

# Good MornING Asia - 11 January 2019

Powell repeats patience message, Moon sticks to policy mix for Korea, Brexit nears a crunch moment for May

## In this bundle



### All hail the “New Powell”

Powell repeats patience message, Moon sticks to policy mix for Korea, Brexit nears a crunch moment for May

By Robert Carnell



### ASEAN morning bytes

General market tone: Wait and watch. Market players will likely move sideways with some profit taking sparked by comments from Fed Governor Powell.



### Asia week ahead: Trade ends 2018 on a weaker note

So far, the December data out from the region has indicated that 2018 has ended on a weaker note for Asian trade. The message from the raft of trade data...



### China

#### China: Government to push for auto stimulus amid low PPI

China's PPI inflation was down to 0.9% year-on-year in December from 2.7% previously. Apart from low energy prices, we find that some manufacturing...



Philippines

**Philippines: November trade deficit shrinks to \$3.9bn**

Import growth slows, but exports actually shrink

---

---

Opinion | 10 January 2019

## All hail the “New Powell”

Powell repeats patience message, Moon sticks to policy mix for Korea, Brexit nears a crunch moment for May



Source: Shutterstock

### Powell - patience running thin

My children would certainly attest to the fact that I am not a patient man, hence my school-gate nickname amongst their peers at their former school of "shouty-Dad". And my patience is certainly wearing thin with this "New Powell". All touchy-feely, patient, sensitive to the market. Let's face it, the so-called "market" is one of the most pampered beasts on the planet. Dynasties of central bankers have successively fueled bubbles in various financial and real asset markets. Yet when there is even a bit of a correction, monetary policy seems to go into a state of suspended animation until the market feels happier again. I wish I got treated so well.

I actually liked "Old-Powell". He told it as it was. Policy would be raised as necessary, and would

likely go higher, depending on the data, said "Old Powell". That fit with the macroeconomic story. The stock market was just one element of this, and might indeed suffer for a while as this transition took place. That would simply provide a fresh buying opportunity for many.

As previous Fed chairs have found out, when you withhold the nasty medicine from the hysterical patient for too long, the shock of readministering it later-on can lead to seizures - economic and market. In short, Forward guidance is only credible if it is consistent with the economic facts. And it is only effective if it is credible. Right now, these same macro facts point to future tightening being modest - one or two further hikes only this year. But monetary policy will still be tightened further. Not eased.

It feels as if markets are slowly realizing this. US Stocks did rise a little further yesterday. But the price action was not convincing. The repetition of the "New Powell" message on patience seems to be losing its effect. Lacking any new substance that would lend the market skew towards easier policy more credibly, this was inevitable.

## Hard Moon landing?

President Moon of S Korea has said in a New Year address that he will stick to policies aimed at alleviating inequality in S Korea. Given the rise in populist politics around the globe, where inequality plays a substantial role, alongside issues like national identity and immigration, this would seem like a sure vote-winner. Moreover, you would think it would lead to greater contentment amongst the voting public than policies aimed squarely at pushing up GDP, with no heed to distributional effects.

Not so in Korea, where his popularity is falling, though this may perhaps be due to some slightly clumsy implementation of policies last year which resulted for a time in higher unemployment. That may be easing down again now, with the national rate at only 3.8%. Moreover, running 93rd out of 157 on the CIA World Factbook of inequality (measured by Gini coefficients), with a coefficient of 35.7, S.Korea is towards the unequal end for developed economies. It would probably help if Korea was not in the midst of a tech-driven overcapacity, inventory-led downturn of the old-fashioned variety. Perhaps all that went wrong previously was timing?

## Brexit crunch-time nears for May

Virtually no one thinks PM May can win her Jan 14th vote on the Brexit Divorce deal. And Parliament has now voted that she must return with a plan B within 3 days of failing. The opposition Labour Party is calling for a General Election if the vote fails. Others are looking towards another referendum. Article-50 could be frozen in the event of either outcome. I can't be the only person who will be glad of a break from Brexit anxiety if we get a hiatus in the lurch towards exit... "Branxiety"? This could deliver a small GBP bounce.

