Good MornING Asia - 12 February 2019

Chinese markets reopened to the worst post-Lunar New Year start in more than a decade amid reports of two local borrowers defaulting on their debt obligations and the yuan playing catch-up with the emerging market currency selloff over the holiday. The sentiments may not get any better ahead of the upcoming US-China trade negotiations

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EM Space: Trump indicates he'd still like to meet China's leader before March

- **General Asia:** Traders will still likely tread water as trade talks moved over to Beijing on Monday. Given the lack of clarity, investors will likely look for local data and Fed speakers for direction although any announcement of trade talks going either ways could give some impetus to trade again.
- **Malaysia:** December industrial production surprised on the upside with 3.4% growth. Manufacturing sales and employment growth eased, yet wage growth accelerated which together with low inflation suggests that private consumption remained the main driver of GDP growth in the last quarter. We believe that the central bank (BNM) considers the economic risks to be fairly balanced between growth and inflation and that it will keep monetary policy on hold this year.
- **Thailand:** The THB recovered some of the sell-off last Friday even as the political muddle continues to dampen market sentiments. The Election Commission formally disqualified Princess Ubolratana's candidacy for election to be the next prime minister. The Commission announced the list of 69 prime ministerial candidates contesting in the elections on 24 March. We expect politics to overshadow the economy and markets in the coming months.

- **Indonesia:** Bank Indonesia's (BI) Deputy Governor Dody Waluyo doused cold water on hopes for a policy rate cut as the central bank remains "cautious" and champions economic stability over the headline growth numbers. These comments come on the heels of data showing a wider current account deficit for 4Q 2018.
- **Philippines:** The Philippines reports trade numbers for the month of December with the country liked to have posted yet another wide trade gap given still robust imports and anaemic export sector. The widening trade gap continues to be the main reason for the country's current account woes as imports of raw materials and capital good have been piling up as the economy gears for more investment-led growth. Meanwhile, foreign direct investment for November 2018 contracted by 45.9%, dragging the year to date numbers to post 3.2% contraction on the year. Most of the weakness could be traced to fewer placements in debt instruments and equity although companies still saw slight growth in the reinvestment of earnings.

What to look out for: Heavy data calendar and Fed speakers

- Philippine trade data (12 February)
- Singapore retail sales (12 February)
- Malaysia GIR (12 February)
- Taiwan inflation (12 February)
- Fed Mester speech (13 February)
- Fed Bostic speech (13 February)
- Taiwan GDP (13 February)
- US inflation (13 February)
- Japan GDP (13 February)
- Malaysia GDP (14 February)
- Fed Harker speech (14 February)
- EZ GDP (14 February)
- US retail sales (14 February)
- China trade (14 February)
- Singapore GDP (15 February)
- China inflation (15 February)
- Indonesia trade (15 February)
- Thailand GIR (15 February)
- Taiwan trade (15 February)
- US industrial production and consumer sentiment (15 February)
- Philippines remittances (15 February)

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Report | 11 February 2019

Asian FX Talking: Truce, trade or trauma

Will the trade truce between the US and China give way to renewed conflict, peace or drawn out simmering tension? The result will determine in large part what happens to currencies in the Asia region

Source: Shutterstock

Donald Trump, Xi Jinping. President Donald Trump, right, with China's President Xi Jinping, left

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Article | 11 February 2019 Malaysia

Malaysia: Manufacturing boosts GDP growth

We believe that the central bank (BNM) considers the economic risks to be fairly balanced between growth and inflation and that it will keep monetary policy on hold this year

