

Good MornING Asia - 1 February 2019

We didn't learn much this week - The Fed is still bowing to market pressure; trade-talk rumours remain positive, And weakness from Korea kickstarts the day. Enjoy the Weekend.

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TGIF

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More positive news on trade talks from the US

Our sense that the announcement of a trade deal will at least be heralded by those involved as a success, is gathering some support. There are plenty of tweets from the US President on this overnight. Not all as positive as the one below which newswires are focussing on. But it looks like President Trump needs a summit with President Xi to dot some i's and cross some t's. This might mean the US is pushing hard for some concession on issues such as China 2025 - one of Xi's aims, which presumably negotiators such as Liu He do not have the authority to change.

I still think both sides want a deal. China wants to avoid higher tariffs and would like to see existing ones removed. The US wants a positive PR soundbite, in addition to any Chinese concessions it can win.

With both sides seemingly working in the same direction, I am optimistic that we will get presented with a "success". What I am less sure is how genuine and final this will be. How many contingent conditions will be attached to no future tariff increases or reductions? And how genuine any commitments from both sides will be? I remain sceptical.

Don't expect too much from non-farm payrolls

The US partial government shutdown may have been temporarily ended, but its effects may well

emerge in today's non-farm payrolls and other US labour market data for January. The ADP survey of private sector employees this week showed about a 50K drop from last month - remember, a lot of government work is carried out by private sector contractors. Initial jobless claims for the week ended January 26 (after the payrolls sampling period, but what the heck?) also showed a rise of about 50K.

The consensus is already geared up for this, with a 165K forecast for payrolls, down from the blockbuster 312K in December. We don't expect too much from the wages figures this month due to distortions and a 0.3%moM increase in January last year which raises the bar for an increase in the year on year rate.

Asia today

Korean CPI already released fell by 0.1%MoM in January to take the headline inflation rate to 0.8%. Core inflation was also lower at 1.2%.

We wrote yesterday about Asian central banks that might use current USD weakness to reverse some of their rate hikes from last year. The Bank of Korea definitely falls into this camp. We just may have to wait a few months until such a reversal looks less like an admission that earlier hikes were not well judged.

Thailand also releases CPI data today and it too hiked rates at the end of last year without, we think, much justification. Thai inflation is hovering below 0.4%YoY currently, and could drop below 0.3%YoY in January. With the THB very strong, there is a clear case for a Central Bank re-think on rates here.

Korea's January trade data wasn't much better than its inflation figures, though at -5.8%YoY, the export numbers were slightly less bad than the consensus expectation. But that is splitting hairs. This was a bad release. The trade balance declined from \$4342m to \$1336m.

PMIs dominate the calendar in the rest of the region, emerging as this note goes to press. After the surprise increase in official PMIS in China yesterday, the Caixin survey will get close attention.

India's budget day today

And From Prakash Sakpal: The growing discontent among low and middle-income voters and small businesses will move the government to push for its re-election bid harder today. Speculation is rife about the government presenting a full budget, departing from the convention of an interim budget or vote-on-account by a government heading into an election in which no big-bang (vote-seeking) measures are announced and only spending appropriations for the remaining term of the government are sought. Yet, among widely talked measures are increases in income tax exemptions, financial support for farmers or possibly farm loan waivers. Meanwhile, we expect spending to push the estimated deficit higher to about 3.6% of GDP in the current financial year ending in March, well above the initial budget target of 3.3%. Even if somehow the estimated deficit is maintained at the target level, its credibility will be in question. Our deficit forecast for the next financial year is 3.4%.

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ASEAN morning bytes

General market tone: Risk-on. Risk on sentiment may still dominate Friday although gains will be capped ahead of the US jobs report.



