04)	(0.04)	(0.06)	(0.06)	(0.06)	(0.06)
Exchange Rate (Per US$)	97.6	105.9	121.0	108.8	112.1	109.7	110.6	111.7	
Exchange Rate (Per US$) EOP	100.4	114.6	121.4	109.5	112.9	110.5	110.7	112.1	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Malaysia

State Of Play

Strong domestic demand was offset by weak net exports in Q3, leading to slower-than-expected growth during the quarter. The Goods and Service Tax was set to 0% during the quarter, which led to a boost in consumption activity. Labor markets are still tight and are supporting demand. There have been sustained capital outflow pressures and October saw significant equity outflows as global equity markets fell.

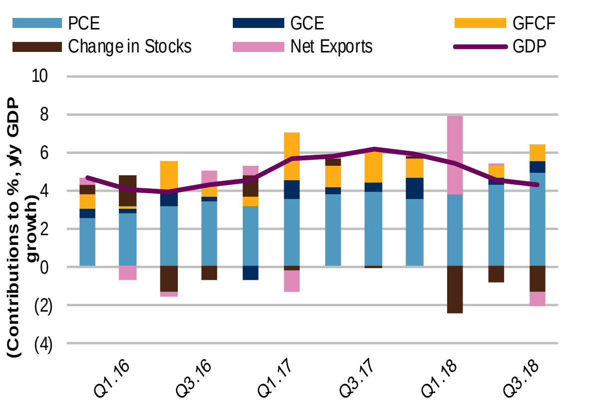
Outlook

Consumption demand will likely remain resilient due to two main factors. First, the Sales and Service Tax will apply to fewer consumer goods Second, labor markets are still tight. On the other hand, manufacturing is likely to be sluggish, partly due to weakness in the electronics sector and in external demand. Infrastructure investment will remain weak as the government scales back public investment plans.

Risks

Global trade tensions present a key risk to the economy, which is sensitive to external demand. A slowdown in growth in China also presents a risk to the economy because China is a key trading partner and source of demand. In addition, sharp capital outflows are a risk as global financing conditions remain tight, and markets are still adjusting to tighter U.S. monetary policy. Domestic financial markets should be able to weather gradual capital outflows.

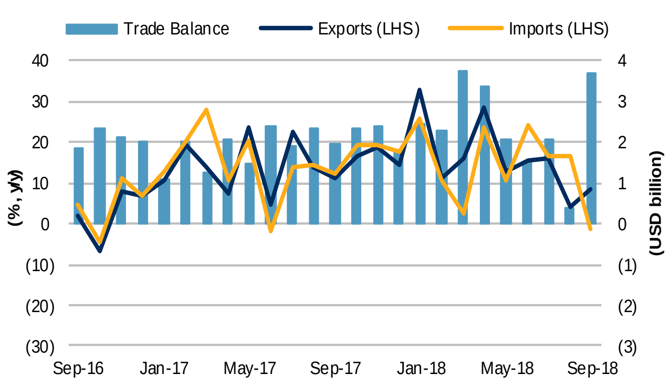
GDP Growth Eased To A Seven Quarter Low In Q3



Source: CEIC.

- Real GDP growth edged down to 4.4% y/y in Q3 mainly due to a decline in net exports.
- Supply shocks in the commodity sector crippled the overall economic growth.
- Private consumption remained the key driver of growth, and added 5.0 ppts to growth.

Trade Surplus Rose As Import Growth Slowed



Source: CEIC.

- The trade surplus increased in September after slow export and import growth during the third quarter.
- Shipments to the EU and Singapore supported export growth, while shipments to China decelerated.

Malaysia Economic Data And Forecast Summary

Selected Economic Indicators

	Sep-17	Dec-17	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
CPI (y/y)	4.2	3.5	1.3	1.4	1.8	0.8	0.9	0.2	0.3
Exports (y/y- US$)	11.4	14.6	15.9	28.6	13.0	15.5	15.9	4.4	8.5
Export - Mineral Fuels (y/y- US$)	11.0	17.7	2.1	18.2	31.9	16.6	1.7	6.7	14.1
Imports (y/y- US$)	12.4	18.0	2.7	23.8	10.6	24.0	16.8	16.4	(1.0)
Trade Balance (US$mn)	1,951	1,806	3,765	3,351	2,050	1,501	2,057	394.2	3,688
Industrial Production (y/y)	4.8	2.9	3.1	4.6	3.0	1.1	2.6	2.2	2.3
Mining Production (y/y)	2.4	(4.1)	0.0	1.8	(0.5)	(9.4)	(5.9)	(4.6)	(6.2)
Unemployment Rate (sa)	3.5	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.3

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	4.3	4.5	5.6	5.8	6.2	5.9	5.4	4.5	4.4
Real Private Consumption (y/y)	6.3	6.1	6.7	7.1	7.2	7.0	6.9	8.0	9.0
GFCF (y/y)	2.0	2.4	10.0	4.1	6.7	4.3	0.1	2.2	3.2
Current Account Balance (US$mn)	1,898	2,967	1,077	2,025	3,005	3,347	3,820	990.4	924.6
Retail Sales (y/y)	9.0	9.1	10.1	13.5	12.2	10.4	9.2	9.8	12.9

