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CHINA/JAPAN/INDIA/AUSTRALIA/SOUTH KOREA/INDONESIA/TAIWAN/THAILAND/MALAYSIA/SINGAPORE/PHILIPPINES

Q2

2 0 1 9

- Sentiment index 53 in Q2 vs 63 in Q1
- Sino-U.S. trade war top risk to companies' six-month outlook
- Business activity, orders slowing as supply chains disrupted
- Trade tensions unlikely to be resolved in 2019 - BNP Paribas

Thomson Reuters/INSEAD Asian Business Sentiment Survey

Trade tensions kick Asian business confidence to 10-yr low



Labourers work at Maxport garment factory in Thai Binh province, Vietnam June 13, 2019. REUTERS/KHAM

BY SACHIN RAVIKUMAR

Confidence among Asian companies in the June quarter fell to its lowest since the 2008-09 financial crisis, as a U.S.-China trade war disrupts global supply chains and shows little sign of easing soon, a Thomson Reuters/INSEAD survey found.

The Thomson Reuters/INSEAD Asian Business Sentiment Index tracking companies' six-month outlook worsened in the three months ended June to 53, versus 63 in the previous two quarters.

A reading above 50 means optimistic respondents outnumbered pessimists, but worries about the threat of a prolonged trade war drove the index to its lowest

since the June quarter of 2009, when the first edition of the survey was released.

"There was a big dip (in the index) three quarters ago, and we felt it was the uncertainty about the trade war and people were worried about the future," said Antonio Fatas, a Singapore-based economics professor at global business school INSEAD.

"We get a sense after four quarters of

low numbers that now, it's not just uncertainty. This is a true slowdown in growth. We see activity declining — it's not just the expectation that activity will decline," Fatas added.

For a fourth straight quarter, survey participants cited the global trade war as the chief risk to business, followed by Brexit and a Chinese economic slowdown.

The survey interviewed 95 companies in 11 Asia-Pacific countries that together contribute about a third of global gross domestic product and are home to 45% of the world's population. It was conducted from May 31 to June 14.

RIISING CAUTION

The index staying above the neutral point of 50 suggests companies in the region are not expecting an imminent global recession, but the decade low indicates caution was rising as trade tensions mount.

The United States and China have

been embroiled in a trade standoff since last year, marked by tit-for-tat import tariffs, as Washington looks to force Beijing to make changes to its business policies. Talks between the two to reach a detente ended last month without a deal.

Washington's move to put Huawei, the world's No.2 maker of smartphones, on an export blacklist that bars U.S. companies from doing business with the Chinese firm without special approval further ratcheted up tensions.

Still, U.S. President Donald Trump has said that a deal would "eventually" be struck.

BNP Paribas, however, does not expect a resolution to the trade war this year, said Hong Kong-based Manishi Raychaudhuri, Asia-Pacific equity strategist at the banking group.

The trade tensions are hurting supply lines, especially that for higher-end smartphones, with many manufacturers looking to move production out of China and into

countries such as Vietnam, Taiwan and Bangladesh, Raychaudhuri noted.

These changes, however, "can't be made overnight", he added.

U.S.-based Broadcom Inc, which makes radio-frequency chips used in Apple's iPhones and iPads, last week forecast a \$2 billion hit to annual sales from the trade tensions and the U.S. ban on Huawei.