EM Space: Risk appetite will still be intact with positive undertones from US-China trade talks

- **General Asia:** Emerging markets will likely push higher although the rally will not have the same conviction seen in the previous session with investors awaiting further details on the US-China trade talks. Meanwhile, traders will also be looking to the US jobs report after initial jobless claims rose sharply in the previous week.
- **Thailand:** January CPI inflation is expected to ease further to 0.3% YoY in January from 0.4% in the previous month. The strong currency is keeping inflation subdued. The current account surplus bounced above \$5bn in December from \$1.6bn in the previous month, putting the full-year 2018 surplus at \$34bn or about 7% of GDP by our estimate. The large current surplus has been a source of THB outperformance, though the authorities have now more reasons to be wary about the ongoing currency strength as exports are poised to falter. That said, we are reviewing our USD/THB forecast for a re-test of the 33-level following a change in Fed policy.
- **Indonesia:** Bank Indonesia (BI) will likely allow the IDR to strengthen as Governor Warjiyo believes that the currency is currently undervalued. BI will also look to maintain investor confidence in the IDR according to executive director for monetary management Nanang Hendarsah. Year to date the Rupiah is up 3.7%, second best performing currency in ASEAN

as foreign flows return to Indonesia given the dovish outlook on the Fed.

- **Philippines:** The Bangko Sentral ng Pilipinas (BSP) expects inflation for the month of January slipped further with the latest forecast for last month's price gains pegged at 4.3-5.1% as food prices and energy prices normalize. BSP had previously indicated that inflation would settle back within target as early as the end of 1Q as supply side bottlenecks had been addressed and with the aggressive 175 bps rate hike cycle working its way to slow the economy.

What to look out for: US-China trade talks and US NFP

- India FY2020 budget (1 February)
- Thailand inflation (1 February)
- China Caixin PMI manufacturing (1 February)
- US NFP (1 February)

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Article | 1 February 2019

Asia week ahead: Thinner liquidity, busier central banks

Thinner market liquidity and busier central banks will define trading in Asia next week. The Lunar New Year holiday in most countries will reduce liquidity. Four regional central banks hold policy meetings, with the key question being whether those of India and the Philippines will ease policy or stand pat. Gong Xi Fa Cai!



Source: Shutterstock

➔ Thin market liquidity

It's going to be a dull week with Chinese markets on holiday all of next week for the New Lunar Year, the first of two Golden Weeks holidays in China in a year, while most other Asian markets are also out for a day or two to usher in the Year of the Pig. The week is also scant on economic data from the region.

However, any trading that does take place in regional markets next week will be driven by US-China trade tensions. Scepticism about progress from the ongoing high-level talks abounds but any positive news could put to rest expectations of prolonged trade tensions weighing on global growth.

➔ Busy central banks

Central banks in Australia, India, the Philippines and Thailand hold policy meetings. We expect all of them to leave policy on hold, though we do not rule out any surprises by central banks in India and the Philippines.

The Philippines' central bank (BSP) meeting is on Friday, 7 February. Coming ahead of the BSP meeting is the all-important consumer price data for January (due 5 February), that's expected to show a sharp deceleration in inflation to our 4.3% year-on-year forecast from 5.1% in December.

As Governor Nestor Espenilla recently signalled, policy will be data-dependent and the bank will observe prudence and caution in deciding any moves. He has also signalled a reduction in the bank's reserve requirement ratio (RRR), currently 18%, as inflation firmly returns to the central bank's 2-4% target. It may not come next week, but our house view is for an RRR cut or two within the current quarter and a 25 basis point policy rate cut in the second quarter of the year.

4.75% BSP policy rate
No change expected next week

➔ Indian central bank - will it or won't it ease?

In India, the FY2020 budget to be out on Friday, 1 February, will likely bear out the fact that politics has displaced economics in guiding macro policies in order to meet the government's agenda of lifting GDP growth before elections in May. Undoubtedly, recent low inflation figures allow the central bank (RBI) to follow suit on the easing path. More so with the central bank now opening reserve coffers for the government to plug a wider fiscal deficit.

(We) can't have a real rate of interest that is higher than anywhere else in the world – Finance Minister Arun Jaitley

However, while close to 7% GDP growth puts India among the ranks of the world's fastest-growing economies, the inflationary implication of strong growth and loose fiscal policy, which will likely be compounded further by rising global oil prices and a weak local currency, cannot just be ignored. Indeed, India's core inflation has been high, running close to 6% in the current year. Although our baseline is that the RBI leaves policy on hold throughout 2019, we wouldn't be taken aback by a rate cut next week. Be prepared for intensified depreciation of the Indian rupee in such an event.

