

Good MornING Asia - 12 April 2019

Reinforcing the ongoing shift in the Asian central bank policy toward greater accommodation, Singapore's central bank (MAS) decided to leave its monetary policy on hold today as GDP growth took a further dive to a 3-year low in the first quarter of 2019

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EM Space: Strong US data and trade hopes to boost risk taking

- **General Asia:** Positive reports on initial jobless claims and producer prices from the US boosted risk taking overnight with Asian markets also hopeful of a positive outcome of the ongoing US-China trade talks. Meanwhile, the Fed continues to remain neutral with Vice Chair Clarida signaling that the FOMC is in the right place in terms of rates.
- **Malaysia:** The government is due to sign a new agreement with China for the East Coast Rail Link project. A 688-kilometer railway project was suspended by the Mahathir government after it came to power last year as it aimed to cut down the construction cost from MYR 66 billion agreed by the previous government. Resumption of ECRL should come as a boost to investment growth, which has been a missing link in Malaysia's GDP growth. Meanwhile, latest data supports our view that GDP slowed coming into 2019 ([read more here](#)).
- **Singapore:** As expected, the Monetary Authority of Singapore, the central bank, left the monetary policy on hold today as GDP growth continued to grind lower in the first quarter of the year. Manufacturing with a sharp negative swing in growth dented the headline GDP growth to 1.3% YoY in 1Q19 from 1.9% in 4Q18. The [MAS statement](#) pointed to downside risk to growth and inflation. The MAS expects 2019 growth to be in the lower half of the

1.5-3.5% forecast range and has also downgraded its inflation taking headline to 0.5-1.5% (prior 1-2%) and core to 1-2% (prior 1.5-2.5%). Our baseline is stable MAS policy throughout 2019.

- **Indonesia:** Bank Indonesia (BI) has pledged to maintain its presence in both the spot and bond markets if it sees excessive outflows during bouts of risk-off. Executive director Nanang Hendarsah pointed the central bank's objective to provide financial market stability via a stable currency.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated that the central bank would have a policy rate cut on the table when they meet in May, indicating that "it's not a question of whether we cut, it is when". Diokno, previously perceived to be a policy dove, held rates steady at his first meeting in March. He will have a couple more data points to consider before the next meeting in May.
- **Philippines:** The trade deficit narrowed to \$2.8 billion in February from \$3.8bn in the previous month. Exports continued to contract with the heavyweight electronics subsector only growing by 0.8% while import growth was tepid at 2.6% with both raw materials and consumer goods in the red in February. Trade deficits will continue to exert a depreciation bias on the PHP, though with the slowdown in capital goods and raw material imports it may not be as pronounced and current account gaps will likely improve in the coming months.

What to look out for: China trade data

- Singapore GDP (12 April)
- China trade (12 April)
- US consumer sentiment (12 April)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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Asia week ahead: China and Korea in the limelight

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Source: Shutterstock

➔ China's 1Q19 report card arrives

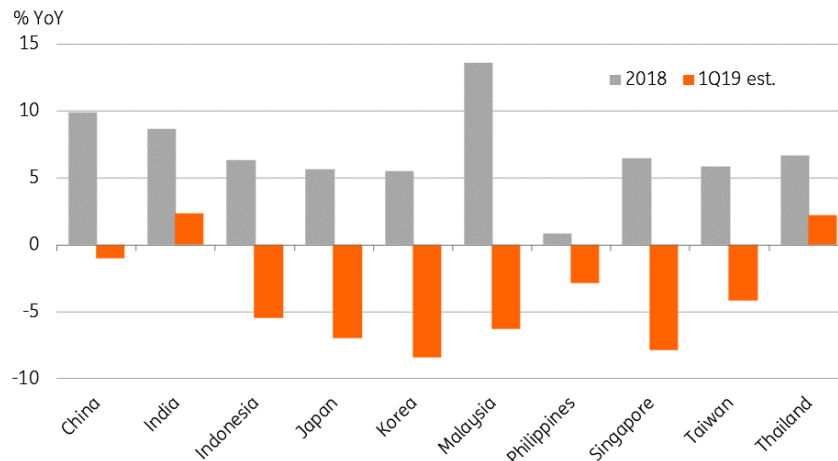
The International Monetary Fund's upgrade to the Chinese growth outlook for 2019 this week is a validation of the soft-landing of the economy amid prevailing trade tensions. This comes as macro policy in China has been geared towards preventing a significant growth slowdown. China's GDP report for the first quarter of 2019 will be a testimony of this view next week.

