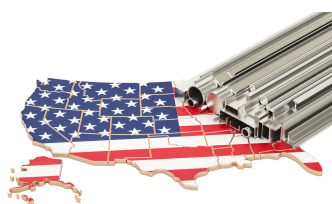


Good MornING Asia - 1 June 2018

Trump administration decides to put tariffs on steel and aluminium on Canada, Mexico, EU etc. With allies like these...

In this bundle



A bad blow for global growth

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China | India...

Asia week ahead: Spotlight on India's central bank

Expect the Reserve Bank of India to tighten by 25bp to stem the currency weakness. Trade and inflation releases for May will be the other highlights



China

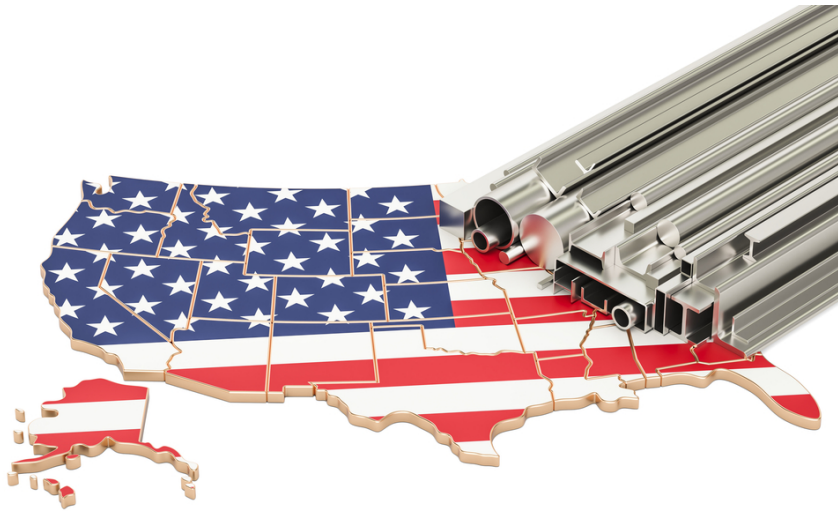
Upbeat China PMIs show the economy is healthy

Both manufacturing and non-manufacturing PMIs show the Chinese economy grew solidly in May. We expect this to continue as China is investing in high-tech...

Opinion | 1 June 2018

A bad blow for global growth

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After reflection, higher tariffs are still damaging to the US / global economy

This is a bad day for global trade. And the US equity market confirms it. The Italian political story may have got us back under 3% for the 10Y Treasury yield, but growing protectionism may push us further down. The EU, Canada, and Mexico are lining up to impose retaliatory tariffs, which may take a week or so. But they are coming, and are not likely to be cosmetic token moves. These allies of the US can reasonably complain about their treatment by the US, and it would not be surprising if their reaction was an emotional one.

Moreover, all of this comes at a time when the US seems to be making progress on its goal of levelling the trade playing field with China, which has announced a long list of (1499) items on which it is slashing its tariff rates to most favoured nation status.

And another thing...none of this is coming at a time when the global economy looks invulnerable. In the Asia region, for example, bellwethers for regional strength, like Korea, have been struggling with an inventory-led downturn in production, especially in the electronics sector. What the world does **not** need now is a headwind to growth and a stagflationary boost to the price level.

Italian soap opera - latest

5-Star and the League, the two Italian parties trying to form a government, have managed after all, by shifting Paolo Savona away from the sensitive Finance Ministry position, and giving it to an economics professor, Giovanni Tria. Eurosceptic Savona will now get the Ministry for European Affairs. Does this remind anyone of the joke about putting Dracula in charge of the blood bank? No? Anyone?

So now, Giuseppe Conte can try to run the country as prime minister representative of these two, very different and at times, highly eurosceptic parties. Given that the average life expectancy of an Italian government in the post-war period has been a little over a year, we may be returning to this political soap-opera soon.

Inflation story diverges between Eurozone and US

Thursday saw quite an abrupt change in the European inflation story, with Eurozone composite inflation rising from 1.2% to 1.9%YoY. This puts Eurozone inflation on its "below, but close to 2.0%" target. And although (no doubt) the ECB doves will want to see that inflation rate maintained for a month or two for confirmation, it surely begs a rethink of the ECB taper story. Meanwhile, the US PCE inflation figures were unchanged at both headline (2.0%) and core (1.8%YoY) measures. Combined with the bad turn of events on the trade wars story, this might be a time to reconsider a resumption of some euro strength?

Asian FX is stronger across the board by default today, probably on the back of the trade story weighing on the US dollar. But this probably will not last, as the risk-off sentiment is likely to dominate before long, and should see today's gains dissipate.

Payrolls, and what else?

In the G-7, apart from payrolls, and the usual scrutiny for some signs of wages strength, there is not much to note today. Payrolls are expected to pick up a bit to 190,000 after only rising 135,000 in April. No change is expected to April's 2.6% YoY average hourly earnings growth. That is still low.