6.50% RBI repurchase rate
No change is expected

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Monday 4 February					
Singapore	1300	Jan Purchasing Managers Index	51.0	-	51.1
Tuesday 5 February					
India	0500	Jan Nikkei Services PMI	-	-	53.2
Philippines	0100	Jan CPI (YoY%)	4.3	-	5.1
Wednesday 6 February					
Indonesia	-	4Q GDP (QoQ/YoY%)	-/5.3	-/-	3.1/5.2
Thailand	0705	Benchmark Interest Rate	1.75	-	1.75
Thursday 7 February					
India	0900	RBI Policy Decision (Repo Rate, %)	6.5	-	6.5
Philippines	0800	Overnight Borrowing Rate	4.75	-	4.75
	-	Jan Forex Reserves (US\$bn)	80.5	-	79.2
Friday 8 February					
Hong Kong	0030	Jan Nikkei PMI	-	-	48.0
Indonesia	-	4Q Current Account Balance (US\$bn)	-7.7	-/-	-8.8

Source: ING, Bloomberg, *GMT

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China: Manufacturing PMI rises

China's PMI headline index rose in January to 49.5 from 49.4, but the detailed message from the components is not so reassuring



Headline up, but forward indicators bleak

The vast majority of forecasters including ourselves anticipated a decline in this PMI index this month, so what is going on? At a component level, the output index did increase by 0.1pp, and stands at a modest 50.9, consistent with very slow, but positive growth. But the decline in the supplier delivery time index to 50.1 from 50.4 is more consistent with weakness than a pick up in activity. Inventories also rose, which will have fed through to the headline increase, But this is in all likelihood a reflection of stocking-up ahead of tariff concerns. It probably shouldn't be read positively. It may have to be unwound in the months ahead.

Moreover, forward-looking indicators of Chinese manufacturing strength, such as new orders, fell slightly again to 49.6, indicating outright shrinkage at these levels.

49.5 Jan Mfg PMI
(was 49.4)

Higher than expected

Is the stimulus getting where it should?

Moreover, when viewed by size of firm, there is a clear split between large enterprises, and everyone else. Large firms showed a pick up from 50.1 to 51.3. They are probably the easiest for banks to support with recent monetary stimulus measures. But the additional effort of getting loans out to small and medium-sized firms shows in outright falls in the indices for these firms at levels well below the 50 break-even level.

Tomorrow's Caixin PMI, which has a greater private sector focus than these official PMIs will probably show a similar discrepancy. Our Greater China Economist, Iris Pang, sees the Caixin Manufacturing PMI index falling to 49.2 from 49.7.

Better news for the non-Mfg sector

The non-manufacturing sector fared better according to these latest data. The headline non-Mfg PMI index rose to a respectable 54.7 from 53.8, helping lift the composite index to 53.2. New orders rose to 51.0 from 50.4. But while some other component indices also rose, like employment, export orders, backlogs of work and inventories, they remained below 50, suggesting merely that the rate of actual decline in these areas was lessening, but has not yet reversed.

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Thailand: Current surplus beats estimates

Authorities have more reasons to be wary about the ongoing currency strength while exports are poised to falter. That said, we are reviewing our USD/THB forecast for a re-test of the 33-level following a change in Fed policy