Other economic indicators including industrial production, fixed asset investment, and retail sales, for March - also due next week - are pointing to moderate GDP growth.

However, despite the higher tariffs in 2018, Chinese exports were by far Asia's outperformer with about 10% annual growth. Against this backdrop, some negative trade growth was inevitable. But so far there isn't a whole lot negative, at least judging by the consensus trade forecast for March (data due on 12 April), which implies less than 2% contraction in both exports and imports from a year ago.

As such, we consider our forecast of 6.2% GDP growth in 1Q19 at risk of an upside surprise. The consensus estimate is 6.3%.

Asian exports growth



Source: Bloomberg, CEIC, ING

1Q19 actual data for Korea and Taiwan, ING's estimate for the other countries yet to release March figures.

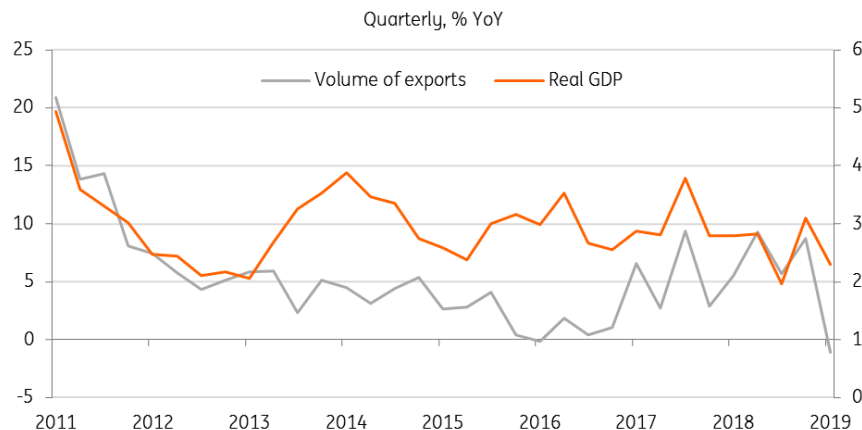
➔ Korea – Conditions are ripe for a rate cut

We may be an outlier in our forecast of a Bank of Korea policy rate cut next week, especially just months after a 25 basis point hike in November.

The factors underlying our view are accelerated export weakness depressing GDP growth and low inflation opening the doors for policy support for the economy via lower interest rates. Over 8% fall in exports in 1Q19 from a year ago was probably the worse among Asian countries. Undoubtedly, it should have caused a dent to GDP growth from 3.1% posted in 4Q18 (ING forecast is 2.3% for 1Q19, data due 25 April).

The central bank also releases its quarterly economic outlook report on the same day as the policy meeting. We anticipate yet another downgrade to the central bank's growth, and inflation forecasts – last cut in January puts GDP growth forecast at 2.6% and inflation at 1.4%. If so, it might as well cut the policy interest rate at the same time rather than waiting for the downtrend to intensify further.

Exports drag Korean GDP growth lower



Source: CEIC, ING

Quarterly data, including ING forecast for 1Q19

➔ Asia – more trade figures ahead

The week is also heavy on March trade figures from India, Indonesia Japan, and Singapore – all possibly pointing to greater downside growth risk to Asian economies.

In view of high trade deficits, data from India and Indonesia will be closely watched as these economies and their respective currencies sway. A double-whammy of slowing exports and elevated imports owing to their strong domestic demand and rising fuel import bill with the higher oil prices point to no respite in the near term. Singapore's export trends seems akin to Korea's, both dragged down by the global technology slump and depressing GDP growth.

And alongside all of this, Asia's two most populous countries – India and Indonesia head to the polls.