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	4.7	6.0	5.1	4.2	5.9	5.1	5.0	4.8	4.7
CPI Inflation %	2.1	3.1	2.1	2.1	3.8	1.3	2.1	2.3	2.2
Unemployment Rate %	3.1	2.9	3.2	3.5	3.4	3.3	3.3	3.4	3.4
Policy Rate %	3.0	3.1	3.3	3.1	3.0	3.2	3.3	3.7	3.8
Policy Rate % (EOP)	3.0	3.3	3.3	3.0	3.0	3.3	3.5	3.8	3.8
Exchange Rate (Per US$)	3.2	3.3	3.9	4.1	4.3	4.0	4.0	4.0	
Exchange Rate (Per US$) EOP	3.2	3.4	4.3	4.3	4.2	4.1	4.0	4.0	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Philippines

State Of Play

Headline inflation remains elevated, but month-on-month readings appear to have peaked as global oil prices eased and the typhoon impacts on food prices dissipated. The liberalization of rice imports and the suspension of the January fuel tax hike will help ease inflation further. Nonetheless, it will take some time for headline numbers to fall back into Bangko Sentral ng Pilipinas' target range. BSP enacted another 25bp rate hike this month, continuing its efforts to keep second-round effects of oil and food prices in check.

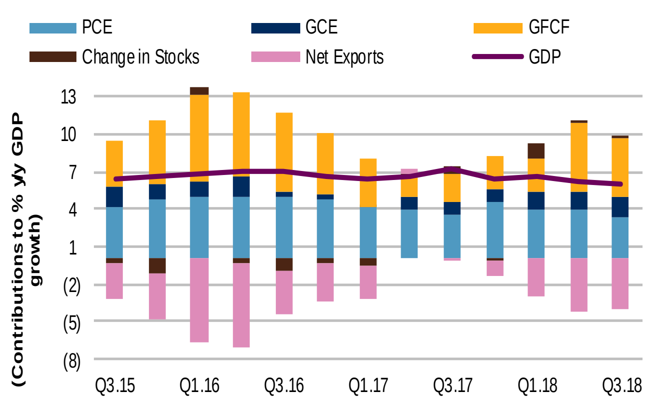
Outlook

We maintain our strong outlook for domestically driven medium-term growth in the Philippines, despite key headwinds in the short term. Consumption growth will likely stay low relative to recent history due to inflation, while the rollout of some non-crucial infrastructure projects will be slower as the government tries to rein in the current account deficit.

Risks

To counter potential second-round impacts from supply-side inflation, BSP has been forced to tighten monetary policy this year, potentially dampening the domestic demand growth outlook next year. Externally, global trade tensions continue to threaten export demand and onshore confidence, while the current account deficit continues to make the economy more vulnerable to EM market selloffs.

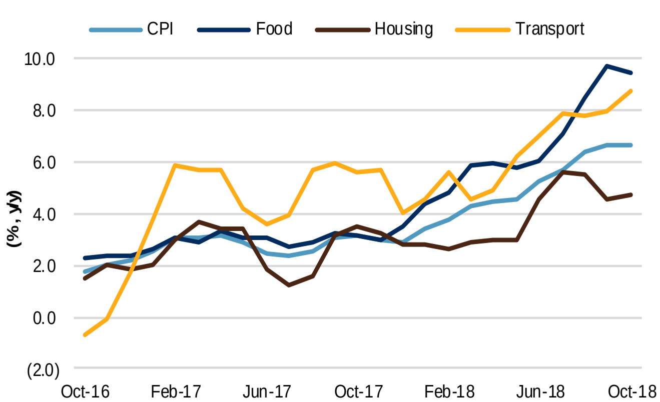
GDP Growth Eased In Q3, Slowest In Three Years



Source: CEIC.

- Real GDP growth eased further to 6.1% y/y in Q3, from 6.2% in Q2.
- Private consumption growth was relatively weak at 5.2%, continuing this year's trend.
- Investment growth fell 5 ppts, but remained fairly strong at 16.7%.

Headline Inflation Remained At 6.7% y/y In October



Source: CEIC.

- Inflation was steady for the first time since the beginning of the year in October at 6.7% y/y.
- Food prices remained elevated, although they eased in Q3 to 9.4% y/y.
- Inflation in transport prices rose further, driven by global oil prices.

