

## EM Asia and globalization

July 2017

EM Asia and ASEAN Economics

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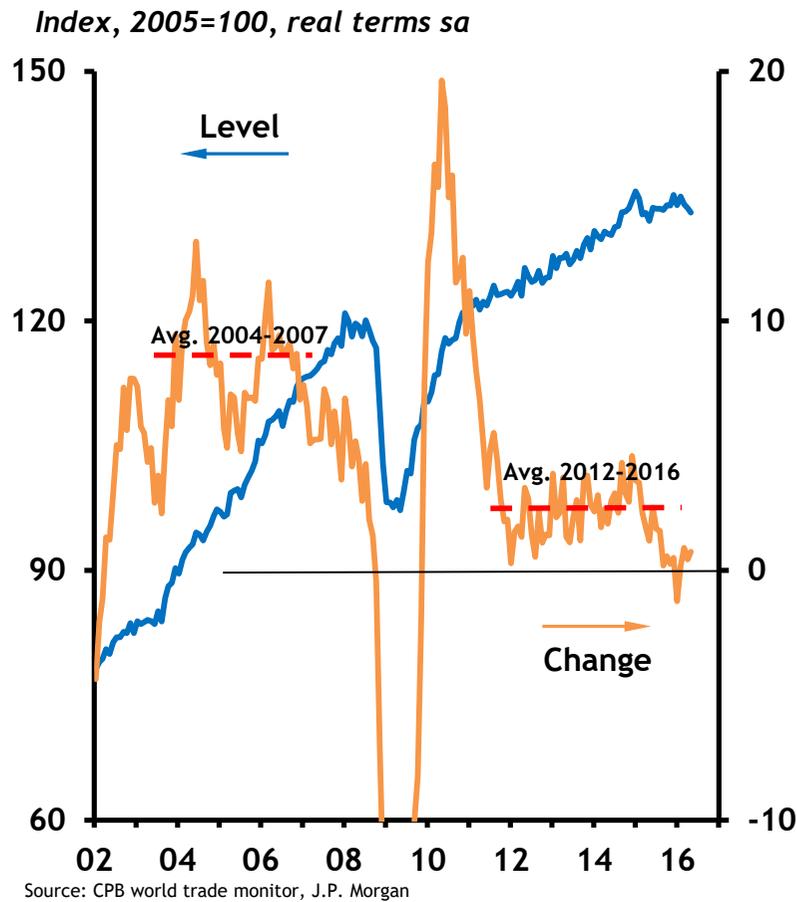
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# EM Asia – Growth, Demographics, Debt

- 1. Growth has been reliant on G-3 trade which is sputtering, new engines have yet to fire**
  - G-3 has been a key driver of trade and growth for EM Asia
    - Trade wars and growth
  - China's shift into services – tends to be “trade lite”
    - Rest of EM Asia has yet to find new growth engines
- 2. Political headwinds rise amid soft growth and turning demographics**
  - Rising dependency ratios
  - Pension systems generally not adequate
- 3. Financial cycle looking extended in China**
  - Banking sector crises tend to exacerbate market sell-offs: 1997/1998 and 2008
  - China's financial cycle is flashing amber on some measures

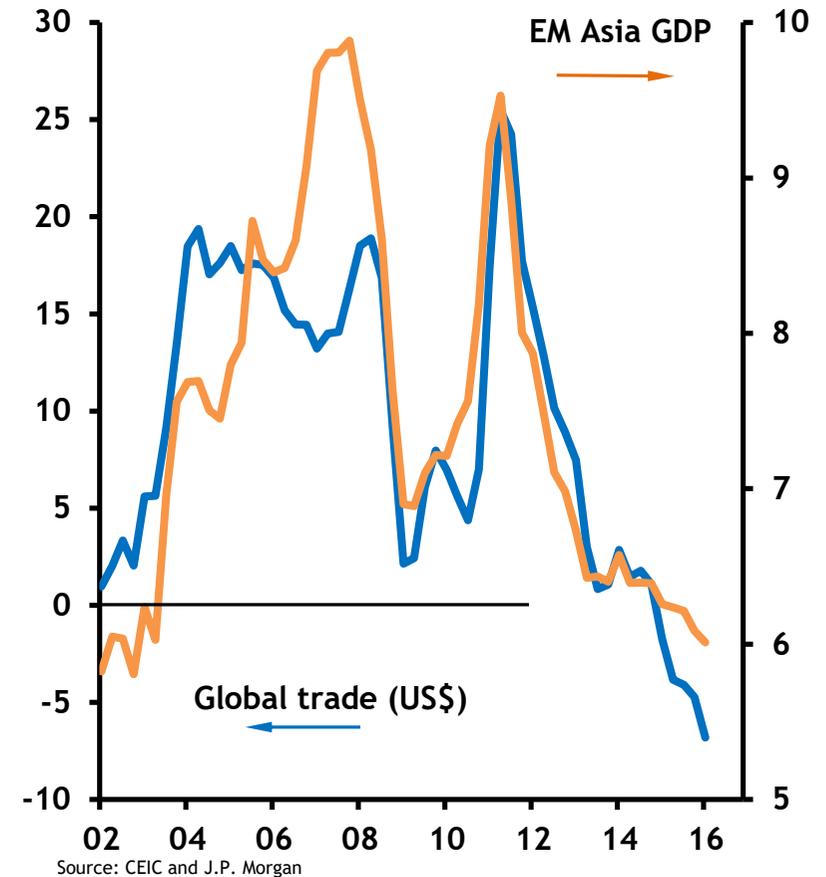
# 1. Weak exports key driver of slowing growth

