7 February 2014

US, Malaysia & selective EM Asia

Another determining week ahead for economics

After a string of weaker-than-expected numbers coming out from US and China in the last few weeks, the newly released positive numbers from January US Services Purchasing Managers' Index (PMI) and ADP jobs report after some lost momentum in December due to the bad weather fuelled hopes that the same trend is likely to be reflected in the upcoming releases of other key economic data. A more positive US economic data would help to temper any likely further negative newsflows and data from China as well as other EM countries. Having said that, the release of China's key indicators next week could still change the overall sentiment, although for now, consensus still rules out a sharp decline in the country's credit growth and a hard landing.

US: January non-farm payroll data (today), retail sales (Feb 13), IPI and February Consumer Sentiments Index (Feb 14) The US would be releasing its January jobs data later today where consensus is expecting the non-farm payrolls to gain by 183K during the month following the dismal 74K gains in December. The poor performance in December came significantly below consensus expectation of 200K (Nov: 241K). Meanwhile, the unemployment rate is likely to remain at the 5-year low of 6.7%. Another key data to watch is the labour participation rate and the average hourly earnings for the month which should give us some insights on the strength and durability of the rebound in the job market and in turn, consumer spending. The US retail sales data to be released on Thursday next week (Feb 13) would show a clearer picture. Though the index on YoY basis had been posting only marginal rise, on MoM basis it had consistently edged up for 9 consecutive months in December. The trend is expected to continue for January with consensus estimating a big jump of 0.6% MoM. That would stand in contrast to the consensus expectation of a slight dip in the sentiment among consumers as tracked by the University of Michigan for the month of February.

Malaysia: December external trade (today) and IPI (Feb 10) as well as 4Q 13 real GDP (Feb 12) numbers. It would be an important week to watch for Malaysia with December data for trade and IPI followed by the 4Q 13 real GDP (hence, 2013 overall performance can be deduced) would be released. Consensus is expecting a much faster rebound in both exports and imports resulting in the trade surplus to narrow slightly. We expect exports and imports to pick up but slightly below consensus, at 8.5% and 7.7% respectively, to put trade surplus slightly smaller at RM9.6bn as compared to RM9.72bn in November. No consensus compiled as yet for the IPI and the 4Q 13 real GDP forecast but our estimations put the IPI growth at around 6% (Nov 13: 4.4%) and real GDP growth flat at 5% (3Q 12: 5%).

India: December IPI, Jan CPI (Feb 12) and WPI (Feb 14) The impact of the three rate hiks in the past 5 months may see India's industrial production to contract further following a decline of 2.1% in November from a year ago, to mark the third consecutive months of contraction. Meanwhile, India's inflation as measured by bothe the Consumer Price Index (CPI) and Wholesale Price Index (WPI) should ease further in January on the back of likely conitnued decline in food prices as well as the impact of the tighter monetary policy. The December CPI and WPI stood at a 3-month low and 5-month low respectively. RBI tightened the policy rate by 75bps to date since last May. Its Governor Raghuram Rajan stated recently that he expects the CPI to ease to 8% (Dec: 9.9%) by the end of the year.

Indonesia: The second BI policy meeting for 2014 (Feb 13) and the 4Q 13 BoP numbers (Feb 14) That meeting will also be the central bank's regular quarterly review which we expect to lead to monetary stance to be left unchanged, after the policy rate was raised by 175bps to 7.50% between June and November last year. The improved trade surplus in recent months with the month of December recording the highest in 2 years may ease downward pressure on the Rupiah. Nonetheless, with inflation likely to stay stubbornly high (Jan '14: 2.2%) and the current account balance to stay in deficits on the back of the significant depreciation in the Rupiah amidst dwindling FX reserves (excluding gold, estimated to stand at only 10% of GDP), we expect BI may face renewed pressure to hike up again in the next few months to prop up Rupiah and curb inflation.

But data likely to be watched most is China's - January PMI for Services (today) and credit data (Feb 10). Concerns have been mounting over the possibility of China facing a hard landing, instead of the soft landing the government wants to engineer by curbing credit growth, particularly that being extended to local governments and by non-banking companies also known as "shadow banks". As the debt levels – combining that of the central government, local governments and corporate - now estimated at 200% of GDP, this signals that going forward, the policymakers would try to curb further credit growth and with the economy already slowing down, that would imply rising risk of defaults.

- The near default of a high-yield loan product or trust known as Credit Equals Gold No. 1 issued by China Credit Trust, a major Chinese shadow bank, after a coal mine operation it invested heavily in collapsed has sent jitters across the globe leading to the huge selloff in the EM markets last week. The government had to bail out the trust product as the default would make it the largest ever for a shadow bank and could cause huge systemic risk. The move had sparked criticism from international rating agencies, such as Standard and Poor's that argued a default would help the government to "instill market discipline" and rein in shadow banking. The bailout move underscores the challenge that the government has to face in trying to rebalance the economy.
- As such, the release of the January's PMI for Services, New yuan loans and Aggregate financing (which includes loans extended by non-banking companies) should be monitored for any sign of another round of storm in the market. For now, consensus is expecting credit to continue to rise in January on MoM basis but to decline further YoY, albeit at a slower pace. A sharper slowdown implies a much slower economic growth going forward. That would mean rising risk of default and in turn, the probability of a hard landing.

Table 1: The schedule for the releases of key economic indicators next week

Date of release	Country	Indicator	Month	Survey	Actual	Previous
7-Feb	China	HSBC/Markit Services PMI	Jan	--	--	50.9
	Msia	Exports YoY	Dec	10.0%	--	6.7%
		Imports YoY	Dec	8.2%	--	6.4%
		Trade Balance	Dec	9.56B	--	9.72B
	US	Change in Nonfarm Payrolls	Jan	183K	--	74K
		Unemployment Rate	Jan	6.7%	--	6.7%
		Average Hourly Earnings MoM	Jan	0.2%	--	0.1%
		Average Hourly Earnings YoY	Jan	1.8%	--	1.8%
10-Feb	Msia	Industrial Production YoY	Dec	--	--	4.4%
		Manufacturing Sales Value YoY	Dec	--	--	4.4%
	China	New Yuan Loans	Jan	1100.0B	--	482.5B
		Aggregate Financing RMB	Jan	2147.0B	--	1230.0B
12-Feb	Msia	BoP Current Account Balance MYR	4Q 13	--	--	9.8B
		GDP YoY	4Q 13	--	--	5.0%
	India	Industrial Production YoY	Dec	--	--	-2.1%
		CPI YoY	Jan	--	--	9.9%
13-Feb	US	Retail Sales Advance MoM	Jan	0.1%	--	0.2%
	Indonesia	Bank Indonesia Reference Rate	13-Feb	--	--	7.5%
	India	Wholesale Price Index	Jan	--	--	6.2%
14-Feb	US	Industrial Production MoM	Jan	0.3%	--	0.3%
		Capacity Utilization	Jan	79.4%	--	79.2%
		Manufacturing (SIC) Production	Jan	0.3%	--	0.4%
		Univ. of Michigan Consumer Confidence	Feb P	80.5	--	81.2
	Indonesia	BoP Current Account Balance (USD mn)	4Q 13	--	--	-$8449M

Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.