## Today's Data watch

The day hasn't started well in Asia with a poor household spending figure for November of -0.6%YoY for Japan, not quite the robust bounce-back post-Typhoon Jebi we had been hoping for. We may have to trim back our robust 4Q18 GDP expectation. Current account data were better, showing a smaller deterioration in the surplus than had been expected, coming in at JPY757bn though still lower than the JPY1.3tn October reading. Bank lending data were also stronger at 2.4%YoY from 2.1%, and look to be trending higher, which is more encouraging from an

investment perspective.

Retail sales data from Australia and Singapore provide most of the Asia excitement for the day, along with Malaysian IP, which should reflect the earlier electronics-led slowdown in exports and crimp 4Q GDP growth prospects.

## Author

### **Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

---

Article | 11 January 2019

## ASEAN morning bytes

General market tone: Wait and watch. Market players will likely move sideways with some profit taking sparked by comments from Fed Governor Powell.



### International theme: Fed sticks to script..mostly

- Fed Chair Powell is waiting for more data before deciding their next course of action although he did mention that the Fed would continue to downsize its balance sheet, indicating that the Fed was still in a tightening mode.

### EM Space: Investors likely to await fresh leads

- **General Asia:** Poor data out from China on Thursday hurt risk sentiment as inflation slowed more than expected. Investors will likely move sideways on Friday and look to Chinese and US trade data out in the coming week for direction.
- **Thailand:** Just as they hiked the policy rate in December, the Bank of Thailand's governor Santiprabhob Veerathai said they are prepared to act in the event of an economic slowdown. Gaining a small policy space with a 25bp rate hike in the last month, allows a little leeway to act. Like most other Asian central banks, an on-hold BoT policy is our baseline for 2019.
- **Malaysia:** Industrial production for November is due. A sharp slowdown in export growth underlines our view of the slowdown in IP growth to 2.1% YoY in November from 4.2% in the

previous month. Electronics has been the main driver of Malaysia's exports and manufacturing, though the Financial Times report yesterday titled as '[Malaysian electronics firms face hit from China](#)' bodes ill for sector's prospects this year. Meanwhile, today's IP data will inform on GDP growth in 4Q18. Our view of a slight pick in GDP growth to 4.6% YoY from 4.4% in 3Q is on track.

- **Indonesia:** Indonesia is looking for up to IDR 80tr worth of borrowing from 10 retail securities in 2019 in order to reduce reliance on foreign debt. This year's target is roughly 74% more than the issuance seen in 2018 with the country looking to reduce its vulnerability to foreign fund outflows during periods of distress. The government is planning to issue up to IDR 825.7tr of debt in 2019 to fund a budget deficit targeted at 1.84 % of GDP.
- **Philippines:** Exports returned to contraction (-0.3%) while imports grew by 6.8% in November, producing a trade deficit of \$3.9 bn. Imports, exports, and the trade gap were all off from market expectations. Weak consumer goods imports, especially 28% fall in passenger car imports stood out. Exports, on the other hand, were weighed down by the struggles in the mainstay electronics sector with the first decline in two years. Despite moderate import growth, the Philippines will likely continue to see substantial trade deficits in the coming months. Economic Secretary Pernia noted that export growth "is unlikely to pick up the pace in the near term".

## What to look out for: trade numbers and Fed speakers

- Malaysia industrial production (11 January)
- Singapore retail sales (11 January)
- China trade data (14 January)
- US trade data (14 January)
- Indonesia trade (15 January)
- Philippines OCW remittances (15 January)
- US retail sales (16 January)
- Fed Kashkari, Kaplan and George speak (16 January)
- Bank Indonesia policy meeting (17 January)
- Fed Quarles speaks (17 January)
- Thailand reserves (18 January)
- US consumer sentiment and industrial production (18 January)
- Fed Williams speaks (18 January)

---

Article | 10 January 2019

## Asia week ahead: Trade ends 2018 on a weaker note

So far, the December data out from the region has indicated that 2018 has ended on a weaker note for Asian trade. The message from the raft of trade data...