## World merchandise trade



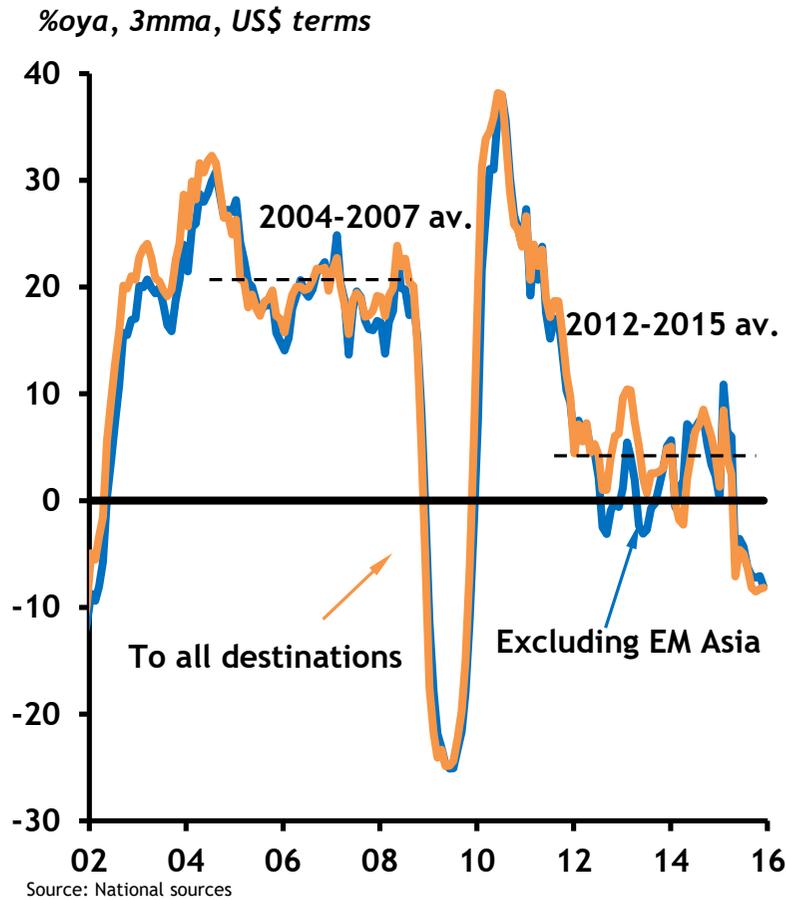
## EM Asia: GDP and global trade

%q/q saar 8-qtr mma, both scales

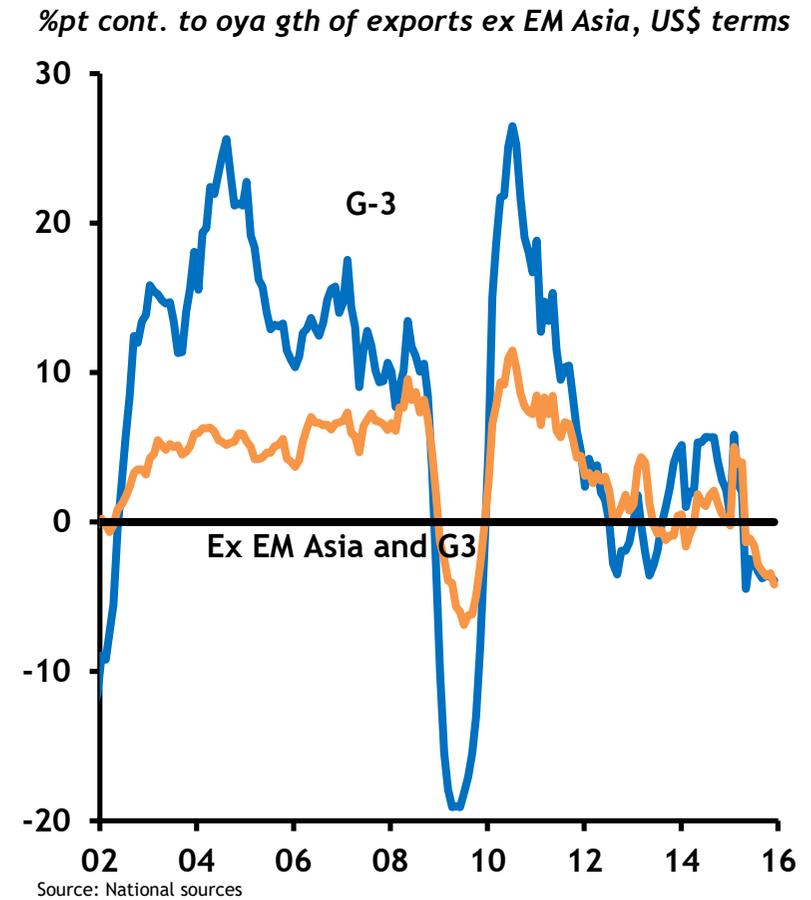


# EM Asia and G-3 – unhitching the locomotive

## EM Asia exports



## Contribution to EM Asia export growth

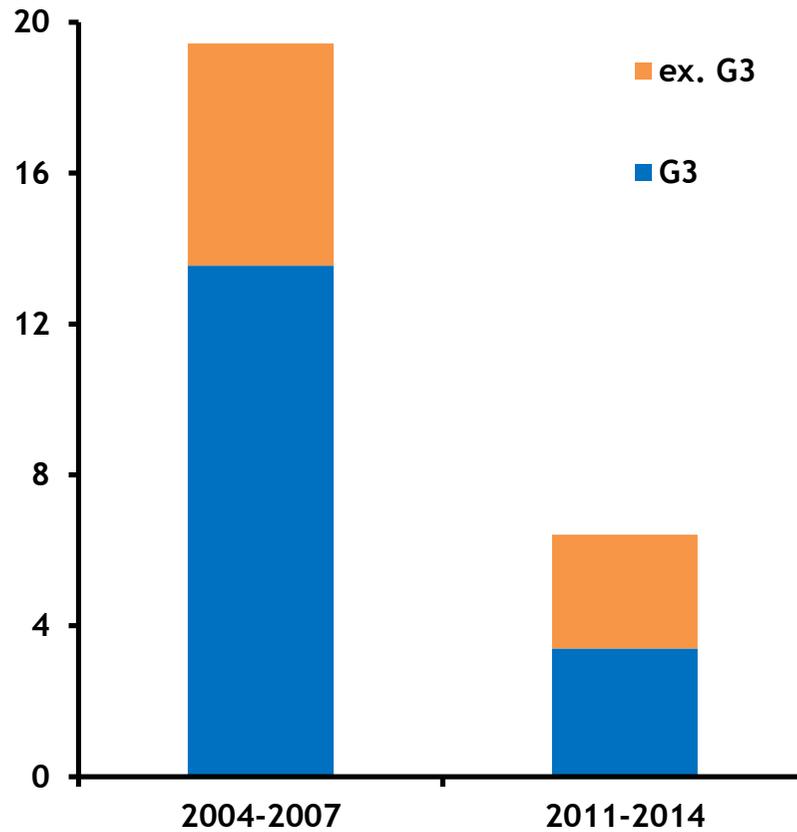


Source for all charts: J.P. Morgan

# US has been doing bulk of heavy lifting in G-3

**Contribution to EM Asia extra-regional export growth**

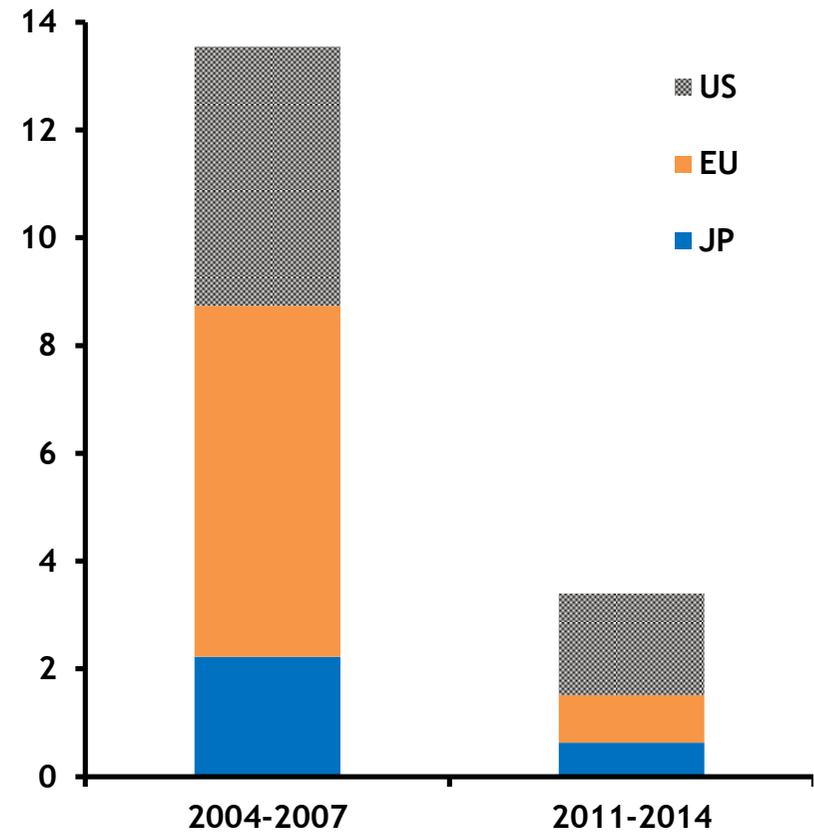
*%pt contribution to average headline %oya growth*



Source: National sources, J.P. Morgan

**G-3 Contribution to EM Asia extra-regional export growth**

*%pt contribution to average headline %oya growth*

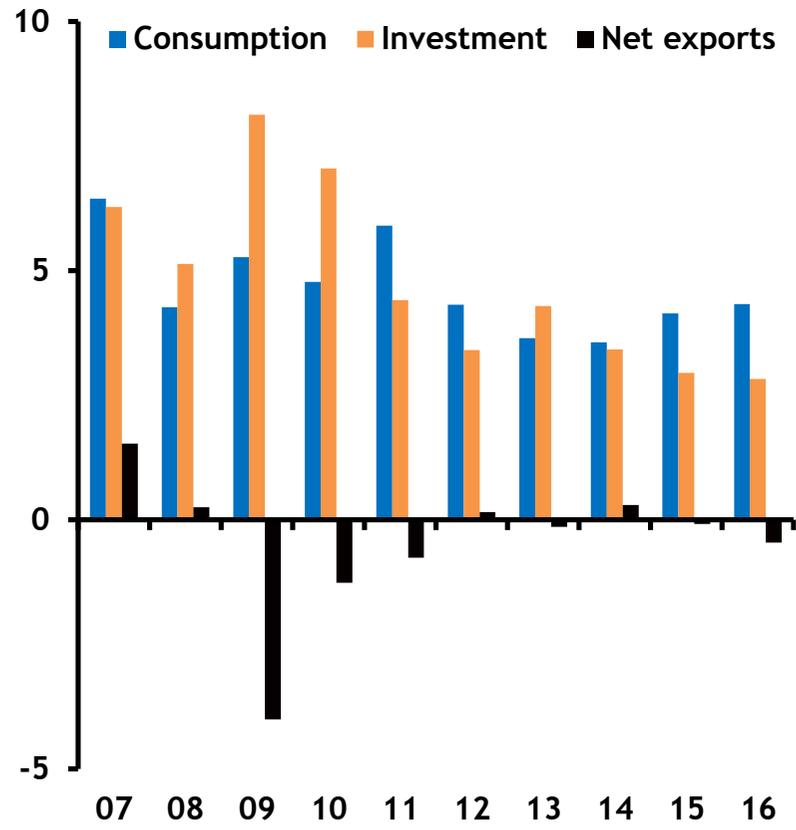


Source: National sources, J.P. Morgan

# China's rebalancing

## Contribution to headline GDP growth

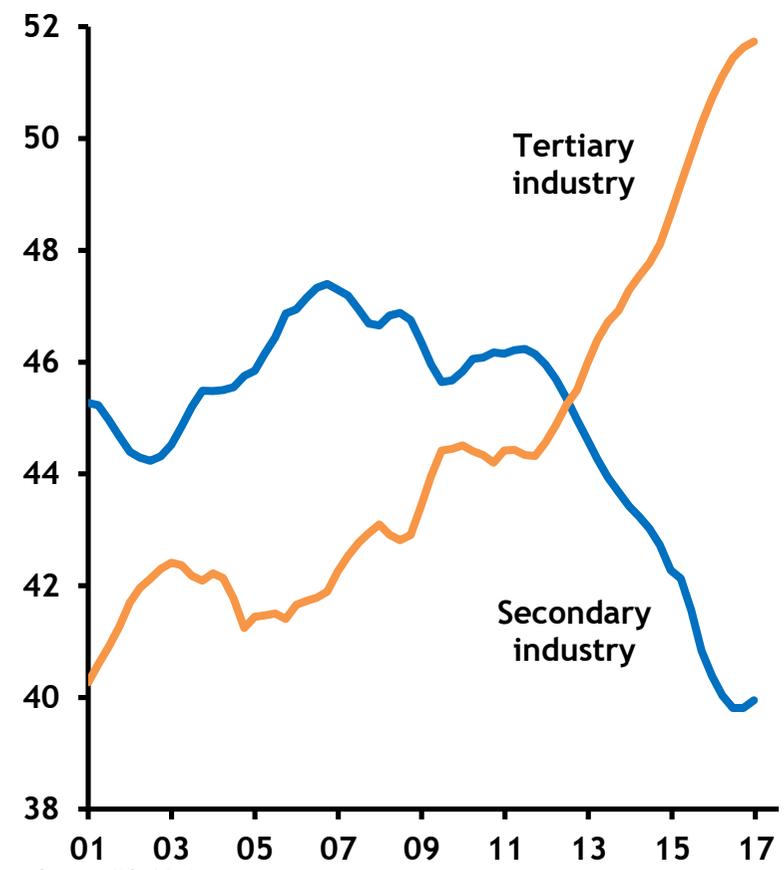
%-pt contribution to headline %oya growth