Philippines Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	3.1	3.4	4.5	4.6	5.2	5.7	6.4	6.7	6.7
Core CPI (y/y)	3.2	3.9	5.0	5.0	5.4				
Exports (y/y- US$)	17.4	(4.0)	(4.9)	(1.8)	2.8	0.3	3.4	(2.6)	
Export - Electronic Products (y/y- US$)	28.6	2.4	5.5	4.9	14.0	6.1	8.9	4.2	
Imports (y/y- US$)	17.0	7.7	23.1	12.6	24.2	31.6	11.0	26.1	
Trade Balance (US$bn)	(2.6)	(3.2)	(3.5)	(3.7)	(3.2)	(3.5)	(3.5)	(3.9)	
Overseas Workers Remittances (US$bn)	2.3	2.4	2.3	2.5	2.4	2.4	2.5	2.2	
Industrial Production (y/y)	(6.0)	10.9	22.6	15.3	12.0	12.1	8.6	3.7	

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	7.1	6.7	6.5	6.6	7.2	6.5	6.6	6.2	6.1
Real Private Consumption (y/y)	7.3	6.7	5.9	6.0	5.4	6.2	5.7	5.9	5.2
GFCF (y/y)	22.4	16.6	11.4	7.6	10.3	8.3	12.4	21.5	16.7
Current Account Balance (US$mn)	(90.6)	(565.6)	(289.4)	156.8	1100.4	(3130.4)	(155.4)	(2931.3)	

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	7.1	6.1	6.1	6.9	6.7	6.5	6.6	6.8	6.7
CPI Inflation %	2.6	3.6	0.7	1.3	2.9	5.1	3.8	3.5	3.4
Unemployment Rate %	7.1	6.8	6.3	5.5	5.7	5.2	5.1	4.9	4.1
Policy Rate %	3.5	3.7	4.0	3.4	3.0	3.5	4.4	4.5	4.5
Policy Rate % (EOP)	3.5	4.0	4.0	3.0	3.0	4.0	4.5	4.5	4.5
Exchange Rate (Per US$)	42.4	44.4	45.5	47.5	50.4	52.8	53.5	53.1	
Exchange Rate (Per US$) EOP	43.6	44.8	46.9	49.1	50.9	53.7	53.4	52.7	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Singapore

State Of Play

There is some emerging weakness in industrial activity in Singapore but service sector activity remains steady. Industrial output growth has stalled amid a broad-based manufacturing slowdown, including in the important electronics sector. On the services side, the story is more positive as labor markets remain tight and retail sales hold up for now. Property price growth has slowed to a halt after the cooling measures in July.

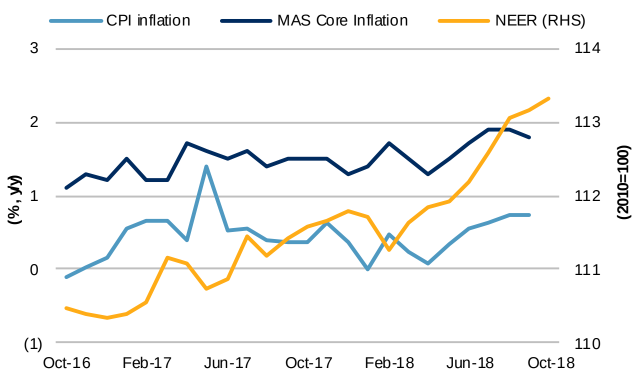
Outlook

Forward-looking indicators, including surveys, point to further manufacturing weakness and a moderation in service sector growth. The electronics sector is showing weakness as the electronics boom fades. We expect growth to slow in 2019 and we will be revising our growth forecast downward. Market interest rates are rising as the Fed increases U.S. interest rates. Core inflation will likely be contained as global inflationary pressures remain low, and as the Singapore dollar effective exchange rate rises.

Risks

Disruptions to global trade arising from trade tensions and other sources remain a key risk to the trade-oriented economy. Slower trade would directly affect manufacturing through reduced demand, and indirectly hit various parts of the economy that support trade flows, including logistics and re-exports.

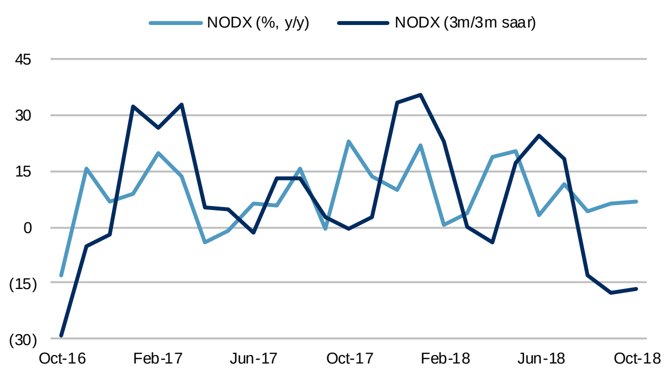
MAS Tightened Monetary Policy Again In October



Source: CEIC.

- The MAS tightened policy by increasing the slope of the S$NEER policy band slightly in October.
- CPI inflation was unchanged in September from that in August while core inflation edged down.
- The S$NEER has appreciated slightly as the SGD trades in a narrow band against the U.S. dollar.

Faster NODX In October Led By Non-Electronics



Source: CEIC.