Source: Shutterstock

### ➔ Trade data dominates calendar

The week kicks off with trade data from China, followed by India, Indonesia, and Singapore.

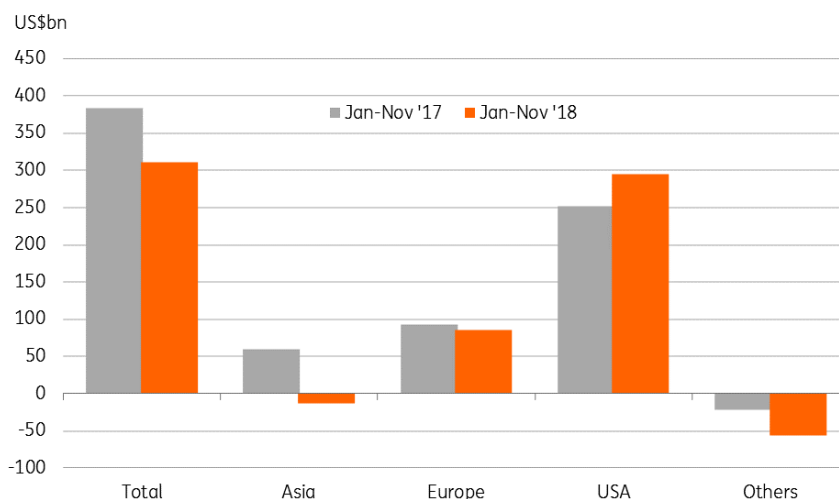
Given that both, Korea and Taiwan posted negative export growth numbers last month, we can infer that the consequences of the US-China trade war are slowly working their way through the regional and expect upcoming trade releases to reinforce the impact.

Undoubtedly, China data will be watched closely as the latest round of trade talks have ended on a



positive note but without much material progress. Will there be anything in this report to cheer President Trump? Nothing really at all. Judging by China's ongoing widening trade surplus - one month's figures aren't going to make any dent. China's trade surplus with the US surged 17% in the first 11 months of 2018 from a year ago even as the total trade surplus was 19% lower on the year.

## China's swelling trade surplus with the US



Source: CEIC, ING

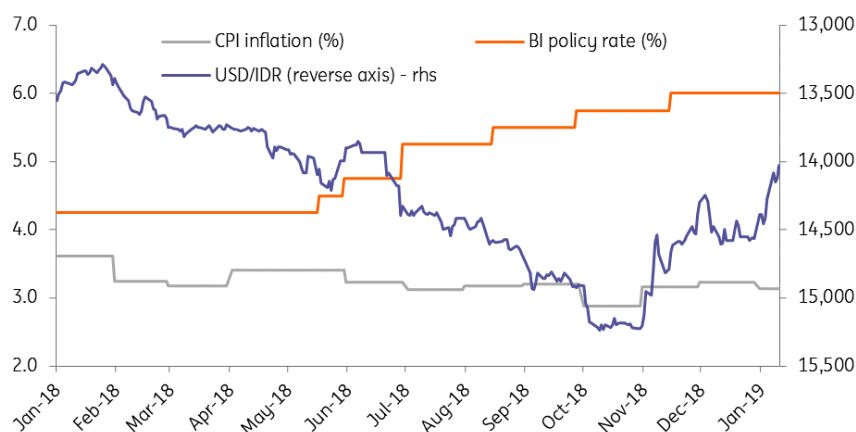
## ➔ Indonesian central bank to leave policy on hold

Indonesia's central bank will meet next week (17 January), and we expect another pause this month after the Bank paused tightening in December following a cumulative 175 basis point hike since last May.