In the Asian Pacific region, Korean 1Q18 GDP was unrevised at 2.8% YoY, but the inflation numbers were surprisingly lower against expectations for an increase. Headline May inflation fell to 1.5% from 1.6% and even core inflation fell to 1.3% from 1.4%. We had already kicked our Bank of Korea rate hike back to 4Q18, and are happy to leave it there for the time being, but with data like this and recent soft production numbers, further push backs are probable.

Thai May CPI will probably move the same way when released later today, as food prices revert after the April Songkran festival. Inflation should decline to 1.0% from 1.1%. And almost all of that is still due to food. The Bank of Thailand is not going to be called into action any time soon.

Manufacturing PMI data is also released across the region today, including China's Caixin index, which we anticipate nosing slightly higher to 51.3 from 51.1.

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Asia week ahead: Spotlight on India's central bank

Expect the Reserve Bank of India to tighten by 25bp to stem the currency weakness. Trade and inflation releases for May will be the other highlights



➔ Anything actually happening on the trade war?

So far everything has been limited to verbal skirmishes but no action. While we will continue to see more trade noise in the period ahead, markets will focus on hard data. And there is plenty on the calendar from China, Taiwan, Malaysia, and the Philippines.

We expect sustained export strength in China and Taiwan with double-digit growth, but less so in the other two economies. After underperforming in 2017, China's exports have been doing well this year with 14% year-to-date growth. On the other end is the Philippines with a 6% fall explaining the ongoing plight of the peso.

Meanwhile, China's foreign exchange reserve data for May will provide a sense of capital outflows amid accelerated USD appreciation against major currencies, including the yuan. Our [Greater China Economist, Iris Pang](#) expects this to be reflected in a drawdown of reserves, by about \$20bn

a month. She also expects continued CNY depreciation ahead and has revised the [USD/CNY forecast to 6.60 from 6.33](#) for 2018.

[Why we're forecasting the yuan to depreciate](#)

➔ Will India's RBI tighten policy?

We are in the consensus minority forecasting a rate hike at the June meeting next Wednesday. The emerging market central banks of Turkey, Indonesia, and the Philippines tightened policy recently as their currencies came under intense selling pressure from events around the world. The accelerated weakness of the rupee is likely to force the RBI on the same path.

It's still a close call as analysts' consensus remains tilted towards Reserve Bank of India's (RBI) on-hold policy. We believe RBI policymakers are coming to terms with the need to pre-empt inflation pressure, which will worsen with the weakening currency. And the earlier they move, the better it will be.

This is why we've brought forward our forecast timing of the first 25bp rate hike [to June from August](#). Absent any policy support forthcoming, we will review our end-2018 USD/INR forecast of 68.3 for another upward revision.

[Weak Indian rupee to push RBI to tighten next week](#)

➔ Any inflation relief in Indonesia or the Philippines?

Not much based on our house forecasts. The double-whammy of higher oil prices and weak currencies will keep inflation elevated in both these economies. We think recent policy rate hikes by respective central banks are just the beginning of the tightening cycle.

Our economist [Joey Cuyegkeng](#) now forecasts additional 50bp policy rate hikes by both the central banks in the rest of the year.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 1 June					
China	0245	May Caixin Manufacturing PMI	51.3	51.2	51.1
India	0600	May Nikkei Manufacturing PMI	51.3	-	51.6
Taiwan	0130	May Nikkei Manufacturing PMI	53.5	-	54.8
Thailand	0430	May CPI (YoY%)	1	1.3	1.07
	0430	May Core-CPI (YoY%)	0.6	0.69	0.64
South Korea	0000	1Q F GDP (QoQ/YoY%)	1.1/2.8	1.1/2.8	1.1/2.8
	0000	May CPI (MoM/YoY%)	-1.8	0.2/1.7	0.1/1.6
	0100	May Exports (YoY%)	9.2	10.5	-1.5
	0100	May Imports (YoY%)	13.9	10	14.5
	0100	May Trade balance (US\$mn)	4345	6600	6609
	0130	May Nikkei Manufacturing PMI	48.3	-	48.4
Monday 4 June					
Indonesia	0500	May CPI core (YoY%)	-	-	2.69
	0500	May CPI (YoY%)	3.3	-	3.41
Singapore	1400	May Purchasing Managers Index	53.1	-	52.9
South Korea	2300	Apr Current A/c Balance (US\$m)	5050	-	5180.4
Malaysia	0030	Apr Nikkei manufacturing PMI	48.3	-	48.6
Tuesday 5 June					
India	0600	May Nikkei Services PMI	-	-	51.4
	-	1Q Current account balance (Q) (US\$bn)	-	-12.75	-13.465
Hong Kong	0130	May Nikkei PMI	-	-	49.1
Malaysia	0500	Apr Trade balance (RM bn)	8.5	-	14.69
	0500	Apr Imports (YoY%)	4	-	-9.64
	0500	Apr Exports (YoY%)	3.3	-	2.23
Philippines	0200	May CPI (YoY%)	4.7	-	4.5
Taiwan	0900	May CPI (YoY%)	1.5	-	1.98
	0900	May WPI (YoY%)	3.8	-	2.53
Wednesday 6 June					
India	1000	Jun 6 RBI policy decision (repo rate, %)	6.25	6	6
Thursday 7 June					
China	-	May Forex Reserves (US\$bn)	3106	-	3124.85
Hong Kong	-	May Forex Reserves (US\$bn)	-	-	434.4
Malaysia	0800	May 31 Forex reserves- Month end (US\$bn)	-	-	109.4
Philippines	-	May Forex reserves (US\$bn)	-	-	79608.8
Friday 8 June					
China	-	Mar Trade Balance (US\$bn)	32.3	-	28.382
	-	Mar Exports (YoY%)	16	-	12.7
	-	May Imports (YoY%)	26	-	21.5
Philippines	0200	Apr Exports (YoY%)	-5.1	-	-8.2
	0200	Apr Imports (YoY%)	11	-	0.1
	0200	Apr Trade balance (US\$mn)	-2627	-	-2608
Taiwan	0900	May Exports (YoY%)	15.5	-	10
	0900	May Imports (YoY%)	11	-	4.9
	0900	May Trade balance (US\$bn)	5.2	-	4.15

