

Good Morning Asia - 12 June 2019

The markets remain in a 'wait and watch' mode as Trump weighs on trade and Fed.

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Opinion | 12 June 2019

It's me!

President Trump says he is responsible for holding up the US-China trade deal.



"It's me right now that's holding up the deal,"

I spent two hours yesterday on a conference call which was largely taken up with a discussion on which way the US-China trade deal would go, and who would blink first. Overnight, we have the astonishing revelation from The US President that what is stopping a deal from being done is that he wants China to go back to the previous deal they had on the table, or there would be no deal at all.

There is a good Bloomberg article on this, but for ease of access, I'll include a link here to [RealClear Politics](#) which I find a very useful site, and which also has a video clip of the President's statement. If you click on the polls button, you can also see a time series of the President's approval rating, which is running fairly steady at about 44%, vs a disapproval rating of a shade under 53% (also fairly steady).

So it doesn't look as if the high-risk strategy I wrote about yesterday is harming Trump's support. What is less clear is what it is doing to sentiment in China.

Up to now, China has been very silent on the G20 and the prospects for a meeting of President Xi with President Trump. Today we have the comment from a Foreign Ministry Official, "We have noted that the US publicly stated many times that it looks forward to arranging a meeting

between the Chinese and US Presidents on the sidelines of the G20 Summit. If we have this information, we will release it in due time".

What is equally difficult to judge is whether the US President really views a trade deal as a good outcome, or whether, as he has also tweeted, \$600bn in tariffs would be the best deal in his mind?

Markets, understandably, seem equally unsure. US equities are basically flat. Asian equity futures are equally mixed. The bond market, which doesn't always tally with equities these days, is also roughly flat, with the 10Y US Treasury yield at 2.145% - about the same as when we wrote yesterday.

Trump's right, low inflation is a beautiful thing

It's not often that I see eye to eye with the US President on matters of economics, as will be clear to regular readers of these daily notes. But his recent tweet that low inflation is a beautiful thing is an area on which we may have some common ground. I haven't time to do this justice today, so may save it up for a quieter day, but it ties in very much with some of the recent comments from FOMC doves like James Bullard who seems to be leading the call for some Fed easing, possibly sooner than later.

Unfortunately, what low inflation does not do, if it represents the new normal, is provide a strong justification for Fed rates cuts. It simply means that the historical target rate is set too high and needs to be lowered.

That said, the Fed seems as motivated by what the market wants as what the economy needs, and so for that reason, a couple of insurance rate cuts do now seem as if they will be forthcoming before the year-end.

Labour tries to block no deal

A story overnight might give GBP a little support, which is that Labour are planning to put forward a motion to prevent a new pro-Brexit Conservative PM from crashing the UK out of the EU on October 31 by suspending parliament, and preventing a vote against it.

[Here is a link to the BBC coverage of this story.](#)

Any future UK PM also has to deal with the intransigence of the EU on the draft exit bill. Jean-Claude Juncker overnight reiterated that this would not be re-opened for negotiation.

That really only leaves a vote of no confidence and General Election, with the hope that the EU grants another extension while the UK sorts itself out.

Asian Day

It's a slightly better start to the Asian macro day than we have had for a while, with Japanese core machine orders (a contemporaneous indicator of business investment spending) and South Korean unemployment coming in positively. The machine orders figures, admittedly rather noisy, was up 5.2%MoM for a 2.5%YoY increase, while Korea's unemployment rate fell from 4.1% to 4.0%.

The breakdown of the Korean figures showed a 284 thousand increase in employment, which isn't bad and has more than absorbed a 184 thousand increase in the labour force (economically

active). A lot of that increase was in agriculture, which does make me wonder if the seasonal adjustment is working properly, though there were also non-trivial gains in construction, wholesale/ retail, and business/personal services. The numbers of unemployed also fell exactly 100 thousand.

Data out later include Singapore retail sales (the consensus forecast of a -0.2%YoY fall still implies a fairly substantial MoM increase, which we are a bit doubtful of and so look for a downside miss there). Chinese inflation, which should pick up a bit on food prices. And Indian inflation, which should also move a bit higher on food prices, but without any implications for the RBI.

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ASEAN Morning Bytes

General market tone: Wait and watch. The markets remain in a 'wait and watch' mode as Trump weighs on trade and Fed.



4% Malaysia April industrial production growth

Higher than expected

EM Space: Trump weighs on trade and Fed

- **General Asia:** The US President Trump himself is reported to be holding up a trade deal with China, while he continued to criticize the Fed for not cutting interest rates. Amid ongoing trade tussle, there is nothing significant on today's economic calendar to whet risk appetite.
- **Malaysia:** April industrial production growth of 4% YoY was yet another upside surprise (consensus of 2.5%) following an unexpected growth of exports in the same month. Firmer activity and low base effect support our view that GDP growth will accelerate and that the BNM will remain on hold for the rest of the year. The BNM data yesterday showed a 2.3% MoM fall in the foreign holding of local bonds to its lowest level since December 2011, a sign that the appreciation pressure the MYR has been enjoying in the current month could be just transitory.