Source: Shutterstock

\$5.027bn December current account surplus

Higher than expected

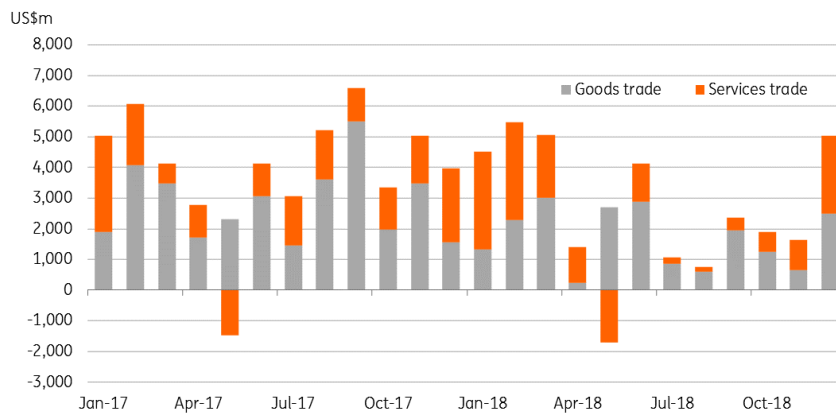
Huge current surplus, again

Thailand's balance of payments data for December today showed the current account surplus bouncing to over \$5 billion in the month from \$1.6 billion in November. This was way above the consensus of \$3.5 billion and our estimate of a \$3.9 billion surplus. We knew from the positive swing in the customs-basis trade balance- to a surplus in December from a deficit in November- that the goods trade boosted the current surplus. But there was more to it than just that; the seasonal surge in tourism in December appears to have boosted service-related inflows.

However, the overall payments balance swung to a deficit of \$182 million in December from a

\$384 million surplus in the previous month, a sign of capital outflow. Indeed, foreigners were net sellers of both Thai equities and bonds in December.

Monthly current account balance by goods and services trade



Source: Bloomberg, ING

Annual surplus narrowed though

This takes the full-year 2018 current surplus to \$34.3 billion or about 7% of GDP by our estimate. This represents a sharp narrowing from 11% of GDP in the previous two years. Weak global demand and an increase in trade protectionism will work to narrow the current surplus further into 2019. The commerce ministry's projection of 8% export growth in 2019 seems optimistic (6.7% in 2018). A more reliable view by the Thai National Shippers' Council is 5% growth, whereas we think a low single-digit figure should not be ruled out.

However, domestic demand hasn't been particularly strong either, which counters the export weakness. As such, we aren't expecting a significant correction in the external imbalance, with the forecast of a 2019 current surplus coming in at about 5% of GDP (Bloomberg consensus 6.5%).

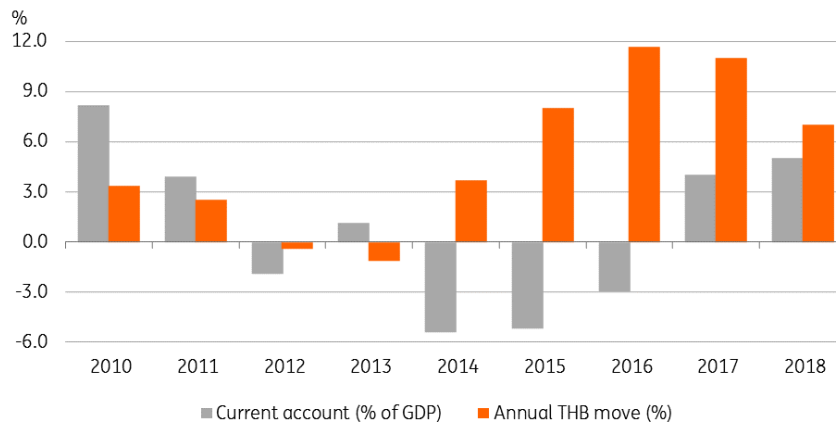
More reasons to be worried about strong currency

The relatively large surplus among Asian countries has been the backbone of the Thai baht's ongoing outperformance since 2017. The currency retains that spot coming into 2019.

We think the authorities now have more reason to worry about sustained currency strength as export strength is faltering. The government has voiced concern against the strong currency. We expect some weakness to build in the run-up to general elections scheduled for March this year, which is what underlines our view of the USD/THB rate rising to 33 within the current quarter and lingering above this level until the political dust settles.

That said, we are reviewing our forecast in view of the year-to-date performance and likelihood of a softer US dollar following a dovish turn in the Federal Reserve's policy. But the question is, will this move the Bank of Thailand (BoT) to undo the 25 basis point rate hike it implemented in December. We don't think so, though we wouldn't be surprised if the central bank moves in that direction later in the year. Look out for some clues from the BoT policy statement next week (6 February).

Large current surplus, strong currency



Source: Bloomberg, CEIC, ING

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