Source: NBS, J.P. Morgan

## China: GDP composition

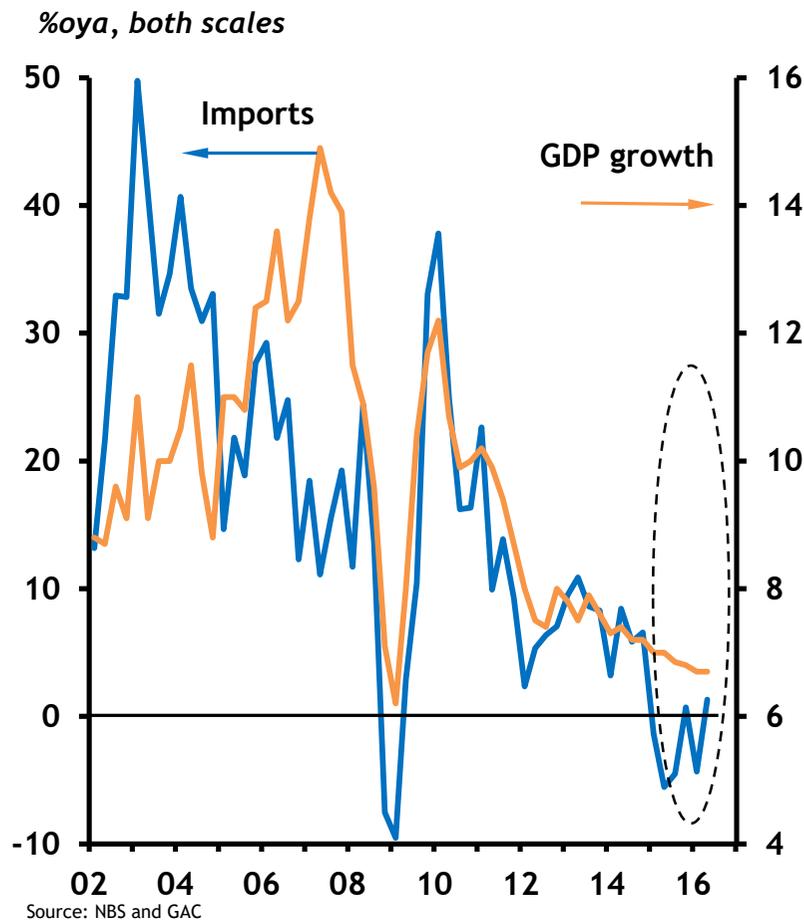
% share of total GDP, 4qma



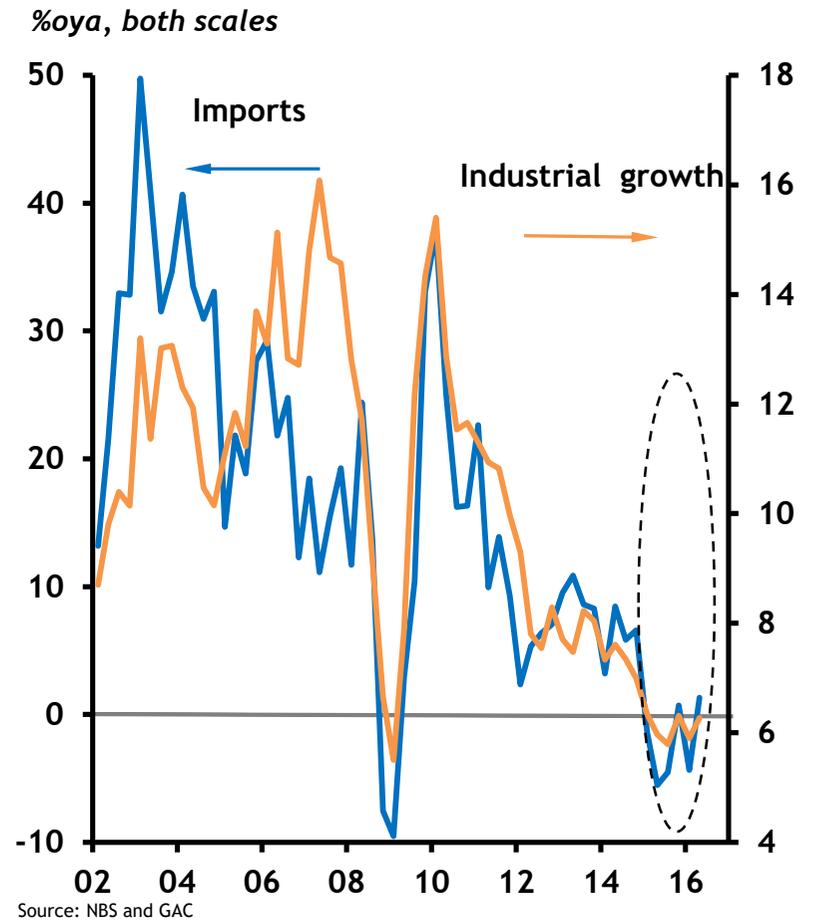
Source: NBS, J.P. Morgan

# Brings with it a new found lightness

## China: real imports and GDP



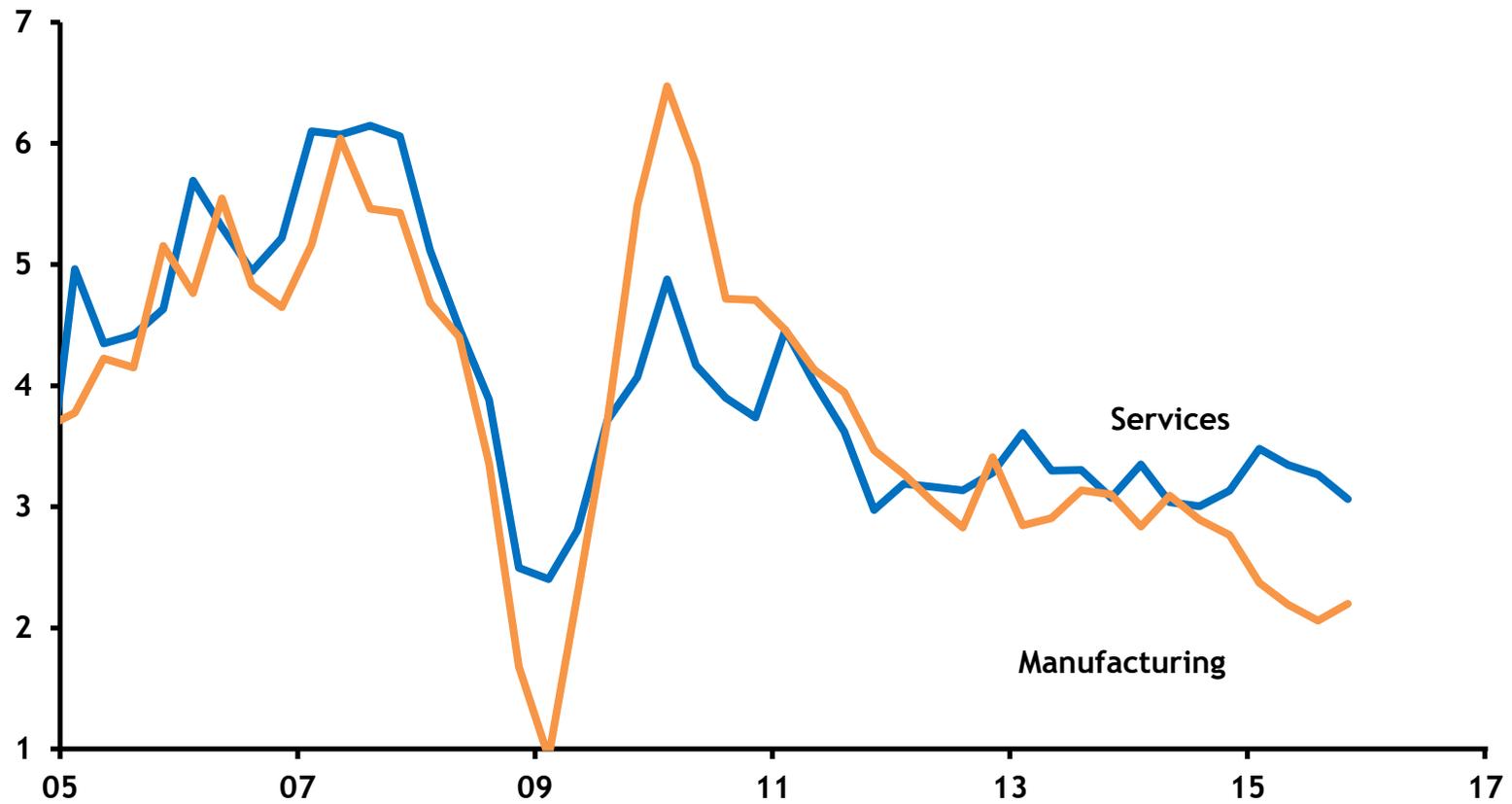
## China: real imports and manufacturing



# Rest of region still searching for new engines

## EM Asia ex CN/IN GDP growth

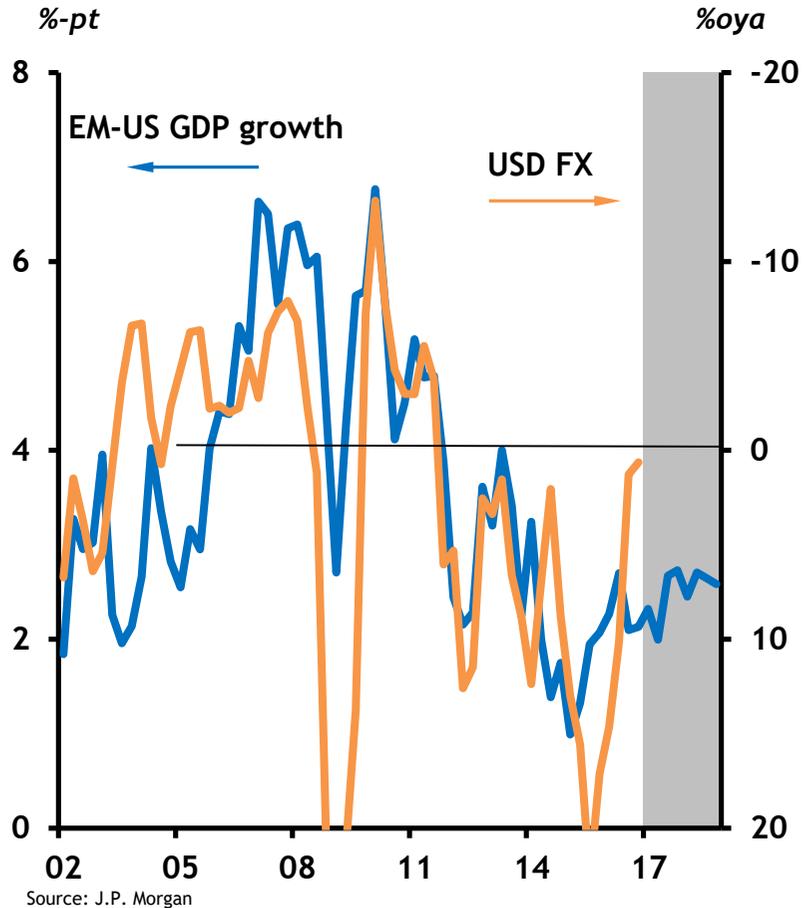
*%-pt. contribution to oya GDP growth*



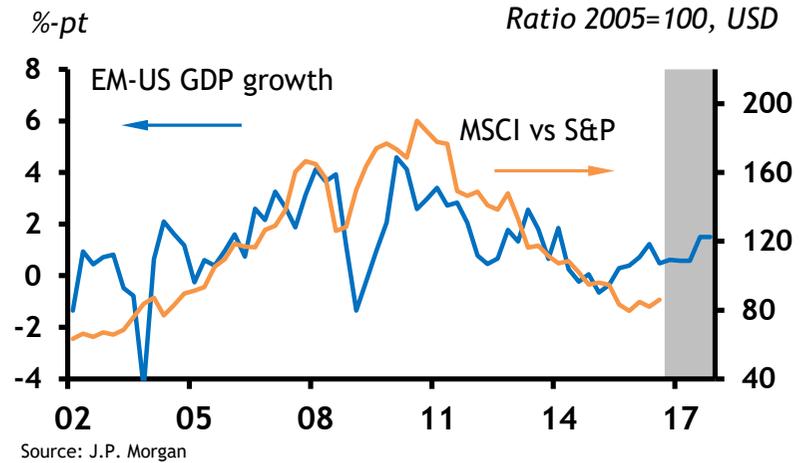
Source: National statistics authorities, J.P. Morgan.