- **Thailand:** King Maha Vajiralongkorn endorsed the pro-junta leader Prayuth Chan-Ocha as prime minister for the second term after his election for the post last week by newly established parliament.
- **Indonesia:** Indonesia's finance minister Sri Mulyani Indrawati expects investments in Indonesia to pick up in the second half of the year due to the increased likelihood for rate cuts by central banks amid slowing global growth. Indrawati indicated that the economy must continue to highlight its positive prospects to attract investors while also seeking alternative markets for its exports given the potentially long drawn trade war.
- **Philippines:** April trade data showed a narrower than expected trade deficit of \$3.5bn (consensus \$3.9bn), though it's still a widening from \$3.1bn deficit in the previous month. Exports eked out a 0.4% gain on a 3.0% rise in electronics exports, which account for 45% of total exports. But imports contracted by 1.9% on weak raw material and capital goods imports. Given the still substantial trade gap, we expect the PHP to remain under weakening pressure, although potential portfolio flows following a dovish turn in the Fed policy are likely to provide some support for the currency.

What to look out for: US retail sales

- China CPI inflation (12 June)
- India CPI and industrial production (12 June)
- Singapore retail sales (12 June)
- US CPI inflation (12 June)
- Australia labor report (13 June)
- US jobless claims (13 June)
- Indonesia GIR (13 June)
- China industrial production (14 June)
- US retail sales, consumer sentiment (14 June)

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Malaysia's April manufacturing signals GDP acceleration in second quarter

Firmer activity and low base effects support our view that GDP growth will accelerate and that the BNM will remain on hold for the rest of the year



4.0% April industrial production growth

Higher than expected

Upside April manufacturing surprise...

Malaysia's manufacturing followed on from exports with an upside growth surprise in April.

The 4.0% year-on-year industrial production growth in April was an acceleration from 3.1% in March. This contrasts with the consensus view of a slowdown to 2.5% (ING forecast 2.4%). But the data is in line the earlier release of April exports, which showed a return to positive growth territory after two consecutive months of decline (+1.1% vs. -0.5% in March).

As well as industrial production, manufacturing sales growth also picked up in April to 6.8% from

5.7% in the previous month. On the flip side, manufacturing jobs growth slowed for the second consecutive month (1.7% vs. 1.8% in March), and wage and salary growth moderated to over a two-year low (4.4% vs. 5.1% in March).

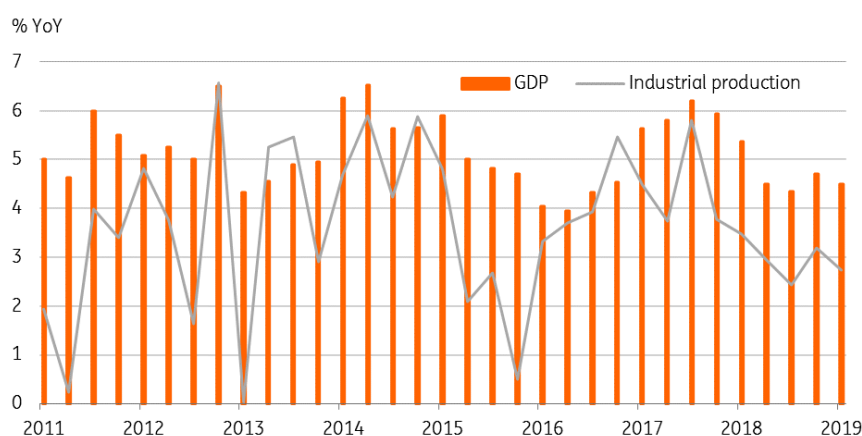
... heralds firmer 2Q19 GDP growth

Manufacturing drives GDP growth and the April data provides an initial gauge of GDP growth in the second quarter of the year.

GDP grew by 4.5% YoY in 1Q19, which we believe was the low in the current cycle. The surprisingly strong activity growth signals a pick-up in GDP growth in the current quarter. Moreover, favourable base effects are also at work, and should assist in driving GDP growth higher over the remainder of the year. We will look for more evidence of activity strength persisting in the months ahead before adjusting our 4.6% annual growth forecast for 2019. Given the intensified global trade risks, any upward adjustment is risky.

However, we believe the BNM will take comfort in the latest data, which will enable them to leave policy on hold for the rest of the year after their 25bp rate cut in May.

Manufacturing drives GDP growth



Source: Bloomberg, CEIC, ING

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