

Asia week ahead: Bank of Korea policy standoff

The Korean central bank policy meeting will be a non-event. China's August PMI will reflect the first full month of the trade war impact, while India looks poised to post a GDP slowdown



Source: Shutterstock

➔ China: PMI to reflect full-month of trade war impact

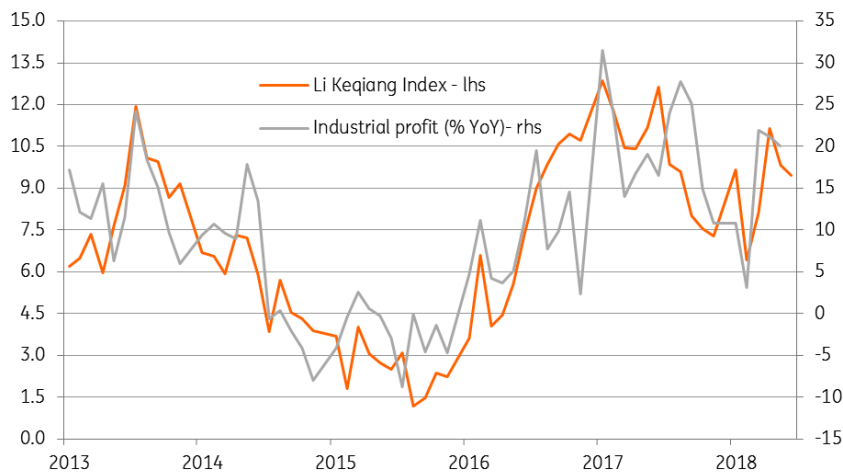
The ongoing trade war with the US has put China's high-frequency activity data under an intense spotlight. Next week's data includes industrial profits for July and the manufacturing and non-manufacturing Purchasing Managers Indexes (PMIs) for August.

The manufacturing PMI for August will reflect the first full month of the US-China trade war impact.

The consensus is centred on our 51.2 forecast, unchanged from July, but the risk is tilted on the downside rather than upside.

Consistent with the Chinese stock market sell-off underway since the start of the year, industrial profit growth has slowed to 17.2% year-on-year in the first half of the year from 22% a year ago. This closely tracks the Li Keqiang index (the composite index of year-on-year activity growth, including growth in outstanding bank lending- Premier Li's preferred gauge of the economy) which shows the slowdown continued in July (see figure).

Li Keqiang Index points to slower profits growth



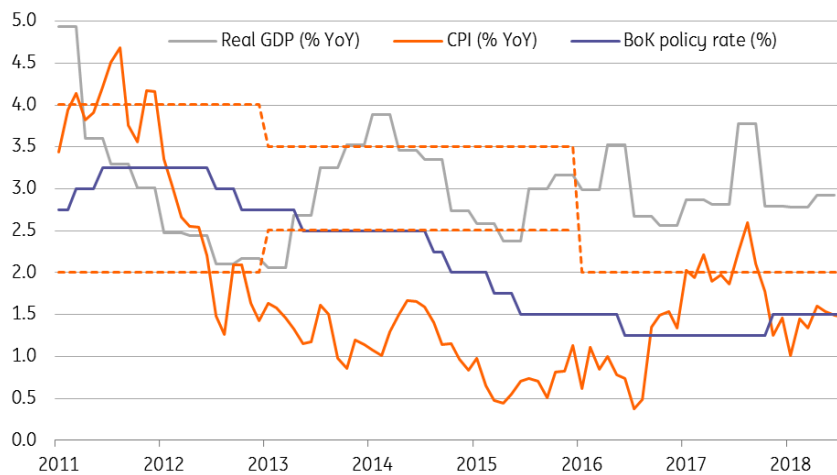
Source: Bloomberg, CEIC, ING

➔ Korea: A big week ahead, though nothing exciting

After the usual end-of-month Korean activity data, the central bank (Bank of Korea) will hold its monetary policy meeting on Friday, 31 August. We aren't forecasting the BoK to change policy next week. Korea's GDP growth has been stuck under 3% for the last three quarters, and new job creation dipped to an eight-year low in July. A further escalation of the US-China trade tension also reduces the potential for any export-led growth recovery in the period ahead. We expect these risks to manifest in the activity data in coming months. With below-target inflation right now, the argument for the BoK to maintain its accommodative policy stance for the rest of the year remains strong (see figure).

