## Unstable global environment

The trade war between US and China and uncertainty around Brexit have created an unstable global environment for New Zealand exporters to operate in, the country's finance minister, Grant Robertson, said on Tuesday.

# China's auto sales fell 17.7% in April, extending slump

China's auto sales sank 17.7 percent in April from a year earlier, the 10th straight month of decline amid trade tension with Washington and an economic slowdown.

Drivers in the industry's biggest global market bought 1.6 million sedans, SUVs and minivans, according to an industry group, the China Association of Auto Manufacturers (CAAM), AP reported.

Total vehicle sales, including trucks and buses, fell 14.6 percent to two million.

Jittery consumers are less willing to make big purchases amid a tariff war with Washington and unease about China's economic outlook. Growth in the second-largest global economy held steady in the latest quarter but that was supported by government stimulus spending and higher bank lending.

The downturn is squeezing Chinese and global automakers that are pouring money into meeting government targets to develop electric vehicles.

Auto sales for the first four months of the year are off 14.7 percent from a year earlier at 6.8 million, according to CAAM.

Sales by Chinese brands in April plunged 27.9 percent from a year earlier to 585,000. Their market share contracted by 5.2 percentage points to 37.1 percent.

Purchases of electric and gasoline-electric hybrid SUVs and sedans rose 18.1 percent to 97,000. That was a bright spot for the industry but well below growth rates of as much as 100 percent in previous months.

Beijing has promoted electrics with billions of dollars in research grants and buyer subsidies. But subsidies are due to end next year and regulators are shifting the burden to automakers by imposing mandatory sales targets for electrics.

So automakers need to develop electrics that can compete with gasoline-powered vehicles.

Sales of SUVs fell 15.8 percent, CAAM said, without giving a total.

NG HAN GUAN/AP

Last year's auto sales suffered their first decline in nearly three decades, falling 4.1 percent from 2017 to 23.7 million.

The downturn has prompted suggestions Beijing will cut sales taxes or offer other incentives.

## Korean won to face further difficulties due to trade dispute, weak economic performance

The South Korean won, one of the world's worst-performing currencies over the past month, may further lose ground down the road, possibly flirting with the 1,200-won threshold, given a slew of factors pointing in that direction, although its current downward momentum may ease in the near term, analysts said on Tuesday.

On Monday, the local currency tumbled 10.5 won to close at 1,189.30 to the US dollar, marking a more than two-year low to the greenback, Yonhap News Agency wrote.

Over the past month, the won lost some 4.6 percent to the US dollar, sharper than the Chinese yuan's 2.7 percent fall, according to industry data.

"The market sentiment is so risk-averse, and the won-dollar rate will attempt to further rise," Jun Seung-ji, an analyst at Samsung Futures Co., said.

"The Chinese yuan's moves, foreign investors' actions on the local stock market, the currency authorities' response, should be considered."

The Korean won has been on the weak side since the world's two largest economies — the US and China — reopened a trade dispute.

Washington and Beijing ended their high-stakes trade negotiations Friday without any agreement. The US immediately raised the stakes by increasing its tariffs on some $200 billion worth of Chinese imports to 25 percent from 10 percent.

Beijing hit back with a similar plan to impose higher tariffs on $60 billion worth of US goods from June 1, also sending their trade negotiations into a haze.

The escalating clash between the world's two largest economies over trade has sent jitters throughout the globe in the past few weeks.

South Korea's benchmark KOSPI plunged 7.5 percent in less than a month from the year's high of 2,248.63 posted April 16 to 2,079.01 Monday. The local stock market rebounded slightly on Tuesday after swerving in and out of negative terrain.

Adding further downside pressure on the currency is the country's weaker than expected economic performance in the first quarter.

The South Korean economy unexpectedly contracted 0.3 percent in the first three months of the year from the previous quarter, marking the worst performance in a decade, the Bank of Korea said.