The central bank's tightening was mostly geared toward supporting the currency during the emerging market volatility spikes, while inflation had been well-behaved. 2019 has started on a positive note for the Indonesian rupiah with 1.9% appreciation against the USD so far - the most among the Asian lot, warranting no change to the policy. However, the elevated trade deficit reinforces the currency's continued vulnerability to potential emerging market routs and the increased political risks domestically.

We don't think the central bank's tightening cycle has ended just yet, which is why we forecast one more 25bp hike to 6.25% later in the current quarter before a lasting policy pause.

## Indonesia's tightening cycle isn't over just yet



Source: Bloomberg, ING

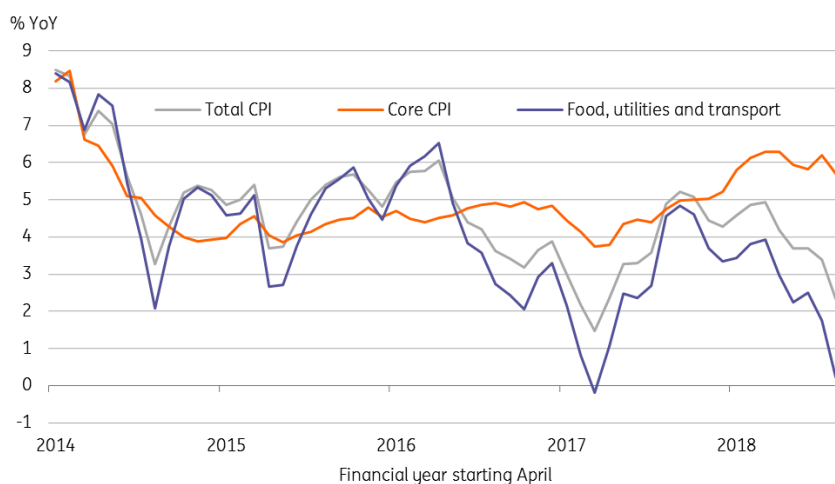
### ➔ No respite for the Indian rupee

Like Indonesia, India's high trade deficit hangs over the Indian rupee. But unlike the rupiah, the rupee retains its position of Asia's most underperforming currency coming into 2019. And there is nothing in the forthcoming economic data altering this state of affair.

Under the new governor, the central bank of India has upped its ante towards monetary easing to boost growth as the government wants before the elections in May this year. The consumer price data continues to be friendly for such a policy shift; we estimate CPI inflation to nudge further downwards to 2.2% year-on-year on lower food and energy prices in December.

We have now come to the view that the central bank will keep rates on hold throughout 2019, revised from our earlier view of two 25bp rate hikes in the second half of 2019. However, we won't be surprised by a cut either, given the odds of such a move before elections have now increased. We continue to see the rupee trading up to the 73 levels against the USD in this current quarter.

## India: Sharp deceleration in food and energy inflation



Source: CEIC, ING

## Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
<b>Monday 14 January</b>					
China	-	Dec Trade Balance (US\$bn)	59.7	51.1	44.7
	-	Dec Exports (YoY%)	2.6	2.0	5.4
	-	Dec Imports (YoY%)	0.0	4.0	3.0
India	0630	Dec WPI (YoY%)	4.5	4.5	4.6
	1200	Dec CPI (YoY%)	2.2	2.2	2.3
<b>Tuesday 15 January</b>					
India	-	Dec Trade Deficit (US\$bn)	-16500.0	-14500.0	-16670.7
	-	Dec Exports (YoY%)	4.8	-	0.8
	-	Dec Imports (YoY%)	7.0	-	4.3
Indonesia	0400	Dec Exports (YoY%)	0.1	-	-3.3
	0400	Dec Imports (YoY%)	6.3	-	11.7
	0400	Dec Trade Balance (US\$mn)	-2010.0	-	-2050.0
Philippines	-	Nov OCW Remittances (YoY%)	5.3	-	8.7
<b>Thursday 17 January</b>					
Indonesia	-	BI Policy Decision (7-day reverse repo, %)	6.0	-	6.0
Singapore	0030	Dec Non-oil Domestic Exports (MoM% SA)	-4.4	-	-4.2

Source: ING, Bloomberg, \*GMT

## China: Government to push for auto stimulus amid low PPI

China's PPI inflation was down to 0.9% year-on-year in December from 2.7% previously. Apart from low energy prices, we find that some manufacturing...