Among the slew of activity releases next week, the forward-looking BoK Consumer and Business confidence indexes and July industrial production data for July will be under scrutiny for clues about the economy's performance in the current quarter.

No pressure on BoK to change policy



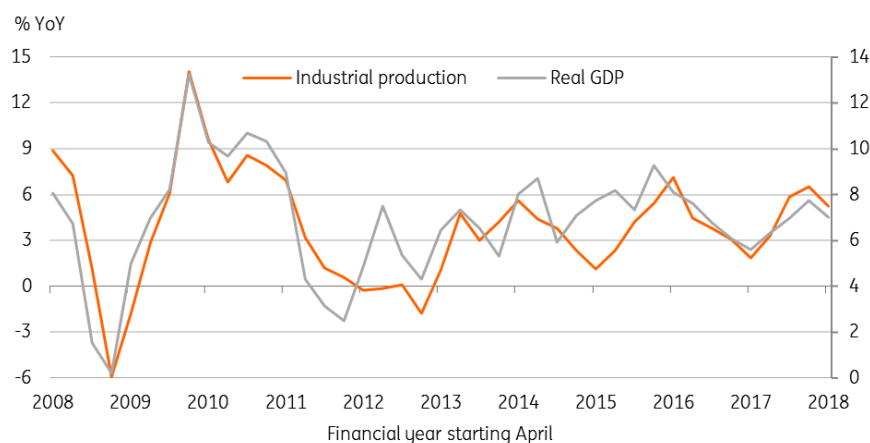
Dotted lines are BoK's inflation target, shifted from a range to point target in 2016.

Source: Bloomberg, CEIC, ING

➔ India: A slowdown in GDP growth

India's GDP data for 1Q FY2018-19 (April-Jun quarter of 2018) is due. Underlying our projected slowdown in GDP growth is a slowdown in manufacturing (see figure). Export growth accelerated in the last quarter, though exports account for a small share of GDP (average 13% in the last five years). With an oil-led surge in imports and widening trade deficit, net exports have acted as a drag on GDP growth. We forecast a GDP slowdown to 7% YoY in 1Q from 7.7% in the previous quarter, not a good start to the year, the rest of which will remain exposed to greater global economic uncertainty and rising domestic political risk.

Manufacturing leads GDP slowdown



Source: Bloomberg, CEIC, ING

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 27 August					
China	0230	Jul Industrial profits (YTD, YoY%)	17	-	20
Hong Kong	0930	Jul Exports (YoY%)	6	-	3.3
	0930	Jul Imports (YoY%)	9	-	4.4
	0930	Jul Trade balance (HK\$ bn)	-42.1	-	-54.137
South Korea	2200	Aug BOK Consumer Sentiment Index	100.3	-	101
Tuesday 28 August					
Thailand	0450	Jul Manufacturing Index (YoY%)	3.6	-	4.7
Wednesday 29 August					
South Korea	2200	Sep BOK Business Survey Index, mfg	75	-	73
	2200	Sep BOK Business Survey Index, non-mfg	76	-	74
Thursday 30 August					
Hong Kong	0930	Jul Retail Sales Value (YoY%)	11.8	-	12
	0930	Jul Retail Sales Volume (YoY%)	9.3	-	9.8
Friday 31 August					
China	0200	Aug Non-manufacturing PMI	53.8	-	54
	0200	Aug Manufacturing PMI	51.2	-	51.2
India	1200	Jul Fiscal Deficit (INR crore)	-	-	83540
	1300	2Q GDP (Q) (YoY%)	7	-	7.7
South Korea	0000	Jul Industrial Production (MoM/YoY%)	1.7/3.1	-/-	-0.6/-0.4
	-	7-Day Repo Rate	1.5	-	1.5
Thailand	0400	Jul Current account (US\$bn)	2.6		4.084

Source: ING, Bloomberg

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