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Along with the sullen growth data, an extended slump in exports is prodding traders and companies to buy safer assets, such as the greenback.

Seoul's outbound shipments have been shrinking for five consecutive months as of April with its shipments to China, the world's largest importer of South Korean products, dipping for six straight months, a serious problem for the country that heavily depends on exports for growth.

Another problem is that the dip in the local stock market may further push away foreign investors, again driving up demand for hard currency.

Last week, foreigners dumped a net 312 billion won ($263 million) worth of local stocks. They offloaded a net 138 billion won on Monday and again 285 billion won on Tuesday.

South Korea's policymakers have repeatedly said they stand ready to intervene, if necessary, to curb the won's sharp fall in a short period, insisting the fluctuation in the currency market may have been caused by what they called a temporary issue with limited impact that is still amendable.

"The direct impact (of the US-China trade dispute) on the real economy continues to remain limited as the (US) tariffs will be raised on products that depart China after May 10," Vice Finance Minister Lee Ho-seung said Monday.

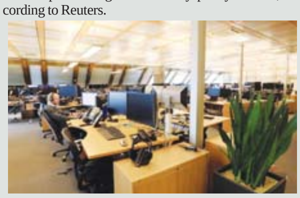
Other officials noted it may take up to four weeks before the increased US tariff on Chinese goods take effect, apparently implying the two sides may strike a deal in the meantime.

"Going forward, the dollar's strength will ease to some extent, and a US-China trade deal may be reached before the end of this year, which will help the won-dollar rate take a turn," Jun-Kyu-yun, an analyst at Hana Financial Corp., said.

## Norway spending to rise, making higher rates more likely

Norway will spend more than originally planned from its sovereign wealth fund in 2019, the government said in a revised fiscal budget on Tuesday, raising the likelihood the central bank will raise interest rates faster.

The Norwegian economy is on track to grow at its fastest pace in seven years, and Norges Bank said last week it plans to tighten monetary policy in June, according to Reuters.



INTS KALNINS/REUTERS

The trading floor of Norges Bank Investment Management, the Nordic country's sovereign wealth fund in Oslo, Norway

Cash spending from the fund — the world's largest of its kind, with assets of more than $1 trillion — is now expected to reach 238.1 billion Norwegian crowns ($27.26 billion) this year, more than the 231.1 billion originally planned last October.

The revised fiscal spending plan should help the economy, increase growth about 0.5 percentage point, according to the Finance Ministry's calculation. The initial plan was neutral, neither helping nor hurting the economy.

The increase in the so-called budget impulse is mostly caused by a downward revision of 2018 spending, however, and taken together the effect of the budgets for 2018 and 2019 will be largely neutral, the government said.

Even sp, the budget still points to higher interest rates, DNB Markets said.

"An expansionary fiscal budget in a situation with full capacity utilization is an argument for Norges Bank to hike policy rates in June and increases the risk for another hike in September," DNB said in a note to clients.

"The proposal in the revised budget is more expansionary than expected."

Lifted by a weak currency and strong demand from a boom in offshore oil and gas investments, the country's mainland economy is expected to grow 2.7 percent this year, up from 2.2 percent last year, and in line with a forecast first made last October.

It will be the most rapid expansion Norway has seen since 2012, Statistics Norway data shows.

In 2020, the mainland economy is now expected to grow by 2.5 percent, less than the 2.8 percent seen in October.

Finance Norway, a lobby group representing banks and insurers, called for a 'more responsible spending plan'.

"When the economy performs well, they should take the opportunity to hold back on oil revenue spending, not increase it," the Chief Executive Idar Kreutzer said in a statement.

## Dutch economy grew 0.5% in Q1, topping expectations

Economic growth in the Netherlands came in better than economists forecast in the first quarter, adding to the run of recent good numbers from the euro area.

The first-quarter performance saw the region's fifth largest economy grow 0.5 percent compared with the previous three months. That was just ahead of the 0.4 percent median forecast of economists, Bloomberg reported.

