

Good MornING Asia - 12 October 2018

Further falls on stocks overnight, and it would seem odd for them to rally as we head into the weekend, but this still doesn't feel like the "Big one". Meantime, Singapore's central bank tightens policy slightly. And India's CPI data comes as the first test of the RBI's policy inaction a week ago

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Not quite there yet

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By Robert Carnell



ASEAN Morning Bytes

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Take a longer view

I should probably start by saying that I think the "Big One" would be a stock decline from the recent peak of something around 15%. That would still be a relatively small contraction compared with previous market crises. But would put it into "crash" territory, not "correction", where it now lies.

It really pays to look at equities on a much longer run basis than simply the last few years. Doing so shows that the latest moves don't look so threatening. More like a repeat of the February sell-off. We didn't call that a "crash". Moreover, at such elevated stock price levels, the absolute size of the fluctuations are flattered relative to bigger percentage moves when stocks were half as expensive back in the past.

Still, the second day of 2%+ falls from the S&P 500, were matched or exceeded by Asian bourses playing catch up from the day before. Even so, local Asian currencies more or less held their ground, though the KRW bucked that trend. US bond yields fell further, though not by much considering the fall in equities, suggesting that the cautiously tightening Fed story has not been derailed either by these stock moves or by the comments from the US President. For more, see James Knightley's latest views on the [Fed tightening path and the December rate decision](#). For

now, there's no change to his view that the December Fed hike remains on track, even with yesterday's softer than expected inflation numbers from the US.

MAS slightly increase SGD NEER path

Given the virtually split consensus on the MAS decision, we thought that recent market volatility might have played a decisive role in keeping policy unchanged at today's decision. After all, why lock yourself into a move for 6 months when the outlook is so unclear? However, the MAS seems to be comfortable enough with the backdrop that they could afford to chance another slight steepening of the Singapore dollar nominal effective exchange rate (NEER) band. There were no changes to either the width of the band or the central point.

Here are the key sentences of the MAS statement:

"The Singapore economy is likely to remain on its steady expansion path in the quarters ahead, keeping output slightly above potential. MAS Core Inflation will experience modest but continuing pressures, before levelling off at just below 2% over the medium term.

MAS has therefore decided to increase slightly the slope of the S\$NEER policy band. The width of the policy band and the level at which it is centred will be unchanged. This measured adjustment follows the slight increase in the slope of the policy band in April 2018 from zero percent previously, and is consistent with a modest and gradual appreciation path of the S\$NEER policy band that will ensure medium-term price stability".

[*The full text can be read here.*](#)

The GDP data released concurrently with the MAS decision also shows the economy losing some momentum, with growth registering only 2.6%YoY down from 4.1% in 2Q18, though brought about by an outside 4.7% QoQ annualized swing from 0.6% in 2Q18. Recent production growth has been uninspiring, and export demand has also not been as supportive as could have been hoped, while the domestic economy is still showing few signs of robust growth, as retail sales and private housing rental prices remain limp.

The MAS report suggests that growth for the full year will come *"...within the upper half of the 2.5–3.5% forecast range in 2018 and moderate slightly in 2019"* which is consistent with our own 3.3% 2018 GDP forecast and 2.6% next year.

Day ahead - keep watching those stocks

The key focus today is likely to be the US stock market (admittedly while we are asleep in Asia) rather than the macro data.

Most of the Asian news is already out, with the MAS decision and Advance Singapore 3Q GDP figures covered above.

Prakash Sakpal's [piece on the outlook for Indian CPI](#) released later today concludes that inflation is moving higher as favourable base effects dissipate, leaving the RBI on track for a 50bp December hike.

Chinese trade data today are thought by the consensus to show a contraction in the trade surplus, though the bilateral country balances will be as important as the overall figure given the state of

the trade dispute. On the plus side, it does at least sound as if President's Trump and Xi will meet to discuss trade at the Buenos Aires G-20 summit coming up. Just talking is a step in the right direction.

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International theme: Here we go again?

- Stocks dropped overnight with the Dow giving up almost 1,300 points in two sessions with traders dumping risk given increased uncertainties over global growth and rising borrowing costs.