# Growth differentials drive relative asset valuations

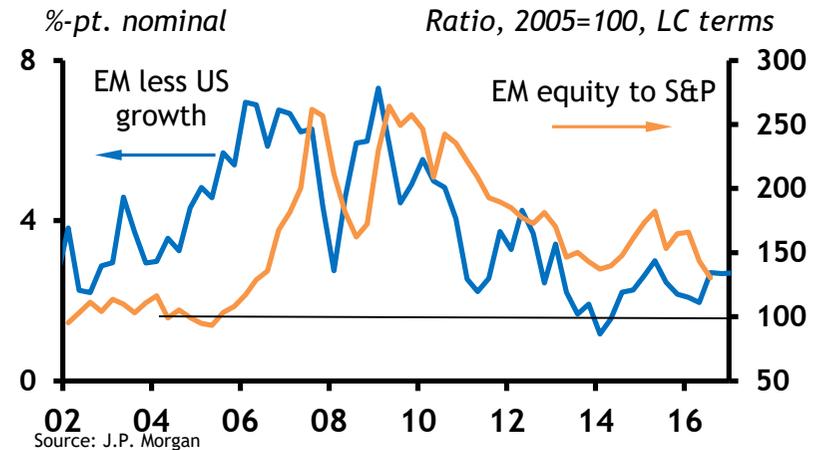
## EM: growth differential and FX



## EM: growth differential and equity

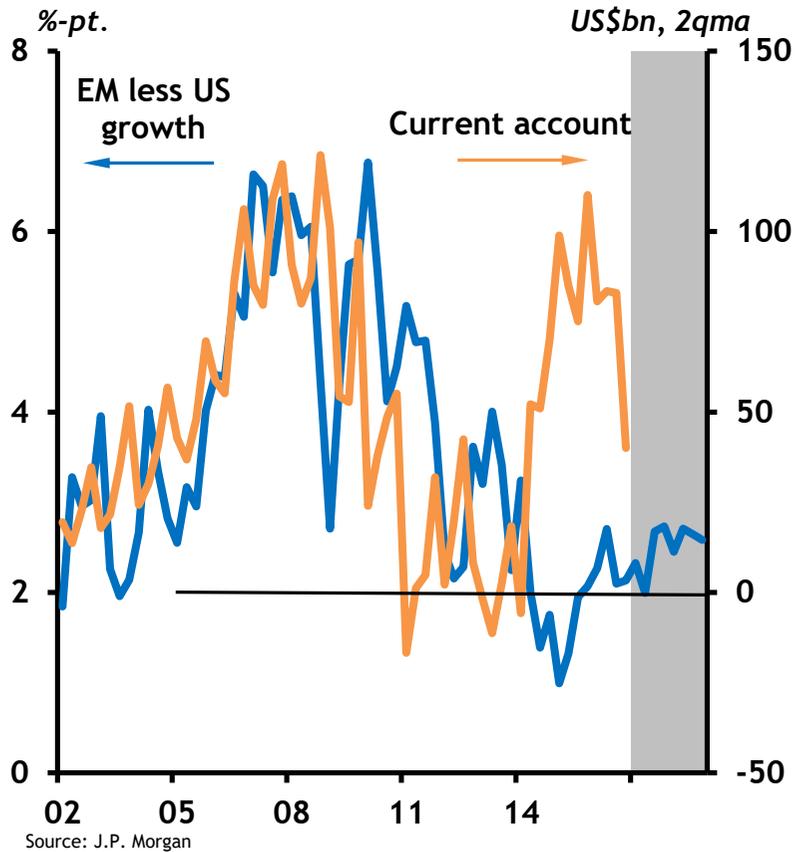


## EM-US growth differential and equity

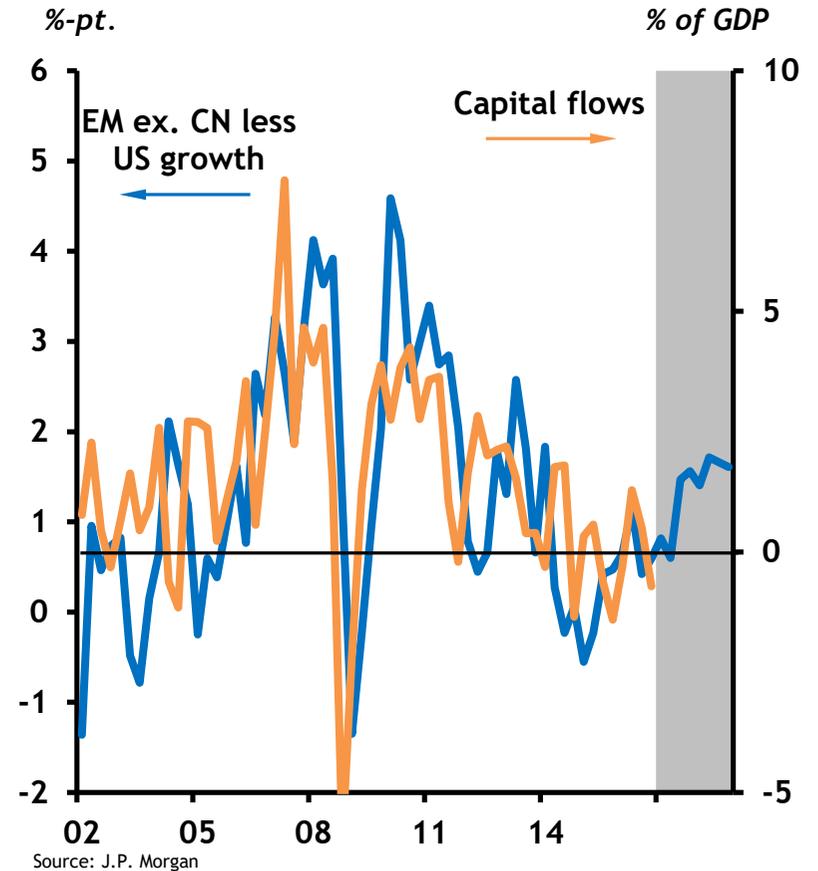


# Via capital not current account flows

EM-US growth differential and current account flows



EM ex. CN-US growth diff. and K flows



# With much bigger impact than the interest rate differential

## Growth, policy rates, and FX

*Dependent variable quarterly USD exchange rate change*

	<u>05Q1-08Q2</u>				<u>12Q1-15Q2</u>			
	Gth diff	p-val	Int diff	p-val	Gth diff	p-val	Int diff	p-val
EM	1.0	0.0	2.0	0.0	2.1	0.0	0.3	0.5
Asia	0.9	0.0	1.3	0.0	3.1	0.0	0.4	0.6
<b>LATAM</b>	<b>2.1</b>	<b>0.1</b>	<b>2.7</b>	<b>0.0</b>	<b>3.4</b>	<b>0.0</b>	<b>3.3</b>	<b>0.0</b>
EMEA	0.2	0.7	1.6	0.0	2.2	0.0	-0.6	0.3

Source: J.P. Morgan

Panel GMM estimates; instruments: lagged FX; capital flow; growth & interest differentials

## Capital flows, growth and policy rates

*Dependent variable: capital flows-to-GDP ratio*

	Gth diff	p-val	Int dff	p-val
05Q1-15Q2	0.49	0.00	-0.23	0.00
05Q1-08Q2	0.55	0.00	0.40	0.03
12Q1-15Q2	0.50	0.01	0.35	0.21

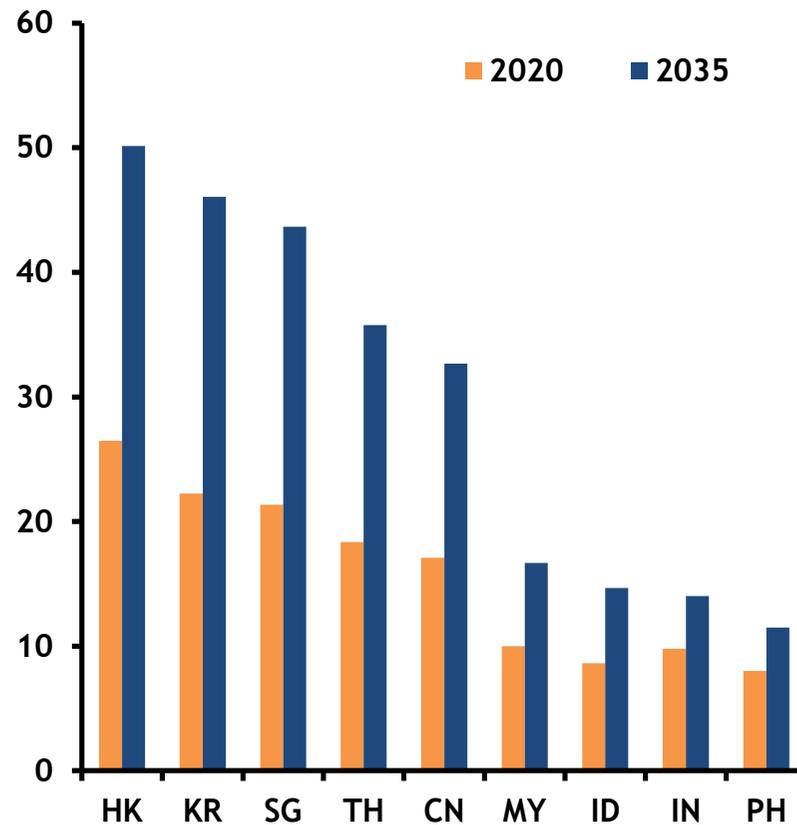
Source: J.P. Morgan

Panel GMM estimates, instruments: lagged FX; capital flow; growth & interest

## 2. Demographics turning into a headwind

### EM Asia: Old-age dependency ratio

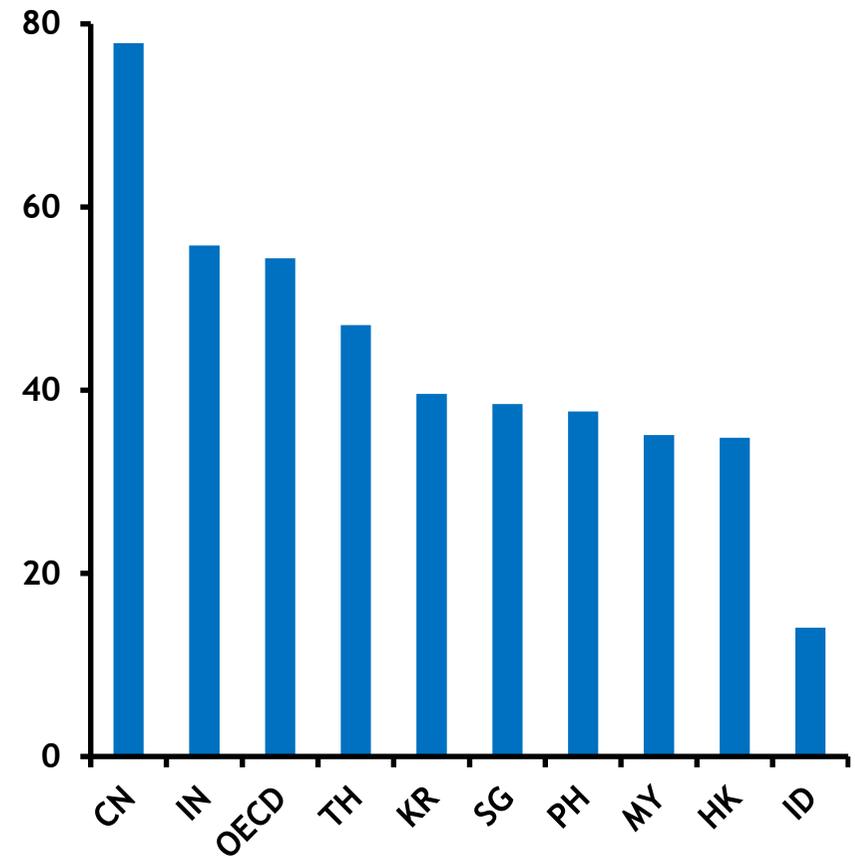
Ratio of population aged 65+ per 100 population aged 15-64