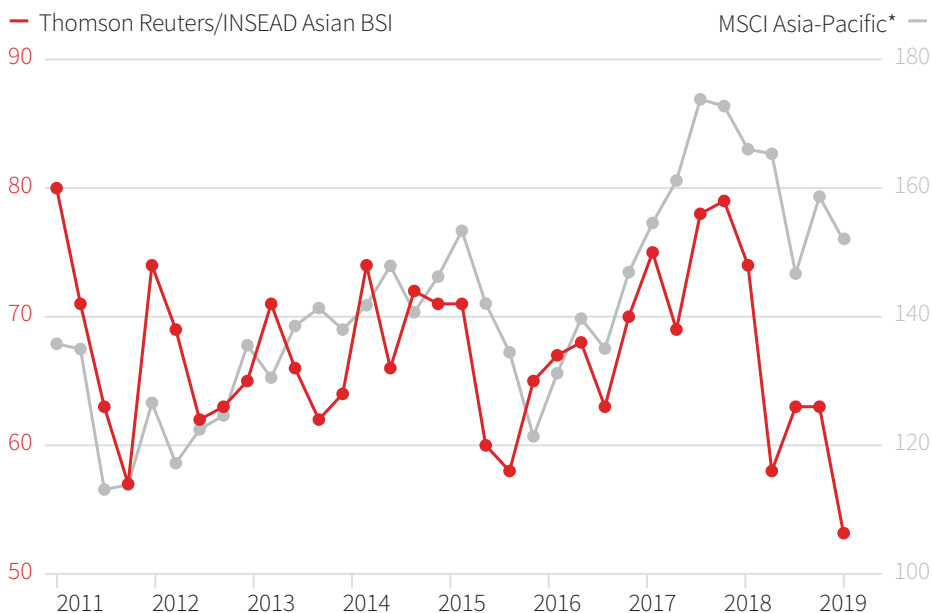
Huawei has acknowledged a harder-than-expected hit from the ban and slashed its revenue forecast for the year.

China's economy is also feeling the heat, with industrial output growth sliding to a 17-year low in May.

Respondents to the survey included Japan's Nikon Corp, South Korea's Samsung Electronics, India's Tata Consultancy Services and Reliance Industries Ltd, as well as Thailand's PTT PCL.

Note: Companies surveyed can change from quarter to quarter.

Business sentiment index



Source: Thomson Reuters/INSEAD *MSCI International All Country Asia Pacific Price Index USD

Biggest perceived risks to business outlook

By number of responses



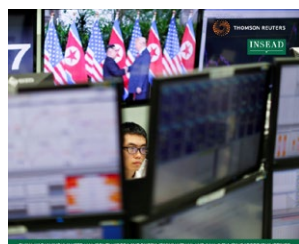
Note: Total no. of valid responses = 93. Poll conducted May 31-June 14, 2019

*Includes increased competition, regulation, consumer confidence, etc.

Source: Thomson Reuters/INSEAD

Links

Previous surveys



Q2
2018

- Sentiment index 74 in Q2 vs 75 in Q1
- First drop since September 2017
- Companies cite mounting trade friction as chief risk
- Retail & leisure sector most positive

Thomson Reuters/INSEAD
Asian Business Sentiment Survey

June 2018

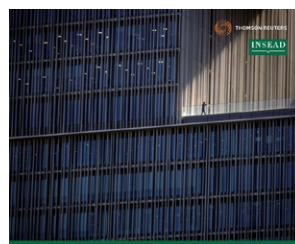


Q3
2018

- Sentiment index 58 in Q3 vs 74 in Q2
- Companies cite trade war as chief risk to six-month outlook
- Thai firms most positive, Chinese least
- Metals and chemicals sector most positive, real estate least

Thomson Reuters/INSEAD
Asian Business Sentiment Survey

September 2018



Q4
2018

- Sentiment index 63 in Q4 vs 58 in Q3
- Companies cite trade war as chief risk to six-month outlook
- Philippines firms most positive, Taiwan least
- Financial sector most positive, metals & chemicals least

Thomson Reuters/INSEAD
Asian Business Sentiment Survey

December 2018



Q1
2019

- Sentiment index 63 in Q1 2019 vs 63 in Q4 2018
- Global trade wars chief risk to six-month outlook

Thomson Reuters/INSEAD
Asian Business Sentiment Survey

March 2019

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COVER PHOTO: An engineer stands under a base station antenna of 5G in Huawei's SG178 multi-probe spherical near-field testing system at its Songshan Lake Manufacturing Center in Dongguan, Guangdong province, China May 30, 2019. **REUTERS/JASON LEE**



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