- Non-oil domestic exports (NODX) grew faster in October but growth momentum continued to decline.
- Non-electronic exports continued to grow, led by pharmaceuticals, while electronics exports declined.
- NODX to major markets grew in October, driven mainly by the EU, US, China, and Japan.

Singapore Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	0.4	0.0	0.1	0.4	0.6	0.6	0.7	0.7	
Core CPI (y/y)	1.5	1.4	1.3	1.5	1.7	1.9	1.9	1.8	
Exports (y/y- US$)	12.4	18.0	16.9	14.6	10.8	14.0	12.8	9.6	18.7
Non-Oil Domestic Exports (y/y- US$)	22.8	22.0	18.8	20.3	3.5	11.6	4.4	6.4	6.7
Imports (y/y- US$)	18.1	13.2	18.1	14.1	15.7	22.6	12.5	14.1	18.1
Trade Balance (US$bn)	3.2	4.3	4.6	4.1	3.4	2.4	4.9	3.2	4.0
Industrial Production (y/y)	15.3	18.3	11.0	13.0	8.4	7.3	3.7	(0.2)	
Retail Sales (y/y)	0.2	(7.7)	1.0	0.2	1.9	(2.6)	(0.4)	1.9	

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	1.7	3.7	2.5	2.8	5.5	3.6	4.5	3.9	2.6
Private Consumption Expenditure (y/y)	0.9	0.2	(0.9)	2.7	5.3	5.5	3.4	3.2	
Government Consumption Expenditure(y/y)	(3.2)	4.5	4.0	5.3	7.1	0.5	8.7	2.2	
GFCF (y/y)	(3.1)	(4.1)	(3.2)	(3.5)	(2.7)	2.2	(0.9)	3.3	
Current Account Balance (US$bn)	18.1	13.1	14.9	14.6	18.4	13.1	16.0	17.1	

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	5.1	3.9	2.2	2.4	3.6	3.2	3.0	2.7	2.7
CPI Inflation %	2.4	1.0	(0.5)	(0.5)	0.6	0.6	1.6	1.9	2.0
Unemployment Rate %	1.9	2.0	1.9	2.1	2.2	2.0	2.0	1.9	1.9
Exchange Rate (Per US$)	1.25	1.27	1.37	1.38	1.38	1.35	1.35	1.33	
Exchange Rate (Per US$) EOP	1.25	1.29	1.41	1.41	1.35	1.37	1.34	1.33	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

South Korea

State Of Play

The Q3 GDP figures continued to suggest that uncertainty around the global trade outlook is hurting investor confidence, with investment contracting for the second straight quarter. Consumption is still growing, but has been held back by the weakness in the labor market this year. Likewise, monthly indicators continue to suggest that growth has peaked, especially retail sales and industrial production.

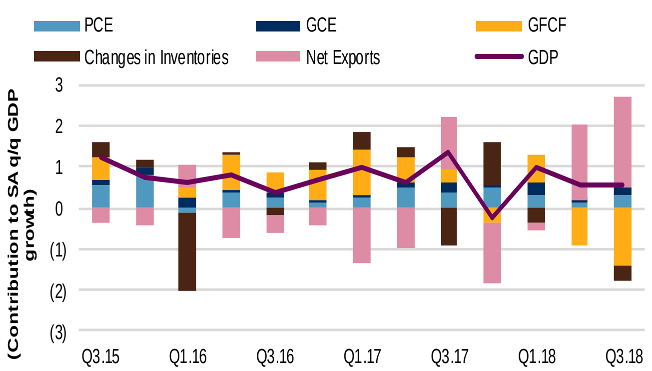
Outlook

Strong GDP growth in the first half of the year helps support overall 2018 growth. However, we expect the current moderation to continue into Q4 and further into 2019 on the back of weaker export and investment momentum, especially as uncertainty remains regarding trade policies in key trading partners.

Risks

There still seems to be no clear end game in sight for the ongoing trade tensions, at least in the foreseeable future, posing significant downside risks for external demand and investor confidence. In the long term, the high level of household debt and its financing costs are still key risks.

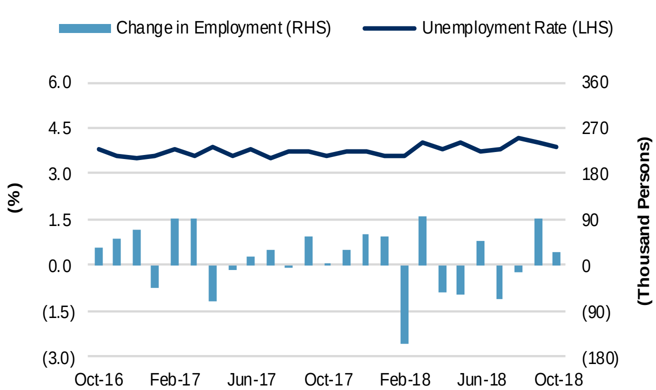
GDP Growth Remained Steady In Q3



Source: CEIC.