Source: UNDESA, J.P. Morgan

### EM Asia pension replacement rates

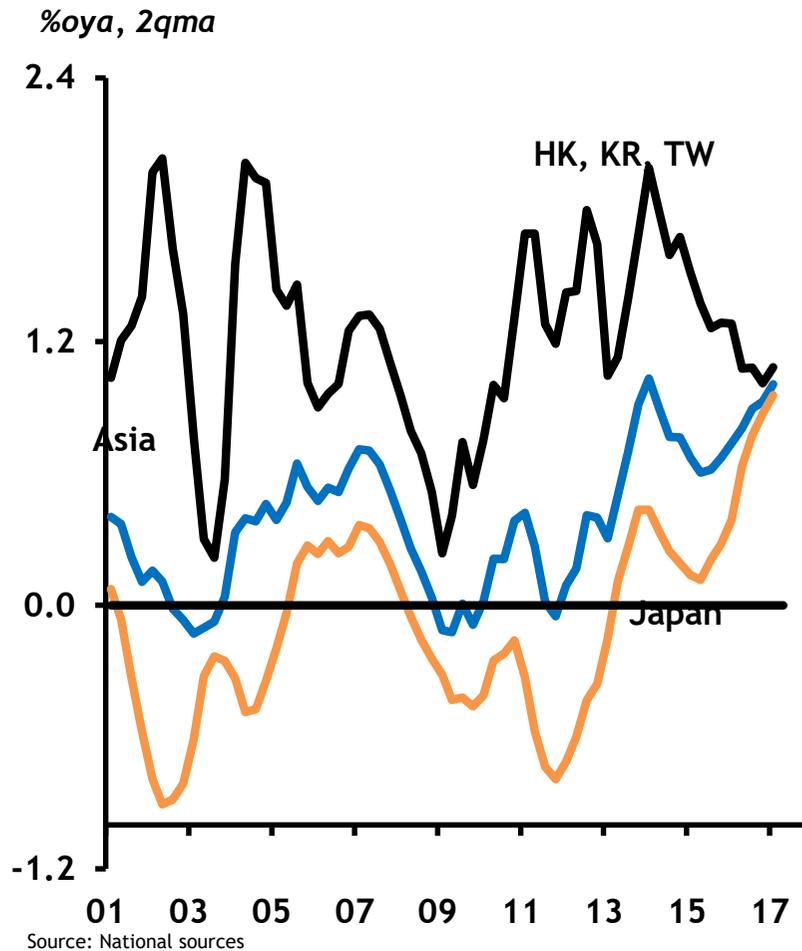
% of last drawn income



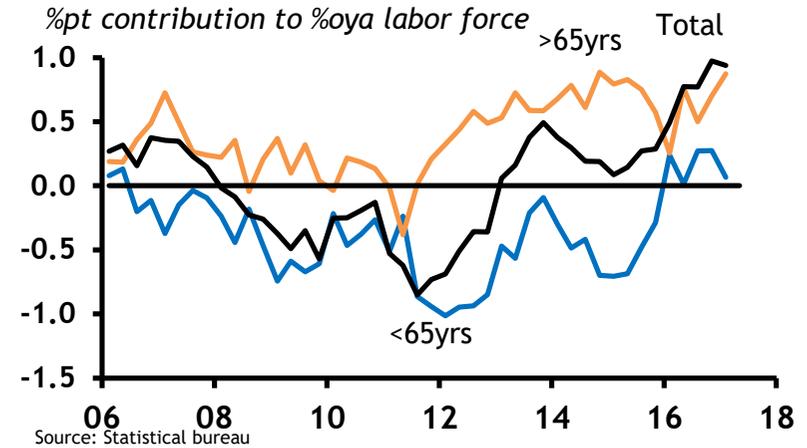
Source: OECD

# Labor force growth rising due to older workers

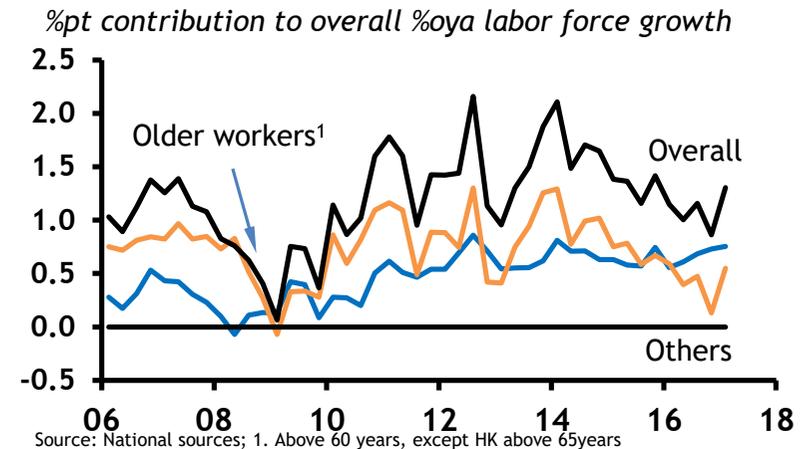
## Asia labor force



## Japan labor force

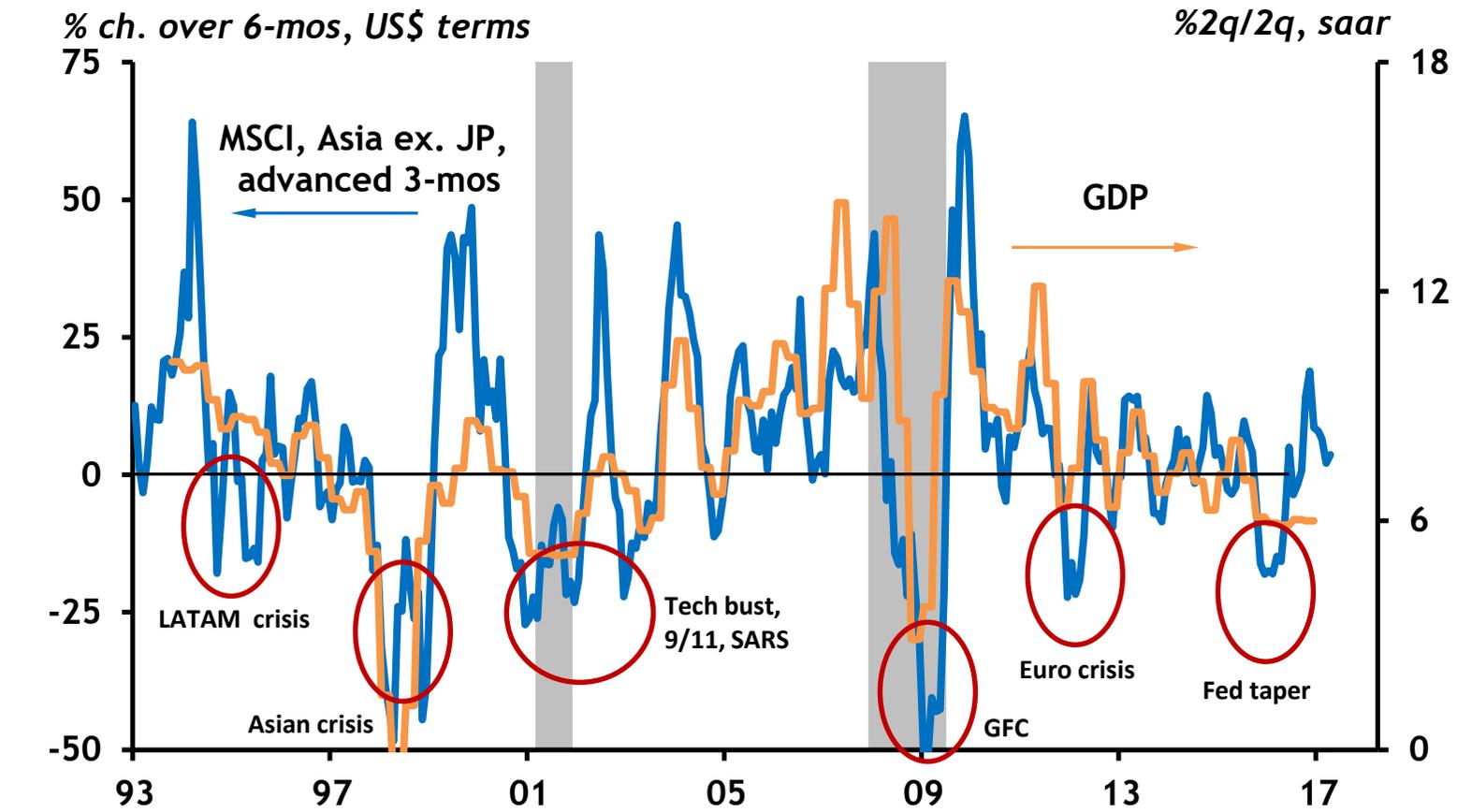


## HK, KR and TW labor force



# 3. Banking crises, growth and equities

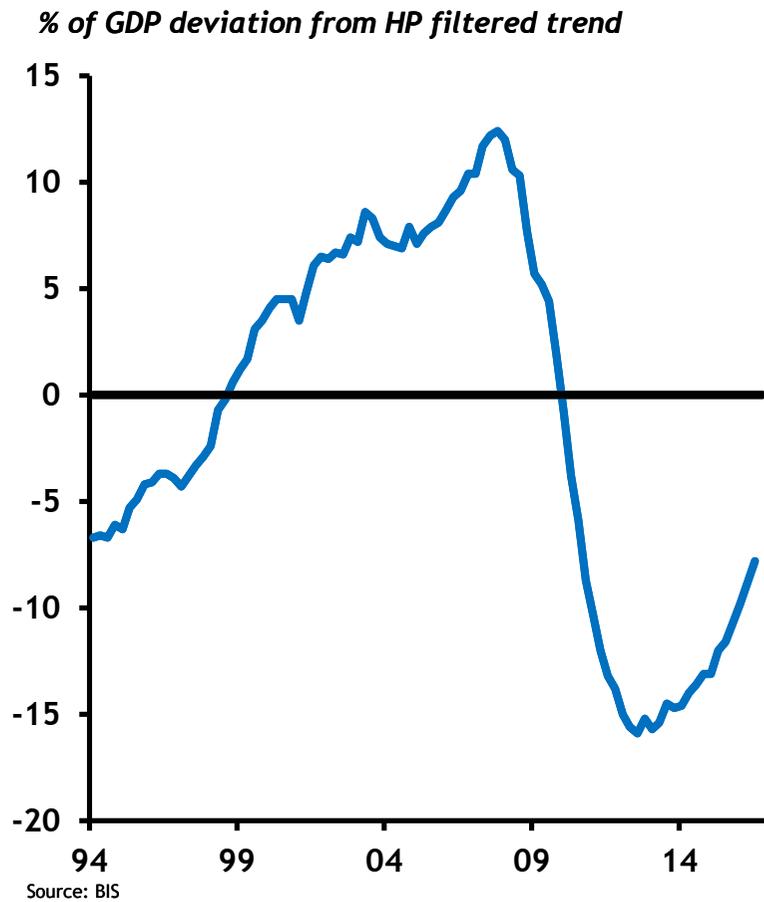
## EM Asia equities and real GDP



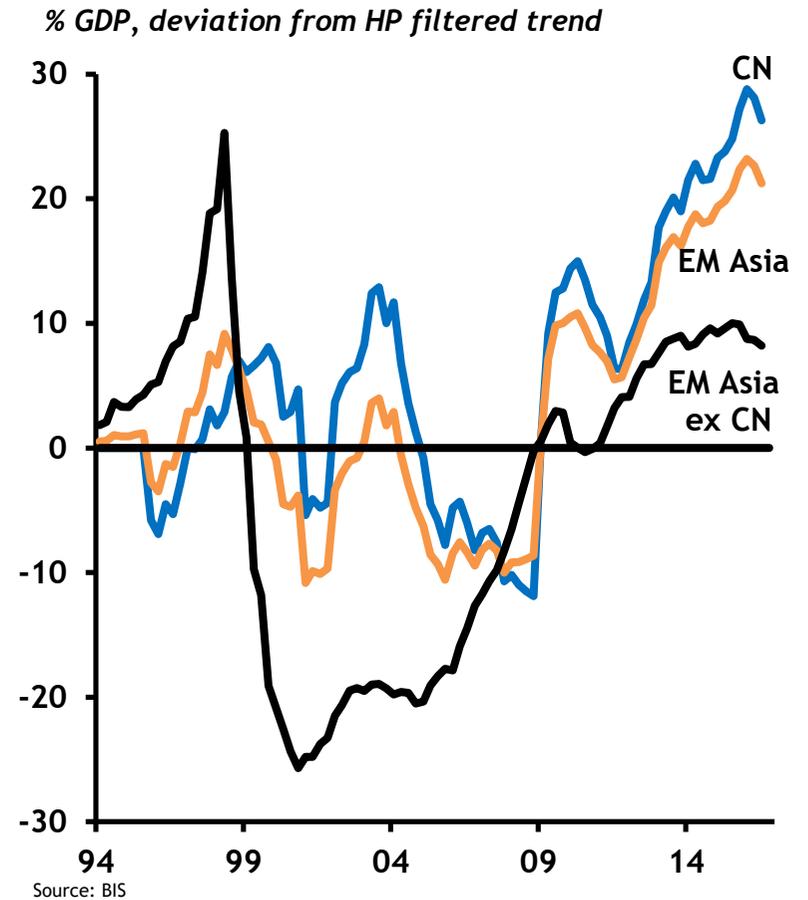
Source: national sources and Bloomberg, shaded area denotes US recessions

