Economics

DBS Flash

Singapore: Beyond the noises

Group Research

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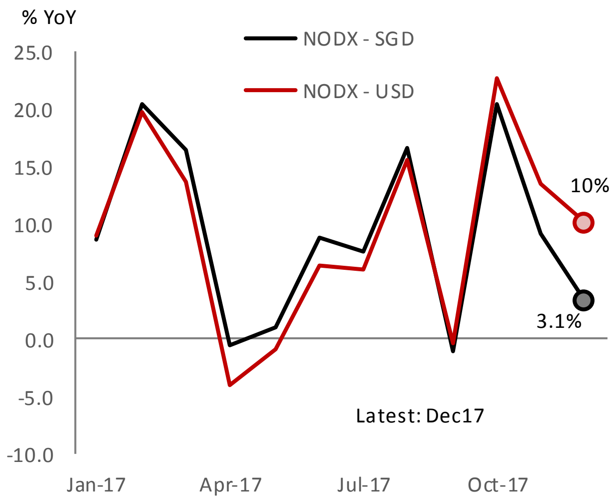
- Non-oil domestic export (NODX) growth moderated to 3.1% YoY in December. Sequentially, the headline number fell by 5% MoM sa.
- A high base in the same period last year, technical payback from the strong performance in the past few months and, most importantly, the strong SGD, have contributed to the reported weakness in the NODX.
- We expect more volatility in exports in the coming months due to the upcoming Chinese New Year but overall outlook for NODX remains positive.

Singapore's non-oil domestic exports (NODX) for December moderated to 3.1% YoY, from 9.1% previously. NODX fell by 5%, seasonally adjusted, compared to the previous month.

A confluence of exogenous noises is at play in the NODX data:

Firstly, December 2016 is a high base, which has weighed down the YoY figure for Dec17. At SGD 14.6bn, the reading in Dec16 was the second highest in the entire year. Moreover, after two consecutive months of very strong run (above SGD 15bn), it shouldn't come as a surprise to see some "normalization" in export sales. Call it technical payback perhaps but that certainly contributed to the month-on-month decline.

NODX in SGD vs USD

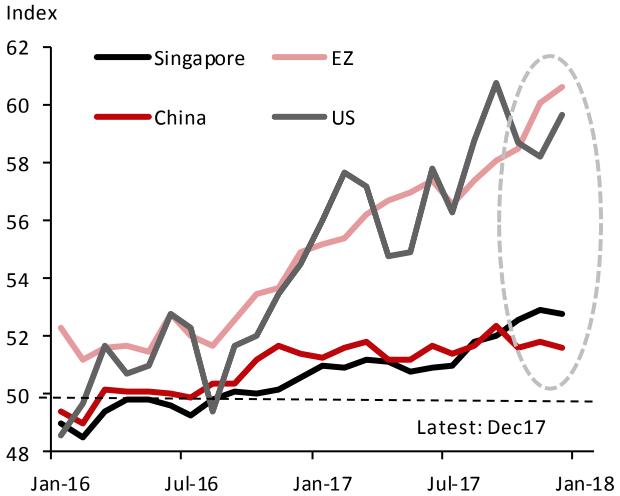


Most importantly, the SGD appreciated against the USD by 6.2% in Dec17 versus the same period a year before. As most international trade is carried out in USD but the NODX figure is reported in SGD, there is a substantial amount of currency effect at play. In some way, this distorts the headline numbers. In fact, Dec17 NODX would have reported an expansion of 10% if it is reported in USD term.

In our opinion, the outlook remains bright. PMI figures in all key markets are strong, underscored by a synchronized recovery in the global economy. We expect such sanguine outlook to continue for the rest of the year, notwithstanding the effect from global monetary policy normalization.

Yet, export sales in the next two months will be volatile, largely due to the Chinese New Year effect. Plants in China, who are key buyers for components

PMIs rising



and intermediate products, will typically ramp up production ahead of the festive period before shutting down their production during the holiday. Moreover, the festive season falls on different months every year - February this year versus January last year. This further exacerbates the volatility in the YoY series and distorts the overall NODX figures. Hence, it pays to take the NODX and industrial production figures during this period of the year with a pinch of salt.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).