- In seasonally adjusted, q/q terms, real GDP growth was steady at 0.6% in Q3.
- In y/y terms, real GDP growth eased to 2.0% in Q3 from 2.8% in the previous quarter.
- On the expenditure side, private consumption and net exports expanded while investment declined for the second straight quarter.

Unemployment Rate Eased Further In October



Source: CEIC.

- Seasonally adjusted unemployment eased to 3.9% in October from 4.0% in the previous month.
- The number of jobs created inched down after a strong rebound in the previous month.

South Korea Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	1.8	1.0	1.6	1.5	1.5	1.5	1.4	1.9	2.0
Core CPI (y/y)	1.3	1.1	1.4	1.3	1.2	1.1	0.9	1.2	1.1
Exports (y/y- US$)	6.7	22.3	(1.9)	12.8	(0.3)	6.1	8.7	(8.2)	22.7
Export - Electrical Machinery (y/y- US$)	47.2	40.5	23.9	26.8	23.2	24.2	24.1	14.8	15.4
Imports (%y/y- US$)	8.0	21.6	14.9	13.0	11.0	16.4	9.4	(1.6)	28.1
Trade Balance (US$bn)	6.9	3.5	6.2	6.3	6.1	6.9	6.8	9.6	6.5
Industrial Production (y/y)	(3.0)	4.2	1.9	1.7	0.2	1.4	1.6	(4.8)	
Retail Sales (sa - m/m)	1.0	2.0	6.7	5.9	5.5	7.1	7.9	2.9	

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	2.7	2.6	2.9	2.8	3.8	2.8	2.8	2.8	2.0
Real Private Consumption (y/y)	2.8	1.4	2.1	2.4	2.6	3.4	3.5	2.8	2.6
GFCF (y/y)	5.8	7.8	11.0	10.0	9.2	5.0	3.7	(1.3)	(6.5)
Current Account Balance (US$bn)	22.6	22.7	19.2	16.5	25.6	17.2	11.8	17.8	28.0
Trade Balance (US$bn)	19.4	21.8	15.6	29.2	30.2	20.1	12.7	18.6	23.3
Loans of Commercial and Specialized Banks (y/y)	7.6	5.7	5.5	4.8	4.8	5.6	6.3	6.4	

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.9	3.3	2.8	2.9	3.1	2.6	2.5	2.7	2.5
CPI Inflation %	1.3	1.3	0.7	1.0	1.9	1.6	2.0	1.7	1.9
Unemployment Rate %	3.1	3.5	3.6	3.7	3.7	3.8	3.8	3.6	3.4
Policy Rate %	2.6	2.4	1.7	1.4	1.3	1.6	1.9	2.0	2.0
Policy Rate % (EOP)	2.5	2.0	1.5	1.3	1.3	1.8	2.0	2.0	2.0
Exchange Rate (Per US$)	1095.0	1052.8	1131.0	1160.8	1131.0	1097.4	1112.4	1106.3	
Exchange Rate (Per US$) EOP	1062.1	1086.6	1157.5	1156.4	1107.5	1118.0	1109.1	1104.7	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Taiwan

State of Play

GDP growth moderated significantly in the third quarter, after a very strong first half. Exports led the slowdown, with consumption growth easing as well. Investment growth benefited significantly from a low base, but given the downward trends in exports, industrial production, export orders and the PMI, we suspect that investment momentum will be turning soon, if not already.

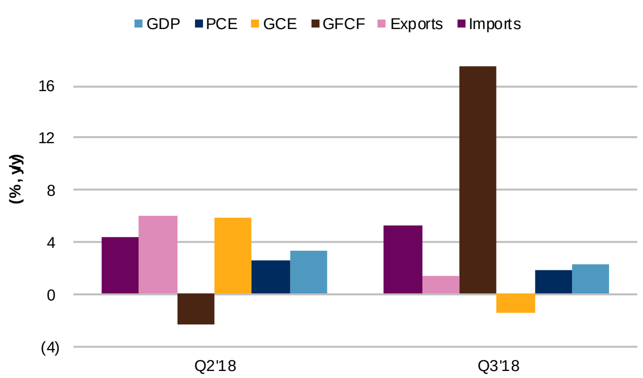
Outlook

We expect the ongoing growth moderation to carry forward into the next two years, as the normalization from last year's electronics boom is exacerbated by trade tensions. Nonetheless, the strong economic performance in the first half of the year has already locked in a strong foundation for this year's overall GDP growth.

Risks

Global trade tensions remain elevated and still present the biggest challenge to Taiwan's economy in the short term. As the set of goods on which tariffs are being raised is enlarged, more sectors in which Taiwan's economy is a key part of the supply chain would lose the previous insulation they enjoyed in earlier rounds of escalation. Confidence spillovers could be significant as well.

