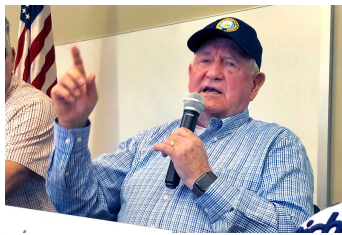


Good MornING Asia - 10 December 2019

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In this bundle



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Asia Morning Bites

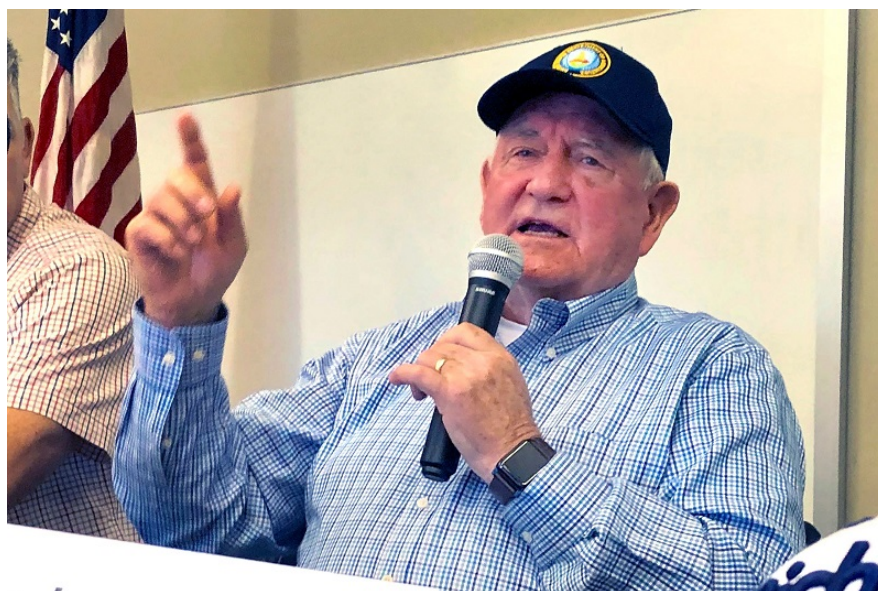
ASEAN Morning Bytes

Investors are likely to stay cautious ahead of the mid-December deadline for Phase one US-China trade deal.

Opinion | 9 December 2019

The Dec 15 trade deadline may be dead

US Agriculture Secretary, Sonny Perdue, is reported by Bloomberg as saying that the extra tariffs due for implementation this Sunday (15 December) may not now be imposed. This ought to be good for market sentiment, and for future growth expectations, but does it mean a phase one deal is still elusive?



Sonny Perdue

Trade tariff deferral - good or bad?

"I do not believe those (the tariffs) will be implemented and I think we may see some backing away." I think it may be the first time since writing about the Trade War that I have come across "Sonny Perdue", Agriculture secretary, so any quote attributed to him comes with a certain nervousness - is he really in the know? Is he authorised to speak about trade? Will this be backtracked later?

But the message is an easy one to accept if legitimate. Let's face it, I don't think there was ever much enthusiasm for this second tranche of tariffs on (partly) electronic consumer goods. This felt like a threat to achieving a particular end that was a little too aggressive even for the US administration and it doesn't seem to have worked.

From the perspective of market sentiment, this should be supportive. The threat to US consumer spending strength from the imposition of this tariff was a real one. And it also threatened to become the \$160bn straw that broke the back of the Chinese economy, which has been

struggling but managing up until now.

But if the tariff threat is to be withdrawn, does this tell us anything about a phase one trade deal? If you believe White House Adviser, Larry Kudlow, then negotiators are drawing close to a deal. But then he has been saying this for quite some time. And there is still no deal. This "the deal is close" reminds me of one of those lessons in mathematical economics, where "n" approaches zero, but never quite reaches it, stretching asymptotically to infinity.

A more optimistic take on this is that the threat is being withdrawn as a deal is actually on the cards, but may not get over the line by December 15. The withdrawal of the tariff threat is simply to avoid the administrative burden of imposing a tariff and then removing it weeks or even days later.

I should take a stand on this, but I think I'm going to sit this one out and see what happens.

