

Asia week ahead: Will India's 2Q GDP validate rapid rate cuts?

July industrial production releases crowd next week's Asian economic calendar, though India's 2Q GDP and Korea's central bank policy will steal the focus



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➔ India's GDP growth has bottomed

Pronounced economic weakness was the likely reason behind the Reserve Bank of India's (RBI) policy rate cut earlier this month, which was the fourth this year and unusually large at 35 basis points. India's forthcoming GDP figure for the April-June quarter (1Q FY2019-20) should attest to worries about a significant weakening in the economy. GDP growth slipped to a five-year low of

5.8% in the Jan-Mar quarter. Since then, however, the high-frequency activity data has been a mixed bag.

While the accelerated weakness of exports and vehicle sales signal slower GDP growth, nearly stable imports and faster industrial production growth suggest the opposite. Despite a recent slump, exports are still doing well, with a rise of about 2% year-on-year in the first seven months of 2019, in contrast with sharp declines elsewhere in Asia. Providing a further positive spin to the growth story is an election-related surge in government spending as well as a total 75 basis points of rate cuts through June – by far the heaviest easing among Asian central banks this year, and supporting domestic demand.

All this leads us to the view that GDP growth improved in the reporting period, albeit slightly, to our 6.0% estimate. If it goes the other way, the key question would be what all that aggressive stimulus was for?

➔ Bank of Korea waiting for Fed to go first

South Korea's central bank (BoK) holds a monetary policy meeting. To be unveiled on Friday 30 August, the policy decision will most likely be no change to the 1.50% policy rate after a 25bp cut at the previous meeting on 18 July. This means all attention will be on Governor Lee Ju-yeol's post-meeting press conference for hints about the timing of the next cut.

The Korean won depreciation this month, following the Chinese yuan, will likely keep the BoK from risking more currency weakness with another rate cut right now. We also believe the BoK would prefer to wait for the US Federal Reserve's next rate cut in September. However, unlike the Fed, which is in insurance easing mode, the BoK's easing is genuinely needed, as will be underscored by some key economic data next week on consumer and business confidence and industrial production. Indeed, we don't think the BoK is done with easing just yet. There will be at least one more 25bp cut before the yearend.

➔ And lots of manufacturing releases

July industrial production releases from Japan, Korea (already mentioned), Singapore, and Thailand will be early indications of third-quarter GDP growth in these countries. There is little room for optimism here with an escalation of the US trade tensions with China and the rest of the world, and now that of Japan with Korea, working to depress exports and manufacturing alike.

Meanwhile, a sharp slowdown in China's industrial production growth in July bodes ill for profit growth in that month.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 26 August					
Hong Kong, SAR	0930	Jul Exports (YoY%)	-11.3	-	-9.0
	0930	Jul Imports (YoY%)	-9.7	-	-7.5
	0930	Jul Trade balance (HK\$ bn)	-48.2	-	-55.2
Singapore	0600	Jul Industrial production (MoM/YoY%)	-0.1/5.0	-/-	1.2/-6.9
South Korea	2200	Aug BOK Consumer Sentiment Index	96.9	-	95.9
Tuesday 27 August					
China	0230	Jul Industrial profits (YTD, YoY%)	-2.0	-	-3.1
Wednesday 28 August					
South Korea	2200	Sep BOK Business Survey Index, mfg	72	-	71.0
	2200	Sep BOK Business Survey Index, non-mfg	70	-	71.0
Thursday 29 August					
Thailand	-	Jul Manufacturing index (YoY%)	-4.8	-	-5.5
Friday 30 August					
India	1300	2Q GDP (Q) (YoY%)	6.0	-	5.8
	-	Jul Fiscal deficit (INR crore)	-	-	65898
Hong Kong, SAR	0930	Jul Retail sales value (YoY%)	-15.6	-	-6.7
	0930	Jul Retail sales volume (YoY%)	-15.0	-	-7.6
South Korea	0000	Jul Industrial production (MoM/YoY%)	-0.6/-4.1	-/-	0.2/-2.9
	0200	7-Day Repo Rate	1.5	-	1.5
Thailand	-	Jul Current account balance (US\$bn)	1.2	-	3.9

Source: ING, Bloomberg, *GMT

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Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com