

Asia week ahead: Bank Indonesia pauses tightening

So far so good, not much of an impact of the China-US trade war on Asian exports in July. But that's no reason to relax just yet - the trade war has just started. It will take a while for the impact to trickle down to the real economy and Asia won't be immune to this



6.4%

China industrial production growth

ING forecast for July, up from 6.0% in June

➔ More Chinese economic data for July

As expected, China's July trade data showed little impact from the US-China trade war in the initial phase of \$34bn of tariffs. The remaining economic data for July – industrial production, retail sales,

fixed asset investment, and monetary indicators – is likely to reinforce the same message.

We increase our industrial production growth forecast to 6.4% year on year for July from the 6% in June on the back of firmer exports. Investment and monetary data will shed light on whether recent liberalisation measures in areas of financial securitisation and asset management have started showing results.

5.25%

BI policy rate

ING forecast, no change from current level

➔ Indonesian central bank tightening cycle isn't over just yet

Indonesia's central bank will hold its policy meeting next Thursday (16 August). After a cumulative 100 basis point of policy interest rate hikes in May and June, Bank Indonesia paused tightening at the July meeting. We aren't looking for any policy moves next week, and Indonesian economic data since the July meeting supports our call. However, this doesn't mean that the Indonesia tightening cycle is over just yet.

Most of the policy tightening so far was aimed at curbing the weakness of the Indonesia rupiah, while inflation has been running in the lower half of 2.5 - 4.5% policy target. A likely swing in the trade balance to a deficit in July from a surplus in June could reignite the currency pressure.

July trade data is also due next week (15 August). The rupiah will come under pressure once the trade war begins to hurt exports. Moreover, higher tariffs together with the currency weakness will pressure inflation higher. and we continue to expect one more 25 basis point hike later this year.

5.2%

Malaysia 2Q GDP growth

ING forecast, down from 5.4% in 1Q

➔ Singapore and Malaysia report second quarter GDP

Singapore reports revised GDP figures for the second quarter. The advance estimate released in July revealed a slowdown in GDP growth to 3.8% YoY from 4.3% in the first quarter. But the subsequent data showed strong industrial production growth which leads us to revise upwards our second quarter growth to 4.0%.

But that's not important. We think the non-oil domestic exports figure for July - the first hard activity data for the current quarter will be more significant for GDP growth amid growing global trade tensions. June NODX was exceptionally weak with 11% month on month fall (seasonally adjusted), so we expect some clawback in July.

As for Malaysia, we forecast a slowdown to 5.2% YoY in the second quarter from 5.4% in the previous quarter – which is still among the strong growth economies in Asia. We infer from

widening external trade surplus that net exports, which displaced domestic demand as GDP growth driver in the first quarter, remained in the driving seat.

We think the best of GDP growth in Asian economies is over and the global trade war is going to depress growth going forward.

4.8%

India CPI inflation

ING forecast for July, down from 5.0% in June

➔ Inflation and trade figures matter for India's central bank

India's consumer prices and trade data for July are due. A likely dip in CPI inflation below 5% may come as a relief for the central bank's tightening policy. However, this tells us more about what happened a year ago than what's happening now - the high-base year effect.

We don't expect any moderation in key CPI drivers of food, fuel and transport prices. Typically, July is the month with a sharp month-on-month rise in the food components in the year.

On the trade side, the widening trade deficit trend underway since February this year looks set to remain in place. We forecast a further widening of the trade deficit to \$16.9bn in July from \$16.6bn in June as a result of slower export and faster import growth. Oil contributes to almost half of the trade deficit.

We don't expect overhang on the Indian rupee from widening trade deficit and elevated inflation to lift anytime soon. Hence our forecast of continued central bank policy tightening ahead.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 10 August					
China	-	Jul Money supply (M2) (YoY%)	8.2	8.2	8
	1000	Jul Aggregate Finance	1380	-	1180
	1000	Jul Total Loan Growth	12.75	-	12.73
	1010	Jul Financial Institution Loans (Yuan bn)	2040	-	1840
India	1300	Jun Industrial Production (YoY%)	6.5	-	3.2
Hong Kong	0930	2Q GDP (QoQ, SA/YoY%)	4.5	-/-	2.2/4.7
Malaysia	0500	Jun Industrial Production (YoY%)	3.9	3.5	1.5
Singapore	0600	Jun Retail Sales Value (MoM/YoY%)	-/-	-1.2	0.1/0.1
Sunday 12 August					
India	-	Jul Trade Deficit (US\$bn)	-16900	-	-16600
	-	Jul Exports (YoY%)	15	-	17.57
	-	Jul Imports (YoY%)	26	-	21.31
Monday 13 August					
India	1300	Jul CPI (YoY%)	4.8	-	5
Singapore	0100	2Q F GDP (QoQ/YoY%)	-/-	-/-	1/3.8
Tuesday 14 August					
China	0300	Jul Retail Sales (YoY%)	9.4	9.1	9
	0300	Jul Industrial Production (YoY%)	6.4	6.3	6
	0300	Jul Fixed Asset Investment (YTD, YoY%)	6.5	6	6
India	0730	Jul WPI (YoY%)	5	-	5.77
Wednesday 15 August					
Indonesia	0500	Jul Imports (YoY%)	17	-	12.66
	0500	Jul Exports (YoY%)	15.1	-	11.47
	0500	Jul Trade balance (US\$mn)	-580	-	1742.6
	-	BI Policy Decision (7-day reverse repo, %)	5.25	-	5.25
Philippines	-	Jun OCW Remittances (YoY%)	5.3	-	6.9
Thursday 16 August					
Malaysia	0500	2Q GDP (QoQ, SA/YoY%)	-/5.2	-/-	1.4/5.4
	0500	2Q Current Account (Q) (MYR bn)	-	-	15000
Friday 17 August					
Singapore	0130	Jul Non-oil Domestic Exports (MoM/YoY%)	4.4/11.8	-/-	-10.8/1.1
Taiwan	1000	2Q F GDP (YoY%)	3.3	-	3.29
South Korea	0000	Jul Unemployment Rate (% SA)	3.7	-	3.7

Source: ING, Bloomberg