EM Space: EM Asia battered too

- **General Asia:** Asian markets were broadsided on Thursday with the technology players bearing the brunt of the hit as Alphabet shares tumbled in the US. On Friday, we may see energy players in Asia track the losses on Wall Street given the drop in crude oil prices.
- **Malaysia:** August manufacturing data yesterday reinforces our forecast of GDP slowdown to 4.1% in 3Q from 4.5% in 2Q. Apart from slowing exports and manufacturing, a tighter fiscal policy stance will be a potential headwind to GDP growth. We maintain our view that the central bank will leave monetary policy on hold through 2019.
- **Thailand:** In another swing in rhetoric, a Bloomberg story quoted the Bank of Thailand's Senior Director Don Nakornthab saying that the economy was solid enough to absorb a quarter or a half point rate hike. With elevated global economic uncertainty, any move

towards tightening could hurt the economy more than helping it, as growth is poised to slow and inflation has started to recede. We aren't forecasting any BoT policy move this year, and none until after the planned elections in February 2019.

- **Indonesia:** The Bank of Indonesia partnered with the Monetary Authority of Singapore for a bilateral local currency swap and a Dollar repurchase agreement. Details have yet to be released but the Bank of Indonesia has looked to external deals to help complement its various monetary measures including hiking rates 5 times in 2018.
- **Philippines:** Philippine government officials kept up the hawkish rhetoric with the central bank deputy governor and Finance chief both signaling the willingness to hike rates further to tame inflation. Speaking at the sidelines of the IMF-WB meetings in Indonesia, top-level officials have pointed to further rate hikes by the regulators, pointing to at least another rate hike by the BSP going into 2019 with inflation still elevated.
- **Philippines:** Foreign selling in the local equity market has hit a 31-session streak as investor sentiment continues to sour on the Philippines. Official data shows \$440 million left Philippine bond and equity markets in September and we expect this to continue into October. Inflation and possible weaker growth prodded the flight with the Peso seen to remain on the back foot given the sustained outflow of the Peso, possibly convincing the central bank to hike again further to contain the currency's slide.

What to look out for: ASEAN trade numbers

- IMF-WB annual meeting in Bali (12-14 October)
- Indonesia trade data (15 October)
- India trade data (15 October)
- PH OFW remittances (15 October)
- US retail sales (15 October)
- China CPI inflation (16 October)
- FOMC minutes (18 October)
- Fed Bullard (18 October)
- Fed Kaplan (19 October)

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Source: Shutterstock

➔ China: Engineering a soft-landing as the trade war escalates

China is due to publish its first GDP report since the trade war kicked off in early July, and we think it is likely to show only a negligible impact. However, it is entirely possible that third-quarter data might not even capture the full impact of the trade war.

This is because the first formal salvo of the \$34bn of US tariffs hit on 6 July, followed by \$16bn on 23 August and a further escalation to an additional \$200bn a month later. Moreover, exports were little affected with still high single-digit year-on-year growth. This is what, we think, underpins the

consensus view of 6.6%, a meagre drop from the 6.7% in the previous quarter. Our forecast is 6.5%.

Among the remaining economic indicators due in September, consensus expectations indicate a slight slowdown in exports and industrial production growth, steady retail sales growth, and a pick-up in fixed asset investment growth - all consistent with the forecast of a slight dip in GDP growth.

Beijing is trying to offset potential export weakness (as a result of higher tariffs) by boosting domestic infrastructure spending and dialing back on deleveraging and manufacturing sector reforms. With macro policy geared towards a soft-landing, our house view remains that the economy continuing to eke out GDP growth at an excess of 6% during the tariffs era.

6.5% China's 3Q GDP growth
ING forecast

➔ Korea: A close-to-call central bank policy decision

The Bank of Korea will meet next Thursday (18 October) while also releasing its quarterly Economic Outlook simultaneously which includes the central bank's revised economic forecasts.

The consensus appears to be split between 'no change' and 'a rate hike' as the central bank seems to be under political pressure to rein in the property market. Based on the Kookmin Bank home price index, home price inflation in Seoul has come in at 10% year on year in September, but we don't see much signs of overheating elsewhere. Apart from the current low levels of interest rates sustaining the risks of overheating in the real estate market and swelling the household debt further, there are no solid economic grounds to resume tightening just yet - after the one-off rate hike in November 2017.

It's true monetary easing was one of the reasons behind the rise in apartment prices, but there were other factors such as housing imbalance and Seoul's development plans that boosted investors' confidence in the future of real estate - Governor Lee

Asia's heavily export-dependent economy is at the forefront of bearing the brunt of the trade war impact as export growth has slowed sharply to 4.7% YoY in the first nine months of this year from 18.5% a year ago. This is despite the fact the full impact of the trade war is yet to come through.