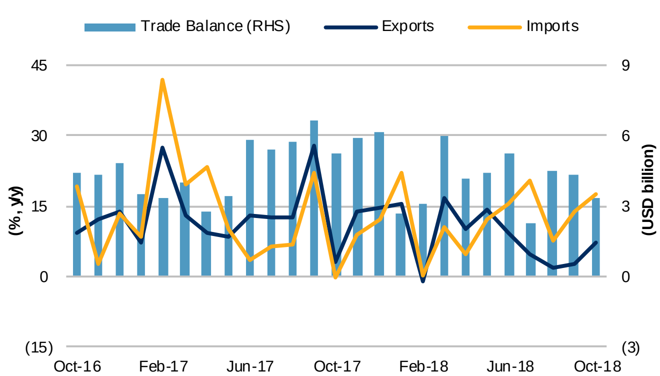
GDP Growth Slowed To Five-Quarter Low in Q3



Source: CEIC.

- Real GDP slowed to a five-quarter low in Q3, based on advanced estimates.
- Private consumption growth moderated, while exports slowed down.
- Private investment posted a sharp y/y recovery in Q3, but was at least in part due to a favorable base.

Trade Balance Narrowed; Trade Flows Up



Source: CEIC.

- The trade surplus narrowed in October as the monthly import bill rose with growth in ICs imports.
- Exports grew faster with modest recovery in machinery and electrical equipment.
- Export growth to major trade partners--China, Japan, South Korea, and the U.S.--increased.

Taiwan Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	(0.3)	0.9	2.0	1.8	1.4	1.8	1.5	1.7	1.2
Core CPI (y/y)	1.1	0.8	1.3	1.1	1.4	1.5	1.4	1.2	0.7
Exports (y/y- US$)	3.0	15.3	10.0	14.2	9.4	4.7	1.9	2.6	7.3
Machineries and Electrical Equipment (y/y-US$)	7.1	12.4	7.5	14.0	2.3	4.9	1.1	(0.4)	2.8
Imports (%y/y- US$)	(0.1)	22.0	4.9	12.0	15.4	20.3	7.8	13.9	17.6
Trade Balance (US$bn)	5.3	2.7	4.2	4.4	5.2	2.3	4.5	4.3	3.4
Industrial Production (y/y)	2.7	9.4	8.8	7.6	0.5	4.7	1.1	1.5	
Bank Credit (y/y)	4.9	4.2	4.7	5.2	5.7	4.8	4.6	4.9	
Retail Sales (y/y)	3.2	(4.2)	3.6	5.3	4.9	3.6	0.6	2.8	

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	2.0	2.8	2.6	2.3	3.2	3.4	3.1	3.3	2.3
Real Private Consumption (y/y)	2.8	2.1	1.8	2.0	2.6	3.0	2.8	2.6	
GFCF (y/y)	3.4	5.3	4.8	0.8	(2.7)	(3.5)	0.5	0.1	
Current Account Balance (US$bn)	16.6	19.6	18.2	17.3	21.7	25.6	19.4	17.8	
Trade Balance (US$bn)	12.0	13.6	10.8	12.1	17.8	17.3	11.8	13.8	11.1

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.2	4.0	0.8	1.4	2.9	3.1	2.5	2.3	2.5
CPI Inflation %	0.8	1.2	(0.3)	1.4	0.6	1.6	1.3	1.4	1.1
Unemployment Rate %	4.2	4.0	3.8	3.9	3.8	3.5	3.4	3.1	3.1
Policy Rate %	1.875	1.875	1.837	1.466	1.375	1.406	1.594	1.625	1.625
Policy Rate % (EOP)	1.875	1.875	1.731	1.375	1.375	1.500	1.625	1.625	1.625
Exchange Rate (Per US$)	29.8	30.4	31.9	32.3	30.4	30.1	30.4	30.2	
Exchange Rate (Per US$) EOP	29.6	30.9	32.8	31.8	30.1	30.5	30.4	30.0	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Thailand

State Of Play

Weaker external demand has been a theme during Q3 for Asia-Pacific economies and affected Thailand, where GDP growth slowed to 3.3% y/y from 4.6% in Q2. Private consumption is strong due to robust consumer confidence. Private investment has been weak for several quarters, however, as firms remain cautious about business conditions. Infrastructure investment has been supporting growth. On the nominal side, core inflation remains below 1% as inflation expectations are highly anchored.

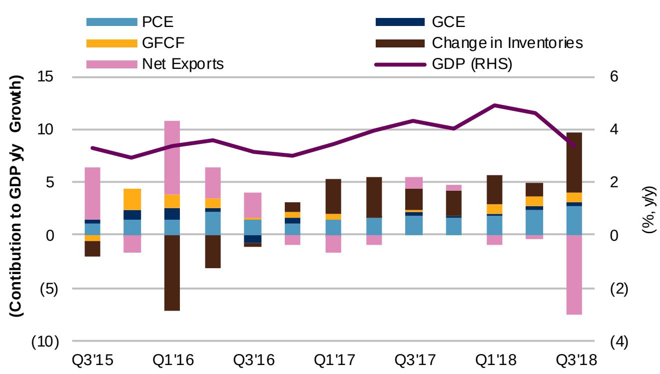
Outlook

Infrastructure investment will continue to support growth, while private investment growth will likely remain moderate. External demand is likely to be soft as the global trade cycle slows down. While higher energy prices will likely boost headline inflation, core inflation is likely to remain anchored around current levels. The Bank of Thailand is conscious of potential financial risks stemming from low real interest rates, and may lean against the wind by raising interest rates despite modest levels of inflation.