# i. EM Asia credit gaps

## US credit gap



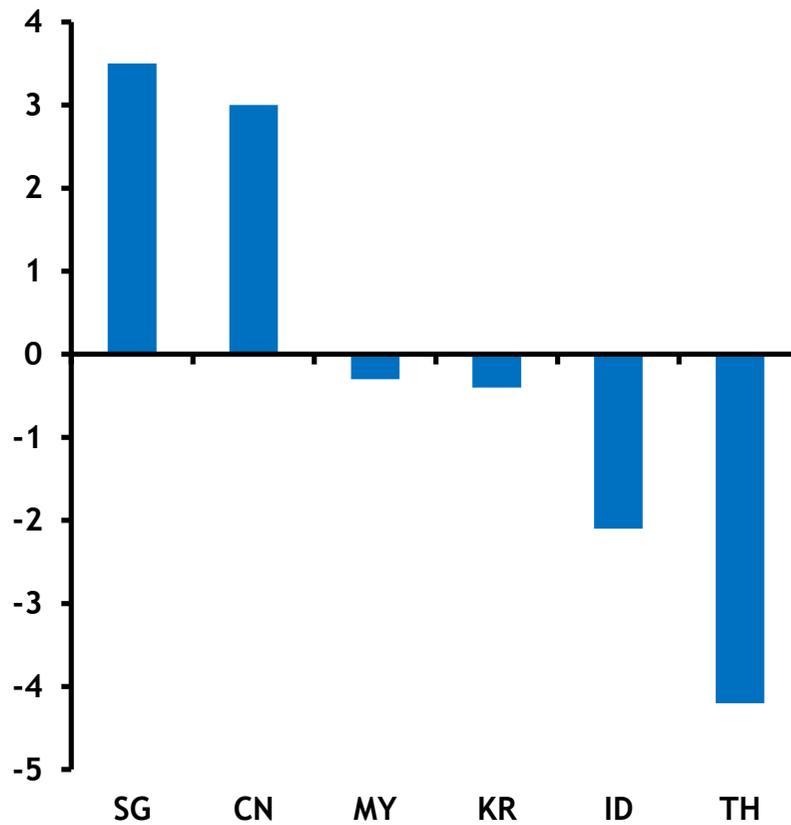
## EM Asia credit gaps



# Singapore also notable

## EM Asia change in credit gap

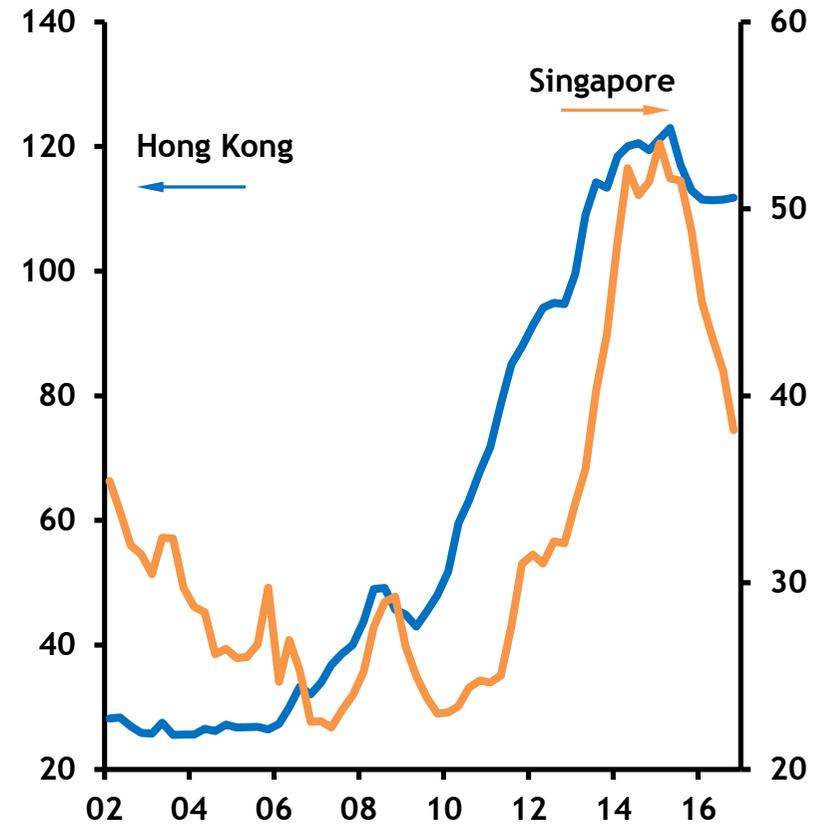
% GDP, deviation from trend, 3Q16 less 1Q15



