Good MornING Asia - 11 December 2018

India's Central Bank chief resigns, opening up the coffers for state plunder. Brexit purgatory continues, will someone make it stop! And it's not all going well across the channel in France either, as Macron tries to buy his way out of trouble - this sounds like it will stretch France's fiscal deficit (Italy take note...)

In this bundle

Opinion | 10 December 2018

Let the pillage commence!

India's Central Bank chief resigns, opening up the coffers for state plunder. Brexit purgatory continues, will someone make it stop! And it's not...

Source: Shutterstock

India: RBI's Patel resigns

This From Prakash Sakpal on the RBI Governor's resignation (full note here).

We noted in our 'Asia week ahead' note last Friday that the investors would stay clear of the Indian markets ahead of the polling results for five state elections to be announced today. And we have more reasons to think so now, following the news yesterday about the Reserve Bank of India's governor resigning ahead of the forthcoming RBI board meeting later this week (14 December).

Urijit Patel's resignation for 'personal reasons' in fact goes to reinforce the widened rift between the central bank and the government. Clearly, the central bank independence is compromised, and, the government indeed has a greater control of the central bank and its reserves, which is required to plug the widening fiscal deficit in the election year. Whoever replaces Patel, most likely the senior-most deputy governor, or a hand-pick of the government, the next central bank chief will be under an intense pressure from the government to concede to the latter's demands for more growth-friendly policies ahead of the general elections in early 2019. The news is clearly a significant negative for the markets; even Moody's deplored as being credit negative. The USD/INR is just shy of our end-year 71.50 forecast (spot 71.3).

Put me out of my misery

Asked if I was going home for Christmas at the coffee shop this morning (standard question to expats), I had to answer, "No, there's nothing there for me now", and as I watch the Brexit purgatory drag on, that feels increasingly true. James Smith has put an excellent piece on this on Think - I can't talk about this anymore. Please read his detailed note on what this all means.

One way or another, I'm just hoping someone will put me out of my misery on this topic - though as I noted in yesterday's note, the groundswell for a second referendum in the UK (sample of about four in various recent pub-based conversations) seems to be growing, whether to decisively leave without a deal on WTO terms, with the accompanying though hopefully short-lived food and medical shortages that this would possibly entail, or to return to what existed before, which placed against the alternatives, does not look such a bad place to be after all. Either way, the best Christmas present of all would be an end to Brexit news stories.

Macron uses "Get out of jail" card - its not free though

I'm hoping someone will soon put a value on the cost of French President Emmanual Macron's cave-in to the Gilets Jaunes movement. France was projected to run a budget deficit of 2.8% before Macron pulled the plug on plans to raise fuel duties. He is now trying to buy peace with a EUR100 per month increase in the minimum wage, a tax-free end-of-year bonus, an end to levies on overtime and cuts to taxes on lower income pensions.

Most interested in the impact on the French deficit will be the Italians, who are in a fight with the European Commission about their plans for a 2.4% deficit. of course, deficit procedures are more complicated than a straight comparison of deficits, but to the average yellow-vested punter on the streets, this is about as far as it usually gets...For all those looking for a EUR rally next year, this sort of internal European inconsistency, as much as the mediocre macro story, provides a good reason to keep EUR expectations limited.

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ASEAN morning bytes

General market tone: Slight risk off. Risk sentiment will remain fragile on Tuesday, although bargain hunting in Asia may lift stocks after a...

International theme: Fears of global growth slowdown hurts risk sentiment

- Fears of a global slowdown continued to weigh on sentiment with crude oil prices wiping out gains from the recent OPEC cut. Brexit concerns also dampened already fragile sentiment although a late rally in FANG stocks on Wall Street may inspire some bargain hunting on Tuesday.

EM Space: Tech rally may provide some lift, but not a lot

- **General Asia:** A late rally in technology shares in the United States may help boost bargain hunting in Asia although the gains will likely be muted with investors fearful of a slowing global economy with oil prices tumbling despite the OPEC production cut.
- **Philippines:** The Philippines reports data on trade on Tuesday with market expectations pointing to another wide trade gap of at least $3bn with imports seen to post double-digit expansion while exports will likely remain lackluster. With the trade gap seen to remain in deficit in the medium term and outweigh inflows of the structural nature such as Overseas Filipino remittances, we can expect the Philippines to continue to post current account deficits, thereby exerting pressure on the PHP to weaken in 2019.

What to look out for: BSP policy decision

- Philippines trade (11 December)
- US producer prices (11 December)
- Malaysia industrial production (12 December)
- Singapore retail sales (12 December)
- US inflation (12 December)
- Philippines BSP policy (13 December)
- ECB policy meeting (13 December)
- China retail sales, industrial production (14 December)
- Hong Kong industrial production (14 December)
- US retail sales (14 December)

Article | 10 December 2018

India: Patel throws in the towel

Governor Patel's sudden exit from the Reserve Bank of India intensifies market uncertainty and is negative for the Indian rupee (INR). The USD/INR...

Source: shutterstock

RBI governor Patel throws in the towel

We noted in our 'Asia week ahead' note last Friday that investors would stay clear of Indian markets ahead of polling results for the five state elections to be announced today. And we have more reasons to think so now, following the news yesterday about Reserve Bank of India's governor resigning ahead of the forthcoming RBI board meeting later this week (14 December).

Urjit Patel's resignation for 'personal reasons', well before the expiry of his term in September 2019, in fact, goes to reinforce the widened rift between the central bank and the government. Clearly, central bank independence is compromised, and the government indeed now has greater control of the central bank and its reserves, which are required to plug the widening fiscal deficit in the election year.

What's next?

Whoever replaces Patel, most likely the most senior deputy governor, or a hand-pick of the government, the next central bank chief will be under intense pressure from the government to concede to the latter's demands for more growth-friendly policies ahead of general elections in early 2019. The news is clearly a significant negative for the markets; even Moody's deplored it as being credit negative.

The opinion polls for state elections are neck-and-neck between Modi's Bharatiya Janata Party and its main rival Congress Party, and the outcome will be crucial for the incumbent retaining power in the general elections. We aren't expecting today, or probably during the rest of the week, any positive news for the local markets. The politics will continue to overshadow the economy as most of India's monthly economic data (consumer and wholesale prices, industrial production, and trade) will likely be pushed into the background.

Going forward, the focus will remain the way the RBI conducts its monetary policy. And based on the current economic dynamic, and the political pressure to ease, the RBI leaving policy on hold through mid-2019 remains our baseline. Any policy easing on grounds of lower inflation is unlikely to do enough to boost growth in time to enhance political odds in favour of Modi.

The USD/INR is just shy of our end-year 71.50 forecast (spot 71.3). We continue to see the pair re-testing the 73 level within the next three-to-six months.