Risks

Risks to the outlook for Thailand are moderate. Global trade disruption and lower external demand are the key risks for the externally oriented economy. For several quarters over 2016 and 2017, external demand supported growth while domestic demand growth lagged, and this could be reversed in a scenario where trade activity is weakened.

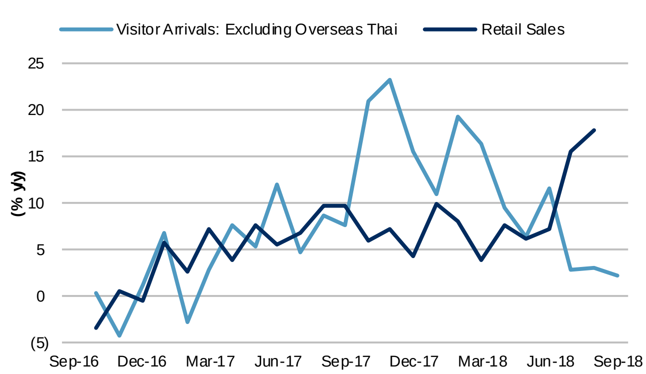
GDP Growth Led By Domestic Demand In Q3



Source: CEIC.

- Real GDP slowed in Q3, driven by a large negative growth contribution from net exports.
- Private consumption and investment supported growth, while external demand was weak.
- On the supply side, construction and retail trade led growth while manufacturing and tourism slowed.

Visitor Arrivals Remain Weak; Retail Sales Up



Source: CEIC.

- Visitor arrivals growth remained negative in y/y terms while retail sales growth was higher in August.
- Inbound tourists from Europe and China declined for a third month but arrivals from ASEAN increased.
- Motor vehicles sales doubled in August and led overall sales growth amid a fall in non-durable sales.

Thailand Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	0.9	0.7	1.1	1.5	1.4	1.5	1.6	1.3	1.2
Core CPI (y/y)	0.6	0.6	0.6	0.8	0.8	0.8	0.7	0.8	0.7
Exports (y/y- US$)	12.7	17.6	12.4	11.4	8.2	8.3	6.7	(5.2)	
Agricultural Exports (y/y- US$)	9.3	12.3	14.9	(0.1)	4.6	(2.3)	5.6	0.1	
Imports (y/y- US$)	13.2	24.5	21.3	11.7	10.8	10.5	22.8	9.9	
Fuel Imports (y/y- US$)	44.2	52.7	69.8	25.0	59.7	64.4	37.9	50.5	
Trade Balance (US$mn)	204.0	(119.2)	(1,283)	1,204	1,578	(516.0)	(588.1)	487.2	
Industrial Production (y/y)	1.0	4.7	3.1	2.9	5.0	4.9	0.8	(2.6)	
Retail Sales (y/y)	5.8	9.9	7.6	6.1	7.1	15.5	17.7		
Consumer Confidence Index	76.7	80.0	80.9	80.1	81.3	82.2	83.2	82.3	81.3

Source: CEIC.

Real GDP components, fiscal position, and balance of payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	3.1	3.0	3.4	3.9	4.3	4.0	4.9	4.6	3.3
Private Consumption Expenditure (y/y)	2.7	2.3	3.1	2.9	3.4	3.4	3.7	4.5	5.0
Government Consumption Expenditure(y/y)	(3.9)	2.9	(0.7)	0.4	1.8	0.2	1.9	2.0	2.1
GFCF (y/y)	1.0	2.1	1.7	0.3	1.2	0.3	3.4	3.7	3.9
Current Account Balance (US$bn)	11.7	10.7	15.2	7.8	14.9	12.4	15.1	6.7	4.2

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	2.7	1.0	3.0	3.3	3.9	4.4	4.1	3.9	3.9
CPI Inflation %	2.2	1.9	(0.9)	0.2	0.7	1.2	1.8	2.0	2.4
Unemployment Rate %	0.7	0.8	0.9	1.0	1.2	1.1	1.1	1.2	1.3
Policy Rate %	2.58	2.05	1.63	1.50	1.50	1.50	1.59	1.84	2.09
Policy Rate % (EOP)	2.41	2.00	1.50	1.50	1.50	1.50	1.75	2.00	2.25
Exchange Rate (Per US$)	30.7	32.5	34.2	35.3	33.9	32.1	32.3	31.9	
Exchange Rate (Per US$) EOP	31.7	32.7	35.8	35.4	32.9	32.0	32.1	31.7	

Source: Oxford Economics; f: S&P Global Ratings forecast; End of Period - Q4 values.

Vietnam

State of Play

High base effects from last year's late electronics export boom continue to weigh on year-on-year growth numbers of monthly indicators. However, private consumption as well as tourism still look strong, supporting retail and services. We currently still see a relatively limited impact of global trade tensions on Vietnam, given that it is not as linked with China's supply chains as some of its neighbors are.

