

Asia week ahead: Calm after the storm

After a hectic week, the Golden Week holiday in China should bring some calm to markets. The key question for next week is whether the Indian central bank will hike policy rates by more than 25bp?



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➔ A holiday-shortened week

Asian market liquidity is expected to be thin, as Chinese markets are closed for a holiday during 1-7 October, and Hong Kong, Korea, and India are also out on public holiday on other days of the week. Nevertheless, it's quite a busy economic calendar dominated by manufacturing, trade, and inflation releases and the central bank meeting in India.

The weekend release of China's purchasing managers index, followed by PMI releases for other Asian economies on Monday will set the tone for the markets. The key focal point in PMIs will be

the new export order components and we'll be keeping an eye out for what that says about the trade war impact. However, this is still a soft indicator.

➔ What's happening to Asian exports?

The hard data on Korea's export performance in September will be hitting the newswires early on Monday morning, and that will be worth watching as a leading indicator for the rest of Asian exports.

The base effect is kicking in. Korean export growth peaked at 35% year-on-year in September 2017. But apart from the high base effect, our estimate of over 5% YoY export decline this September reflects a slack towards the end of the month due to the mid-Autumn festival holiday. But a 22% YoY surge in exports in the first 20 days of the month, partly on the back of front-loading of shipment is still a strong performance, that reinforces no big hit to regional exports from the trade war yet.

The recent signing of the US-Korea Free Trade Agreement bodes well for the export outlook.

➔ Inflation not an issue in Asia, barring Philippines

Of several September inflation releases, Philippines' data will be the highlight. The supply disruptions due to the worst typhoon in recent years will have undoubtedly bumped up inflation higher from August's 6.4% rate. Our forecast for September is 6.9%, and we feel it is now close to peaking.

The Philippines central bank (BSP) raised the policy rate by another 50bp to 4.50% this week, taking the cumulative hike since May to 150bp. However, this still leaves a negative real interest rate as a pull on the currency. We don't think the BSP tightening cycle is over just yet and the Bank is likely to remain vigilant of the impact of a weak peso on inflation in the future. We expect one more 25bp rate hike before the end of the year.

Indonesia, Taiwan, and Thailand are other countries to report September inflation, but we expect nothing exciting here.

➔ Will India's Reserve Bank hike by more than 25bp?

The Reserve Bank of India unveils its monetary policy decision next Friday (5 October).

Speculation is rife about the RBI joining ranks with its Indonesian and Philippines counterparts in aggressive tightening to curb currency weakness, but we're far from convinced. Although the RBI needs more tightening, it's likely to argue that inflation, the main policy target, has been well-behaved, currently under the 4% (+/-2%) medium-term target.

We continue to forecast one more 25bp RBI rate hike this year at the December meeting, and two hikes in 2019

Not only inflation, but ongoing troubles in India's financial sector from a serial default by a non-bank finance company on its debt obligations and resultant liquidity squeeze are other limitations

on the RBI in going for more than the conventional 25bp hike. Also, the government has started taking measures to rein in the rupee's weakness - which although have so far proved to be inadequate, reduce the onus on the RBI to support the currency.

We still can't underestimate the potential inflationary impact of ongoing currency depreciation, which will further be complicated by the impact of higher oil prices due to the supply disruption from Iran sanctions. If not in the next couple of months, we expect inflation to rear its head again, thus keeping the RBI busy going forward.

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Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 30 September					
China	0200	Sep Non-manufacturing PMI	-	54	54.2
	0200	Sep Manufacturing PMI	-	51.1	51.3
Monday 1 October					
India	0600	Sep Nikkei Manufacturing PMI	-	-	51.7
Indonesia	0400	Sep CPI (MoM/YoY%)	0.4/3.1	-	-0.1/3.2
Korea	0000	Sep Exports (YoY%)	-5.5	-	8.7
	0000	Sep Imports (YoY%)	7.8	-	9.2
	0000	Sep Trade balance (US\$m)	7114	-	6853
	0000	Sep Nikkei manufacturing PMI	48.9	-	49.9
	2100	Oct BOK Business Survey Index, mfg	77	-	77
	2100	Oct BOK Business Survey Index, non-mfg	78	-	77
	2300	Aug Industrial Production (MoM, SA/YoY%)	0.5/1.6	-	0.4/0.9
Malaysia	0030	Sep Nikkei Manufacturing PMI	50.5	-	51.2
Philippines	0030	Sep Nikkei Manufacturing PMI	-	-	51.9
Taiwan	0200	Sep Nikkei Manufacturing PMI	52.9	-	53
Thailand	0030	Sep Nikkei Manufacturing PMI	-	-	49.9
	0430	Sep CPI (YoY%)	1.1	-	1.6
	0430	Sep CPI Core (YoY%)	0.8	-	0.8
Tuesday 2 October					
Hong Kong	0815	Aug Retail Sales Value (YoY%)	8.6	-	7.8
	0815	Aug Retail Sales Volume (YoY%)	6.2	-	5.9
Singapore	1330	Sep Purchasing Managers Index	52.4	-	52.6
Thursday 4 October					
India	0600	Sep Nikkei Services PMI	-	-	51.5
Hong Kong	0230	Sep Nikkei PMI	-	-	48.5
Indonesia	1000	Sep BI Consumer Confidence Index	-	-	121.6
Thailand	0330	Sep UTCC's Consumer Confidence	-	-	83.2
Friday 5 October					
India	1000	RBI Policy Decision (Repo Rate, %)	-	-	6.5
Malaysia	0400	Aug Exports (YoY%)	4.5	-	9.4
	0400	Aug Imports (YoY%)	5.5	-	10.3
	0400	Aug Trade balance (RM bn)	9.6	-	8.3
	0900	Sep Forex Reserves- Month end (US\$bn)	-	-	103.9
Philippines	0100	Sep CPI (YoY%)	6.9	-	6.4
	0900	Sep Forex Reserves (US\$bn)	-	-	77.9
Taiwan	0030	Sep CPI (YoY%)	1.7	-	1.5
	0030	Sep WPI (YoY%)	6.5	-	6.8
	0820	Sep Forex Reserves (US\$bn)	461.5	-	459.9

Source: ING, Bloomberg

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