

ECONOMICS: ASIAN PERSPECTIVES

ASIA'S EXPORT VOLUME GROWTH REMAINS TEPID

+Vincent Tsui, Economist—Global Economic Research, vincent.tsui@abglobal.com
 +Anthony Chan, Asian Sovereign Strategist—Global Economic Research, anthony.chan@abglobal.com

Recent trade figures have fueled hopes that a long-awaited export recovery in Asia may be underway. Our research suggests, however, that the rebound is mainly due to higher prices, not volume growth, in most countries and its sustainability remains in question.

Export growth has gathered momentum across Asia since the final quarter of 2016, reducing investor anxiety and lifting the region's currencies. We have been more skeptical about the sustainability of the export recovery (see "Sustainability of Asia's Export Recovery Remains in Question" *Asian Perspectives*, January 20, 2017), and reaffirmed that position recently after a further review of the underlying drivers of the recovery.

In addition, we believe that the divergence of the drivers and its policy implications should create relative-value trade opportunities in regional currencies.

Taiwan Benefits from Tech Cycle

To understand the dynamics of the export recovery, investors need to differentiate between volumes and prices. Among Asia's three largest manufacturers, only Taiwan has seen a clear rebound in export growth in volume terms (*Display 1*). The recovery in China and South Korea has been less impressive. Although volume growth has returned to positive territory after intermittent contractions in the past two years, the level of growth remains modest, and there have yet to be signs of a renewed uptrend.

Taiwan's strong volume growth is driven primarily by the electronics sector, which dominates nearly half of Taiwan's exports. This is partly because Taiwanese manufacturers took away market share in high value-added components, such as processors for Apple's iPhones, from their South Korean rivals. This is reflected in the clear outperformance of Taiwan's electronics export volumes relative to South Korea's and China's (*Display 2*).

In other words, the strong performance of Taiwanese electronics exports has been due largely to the relocation of the supply chain, rather than an expansion in final demand. It's essentially been a zero-sum game between the tech-sector rivals.

Even though recent indicators point to improved economic activity in developed economies, import volume growth in the US and the European Union has so far remained tepid (*Display 3, next page*). We believe it is too soon to say that the export recovery cycle is on a sustainable track in volume terms.

Terms of Trade Matter

For most Asian exporters, the recent export recovery, in value terms, has been

Display 1
Taiwan Outperforms in Export Volume Growth



As of March 13, 2017
Source: CEIC Data and AB

Display 2
Driven by Electronics Components



As of March 13, 2017
Source: CEIC Data and AB

mainly driven by the price effect. A rebound in commodity prices has translated into a higher nominal value for exports, particularly in categories such as chemicals, base metals and refined oil products. This was most prominent in South Korea, where the export value grew—despite subdued volume growth—thanks to higher prices (*Display 4*).

Price effect, not volumes, was also the main driver of export growth in a number of other countries in the region, including Malaysia, Indonesia, Singapore and Thailand. China falls in between the two camps, with a modest recovery seen in both prices and volumes, thanks to its pivotal position in the supply chain. By volume growth alone, however, China's recovery also remains much less pronounced than Taiwan's.

Sustainability Remains in Question

Both the supply-chain relocation and the commodity price rebound—currently the two key drivers of Asia's export recovery—could well be one-off factors. Even with the prospect of a recovery in economic activity in developed markets, there's still no sign that a pickup in final demand volumes can be a sustainable driver for Asia's export growth.

A recent moderation in indicators, such as Taiwan's Purchasing Managers' Index and the value of export orders, raises concerns that the momentum in export growth may already be peaking out. With the drivers of export growth so narrow-based, we

expect limited pass-through effect—i.e., a nominal export recovery helping domestic demand—and no significant impact on monetary policy across the region.

Investment Implications

Even though the outlook for the US dollar remains the most important factor for Asian currencies' performance in the months ahead, variations in the trade performance of each country may provide relative value trading opportunities.

The Taiwanese dollar has already benefited from the country's strong trade performance over the past several months. But there's a question mark over the sustainability of such a trend, given the spotty picture in recent forward-looking trade indicators.