3.4%

December industrial production growth

Year-on-year

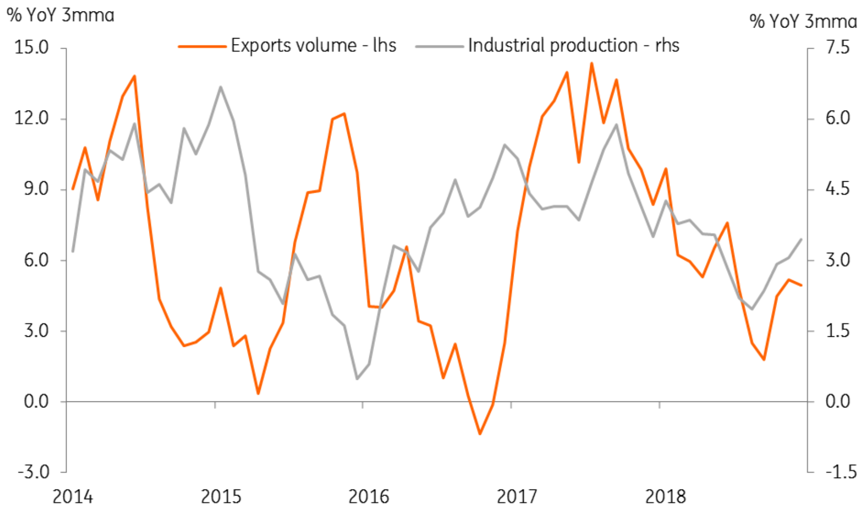
Higher than expected

Firmer exports, firmer manufacturing

Released today, Malaysia's industrial production grew more than expected by 3.4% year-on-year in December, up from 2.6% growth in November (revised from 2.5%). The outcome was slightly short of our 3.5% growth forecast but way better than 2.7% consensus estimate. Our above-consensus estimate relied on firmer exports, especially electronics exports which have held up well in the face of a slowdown elsewhere in the region (Korea, Taiwan, Singapore).

Among the other activity indicators released alongside the production data, manufacturing sales growth eased slightly (7.5% in December vs. 7.7% in November) and employment growth slowed too (1.7% vs. 2.0%), yet salaries improved (10.1% vs. 9.0%).

Exports drive manufacturing



Source: CEIC, ING

Acceleration of GDP growth in 4Q18

Industrial production growth closely tracks manufacturing GDP growth. At an average of 3.5% in the final quarter of 2018, IP growth accelerated from 2.3% in the third quarter. The growth of real manufacturing sales (deflated by the consumer price index), which loosely tracks services GDP growth, was steady around 8% over these periods. This is consistent with our view of an acceleration in GDP growth over the period to 4.6% year-on-year from 4.4%. The release of the 4Q18 GDP data is scheduled for Thursday, 14 February.

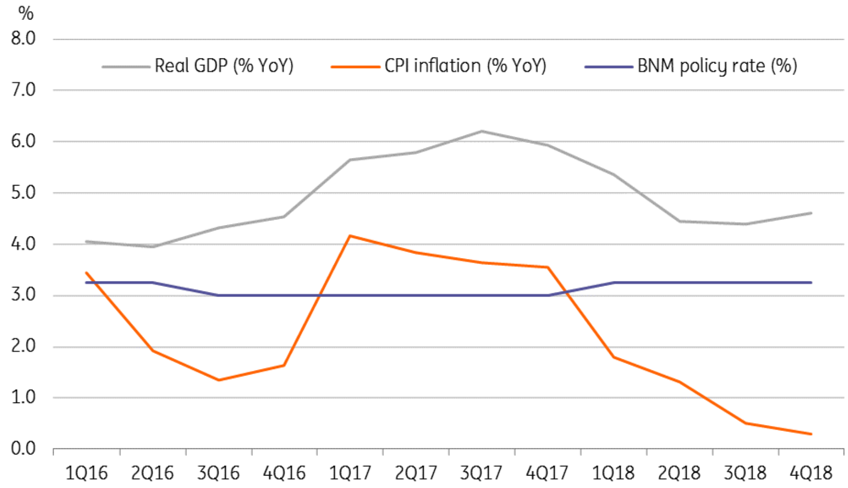
On the expenditure side, a positive contribution from net trade supported the acceleration of GDP growth in 4Q18. However, strong wage growth combined with low inflation likely sustained private consumption as the main GDP driver. This leaves government consumption and investments as possible weak links in the economy following restraints on public spending and the suspension of some infrastructure projects under the new government.

Central bank policy and currency outlook

We think the central bank (BNM) considers the economic risks fairly balanced between growth and inflation and will leave monetary policy on hold throughout 2019. The potential of a softer US dollar following a dovish turn in the US Federal Reserve's policy and firmer oil prices will be positive for the Malaysian ringgit (MYR).

The 1.6% year-to-date MYR appreciation against the US dollar puts it among Asian outperformers so far this year. We see the USD/MYR rate hovering around 4.10 for most of the year.

Balanced economic risks



Source: CEIC, ING

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