Chinese inflation peaking

This morning we will get Chinese CPI for November, and the consensus expects a further rise from the 3.8%YoY recorded in October, to 4.3%. We think it may already have peaked, but if not, then this should mark the top for inflation. And it's all because of how amazing an animal the pig is. Most of China's inflation has stemmed from the African Swine Fever epidemic that has ravaged the nation's swine herds resulting in the deaths of about 50% of the hog population.

China has imported a lot of pork and mobilised strategic pork reserves to help combat the shortage and limit the spillover of price inflation into other meats like beef and chicken. As well as bringing in pork for immediate consumption, China's farmers are having to restock their depleted herds. So how old do you think a pig is before it is ready for breeding? Bear in mind that this is a mid-sized mammal, that has even been used in some space programs owing to its intelligence. The amazing answer according to the interweb is 6 months. Though it also seems some farmers prefer to wait for 7 to 8 months before breeding their sows. And how many piglets do you think they have? The average answer seems to be about twelve, though over thirty is the world record. And they can have two litters a year.

I haven't yet created a pig-breeding scenario spreadsheet, but I reckon that it wouldn't take too long to restore the swine population of China back to its former strength. One of the other interesting facets of this is the development of the epidemic. Now I once studied a little medicine. I was dreadful at it and marginally less bad as an economist, hence the switch. But I remember bits and pieces. One of which is the "shape" of an epidemic. Where there are waves, with the wave following the main epidemic being smaller, as natural immunity began to kick in. [Here is a link to the United Nations Food and Agriculture organisation Swine Fever update, from just a few days ago \(5 December\)](#). Scroll down to the chart of Swine Fever reports by Chinese region (Fig 1). It looks quite familiar.

Of course, there will be future outbreaks of variants of this disease, and others. But in China at least, the worst of the swine fever epidemic might possibly have passed. If so, swineherds and pork supply should soon recover to full strength, and pork and other meat prices should begin to fall. Incidentally, this removes the pressing need for agricultural imports from the US, one of the key elements of any proposed phase one Trade deal...

UK election update

Ahead of Thursday's General Election, an ICM/Reuters poll showed the Conservatives on 42% of the vote, and Labour on 36%, a level at which a hung parliament becomes a distinct possibility. The upward creep by Labour may be down to voters concerns over the National Health Service under a Conservative government. [Newspapers were running yesterday with emotive pictures](#) of a young boy sleeping on coats on the floor of a Leeds hospital. This sort of stuff plays strongly to Labour's favour, and it will be a hard criticism for PM Johnson to rebuff, so close to the election.

With only days until the vote, this suddenly now looks all to play for. After its recent strength, sterling could be hard hit if the polls creep further in Labour's direction, and further hung parliament, and more Brexit uncertainty re-emerge.

Author

Alissa Lefebre

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

ASEAN Morning Bytes

Investors are likely to stay cautious ahead of the mid-December deadline for Phase one US-China trade deal.



EM Space: Trade continues to dominate sentiment

- **General Asia:** Investors are likely to stay cautious ahead of the mid-December deadline for Phase one US-China trade deal. China's inflation and monetary data may provide some direction for trading, while key central bank meetings (FOMC, ECB, and BSP) are likely to pass as non-events.
- **Philippines:** October trade figures are due today. The consensus of a wider trade deficit of \$3.6 billion, up from \$3.1 billion in September, stems from slightly steeper export fall, while the resumption of government infrastructure spending translates into small import fall. The wider trade deficit could prevent the current appreciation spell of the Peso continuing into 2020.
- **Indonesia:** Finance deputy minister Suahasil Nazara indicates that inflation should settle at 3.1% for 2019 while GDP growth manages to post a 5% expansion despite “ongoing efficiency measures”. Nazara expects foreign direct investments to post an improvement in 4Q as Jokowi orders the improvement in the ease of doing business, which could help bolster foreign investor sentiment and the IDR.

What to look out for: Fed meeting and China inflation

- Philippine trade (10 December)

- China inflation (10 December)
- US inflation (11 December)
- Fed meeting (11 December)
- BSP meeting (12 December)
- ECB meeting (12 December)
- US PPI inflation (12 December)
- Hong Kong industrial production 13 December)
- US retail sales (13 December)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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