This makes another downgrade to the BoK's GDP growth forecast (2.9% for 2018 and 2.8% for 2019) imminent. While this will weaken the argument for tightening, consumer price inflation has gained momentum recently, but a policy status-quo is our baseline for the upcoming meeting.

1.5%

ING forecast of BoK policy rate
Unchanged

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 15 October					
India	0730	Sep WPI (YoY%)	5.0	-	4.5
	-	Sep Trade Deficit (US\$bn)	-17.7	-	-17395
	-	Sep Exports (YoY%)	-5.0	-	19.2
	-	Sep Imports (YoY%)	19.5	-	25.4
Indonesia	0500	Sep Exports (YoY%)	2.9	-	4.2
	0500	Sep Imports (YoY%)	12.3	-	24.7
	0500	Sep Trade Balance (US\$m)	-1022.4	-	-1021.4
Philippines	-	Aug OCW Remittances (YoY%)	2.9	-	5.2
Tuesday 16 October					
China	0230	Sep PPI (YoY%)	3.5	3.5	4.1
	0230	Sep CPI (YoY%)	2.7	2.6	2.3
Wednesday 17 October					
Singapore	0130	Sep Non-Oil Domestic Exports (MoM/YoY%)	-11.0/4.3	-/-	0.4/5.0
Thursday 18 October					
South Korea	-	7-Day Repo Rate	1.5	-	1.5
Friday 19 October					
China	0300	3Q GDP (QoQ, SA/YoY%)	0.0/6.5	-/-	1.8/6.7
	0300	Sep Retail Sales (YoY%)	8.7	9.1	9
	0300	Sep Industrial Production (YoY%)	5.5	6	6.1
	0300	Sep Fixed Asset Investment (YTD, YoY%)	5.5	5.5	5.3
Thailand	-	Sep Exports (Cust est, YoY%)	-	-	6.7
	-	Sep Imports (Cust est, YoY%)	-	-	22.8

Source: ING, Bloomberg

India: First test of RBI's latest policy inaction

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Source: Shutterstock

4.1% ING inflation forecast for September

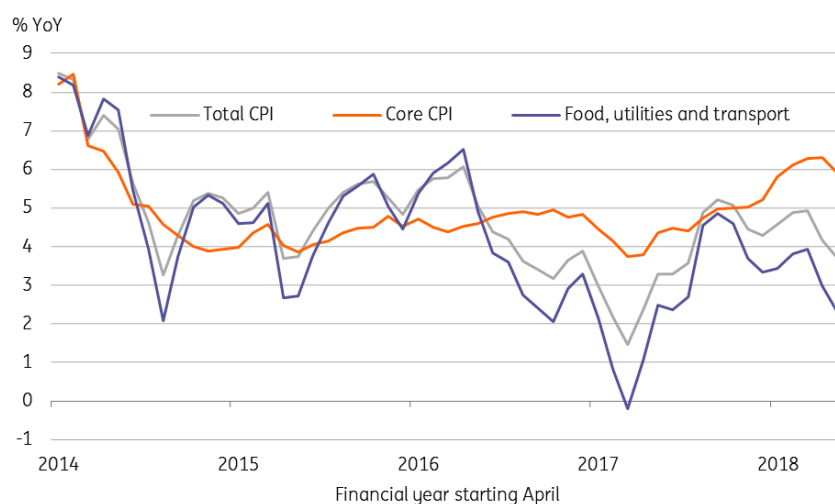
Inflation to bounce back above 4% in September

Today's release of Indian consumer price inflation data for September will be the first test of the central bank's (RBI) decision a week ago to leave its interest rate policy on hold. Even though inflation slowed sharply in July and August, that was more of a function of base effects than any

underlying price weakness.

Food, utilities, and transport have been standout drivers of lower CPI inflation in recent months (see figure). But month-on-month increases in these components have been positive since April and likely have been sustained in September, boosting the headline back above 4% from 3.7% in August. The August print was the lowest point in 10 months. Core inflation has been running at around 6%, which is where we expect it to stay.

Consumer price inflation



Source: Bloomberg, CEIC, ING

A reactive rather than proactive central bank

Even as the RBI shifted its policy stance from 'neutral' to 'calibrated tightening', we believe it grossly underestimated the potential inflationary pressure from higher global crude oil prices, which undoubtedly will be compounded by a historically worse INR exchange rate. Not a proactive policy by a central bank.