-12%

ING forecast of Singapore's March NODX growth

Year-on-year

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Monday 15 April					
India	0730	Mar WPI (YoY%)	3.2	-	2.9
	-	Mar Imports (YoY%)	-1.5	-	-5.4
	-	Mar Trade Deficit (US\$bn)	-12.8	-	-9.6
Indonesia	-	Mar Exports (YoY%)	1.0	-	2.4
	0500	Mar Exports (YoY%)	-2.6	-	-11.3
	0500	Mar Imports (YoY%)	-2.1	-	-14.0
Philippines	0500	Mar Trade Balance (US\$mn)	502.0	-	329.5
	-	Feb OCW Remittances (YoY%)	3.5	-	4.4
Tuesday 16 April					
China	0230	Mar 70-Cities New Home Prices (MoM/YoY%)	0.6/12.1	-/-	0.5/11.1
Wednesday 17 April					
China	0300	Mar Fixed Asset Investment (YoY%, YTD)	6.5	6.3	6.1
	0300	Mar Industrial Production (YoY%)	6.2	6.0	5.7
	0300	Mar Retail Sales (YoY%)	8.9	8.4	8.2
	0300	1Q GDP (Q) (QoQ, SA/YoY%)	-/6.2	1.4/6.3	1.5/6.4
Philippines	-	Mar Balance of Payments (US\$m)	-	-	467.0
Singapore	0130	Mar Non-oil Domestic Exports (MoM, SA/YoY%)	-10.0/-	-/-	16.0/4.9
Thursday 18 April					
South Korea	2200	Mar PPI (MoM/YoY%)	-/-0.2	-/-	0.1/-0.2
	-	7-Day Repo Rate	1.50	-	1.75

Source: ING, Bloomberg, *GMT

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How will Indonesia's elections results impact the economy?

Growth in Indonesia has hovered about the 5% level since 2016 and going forward its trajectory will largely depend on who wins the elections next week....



Indonesian President Joko Widodo on the election campaign

Take two: Jokowi vs Prabowo (again in 2019)

Indonesia will hold elections next week with incumbent President Joko Widodo, also known as Jokowi widely expected to secure a second five-year term. Latest polls show Jokowi leading his second-time challenger, the former general and now businessman, Prabowo Subianto, who Jokowi defeated in the previous election.

Here's a quick look at what we can expect from each candidate in terms of their economic policies.

Jokowi to push investment with an eye on globalisation

President Jokowi's economic platform rests on his push to improve the economy through investments in infrastructure in a bid to gain global competitiveness and lower Indonesia's reliance

on minerals and other resources exports. Jokowi hopes for Indonesia to move up higher-value-added ventures to help provide jobs through high technology industrialisation.

However, his push for investments and infrastructure has resulted in both current account and fiscal deficits. The president has defended the 'twin deficits', saying investments would eventually boost growth and help the economy reverse these deficits down the line. His push for investments has also contributed to Indonesia's strengthening ties with China.

Although we can't see any near-term respite from the twin-deficit problem, the long-term prospects for Indonesia remain positive. A greater emphasis on infrastructure, health and education investment should help wean itself off lower-value added exports and evolve into a more dynamic economy

At the same time, Jokowi has chosen to boost imports of basic foodstuffs to help stabilise prices - a move that seems to have worked in keeping domestic price growth in check, and inflation at the lower end of the central bank's 2.5 - 4.5% target range. Meanwhile, in response to his challenger's bid to lower corporate and personal taxes, he's also pledged to look into cutting taxes further, given that over the course of his term, he's effectively given tax breaks to lower income households.

If Jokowi is elected to a second term, we are likely to see the country push on with his infrastructure and investment plans. Inflation is likely to remain in check given Jokowi's program to import basic foodstuffs, but wider current account and fiscal deficits will remain the key overhangs on the Indonesian rupiah (IDR). Besides existing import curbs to rein in the current deficit, including consideration of increasing the biodiesel blend in local fuel, any future dip in global oil prices may help the government cut back on fuel subsidies.