Source: BIS

## Hong Kong & Singapore: loans to China

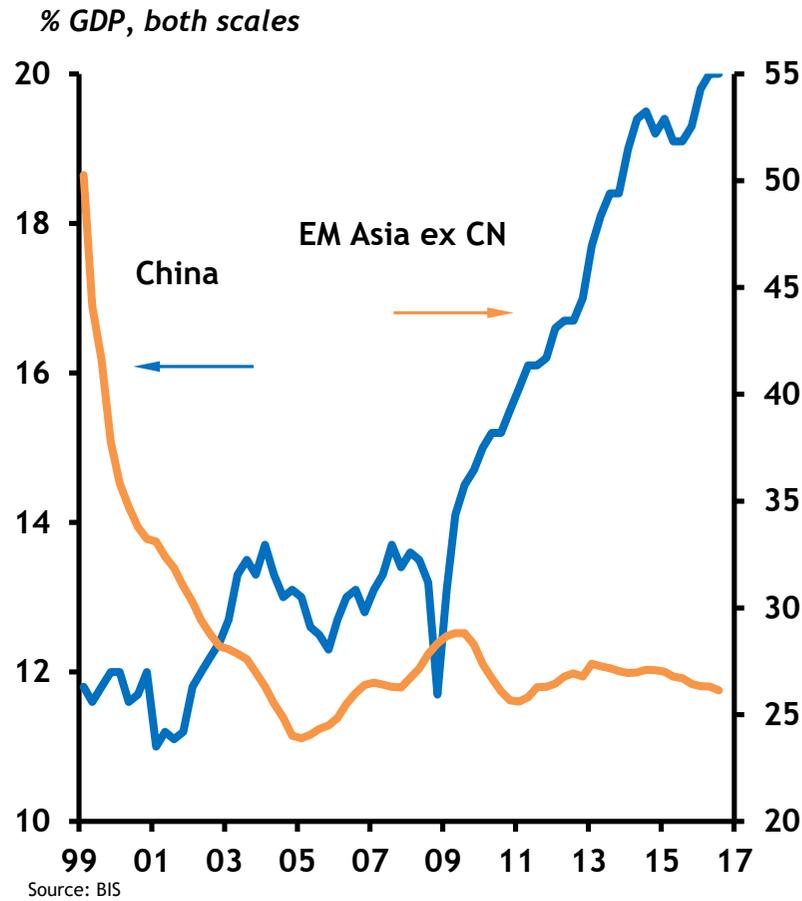
% GDP, both scales



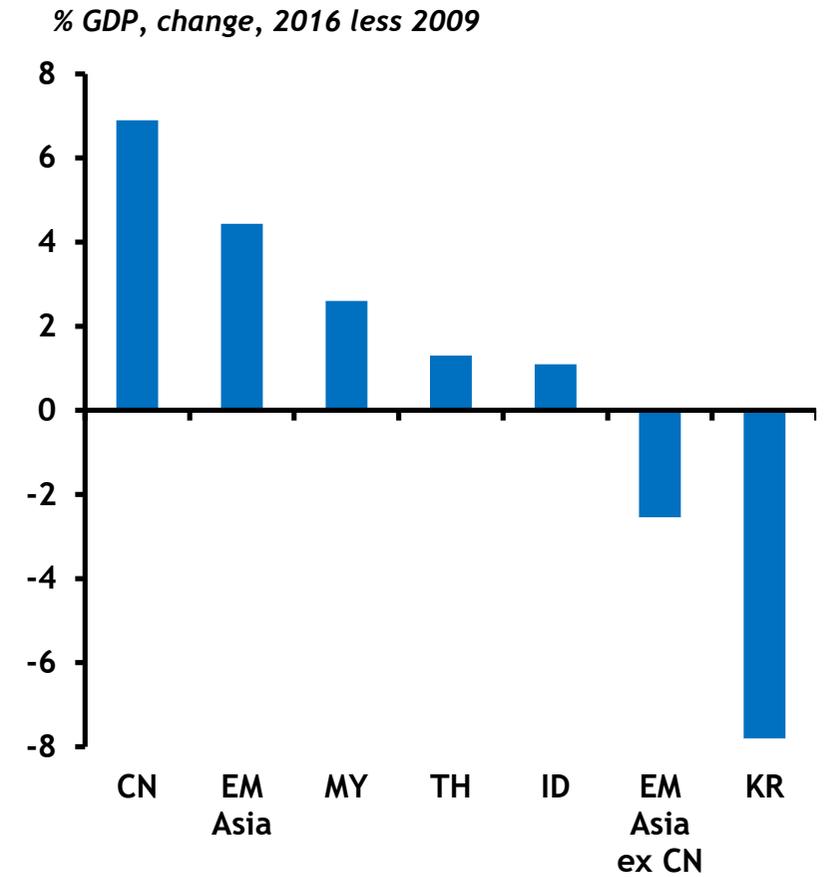
Source: MAS and HKMA

## ii. EM Asia debt service

### EM Asia bank credit debt service



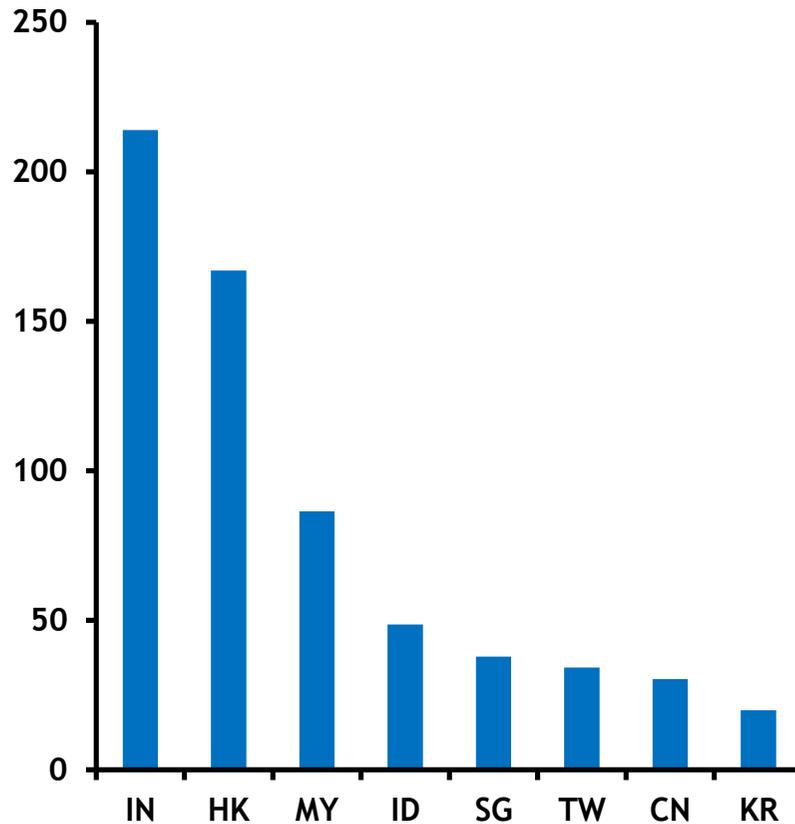
### EM Asia debt service



### iii. Real estate and other indicators are less worrying

#### EM Asia residential real estate prices

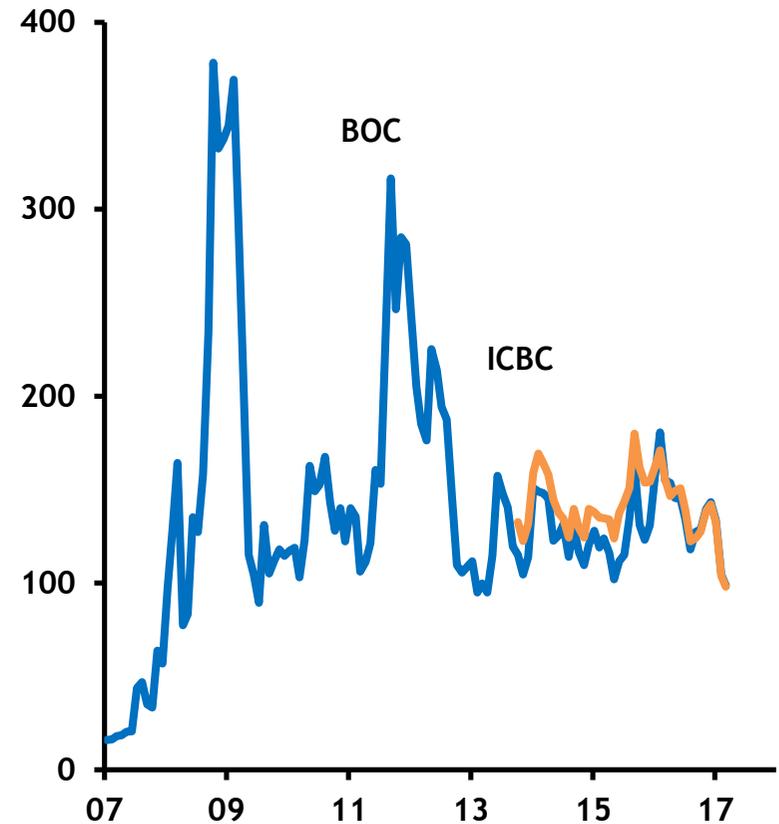
% change, 3Q16 from 1Q09, LC terms



Source: BIS

#### China: ICBC and BOC 5-yr CDS

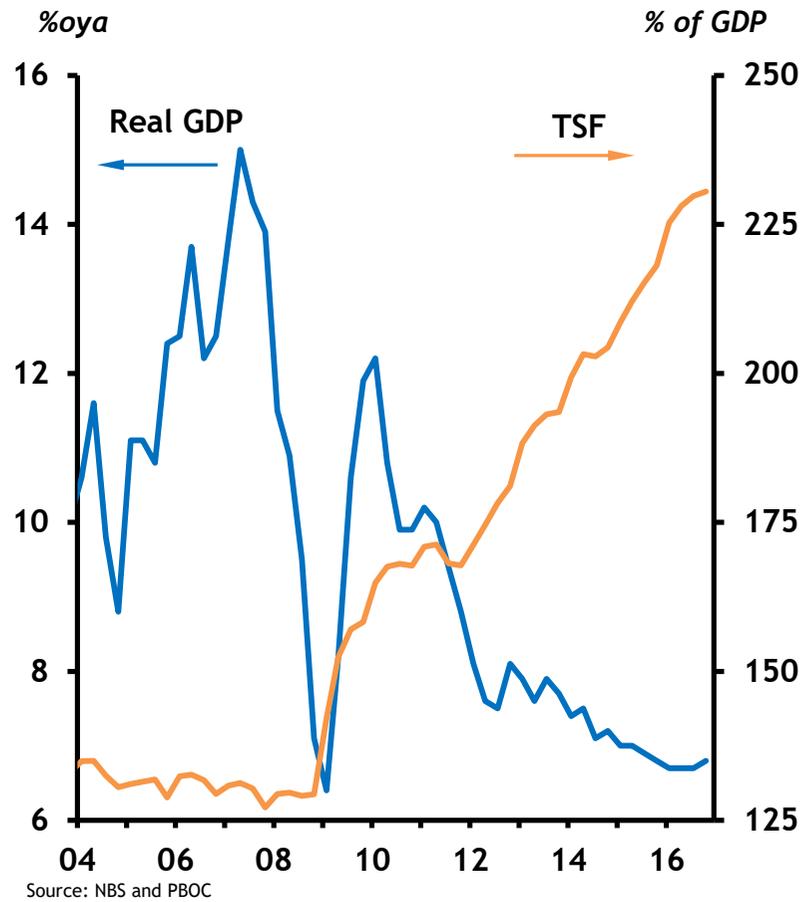
Bp over US Treasuries



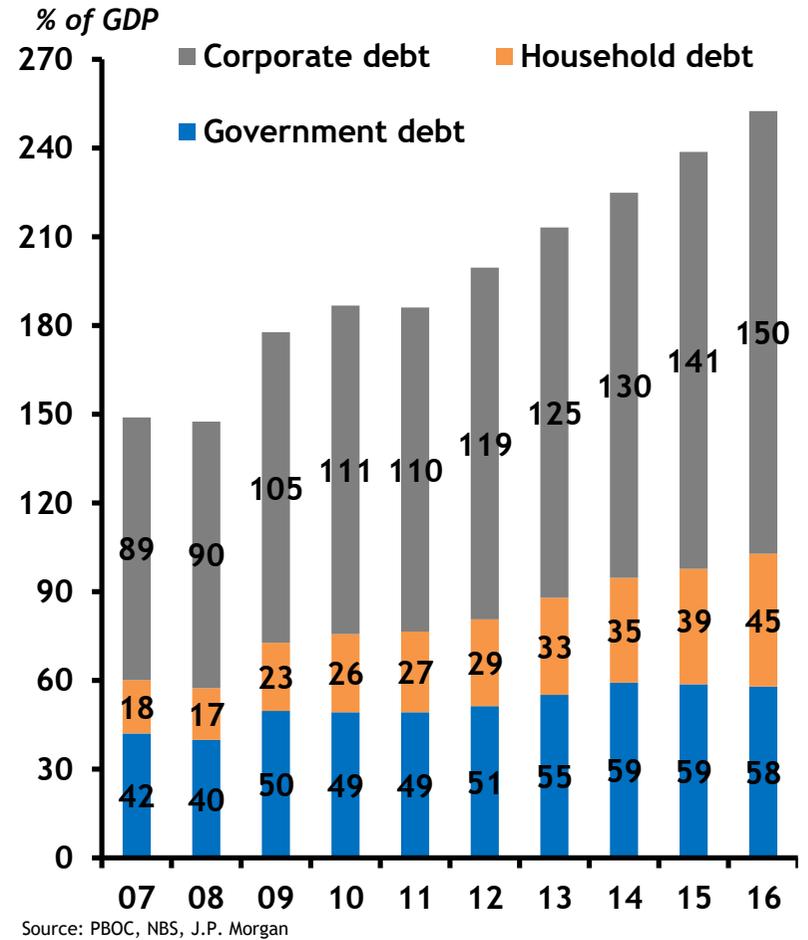
Source: Bloomberg

# China's financial vulnerability: rapid debt increase

## China credit and GDP

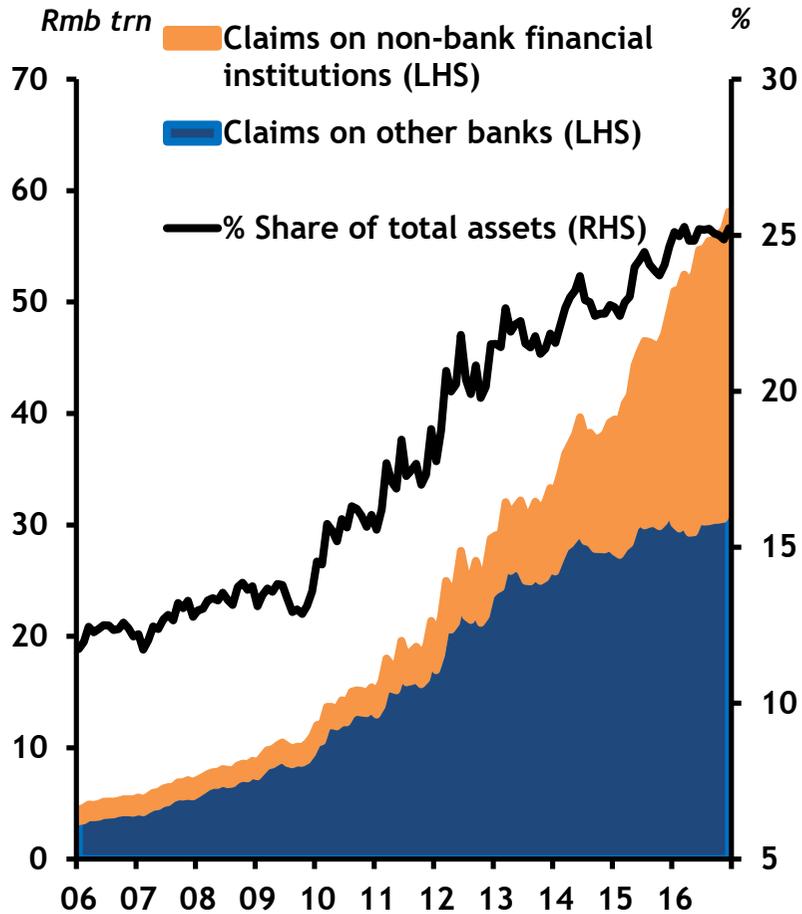


## Total social debt



# China's financial vulnerability: shadow financial activity

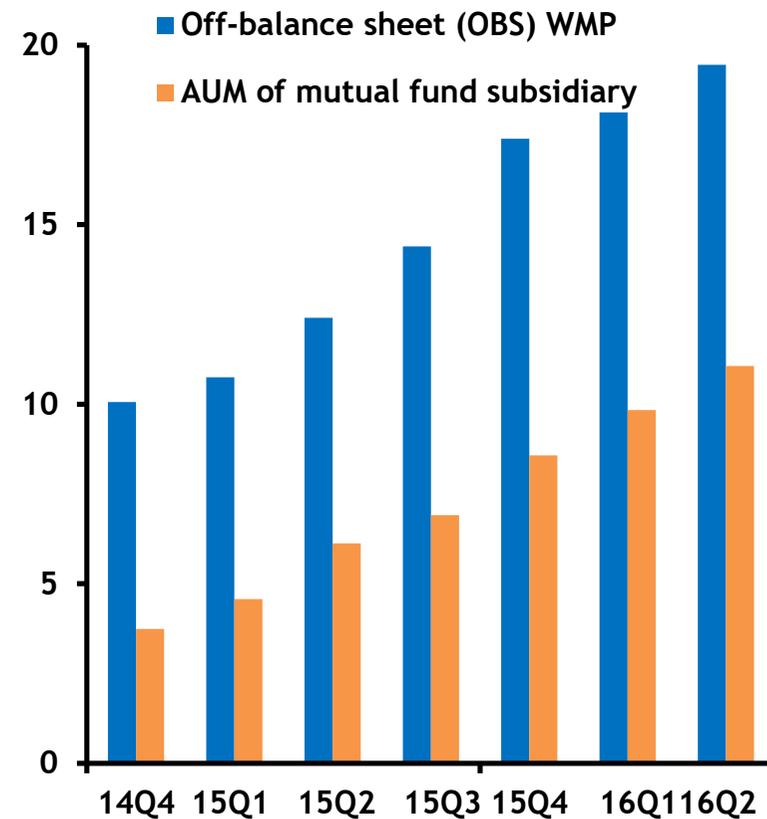
## China: Interbank assets



Source: CEIC

## OBS WMP and AUM of mutual funds

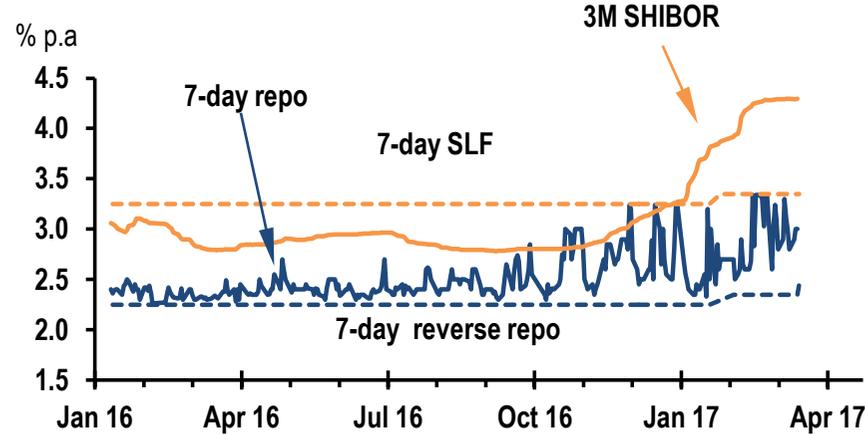
