Bundle | 10 December 2018

Good MornING Asia, 10-December, 2018

It's a mess!

In this bundle

It's a mess

2 weeks away from the office visiting clients, and I return to virtually the same story that was running when I left - Brexit...mess, US / China...

By Robert Carnell

ASEAN morning bytes

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Mess

Decisions, decisions

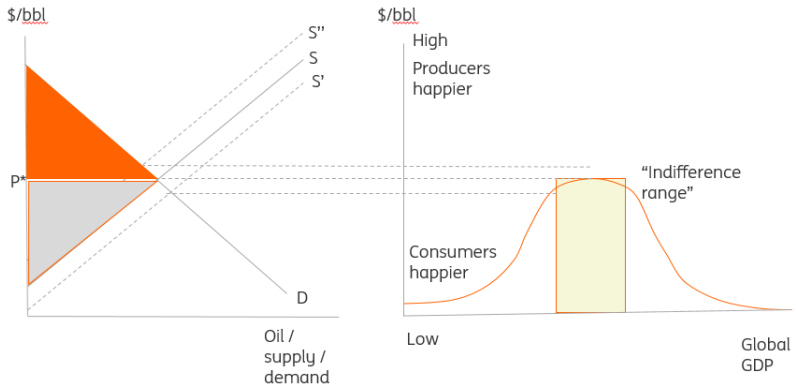
This week, UK politicians will decide not to proceed with Theresa May's Brexit deal (most probably - we will find out tomorrow / Wednesday Asia time). (see also James Smith's latest on this from our monthly update).

Some politicians will vote against the deal for party political reasons; some for (possibly misguided) reasons of principle; some possibly for personal and career enrichment. With the EU very unlikely to be in the mood for re-negotiation, and UK politicians not wanting to see the UK crashing out of the EU with no deal, the so-called "Norway plus" option looks to be becoming the central default option. This hasn't got much airplay as it was always, and probably rightly regarded as one of the worst alternatives for the UK - a bit like saying to the Brexiters, you have left the EU, but remain part of all of its institutions, and for the remainers, you are still sort-of in the EU, just without any of the good bits you enjoyed before. A couple of days and a couple (OK more than a couple) of drinks in the UK with old friends and colleagues has seen even some of the original leavers arguing for a second referendum. So far, the UK population has not reacted to their politicians' lack of progress French-style. But it might not take much to spark a protest and demand a rethink. The weather has been unseasonably warm - that's good rioting weather...

Dinner dates

I left Singapore a little over 2 weeks ago on a marketing trip just as we headed towards the G-20 meetings and some optimism that a deal would be struck. I admit that in advance, I was pessimistic. And on the day, I had to concede that at least the Trump - Xi "relationship" seemed to be intact. That said, it was hard to see where any tangible progress had been made.

China did offer to buy more agricultural products - for which read, Soybeans. This was just as well. Brazil has sold China all of theirs already. One, therefore, wonders if that made this particular concession one that was always going to be made? As for intellectual property, the key sticking point for much of this US-China trade dispute, this is a hard one to credibly pin down. Sure a few laws in China can be changed, just as they were on copyright and patent infringement years ago. Has that stopped counterfeiting from happening? No. As for the extradition now in play for key Chinese corporate personnel, that simply cannot be dissociated from the G-20 deal as is being claimed. I see almost no chance that trade tensions will simmer down after March 30th. They may get substantially worse. That's bad news for Chinese growth, US growth, global trade, global risk assets, commodities, EM currencies. Can we just skip 2019 and move straight to 2020?



Oil prices

Oil, at least that looks a little better

At least last Friday's "OPEC-plus" deal seems to be preventing oil from further declines. I say this as if this is a good thing, and indeed, I mean it. It's not a widely held view, most people tend to just assume that high oil prices are bad, and low ones are good. But it's really not that simple. It's also not even as simple as saying that it's just a transfer, so the net effect just washes out. Really high oil prices and really low oil prices are in net terms less positive for global growth than oil prices in a more neutral middle range, what I refer to as the "range of indifference", where producers and consumers are equally miserable / happy. We were on the lower side of my estimate of the bottom range of this range ($65 measured by Brent) before the latest OPEC plus announcement. If oil rises to $70/bbl as our commodity strategists think, that will take us back into a better range, though still short of the higher end ($75/bbl again, my wet-finger estimate). That's a good place for Asia and Asian exporters, and also not too bad a place for the big oil importers like India. At least some better news then?

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International theme: OPEC cuts to support oil prices and inflation but weak US jobs numbers points to dovish Fed

- Risk off sentiment should still dominate the trading scene on Monday with investors digesting last Friday's jobs numbers from the US and its impact on Fed policy in 2019. OPEC decided to cut production after consulting with Russia, taking out 1.2 million barrels per day from production for the first 6 months of 2019.

EM Space: Emerging markets seen to track the defensive tone from Wall Street

- **General Asia:** Caution will continue to be the theme to open the week with investors looking to the Fed dot plots at the next Fed meeting for direction. Poor trade data out from China also adding to the dour mood which points to slowing economic growth in the region although energy players may get a boost from the bump in oil prices after the OPEC cut.
- **Thailand:** Data on gross international reserves (GIR) for the month of November was reported showing an increase to $203.2bn from $202bn as central banks in the region took

advantage of the regional currency rally to reload on precious foreign reserves.

- **Indonesia:** Bank Indonesia has tagged global factors as the reason behind the IDR's swoon in December, pointing to persistent trade war tension that is not only affecting Indonesia according to Senior Deputy Governor Adityaswara. The official indicated that the view that the current weakness of the IDR is temporary and that BI expects more stability from the IDR in 2019. Meanwhile, the country also saw gross international reserves pick up by $2bn in the month of November and reserves are seen to increase further in December after an announced $3bn bond sale for pre-funding 2019 needs.
- **Philippines:** The Philippines reported data on gross international reserves (GIR) with the November print showing a slight increase in GIR to $74.5bn from $74.7bn in the previous month. November saw the PHP recover roughly 2.5%, tracking the regional rally with risk sentiment returning and the BSP hiking by another 25 bps on 15 November. In terms of import cover, the latest GIR level is roughly 7 months of imports of goods and services and 5.8 times short-term external debt.

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