Source: ING, Bloomberg

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Upbeat China PMIs show the economy is healthy

Both manufacturing and non-manufacturing PMIs show the Chinese economy grew solidly in May. We expect this to continue as China is investing in high-tech sectors to cushion the impact of trade tensions



Source: Shutterstock

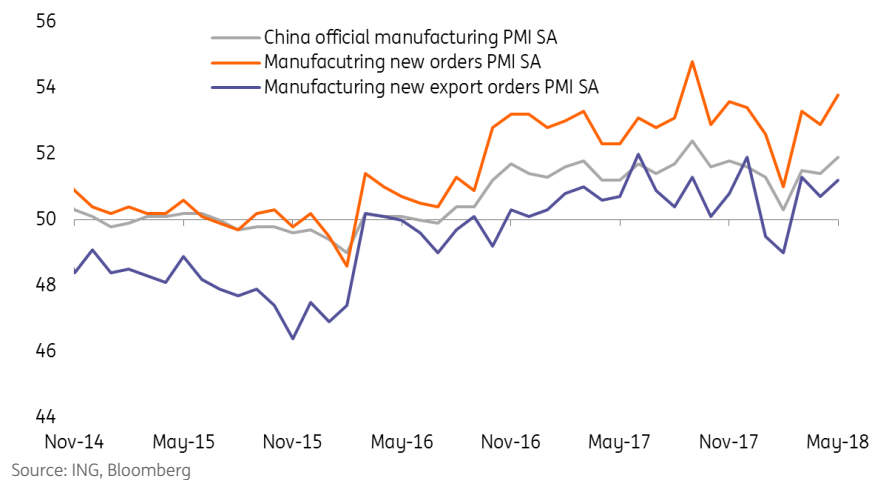
High-tech manufacturing was the main driver of production activity

PMIs of manufacturing equipment and high-tech products came in at 53.0 and 54.8, up 1.3 and 1.0 points respectively from April, and higher than the headline PMI of 51.9 in May, which was already above the 51.4 in April. These two items have been consistently higher than the headline figure. This shows that China already has the fundamentals to build even more advanced technology.

Manufacturing of consumer goods was also strong at 52.7, and stabilised from last month. Combined with new export orders PMI at 53.8, up from 52.9, which has been higher than new export orders at 51.2, this shows that consumption demand in China is solid.

Strong consumption demand is also reflected in large demand for electricity for cooling from the hot weather in the southern part of China, and the high-energy-consuming manufacturing PMI rose to 50.5 from below 50. Although high-energy consumption is not as positive from an anti-pollution perspective than clean-energy production, the high demand for electricity for cooling

implies that the overall population generally can afford a higher electricity bill for a more comfortable life. This exposes the risk of China not having enough clean energy production and infrastructure investments.



Golden Week was key in driving non-manufacturing activities

Inbound tourism, air flights and shopping activities during the Golden Week boosted the non-manufacturing PMI to 54.9 from 54.8. We have to bear in mind that most service businesses, like banking, were closed on holidays. That explains a small increase in the non-manufacturing PMI.

Good report card for the economy

The PMI figures confirm our view that the Chinese economy is running at a decent speed. Combining this with April's industrial profit data, **we confirm that our GDP forecast of 6.8% for 2Q18 stills holds.**

Forthcoming trade tensions could put pressure on trade and related supply chain activities, however. We believe that investment decisions in potentially affected industries have been delayed.

Still, the government together with corporates have increased investment to develop the highest-end technology in the semiconductor, telecommunication and transportation sectors.

We are therefore optimistic about the overall economy.

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