

S'pore NODX surprised on the upside, expanding 3.0% yoy in February, but good times may not last?

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Highlights

NODX unexpectedly rebounded 3.0% yoy (-4.8% mom sa in its first contraction after three months of expansion) in February, contrary to our forecast of -7.0% yoy (-8.8% mom sa), but it may be too early to conclude that the worst is over. The February NODX surprise was partly due to the low base last year (CNY holidays in Feb19), but more importantly we think there is downside risk going forward with the accelerating Covid-19 outbreak globally and growing lockdowns and travel bans that suggest global supply chains and global demand may take a step back again. Notably, recent moves by trading partners to lockdown cities and ban overseas travel may further impact the ability of workers to commute, hurt business productivity, and contribute to concerns about more supply chain disruptions again even though China is gradually ramping up its factory production.

One interesting trend globally is that manufacturing firms (for instance in the UK under the introduction of an Urgent Operational Requirement) are being asked to produce medical equipment (eg. ventilators) and other Personal Protection Equipment (masks, gloves etc). For instance, LVMH also announced it was producing hand sanitizers for distribution. Some Chinese manufacturers have also switched to producing masks to meet growing demand to fight Covid-19. It is still unclear at this juncture how this will impact the resumption of the global manufacturing value-chains, but may provide a silver lining to what is turning into a global demand slump.

Electronics NODX also recovered 2.5% yoy (forecast: -17.0% yoy) versus a 13.0% drop in January. This marked its first expansion after an unbroken streak of 14 months of consecutive declines. The key contributors were disk media products, capacitors and parts of ICs. **Non-electronics NODX also expanded by 3.2% yoy in February, following a 0.1% decline in January.** The lift came from specialised machinery, pharmaceuticals and non-electric engines & motors. The recent oil price slump, following the OPEC+ and Russia breakdown on production quotas, which sent Brent dipping below \$30 per barrel, may also weigh going ahead. Oil domestic exports had slumped by 28.6% yoy in February, following a 21.3% decline in January.

Eight of the top 10 NODX markets saw growth in February, led by the EU-28, US and Japan, led by the pharmaceuticals exports amid the growing global Covid-19 outbreak. Only two of the top 10 NODX markets saw exports shrink in February, namely China (-35.8% yoy) and Hong Kong (-29.2% yoy), but it may be too soon to say that the worst is over.

NODX growth is likely to contract by up to 2-4% yoy in 2020 amid a very fluid global and domestic Covid-19 situation. The accelerating Covid-19 outbreak globally has caused increasing market angst. With the growing lockdowns at the city and country levels worldwide, we may see some market trepidation on the potential impact on our exports and imports. Malaysia is among our top trading partners (4th largest NODX market in 2019), but that's probably where Singapore's Food Agency's role of having a diversified food sourcing strategy will definitely be useful in ensuring the ability to switch quickly to alternative sources when the need arises. Current stockpiles range from more than 2-3 months for carbohydrates and proteins. We're currently forecasting a 0.9% yoy contraction for 1Q20 GDP growth, but the risk is that it drags into 2Q20 as well.



Non-oil Domestic Exports to Top Markets (% Y-O-Y Growth)

Top Market ^A	NODX		Electronic NODX		Non-Electronic NODX	
	Jan 2020	Feb 2020	Jan 2020	Feb 2020	Jan 2020	Feb 2020
EU 28	-10.5	43.0	-18.2	11.7	-9.3	49.3
US	23.6	23.5	37	71.4	21	15.9
Japan	-3.4	61.7	-21.2	-0.6	0.5	81.9
South Korea	19.4	67.3	-22.4	-12.9	30.2	90.6
Taiwan	5.2	11.1	-17.8	3.6	41.9	19.5
Malaysia	-4.7	6.1	-5.6	-25.9	-4.1	37.8
Indonesia	-22.6	5.4	-5.7	-1.8	-24.2	6.2
Thailand	-5.0	4.0	17.6	36.8	-15.6	-7.3
Hong Kong	-40.9	-29.2	-30.6	-10.8	-55.3	-56.7
China	14.7	-35.8	-21.9	6.3	28	-41

^A: Ranked by contribution to the change in NODX levels over the year.

Source: Enterprise Singapore

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