Source: Shutterstock

### Low PPI in some sectors reveals weakness in manufacturing

Headline PPI was low at 0.9%YoY in December from 2.7% previously. We find from the breakdown of the data, metals and automobiles experienced deflation in PPI, which is alarming, and telecommunication-related industries also experienced very low inflation.

These details reveal that the manufacturing of automobiles and telecommunication parts and products weakened in December. And we think this phenomenon should continue in January if there is no stimulus support.

CPI inflation was also mild due to lower transport costs from lower energy prices, which should go up again in January from the rebound of energy prices.

China's monetary policy does not depend on inflation as the central bank does not have an inflation target. But as demand is weak in China, the central bank has started easing, and we expect more to come.

## The government is going to stimulate the automobile sector

In 2018, automobile sales fell 6% in China, the first decline in 20 years. The government is going to stimulate this sector by giving incentives to purchase vehicles (most likely only for "new energy" vehicles) in rural regions, [according to the official media](#).

This should provide support for the automobile industry, and prices should stabilise once the stimulus measures start.

We expect the formal announcement of such measures before the Chinese New Year, which falls on 5 February.

## Telecommunication weakness should continue until China starts 5G applications

Regarding the telecommunication weakness, it is a result of at least two factors:

1. The lack of demand for new smart device models.
2. US banning the use of Chinese-made electronic components and products.

We believe that these factors will persist until the application of 5G begins.

# Philippines: November trade deficit shrinks to \$3.9bn

Import growth slows, but exports actually shrink



Source: Shutterstock

## -\$3.9bn

### November trade deficit

Better than expected as car imports contract sharply

## Same story different month

The Philippine trade story remains the same with imports running well ahead of outbound shipments. Imports for November grew by 6.8%YoY versus Bloomberg consensus forecasts for a 13.3% print while exports struggled, posting negative growth at -0.3% when expectations were at 5.5%.

Fuel, raw materials and capital goods remained the largest contributors to overall import growth, expanding by 34.1%, 6.7%, and 4.9% respectively. Meanwhile, imports of consumer goods posted a contraction, mainly due to the -28.1% contraction for passenger cars with the negative growth attributed to the car buying spree ahead of the 2018 TRAIN law implementation.

Meanwhile, exports slumped by -0.3%YoY with the key electronics subsector contracting

by 1.6%. All other export sectors managed to post a 1.6% expansion but this was not sufficient to offset the slump in the electronics sector. For the year so far, exports have posted a disappointing -0.9% growth rate despite the protracted weakness in the PHP.

## Year-to-date trade gap swells to \$37.69bn

With the Philippines shifting gears in its growth story, and investment becoming more important, imports of capital machinery and raw materials have helped push the year-to-date import bill to \$86.74bn, widening the trade gap to \$37.69bn for the first 11 months of 2018. With both the government and corporates doubling down on this capital-intensive growth, wide trade gaps are likely to be the norm in the medium term. Meanwhile, exports have seen a nice rebound. But they continue to lag outbound shipments with more than half of the entire portfolio linked to the weak electronics sector. These products rely heavily on imported components for production, which could explain why several episodes of Peso depreciation have not been able to give the export sector the type of boost it sorely needs.

## Imports slow on base effects and car imports contracted 28.1%

Going forward, the current account will likely remain in the red as imports are well ahead of outbound shipments. The PHP has been benefiting from the EM rally in the first few weeks of the year with the Fed seen to be more dovish than last year. But with the Philippines expected to post current account deficits for the foreseeable future, we expect further pressure on the PHP to return in the coming months.

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.