Although there is unlikely to be any near-term respite from the twin-deficit problem, the long-term prospects for the economy remain positive. A greater emphasis on infrastructure, health and education investment will all help Indonesia wean itself off dependence on lower-value added exports and evolve into a more dynamic economy.

Prabowo wants to take Indonesia back to its core strengths

The challenger Prabowo is making an aggressive bid to lower both corporate and income tax as he criticises the president's push outwards. If he manages to deliver this, it will boost the consumer's purchasing power and help the economy become more competitive and an attractive destination for foreign investment. Although lowering taxes are seen to bloat the country's deficit, Prabowo vows to boost the efficiency of the tax collecting machinery and achieve more revenue via consumption taxes.

With less than a week to go before Indonesians head to the polls, Jokowi remains comfortably in the lead, but we've seen our fair

share of election surprises in recent years

Unlike Jokowi's globalisation drive, Prabowo seems to preach a return to Indonesia's core domestic strengths sourcing both food and energy domestically. This is why he's been critical of Jokowi's foods and oil importing policy to keep inflation low. Prabowo is encouraging a push inwards by helping local farmers via subsidies, while also planning to secure renewable energy via Indonesia's vast forest lands. Prabowo has also criticised his competitor's infrastructure drive because of the pressure it exerts on deficits, as well as publically denouncing ties with China.

However, it remains unclear, how Prabowo hopes to achieve industrialisation without pushing for investments, which may result in lower deficits but also slower growth. He may currently trail in the surveys leading up to the polls, but we won't rule out a surprise victory.

With less than a week to go before Indonesians head to the polls, Jokowi remains comfortably in the lead, but we've seen our fair share of election surprises in recent years.

Although the candidates are similar in their drive for industrialisation, increasing or preserving purchasing power and job creation, the two differ in their approach to these goals. The economy will continue to chug along at the current 5% handle, and we'll have to see who the people choose to get the economy jump-started through [reforms](#).

[Read our country profile on Indonesia and why reforms are needed for lift-off](#)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Malaysia: Evidence mounts for economic slowdown

Malaysia's economic data for the first two months of 2019 underpins our forecast of a slowdown in GDP growth to 4.2% in the first quarter of the year....



1.7%

February industrial production growth

Year-on-year

Lower than expected

A downside miss on February output

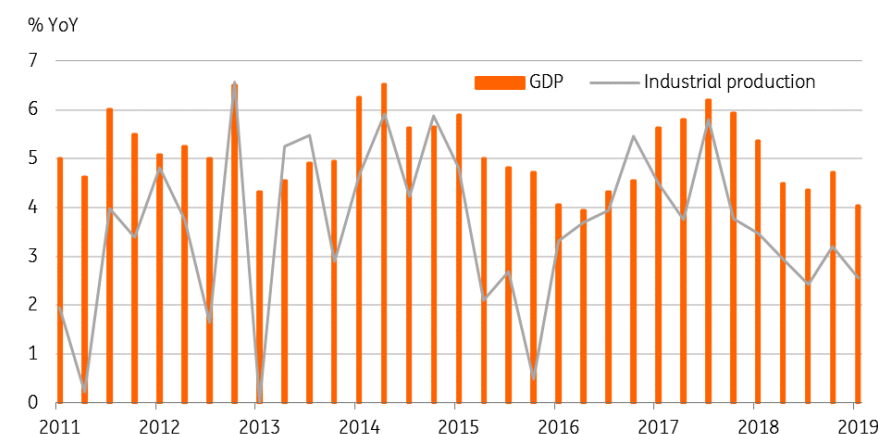
Released today, Malaysia's Industrial production growth nearly halved to 1.7% year-on-year in February from 3.2% in January. The result was far better than our forecast of a slight contraction, underpinned by a sharp export decline in the month. Yet, it was still weaker than the consensus estimate of 2.2% growth.

As in much of Asia, economic data for the first two months of the year is typically distorted by the Lunar New Year holiday. But the average for the first two months provides a clear picture of the

underlying trend. And it continues to be downward. The Jan-Feb IP growth of 2.5% was down from the fourth quarter average of 3.2%. But the slowdown in export growth over the same period is even worse, -2.1% from 5.0%.