Trillion yuan, outstanding



Source: CEIC; WIND; J.P. Morgan Equity Research.

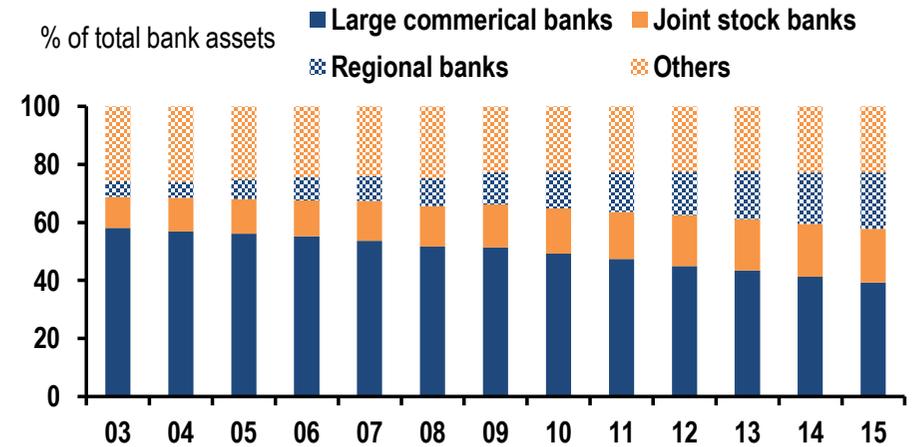
# Financial de-leveraging efforts: small and mid-sized banks

Market-based interest rates



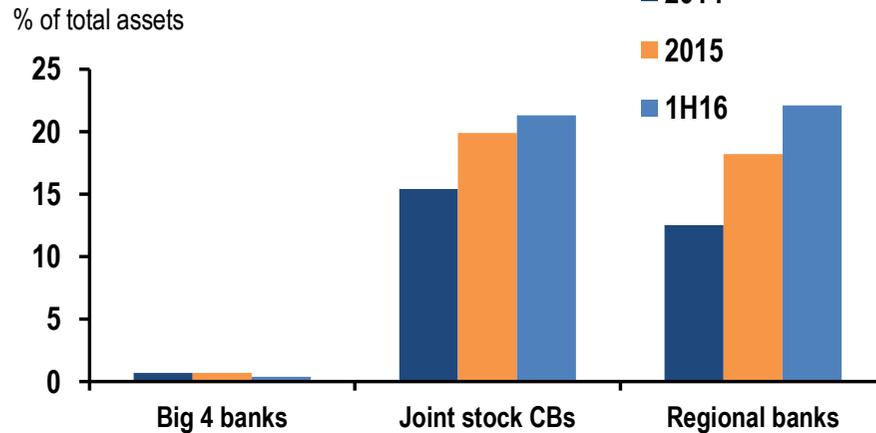
Source: Bloomberg, J.P. Morgan

Figure: Banks' market share by category



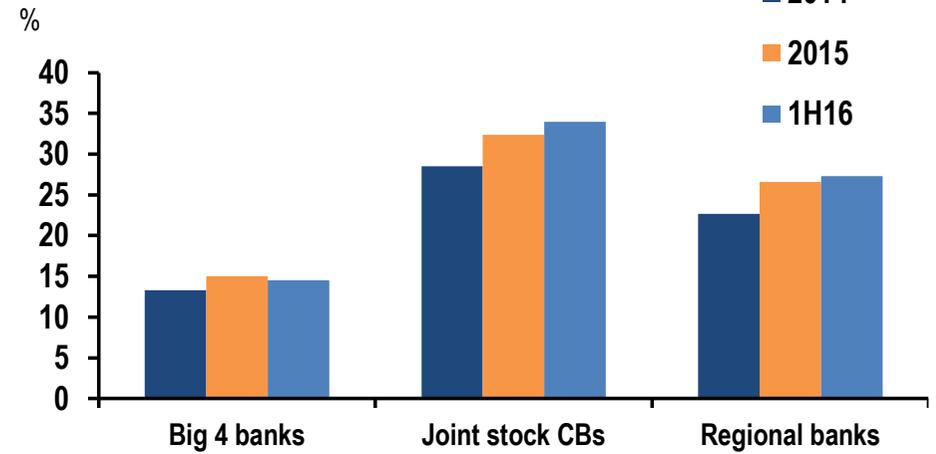
Source: CBRC

Non-standardized assts (NSA)



Source: J.P. Morgan Equity Research

(Interbank liability + bond issued) / total liabilities

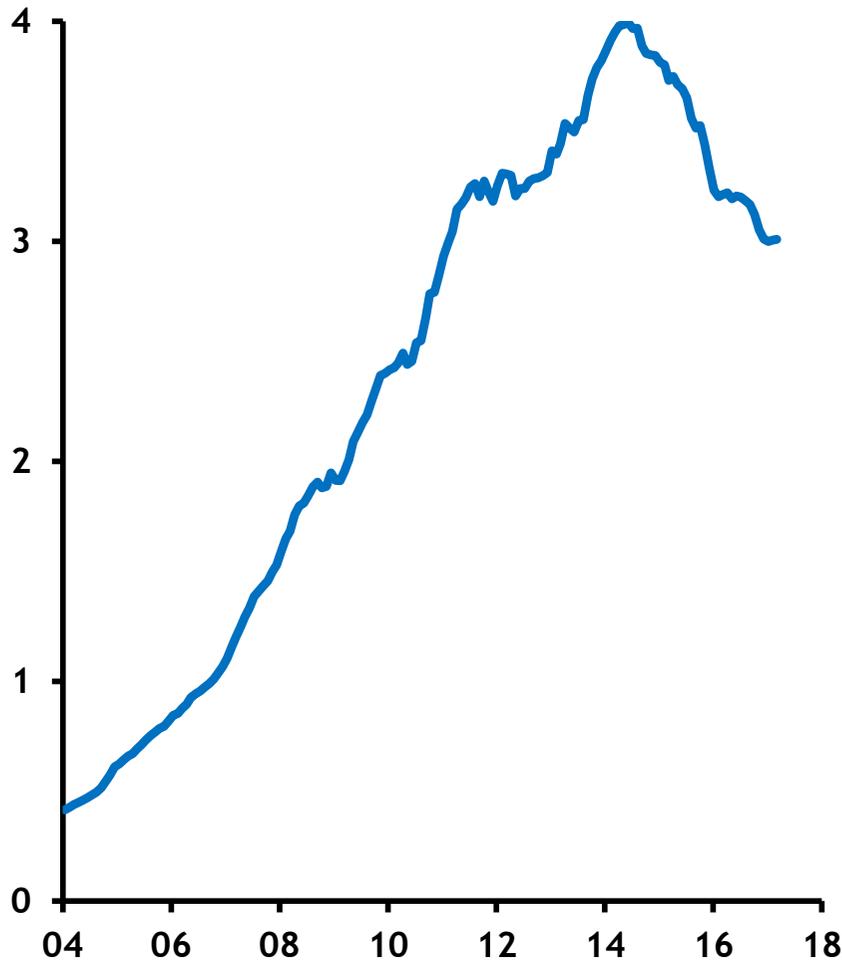


Source: J.P. Morgan Equity Research

# China's financial vulnerability: capital outflow pressure

## China's FX reserve

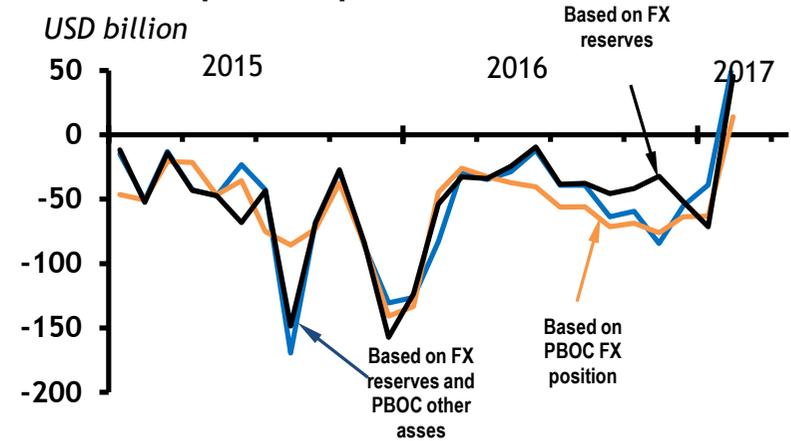
USD trillion, eop



Source: SAFE

## China: implied capital outflows

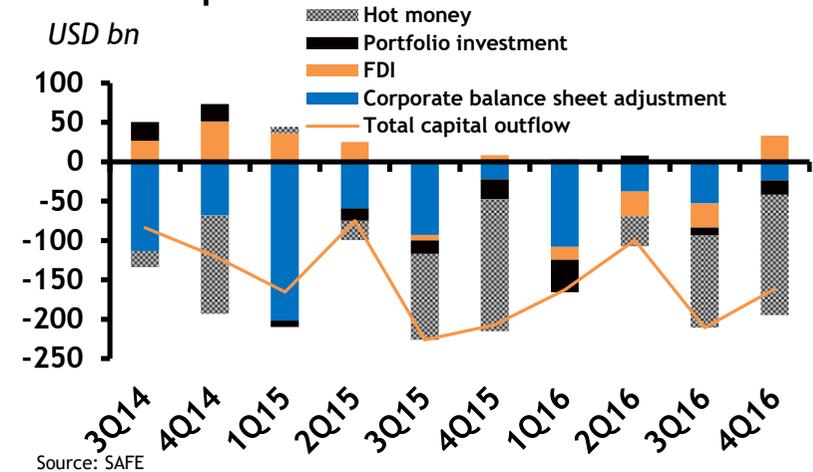
USD billion



Source: PBOC, J.P. Morgan

## China: Capital flow breakdown

USD bn



Source: SAFE

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## Disclosures

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