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Asia week ahead: Bank of Korea - will it, or won't it?

China's purchasing manager's index, India's GDP and Korea's central bank meeting- where we expect a 25 basis point rate cut - are the key highlights in Asia next week



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➔ **China: Trade war impact is coming through**

The week kicks off with China's industrial profits for April. Keeping in line with the trend of slowing exports and production, industrial profits have been shrinking. As such, surprisingly strong 13.9% annual industrial profit growth in March appears to be an aberration from a weak trend, while the cumulative profits in the first three months were still down 3.3% from a year ago. Both exports and industrial production growth slowed sharply in April, pushing the profits

growth back to negative territory.

China's economic downtrend will undoubtedly exacerbate further with the escalation of the trade tensions this month. The upcoming data on purchasing manager index for manufacturing and non-manufacturing sectors will shed light on this.

➔ **Korea: Mixed market signals on BoK policy**

The market isn't pricing a Bank of Korea rate cut next week and neither is the latest Bloomberg poll suggesting anything of sorts. But the Korean Won's (KRW) recent underperformance, with close to 5% depreciation against US dollar since the central bank's last meeting on 18 April, seems to suggest that a rate cut is just around the corner.

What this economy needs is some fiscal support, some economic reforms, and the end of the global tech slump. The BoK can't perform miracles. – Rob Carnell, ING Asia chief economist

We believe the poor trade environment and ongoing tech slump will continue to depress Korea's growth, making it difficult for the central bank to defy easing. The 1.8% YoY GDP growth in 1Q19 was the lowest since the global financial crisis. This combined with negligible inflation, running well below 1% currently, underpins our outlier view of a 25bp BoK rate cut.

➔ **India: The best of election-related market rally is behind**

The odds of prime minister Narendra Modi winning the elections in India cheered the markets this week. Indeed, his Bharatiya Janata Party is leading with an absolute majority in the vote count, still going on at the time of writing this piece, and it looks set to form the government with existing coalition partners. We believe the best of election rally is behind and the economy will be back to re-assert its influence on the markets - almost negatively amid prevailing risk-off sentiments globally.

India's economic slowdown gained speed in the final quarter of the financial year 2018-19 ended in March, for which GDP data is due next week (31 May). If true, our forecast of a slowdown of growth to 6.0% from 6.6% in the previous quarter will make it the slowest growth quarter in two years. While this will validate the Reserve Bank of India's two rate cuts this year, we expect the potentially higher inflation will keep it from easing again at the next meeting in early June.

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Monday 27 May					
China	0230	Apr Industrial Profits (YoY%, YTD)	-3.3	-	13.9
Hong Kong	0930	Apr Exports (YoY%)	-1.5	-	-1.2
	0930	Apr Imports (YoY%)	-0.5	-	-0.1
	0930	Apr Trade Balance (HK\$ bn)	-50.0	-	-59.2
South Korea	2200	May BOK Consumer Sentiment Index	102.4	-	101.6
Tuesday 28 May					
South Korea	2200	Jun BOK Business Survey Index, Mfg	76.0	-	77.0
	2200	Jun BOK Business Survey Index, Non-mfg	76.0	-	77.0
Thursday 30 May					
Thailand	-	Apr Manufacturing Index (YoY%)	-1.5	-	-2.5
Friday 31 May					
China	0200	May Manufacturing PMI	50.2	-	50.1
	0200	May Non-manufacturing PMI	50.1	-	54.3
India	1300	1Q GDP (Q) (YoY%)	6.0	-	6.6
	1300	2019 GDP Annual (YoY%)	7.0	-	7.0
	-	Mar Fiscal Deficit (INR crore)	-	-	80654.0
Hong Kong	0930	Apr Retail sales Value (YoY%)	-0.5	-	-0.2
	0930	Apr Retail sales Volume (YoY%)	-1.2	-	-0.8
South Korea	0000	Apr Industrial Production (MoM, SA/YoY%)	1.0/-2.8	-/-	1.4/-2.8
	-	7-Day Repo Rate	1.5	-	1.75
Thailand	0730	Apr Current Account Balance (US\$bn)	2.2	-	6.1

Source: ING, Bloomberg, *GMT

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