Manufacturing depressed GDP growth in 1Q19

Quarterly data with ING's estimate for 1Q19.



Source: CEIC, ING

It's not just an export-led slowdown

We surmise from the rest of the manufacturing sector data – product sales, employment, and wages and salaries in the sector – that domestic demand is slowing too.

Average manufacturing sales growth of 6.2% in the first two months was the slowest in two years. So was the wages and salaries growth of 8%. And employment growth remained stuck in low single-digits; 2% in both January and February. These growth rates compare with their year-ago rates of 7.9%, 15.0%, and 2.4%, respectively – all pointing to weaker domestic demand.

GDP growth poised to slow in 1Q19

The first two months of activity data underpin our view of slower GDP growth in the first quarter of 2019. We don't think the post-Chinese New Year lifting of activity growth in March will alter this state of affairs. We maintain our 1Q19 GDP growth forecast of 4.2% YoY, a slowdown from 4.7% in 4Q18 (data due in mid-May).

External uncertainties from trade tensions, weak global demand and oil prices will continue to weigh on GDP growth over the rest of the year, amid anaemic investment spending at home. However, the favourable base effect and accommodative economic policies are expected to prevent a sharp GDP slowdown should these risks intensify.

Our full-year 2019 growth forecast remains at 4.6%. We believe the central bank (Bank Negara Malaysia) will use the current low inflation backdrop to provide more policy stimulus to the economy. We have pencilled in a 25bp cut to the BNM's overnight policy rate to 3.00% at the next meeting on 7 May.

Malaysia: The doors open for central bank policy easing

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Philippines: Slowing growth manifests in trade figures

Exports in fourth month of contraction while import growth momentum slows too



Source: Shutterstock

-\$2.79
billion

February trade
balance

Better than expected

Exports in contraction for 4th month while imports remain in single digit growth

The Philippines posted a trade deficit of US\$2.79 billion in February, narrower than the previous month's US\$3.76 billion deficit. Exports continued to contract, led by the heavyweight electronics subsector growing only by 0.8% year-on-year. Growth was tepid at 2.6% with both raw materials

and consumer goods in the red for February.

Imports: Budget delay hits construction imports, higher rates hit capital goods

The sizeable drop in passenger car imports (-19.4%) held back the entire consumer goods imports subsector with the car industry still posting lacklustre sales numbers ahead of the imminent excise tax. Meanwhile, imports of raw materials related to construction - such as iron and steel and non-ferrous metals - continued to contract and raw material imports used for exports were down 12.7%. Fuel imports grew by 15.5% and capital goods were up by 11.5% as airline companies took delivery of new aircraft. The country's flagship carrier recently reported that it would take delivery of up to six aircraft in 2019, down from 15 in 2018.

Exports: Electronics unable to offset overall export sector weakness

Exports recorded a fourth month of contraction with the mainstay electronics subsector managing to eke out a meagre 0.8% growth amidst the trade tensions between the US and China. The rest of the export sector posted a 2.9% fall. Raw materials used for electronic exports slipped back into negative territory, now down 12.7%, a sign of continued weak exports ahead.

Slowing growth momentum manifests in trade figures

Slowing imports is a cause of concern. Elevated borrowing cost after the central bank's (BSP) aggressive 175 basis point rate hike in 2018 seems to be hampering capital expansion. Add to this the budget delay, which put government projects on hold. As such, capital goods imports are likely to remain weak. Meanwhile, slowing inflation should support household spending, and thereby the consumer goods import growth.

On the export side, outbound shipments remain heavily dependent on the electronics trade which has managed to post only meagre growth prints while the rest of the sector has struggled. The ongoing trade war means that the Philippine export sector will need to continue to build on reforms to boost productivity, by enhancing supply chains and increasing standards. At the same time, hopes remain pinned on a weaker currency buying them some time to stay afloat until the true export renaissance.

Until then, we expect the persistent trade deficit to continue to exert a depreciation bias on the PHP, though with the slowdown in capital goods and raw material imports, trade deficits may not be as pronounced and current account gaps should improve in the coming months.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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