Expansion in the 19-nation eurozone topped expectations at 0.4 percent in the period, and a similar number is predicted on Wednesday from Germany, the region's biggest economy.

Although the numbers may be not as bad as feared, the question is whether Europe can sustain the upturn, as there are concerns over escalating trade tensions between the US and China.

In the Netherlands, first-quarter growth was boosted by investment, while net trade subtracted from GDP. From a year earlier, economic growth slowed to 1.7 percent, the weakest since 2015.

Along with other countries, the Netherlands has seen manufacturing suffer recently. Factory production has fallen in three of the past four months on a year-on-year basis, and the country's Purchasing Managers Index is at the lowest in almost three years.

Dutch central bank president Klaas Knot said recently clear there's a slowdown in the euro-region economy but there will not be a recession or a new crisis. He expects growth to pick up in the second half of this year due to robust domestic demand.

## Malaysia's Q1 GDP growth seen cooling on weak demand, exports

Malaysia's economic growth pace likely slowed in the first quarter, due to tepid consumption and softer global demand as a result of the US-China trade war, a Reuters poll showed

The poll of 13 economists predicted the economy will grow at a median rate of 4.3 percent in January-March, slower than the 4.7 percent pace of the fourth quarter.

Individual forecasts ranged from 4.2 percent to 4.5 percent.

Exports from Southeast Asia's third-largest economy contracted in February and March, and will likely face sustained pressure in the coming months as the US pursues another round of tariff increases on Chinese goods, Capital Economics said in a research note.

"Malaysia is one of the most vulnerable countries to a drop in US demand for Chinese goods, as a large exporter of intermediate goods to China," Capital Economics said in a note on Friday.

China on Monday announced it would impose higher tariffs on $60 billion of US goods following Washington's decision last week to hike its own levies on $200 billion in Chinese imports.

Malaysia's 2018 full-year growth came in at 4.7 percent, just below the government's forecast of 4.8 percent but far short of the 5.9 percent pace set a year earlier.

HENNING GLOYSTEIN/REUTERS

The fourth quarter's better-than-expected 4.7 percent rate snapped a four-quarter streak of slowing growth, but Bank Negara Malaysia (BNM) has since said it expects expansion to moderate this year.

In March, the central bank cut its 2019 forecast to 4.3-4.8 percent from an earlier projection of 4.9 percent, on expectations of a significant drop in export demand.

Private consumption would have remained the biggest contributor to growth in the first quarter, but likely slowed as consumer sentiment deteriorated, HSBC said.

**Bottomed out**

Malaysia's consumer prices rose for the first time this year in March, gaining 0.2 percent from a year earlier. Analysts expect cost pressures to remain benign for the rest of 2019.

Standard Chartered said its softer growth forecast was also partly due to a higher base the previous year, especially when compared with the 5.4 percent pace set in the first quarter of 2018.

BNM cut its policy rate last week for the first time since 2016 to support the economy on heightening concerns about global growth, which Standard Chartered said would provide some support to growth.

"We expect Malaysia's growth to have bottomed out in Q1 and see it picking up towards H2 as global growth momentum stabilizes," Standard Chartered said in a note on Friday.

## Major Currencies

| Currency | To USD | Currency | To USD |
|---|---|---|---|
| Turkish Lira | 0.1648 | Japanese 100 Yen | 0.9118 |
| Euro | 1.1241 | Chinese Yuan | 0.1452 |
| British Pound | 1.2945 | UAE Dirham | 0.2722 |
| Australian Dollar | 0.6944 | Kuwaiti Dinar | 3.2867 |
| Canadian Dollar | 0.7427 | Iraqi 100 Dinar | 0.0837 |

## Major Commodities

| | | | |
|---|---|---|---|
| Crude Oil | $60.76 | Silver | $14.75 |
| Gold | $1298.00 | Platinum | $860.30 |
| Copper | $2.72 | Wheat | $440.00 |