

Good Morning Asia - 1 October, 2018

As a possible trade deal for Asian nears, we ask, what, if anything, does this mean for Asia?

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ASEAN Morning Bytes

General market tone: wait and see Markets look to digest developments on the trade front while looking to Friday's jobs numbers from the US for...



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A North American trade deal is in the works...but it doesn't mean a China / Asian one is any nearer.

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ASEAN Morning Bytes

General market tone: wait and see Markets look to digest developments on the trade front while looking to Friday's jobs numbers from the US for direction. US-Canada deadline at 12 noon on Monday.



International theme: US data remains strong, US-Canada deadline at 12 noon (GMT+8)

- US economic data continued to point to steady growth with consumption still growing while inflation remains above target. Investors now await developments on trade for direction.

EM Space: Asian markets open 4Q looking to trade developments and US NFP for direction

- **General Asia:** Asian markets will likely open mixed, reacting to the PMI numbers reported out from China (manufacturing down, services up) over the weekend. This may show that the initial impact of the US-China trade war is beginning to take root. US-Canada deadline at noon could provide some direction for trading in the afternoon.
- **Thailand:** September CPI inflation is due. We believe August's 1.6% YoY inflation was the

peak of the current cycle and expect a slowdown to 1.1% in September coming from slower inflation in the food and transport components. If materialized, this will be more reason for the BoT to leave monetary policy unchanged through the end of the year.

- **Philippines:** The Philippines saw money supply grow 10.4% in August, slightly slower than the previous month's pace as Peso liquidity continues to tighten. Bank lending remained in expansion at 18.9% as the economy continues to march higher, but also a slower pace from the last period. Higher rates and inflation will likely continue to weigh on bank lending but overall growth will remain robust.
- **Philippines:** September inflation will be reported on Friday with BSP's range between 6.3-7.1%, which could see BSP hike another 25 bps by year-end to safeguard the 2019 inflation target. September was the month where crop damage from a tropical storm may have kept food prices elevated.

What to look out for: US NFP and Asian inflation data

- US-Canada trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (on-going)
- Manufacturing data out from China (30 September)
- Manufacturing data out from EZ (1 October)
- Manufacturing data out from US (1 October)
- Central bank meeting Australia (2 October)
- Philippine inflation (5 October)
- Central bank meeting India (5 October)
- US non-farm payrolls (5 October)

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North American trade deal nears...

A North American trade deal is in the works...but it doesn't mean a China / Asian one is any nearer.



Source: Shutterstock

What does a possible "NAFTA" deal mean for Asia?

By lunchtime in Asia, we may well know whether or not a tripartite trade deal has been struck between the US, Canada, and Mexico. We will refrain today from referring to this as "NAFTA", though until a new, snappier acronym is developed, we may well drift back to that in time (Does "USMC trade deal" work?). Anyway, we have been watching this story develop mainly because we want to get a sense for what it might mean for US trade intentions in Asia.

First thing: a trade deal itself is somewhat important. It shows that the US administration will have been prepared to make some concessions to Canada, I don't believe Canada will have subscribed to a deal without something in return, though this may be relative to a "no deal" scenario, not relative to what existed before. How does that play for China? Well, I suppose it does indicate that given enough concessions, enough market opening, enough tariff cuts, and commitments to end practices of coerced intellectual property appropriation, a deal may be possible. That isn't terribly comforting though. At least, not in the short-term, as this sounds like it will be too bitter a pill for China to swallow.

More important will be the degree to which Canada has had to soften its red lines, dispute settlement being one of the most important ones, though also cultural support, and the dairy industry all key negotiation points. Any signs that a compromise deal has been struck could be

considered tiny signs of optimism that a China-US deal could, in time, be struck, bringing an end to the ongoing trade war.

Sulawesi tragedy

Our sympathies and condolences to the people of Sulawesi, their relatives and friends everywhere. Although it is tempting to make some sort of market / economic comment about this, this really isn't the time or place.

All we would add is, after recent tectonic/volcanic activity also in Bali and Lombok recently, the Asian part of the ring-of-fire does seem to be undergoing one of its periodic shuffles, with potentially disastrous consequences along its length - as we are seeing now. My totally amateur observations and inferences are that a bit of continental shelf movement in one place, tends to set up tensions for other parts to move too to fill up any gaps, so some further events of this nature elsewhere in the region might follow in the coming weeks until this all settles down again. That said, I would reiterate, I am really not qualified to comment on this and hope I am wrong.

G-7 week ahead - busy

There is almost too much to talk about here, with the Conservative Party conference in the UK potentially showing the way forward (or not) on Brexit and the outlook for the GBP. Our UK Economist, James Smith [covers all the latest angles here](#), though he will no doubt be kept busy this week, with PM May addressing a fractured Tory party on Wednesday this week.

There are also plenty of Fed speakers on the newswires, which may help, or simply confuse the picture for US rate policy in the months and weeks ahead. Our house view of a further hike in December is both the market and Fed view though, so the interesting nuances will likely concern more distant Fed policy.

US labour market data for September always has the potential to excite markets. This time though, Hurricane activity may muddy the numbers. A market miss may be less impactful than usual.

Asia week ahead

Prakash Sakpal covers all the main bits for Asia in his [week ahead note](#). But to summarise - its quiet (too quiet?) in Asia, with China out for the whole week. Data over the weekend and first thing this morning have a somewhat sinister tone that may reflect the trade war's impacts. Chinese PMI data over the weekend showed a poor manufacturing survey contrasting with a better non-manufacturing outcome. The Tankan survey for Japan did the same, and China's more export-oriented Caixin survey was also soft, while South Korea's export numbers for September were also worse than expected at -8.2%YoY.

Manufacturing PMI's for the Asian region are also out, though the news is more mixed here, there does look to be patchy confirmation of the weak manufacturing story with notable exceptions (Malaysia for one, and South Korea, though this seems at odds with the trade data - it may reflect some progress on inventory destocking).

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