And given an underlying policy lag, even if the RBI responds to high inflation in the future with rate hikes (we continue to forecast a 50 basis point rate hike at the December meeting), that's not going to be timely medicine, while growth will also come under pressure from the global trade war, weak private consumption due to high inflation, and crowding out of private investment from a widening fiscal gap. Also due today, industrial production data for August will provide a sense of GDP growth in 2Q FY2018-19.

And lack of government policy support for rupee

As we noted earlier, the RBI inaction on the rupee has put the ball in the government's court. Yesterday Bloomberg quoted India's Economic Affairs Secretary Subhash Garg as saying that the economy was strong on most counts – fiscal deficit, inflation in control, reserves fine, exports good –, and that the government has tried to deal with the current account gap with measures on imports. Alas, nothing has worked so far, prompting a further upward revision to our end-year USD/INR forecast to 76.5 from 75.0 (spot 74.1).

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Source: Shutterstock

2.2% August industrial production growth

Lower than expected

Exports drag manufacturing lower

Following on from surprisingly weak exports in August, industrial production growth slowed to 2.2% year-on-year in that month from 2.6% in July. The outcome was slightly weaker than the consensus, which centred on 2.3% growth, with estimates ranging from our low-end 1.6% to 4.5% YoY. Manufacturing and utilities dragged headline IP growth lower, while mining continued to contract albeit at a more moderate rate than in July.

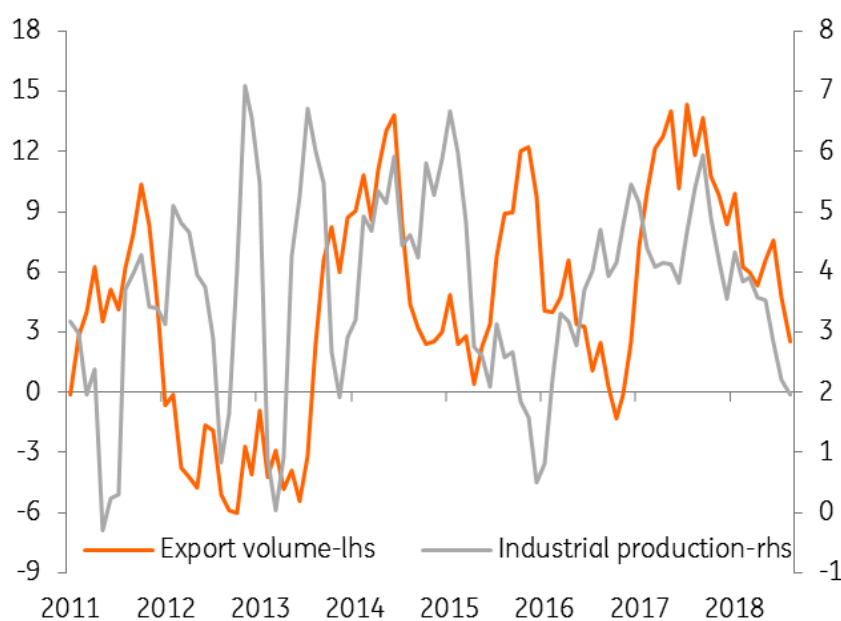
Among other manufacturing indicators including sales, employment in the sector and wages, all

posted slowdowns in August. Manufacturing sales growth of 8.1% YoY was down from 9.6% in July. Wage growth eased to 9.7% from 10.1%, and jobs growth to 1.9% from 2.0%.

GDP growth is poised to slow further

Both exports and production growth are slowing on a trend basis (see figure), which will be associated with a slowdown in GDP growth. The high base-year effect also has been in play in driving the GDP slowdown. We expect GDP growth to settle around 4% in the second half of the year, for a full-year average growth of 4.5%. Our forecast for 3Q remains at 4.1%.

Downtrend in exports and manufacturing



Source: Bloomberg, CEIC, ING

Fiscal headwinds to growth

With the economy enjoying the lowest rate of inflation in Asia the central bank (Bank Negara Malaysia) has greater policy leeway to support growth in the period ahead. Earlier this week, BNM Governor Nor Shamsiah Yunus expressed confidence about robust private sector activity continuing to support the economy into 2019 even as global trade tensions weigh on exports.

However, we believe the tighter fiscal policy stance will be a potential headwind to growth. The government is considering new taxes and asset sales to make up for the revenue loss from scrapping the Goods and Services Tax and to repay its debt. We maintain our view that BNM will leave the rate policy on hold through 2019.

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