

## Good MornING Asia - 10 May 2019

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# 25%

New rate of US tariffs on \$200bn of Chinese goods

Up from 10% effective today, 12.01 am ET

### EM Space: The trade war takes toll on EM currencies

- **General Asia:** The US may deliver on its threat of higher tariffs on Chinese products and China may reciprocate. The markets may be priced in all this, but a knee-jerk selling will still inevitable.
- **Indonesia:** The balance of payments data for the first quarter of 2019 is due today. The Bloomberg consensus of \$6.2bn deficit on the current account implies about \$1bn widening on the year. A wide current deficit exposes Indonesia to emerging market contagion more than many other Asian economies. This is underscored by the latest weakening of the currency (IDR) to a 4-month low against the USD amid intensified trade war risk.
- **Malaysia:** March industrial production data will help us to fine-tune our GDP growth forecast for 1Q19, currently 4.2% YoY. The risk remains on the downside, validating the central bank's

- (BNM) decision this week to cut the policy rate by 25bp. The USD/MYR continues to grind higher in line with emerging market counterpart.
- **Philippines:** The BSP joined other Asian counterparts in easing monetary policy yesterday as GDP growth slipped to a 4-year low of 5.6% in the first quarter of 2019. Although this is unlikely to be an entrenched easing cycle, we anticipate one more policy rate cut later in the year. The earlier the better ([read more here](#)).
  - **Thailand:** The junta-backed Palang Pracharath party of incumbent Prime Minister Prayuth Chan-Ocha looks set to form a coalition government with 256 of 500 seats of the lower house based on the official results.

## What to look out for: Developments on US-China trade war

- Reserve Bank of Australia Policy statement
- China 1Q19 current account balance
- India March industrial production
- Indonesia 1Q19 current account balance
- Malaysia March industrial production
- UK 1Q19 GDP
- US CPI

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## Asia week ahead: Tariffed!

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Source: Shutterstock

### ➔ Tariffs, tariffs, and tariffs

All was going well on the trade talks front until the weekend bombshell by President Trump of a further hike in tariffs on Chinese goods. The news spooked investors and resulted in a heavy sell-off of risk assets, and a flight to safe-haven Treasuries ensued.

The heat continued to rise, but reconciliatory talks are ongoing too. The good news is that both sides still want a deal - as President Trump still thinks a deal is possible and China's vice-premier Liu He is going to attend trade talks this week.

25%

New rate of US tariff on \$200bn of Chinese goods

Up from 10%, effective Friday 12.01 am ET

### ➔ No relief for 'tariffed' markets

As such, the trade war will likely remain an ongoing theme driving the markets next week, and probably beyond. Alas, we see nothing in next week's economic calendar capable of providing a breather for 'tariffed' markets. Not even China's remaining April indicators on industrial production, fixed asset investment, retail sales, or new home prices -- the consensus estimates are pointing to softer growth for most.

India, Indonesia, and Singapore report trade figures for April, which will indeed be gleaned in the light of the ongoing trade war. No prizes for guessing a sustained slowdown in exports from these countries. An additional whammy from a downturn in the global tech cycle is exacerbating the weakening trend.

### ➔ Indonesia's central bank prefers stability over growth

Indonesia's central bank doesn't seem ready to join in the easing cycle just yet. With GDP growth steady at around 5% year-on-year pace, as what the data for the first quarter of 2019 revealed this week, BI's policy focus remains on financial market stability. And the market stability matters more now than ever as escalated trade and geopolitical risk sour investor sentiment toward emerging markets.

In the not too distant past, the financial crisis in Turkey and Argentina less than a year ago exposed Indonesia's vulnerability to the emerging market contagion. What lies beneath the vulnerability is a wide current account deficit, which is equivalent to 3% of GDP in 2018 - nearly double from the previous year. As noted above, the April trade figures should reinforce the deficit widening trend.

Our baseline for BI policy is no change to the 6.0% policy rate throughout 2019.

6.00%

Bank Indonesia policy rate

No change expected this year

### ➔ Malaysia's GDP growth bottoms out

Malaysia's GDP data for 1Q19 will support the central bank's rate cut at the last meeting. The GDP slowdown is obvious from the high-frequency economic activity, and our estimate of 4.2%, down from 4.7% in 4Q18, remains on track.

Even as growth slides below the central bank's forecast of 4.3% to 4.8% this year, we believe the timely policy boost together with the favourable base effects will shore it up in the rest of the year

towards the top end of the central bank's forecast range, eliminating the need for anymore rate cuts.