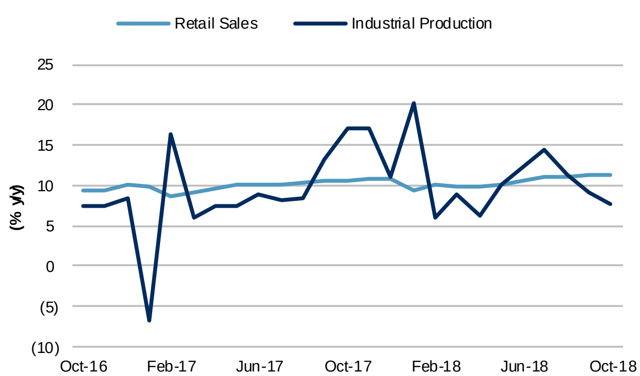
Outlook

Last year's export boom will continue to create high base effects for growth in economic activity for the rest of 2018, so full-year GDP growth is likely to be pulled back slightly from the current pace. Nevertheless, a strong start to this year as well as robust consumption growth make the 6.7% growth target of the government easily achievable.

Risks

We continue to see sustained credit growth as creating the potential for a fresh bout of nonperforming loans (NPLs) in the banking sector, even before the previous stock of NPLs have been fully resolved. Meanwhile, challenges to world trade growth pose some downside risks to exports in the short term, but this would be less significant than the impacts on other ASEAN economies given Vietnam's relatively weaker integration into China's supply chains.

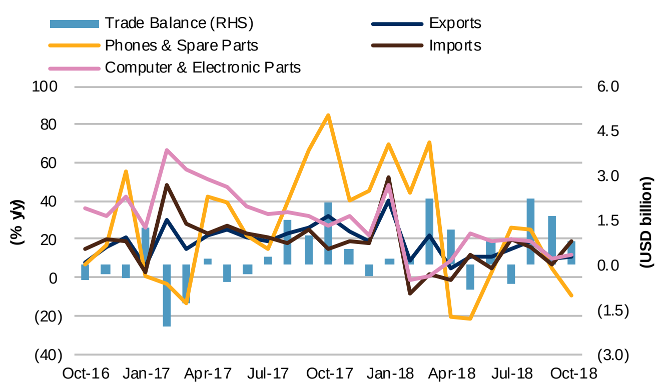
Retail Sales Growth Steady; IP Growth Eased



Source: CEIC.

- Retail sales growth continued the uptrend through October, driven by trade and tourism with steady visitor arrivals from China and Korea.
- Industrial production moderated as output of electronic components fell due to high base, while output of motor vehicles decelerated.

Trade Surplus Narrowed; Export growth modest



Source: CEIC.

- The trade surplus narrowed for the second straight month in October as imports outpaced exports.
- Exports rose but growth was limited by a high base. In particular, export growth fell sharply in phone and spare parts and rice.

Vietnam Economic Data And Forecast Summary

Selected Economic Indicators

	Oct-17	Jan-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
CPI (y/y)	3.0	2.7	2.8	3.9	4.7	4.5	4.0	4.0	3.9
Core CPI (y/y)	1.3	1.2	1.3	1.4	1.4	1.4	1.5	1.6	1.7
Exports (y/y- US$)	32.3	40.2	4.5	11.3	11.3	14.8	18.5	9.5	10.8
Computer & Electronic Components (y/y-US$)	26.8	48.3	9.2	23.2	18.5	19.6	19.1	9.6	11.9
Imports (y/y- US$)	14.9	52.1	(1.1)	12.1	4.9	20.2	16.4	6.4	19.4
Trade Balance (US$mn)	2112.2	180.8	1,163	(814.7)	799.2	(634.6)	2197	1,612	769.6
Industrial Production (y/y)	17.0	20.2	6.3	10.1	12.3	14.3	11.3	9.1	7.7
Credit Outstanding (y/y)	19.4	14.0	14.4	14.1	13.8	13.4			
Retail Sales (y/y)	10.7	9.5	9.9	10.1	10.7	11.1	11.2	11.3	11.4

Source: CEIC.

Real GDP Components, Fiscal Position, And Balance Of Payments

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Real GDP (y/y)	6.0	6.2	5.1	5.7	6.4	6.8	7.4	7.1	7.0
Current Account Balance (US$mn)	3,499	155.0	(1,169)	270.0	4,300	3,018	3,934	1,244	
Trade Balance (US$mn)	1,741	(1,252)	(2,110)	(759.7)	2,752	2,229	2,732	1,147	3,175

Source: CEIC.

S&P Global Ratings Economic Outlook

	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
Real GDP %	5.4	6.0	6.7	6.2	6.8	6.7	6.6	6.6	6.6
CPI Inflation %	6.6	4.1	0.9	3.2	4.1	3.8	3.6	3.5	3.5

Source: S&P Global Ratings.