Asia week ahead: More central banks to join the easing bandwagon

Next week in Asia kicks off with China's 2Q19 GDP report and progresses with some central bank policy meetings and lots of trade data – making it an interesting week for markets

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6.2%

ING forecast of China's 2Q GDP growth

China's growth lowest in three decades

Our house view of 6.2% growth in China's GDP in the second quarter is in line with the consensus median - a deceleration from 6.4% in 1Q, making it the worst quarter in nearly three decades. Anything better or worse than this may move the market. However, deviations by one-tenth of a percentage point from consensus, which have been the norm for many quarters, are less of a concern than the direction that growth is going. Indeed, a downward trajectory will cast a shadow over investor sentiment as the trade dispute with the US continues to cloud the growth outlook for the rest of the year.

A silver lining in the dark cloud though, year-on-year growth may benefit to some degree from low base effects in the second half of the year. While it's too soon to close a trade deal, our Greater China Economist, Iris Pang, sees a strong macro policy boost keeping the economy afloat with growth above 6%.

China: Too soon to close a deal

More central banks on course for easing

With a US Federal Reserve rate cut just around the corner, we expect more Asian central banks to join the easing buzz. Central banks in Korea and Indonesia are likely to be next in line to ease policy. Both the Bank of Korea (BoK) and Bank Indonesia (BI) are due to announce their policy decisions next Thursday 18 July, and we expect each of them to cut policy rates by 25 basis points.

Facing the brunt of the trade war and the tech slump, Korea's growth is poised for more weakness ahead from export declines, which have now moved into double digits. The BoK policy decision will also be accompanied by the central bank's quarterly economic outlook report. We anticipate further cuts to the BoK's 2019 growth and forecasts, currently 2.5% and 1.1% respectively. If so, the fifth forecast cut in a year should force the BoK's hand into easing. The economy is flirting with recession and the consensus has still to come to terms with this, with a split-view of a 25bp BoK rate cut and no cut in the current quarter.

> *The Korean economy may actually be in a recession right now, we're simply waiting for the data to confirm it. – ING Asia Chief Economist Rob Carnell*

Meanwhile, BI has already started on an easing path by cutting banks' reserve requirement ratio (RRR) by 50bp at the June policy meeting. With a Fed rate cut just around the corner, our Indonesia expert, Nicholas Mapa, now thinks the door is open to a BI rate cut, possibly as soon as next week. The appreciating currency (IDR) allows for some unwinding of aggressive BI policy tightening in 2018. Even as GDP growth remains well supported at a 5% level for the rest of the year, still a decent performance among Asian countries, an insurance rate cut won't hurt when inflation is anchored around 3%.

And lots of data to gauge trade war impact

The trade figures from India, Indonesia, Singapore, and Japan will also be watched closely for what they say about the trade war impact.

Just like Korea, Singapore is one of the economies most impacted by the trade war and tech slump. June data on non-oil domestic exports (NODX) next week will reinforce this trend. The sustained deep declines in NODX depressing GDP growth are bringing the Monetary Authority of Singapore (MAS – the central bank) closer to reducing or even flattening the SGD-NEER appreciation path, possibly even earlier than the October meeting.

There is some good news from the Indonesian trade figures. A 10-fold widening of the trade surplus to our estimated $1.9 billion will relieve BI from worries of imminent policy rate cuts hurting the currency. Unlike Indonesia, India's trade balance remains in red, likely posting a $15 billion deficit again in June – not good news for the Indian rupee despite its recent outperformance on the back of a weaker US dollar and lower global oil prices.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 15 July			
China	0300	Jun Fixed asset investment (YTD, YoY%)	5.7	5.6	5.6
	0300	Jun Industrial Production (YoY%)	5.5	5.3	5
	0300	Jun Retail Sales (YoY%)	9.1	8.5	8.6
	0300	2Q GDP (QoQ% SA/YoY)	-/6.2	1.5/6.2	1.4/6.4
India	0730	Jun WPI (YoY%)	2.3	2.2	2.5
	-	Jun Imports (YoY%)	-3	-	4.3
	-	Jun Trade deficit (US$bn)	-7	-14600	-15360
	-	Jun Exports (YoY%)	-15	-	3.9
Indonesia	0500	Jun Exports (YoY%)	-8.7	-	-9.0
	0500	Jun Imports (YoY%)	-11	-	-17.7
	0500	Jun Trade balance (US$mn)	1885	-	207.6
Philippines	-	May OCW remittances (YoY%)	-1.7	-	4.0
		Wednesday 17 July			
Singapore	0130	Jun Non-oil domestic exports (YoY%)	-8.7	-	-15.9
	0130	Jun Non-oil domestic exports (MoM% SA)	-6.2	-	6.2
		Thursday 18 July			
Indonesia	-	BI policy decision (7-day reverse repo, %)	5.75	-	6.00
South Korea	0200	7-Day Repo Rate	1.50	-	1.75
	2200	Jun PPI (YoY%/MoM)	0.4	-	0.4

Source: ING, Bloomberg, *GMT