4.2%

ING forecast

Malaysia GDP growth in 1Q19

## Asia Economic Calendar

| Country                 | Time* | Data/event                                     | ING     | Survey | Prev.   |
|-------------------------|-------|--|---------|--------|---------|
| <b>Monday 13 May</b>    |       |  |         |        |         |
| India                   | 1300  | Apr CPI (YoY%)                                 | 3.0     | -      | 2.9     |
| <b>Tuesday 14 May</b>   |       |  |         |        |         |
| India                   | 0730  | Apr WPI (YoY%)                                 | 3.1     | -      | 3.2     |
| <b>Wednesday 15 May</b> |       |  |         |        |         |
| China                   | 0300  | Apr Fixed Asset Investment (YTD, YoY%)         | 6.3     | 6.4    | 6.3     |
|                         | 0300  | Apr Industrial Production (YoY%)               | 7.0     | 6.5    | 8.5     |
|                         | 0300  | Apr Retail Sales (YoY%)                        | 9.4     | 8.6    | 8.7     |
| India                   | -     | Apr Imports (YoY%)                             | 2.0     | -      | 1.4     |
|                         | -     | Apr Trade Deficit (US\$bn)                     | -14.2   | -      | -10.9   |
|                         | -     | Apr Exports (YoY%)                             | 2.5     | -      | 11.0    |
| Indonesia               | 0500  | Apr Exports (YoY%)                             | -8.0    | -      | -10.0   |
|                         | 0500  | Apr Imports (YoY%)                             | -15.0   | -      | -6.8    |
|                         | 0500  | Apr Trade Balance (US\$m)                      | -364.0  | -      | 540.2   |
| Philippines             | -     | Mar OCW Remittances (YoY%)                     | 6.0     | -      | 1.5     |
| Singapore               | -     | Apr Non-oil Domestic Exports (MoM%, SA)        | 3.9     | -      | -14.3   |
| South Korea             | 0000  | Apr Unemployment Rate (% , SA)                 | -       | -      | 3.8     |
| <b>Thursday 16 May</b>  |       |  |         |        |         |
| Malaysia                | 0500  | 1Q GDP (QoQ/YoY%)                              | 0.7/4.2 | -/-    | 1.4/4.7 |
|                         | 0500  | 1Q Current Account (Q) (MYR bn)                | 15.7    | -      | 10.8    |
| Indonesia               | -     | May BI Policy Decision (7-day Reverse Repo, %) | 6.0     | -      | 6.0     |
| <b>Friday 17 May</b>    |       |  |         |        |         |
| Hong Kong               | 0930  | 1Q F GDP (QoQ/YoY%)                            | -/-     | -/-    | 1.2/0.5 |
| Singapore               | 0130  | Apr Non-oil Domestic Exports (YoY%)            | -       | -      | -11.7   |
|                         | -     | 1Q F GDP (QoQ /YoY%)                           | -/-     | -/-    | 2.0/1.3 |

Source: ING, Bloomberg, \*GMT



## China: Loan growth poised to pick up

China's April credit data matched the smooth progress of trade talks last month. But as the trade tension increases, we expect faster loan growth to...



Source: Shutterstock

### Loan growth dropped more than expected in April

We thought loan growth would decline in April but the drop from CNY1.69 trillion to CNY1.02 trillion was more than expected.

The seemingly smooth progression of trade talks last month signalled that exporters would not be facing any additional tariff hikes and therefore gave China's central bank, the PBoC, a reason to limit banks' loan growth. There's no need to place an extra burden on banks when the environment is stable. We do not agree with the market that the slower loan growth means lower loan demand. Loan demand in China has been strong from infrastructure projects and small- and medium-sized companies.

### China needs faster credit growth if there are more tariffs from US

But we believe credit growth in May will be higher than April and could be similar to the scale seen in March, which was CNY1.69 trillion.

Higher tariffs from the US on Chinese exporters means small Chinese exporters will need extra



money to survive the tough times ahead, otherwise, the job market will be affected. Job stability is a top priority for the Chinese government as outlined in its "[six stability](#)" policy for 2019.

If China implements more fiscal stimulus to defy a trade-induced economic slowdown, credit for infrastructure projects will increase, which implies total credit growth will be even faster.

## Easing monetary policy stance

We believe there will be targeted reserve requirement ratio (RRR) cuts and targeted lending from the medium-term lending facility (MLF) to release liquidity to banks and then to small exporters. Though this creates some relief for small exporters, it will put extra pressure on banks as the credit risk associated with small creditors is usually higher.

The interest rate transmission mechanism is still under reform, and each move of the 7D policy rate is only five basis points. As such, we do not think the PBoC will use the 7D policy rate to lower interest rates in China. Instead, we expect continuous liquidity injections in the market will push down interbank interest rates.

## Philippine central bank cuts rates as growth dips to 4-year low

The Philippines central bank has joined other Asian counterparts in easing monetary policy today. Although this is unlikely to be an entrenched easing...