In South Korea, where the recent export recovery was mainly price-driven, we believe that the Bank of Korea should be quite comfortable letting the won appreciate further, given the risk that the country might be named a currency manipulator by the US government. The true picture for export demand is less reassuring, and commodity prices would be a swing factor for South Korea's trade and currency performances.

For China, the export recovery story takes a back seat to high-level political decisions. Many high-ranking positions may change this year as a new five-year policy period begins, and stability seems to be a top priority. ■

Display 3
Developed Market Imports Remain Tepid



As of March 13, 2017
Source: CEIC Data and AB

Display 4
Export Prices Surge in South Korea



As of March 13, 2017
Source: CEIC Data and AB

The information contained herein reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed herein may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.

Note to Canadian Readers: AllianceBernstein provides its investment management services in Canada through its affiliates Sanford C. Bernstein & Co., LLC and AllianceBernstein Canada, Inc.

Note to European Readers: This information is issued by AllianceBernstein Limited, 50 Berkeley Street, London W1J 8HA. Registered in England, No. 2551144. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority (FCA).

Note to Austrian and German Readers: This information is issued in Germany and Austria by AB Europe GmbH. Local paying and information agents: Austria—Uni-Credit Bank, Austria AG, Schottengasse 6-8, 1010 Vienna; Germany:—BHF-Bank Aktiengesellschaft, Bockenheimer Landstrasse 10, 60323 Frankfurt am Main.

Note to Swiss Readers: This document is issued by AllianceBernstein Schweiz AG, Zürich, a company registered in Switzerland under company number CHE-306.220.501. AllianceBernstein Schweiz AG is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA) as a distributor of collective investment schemes. Swiss Representative & Swiss Paying Agent: BNP Paribas Securities Services, Paris, succursale de Zürich. Registered office: Selnastrasse 16, 8002 Zürich, Switzerland, which is also the place of performance and the place of jurisdiction for any litigation in relation to the distribution of shares in Switzerland. The Prospectus, the key investor information documents, the Articles or management regulations, and the annual and semiannual reports of the concerned fund may be requested without cost at the offices of the Swiss representative. This document is directed at Qualified Investors only.

Note to Australian and New Zealand Readers: This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL 230698). Information in this document is intended only for persons who qualify as "wholesale clients," as defined in the Corporations Act 2001 (Cth of Australia) or the Financial Advisers Act 2008 (New Zealand), and should not be construed as advice.

Note to Readers in Vietnam, the Philippines, Brunei, Thailand, Indonesia, China, Taiwan and India: This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries.

Note to Readers in Malaysia: Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund management services, advice, analysis or a report concerning securities. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AllianceBernstein does not hold a capital markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial planning services in Malaysia.

Note to Singapore Readers: This document has been issued by AllianceBernstein (Singapore) Ltd. ("ABSL", Company Registration No. 199703364C). ABSL is a holder of a Capital Markets Services Licence issued by the Monetary Authority of Singapore to conduct regulated activity in fund management and dealing in securities. AllianceBernstein (Luxembourg) S.à r.l. is the management company of the portfolio and has appointed ABSL as its agent for service of process and as its Singapore representative. This document has not been reviewed by the MAS.

Note to Taiwan Readers: AllianceBernstein L.P. does not provide investment advice or portfolio-management services or deal in securities in Taiwan. The products/services illustrated here may not be available to Taiwan residents. Before proceeding with your investment decision, please consult your investment advisor.

Note to Hong Kong Readers: This document is issued in Hong Kong by AllianceBernstein Hong Kong Limited (聯博香港有限公司), a licensed entity regulated by the Hong Kong Securities and Futures Commission. This document has not been reviewed by the Hong Kong Securities and Futures Commission.

Note to Japan Readers: This document has been provided by AllianceBernstein Japan Ltd. AllianceBernstein Japan Ltd. is a registered investment-management company (registration number: Kanto Local Financial Bureau no. 303). It is also a member of the Japan Investment Advisers Association; the Investment Trusts Association, Japan; the Japan Securities Dealers Association; and the Type II Financial Instruments Firms Association. The product/service may not be offered or sold in Japan; this document is not made to solicit investment.