# 5.6%

Philippine GDP growth in 1Q19

The lowest in four years

Worse than expected

### 1Q19 GDP growth misses estimates

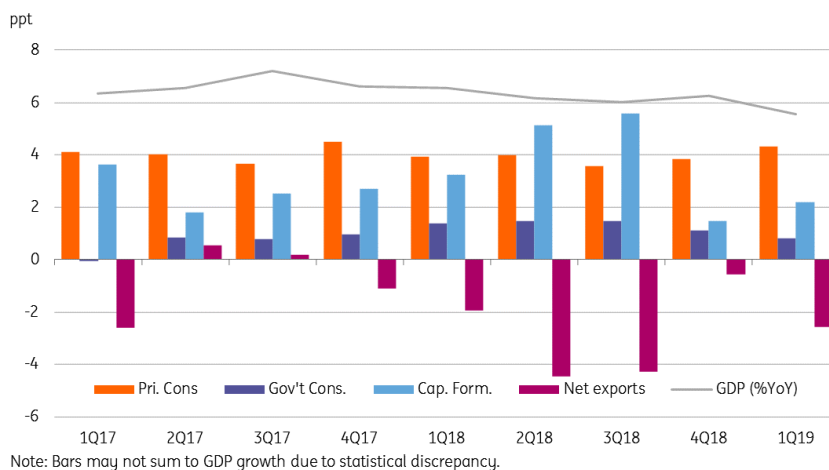
The Philippines posted 5.6% year-on-year GDP growth in the first quarter of 2019, a significant downside surprise against consensus and ING's estimates of 6.0% and 5.9%, respectively. The 1Q19 figure is a sharp dip from the 6.3% growth in the previous quarter and will go down as the slowest pace of growth in the last four years.

Underlying our below-consensus growth view for the last quarter was weak government spending down to the delayed approval of the budget for the current year. Indeed, government

consumption shaved 0.3 percentage points of the headline GDP growth. But the bigger hit, 2ppt, came from net trade. Firmer private consumption and investments offset some of this but not sufficiently enough to keep GDP growth within the government's 6% to 7% target for the year.

Surprisingly enough, manufacturing not only held up well but also contributed more to the GDP growth than in the previous quarter despite weakening exports. But again, this was more than offset by drags from construction, utilities, and farm output.

## Sources of annual GDP growth



Source: Bloomberg, ING

## Central bank moves to ease policy

Economic planning secretary Ernesto Pernia expressed confidence that the 6% to 7% growth target for the year was “still achievable, fortunately”. On technical grounds, it's possible as a more favourable base effect at work in the remainder of the year. After accounting for the first quarter dip, our full-year 2019 growth forecast still remains above 6%.

However, the central bank thinks persistent downside growth risks as warranting greater policy support for the economy going forward. They voted to cut the key policy rates by 25 basis points, taking the overnight borrowing rate to 4.50% and the overnight deposit rate to 4.00%. There was no change to the commercial banks' reserve requirement ratio (RRR), currently standing at 18%.

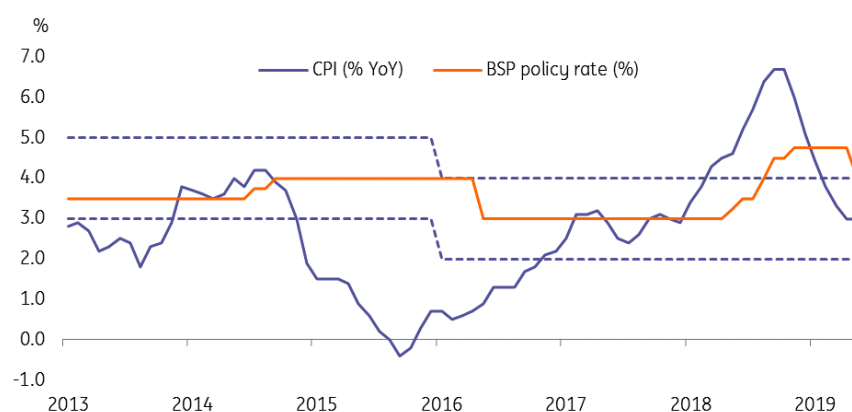
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*Inflation has started to firmly settle within the target of 2% to 4% and forecasts are closer to the central bank's projections - BSP Deputy Governor Diwa Guinigundo.*

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A move in consumer price inflation back to the 2% to 4% policy target, and policymakers' expectations of it staying firmly there created space for the rate cut. Although as of now, we don't see this turning out to be an entrenched easing cycle, an aggressive 175bp policy tightening last year has created ample space for easing this year.

## Inflation firmly back in BSP's comfort zone



Note: Dotted lines represent BSP inflation target, currently 2-4%.

Source: Bloomberg, ING

Our house view has one more 25bp rate cut pencilled in for the fourth quarter for the year, though an earlier cut than that would be a better pre-emptive cushion for the economy amid escalated global trade tensions.

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