Good MornING Asia - 13 February 2019

Trump offers to allow the March 1 deadline to slide, government shutdown deadline may be averted by Congress deal, Brexit deadline apparently not a deadline at all. So when is a deadline a deadline?

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Deadline or dead-boring

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By Robert Carnell

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egg timer

Don't shoot!

According to the Merriam-Webster dictionary, the historical derivation of the word "deadline" is "*a line drawn within or around a prison that a prisoner passes at the risk of being shot".*

Recent deadlines seem to lack the same sense of drama. No one appears likely to get shot anyway. Indeed, all recent deadlines look as if they may well be passed without incident. This may not be a bad thing if it means that the chances of a deal of some sort, whether on US-China trade, the US border wall, or Brexit, are increased. Though the reason for holding negotiators to a time-delineated deadline with threats of an economic apocalypse is that it is supposed to encourage participants to compromise and deliver a result.

The fact that it doesn't, is because of a concept in economics called "time inconsistency". Although this sounds like something Dr Who might suffer from, it is the fairly simple observation that if at the time a deadline looms, the benefits of letting it slide without sanction outweigh the perceived costs, then the deadline will likely be crossed, without triggering any incident. Similar arguments apply to monetary policy, where squeezing out inflation through higher rates and a promised recession will only work if the central bank has amassed some credibility, probably by having done this before. Setting credible targets, and accruing a hawkish reputation all help.

The China-US trade dispute may deliver a result because the US has already imposed tariffs - they seem not to care (so much) that the economic consequences of a trade war escalation for them may also be negative, so long as the outcome is worse for China. On the border wall, President Trump's bluff has already been called once. And while he may not be the most consistent player in a game like this, making it harder for the opposition to play, markets would probably bet on him allowing this one to slide too.

As for Brexit, we are in the dark. Nothing like this has been done before. The consequences of crossing the deadline without a deal seem too apocalyptic, making you think that the time inconsistency argument will come into play, rather than that it will encourage one or other side to blink in these negotiations. That tactic may indeed have been what the UK government had been hoping for if reports of an overheard conversation between Chief UK negotiator, Olly Robbins, and other colleagues in a late night bar are to be believed. But then as the deadline could always be shifted, surely this has always been viewed as a hollow threat by Europeans, and by Brexiters, who don't believe a no-deal Brexit would be apocalyptic anyway. Sadly, probable deadline slippage means we will still probably be following this story in months to come.

Korean unemployment rises

Korea's unemployment rate rose sharply in January. The January rate rose to 4.4% from December's 3.8%. Unemployment rates are some of the economics profession's most flaky statistics, and can rise when the labour market is improving. This is not the case here, and this rise can be easily classified as a "bad" rise in the unemployment rate - here's why:

1. The actual numbers of unemployed rose from 944 thousand to 1.224 million
2. The numbers of "employed" fell by 406 thousand, with particularly large falls in construction, business and personal services, and smaller but significant falls in agriculture and manufacturing.
3. The numbers of economically active persons (the labour force) fell by 127 thousand. Although this makes it easier for the unemployment rate to go up, as this is calculated as unemployed divided by the labour force, expressed as a percentage, it also means that unemployed are becoming discouraged, and giving up the search for work.

All of which are very good reasons, along with the decline in inflation in Korea, to believe that the Bank of Korea could reverse last Novembers 25bp rate hike before much more time has passed. It is also a reason to expect some slippage in the KRW, even if optimism on a US-China trade deal is keeping the USD soft for the time being.

China money supply data

We may get money supply data from China today - and that may show some signs of recent stimulus measures flowing through, which could provide a little support for the CNY, which has been looking challenged again recently.

New yuan loans in January are thought to have more than doubled from CNY1080bn in December to CNY3000b with aggregate financing up from CNY1589bn to CNY3300bn. M2 growth is expected to pick up a little too (8.2%YoY from 8.1%).

The question is, where is this money going? And is enough of the aggregate lending flowing to the private-owned sector to alleviate the spike in debt defaults we have seen, and to support stable employment? That question remains to be answered.

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EM Space: Trump appears open to negotiate

- **General Asia:** Investors will take solace in general positive developments on both the US-China trade negotiations and the border security issue. Market players will likely be looking out for US inflation and Fed speeches for further direction.
- **Philippines:** The Philippines reported another substantial trade deficit at $3.75 bn for the month of December, boosting the full-year deficit to $41.4 bn, up 51.3% from the previous year. Exports recorded another month of contraction, down 12.3% with the mainstay electronics subsector down by more than 15% in a sign of the ill effects of the trade war between the US and China kicking in. Meanwhile, imports contracted across the board with capital goods and raw materials registering surprise contractions. With the trade gap seen to remaining a prevailing theme in 2019, we expect an eventual depreciation pressure on the Peso by the yearend despite its recent strength.

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

- 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)

Philippines: Trade deficit improves but exports remain in contraction

The import growth is negative as all subsectors are in contraction

Source: Shutterstock

-$3.75 bn December trade gap

Better than expected

Trade gap improves but exports remain in contraction

The Philippines posted a trade deficit of US$3.75 billion with exports remaining in contraction while import growth slowed sharply (-9.4%). All subsectors of imports showed negative growth with capital goods, raw materials, fuel and consumer goods all in the red to close out the year. Consumer imports were once again hit by the one-off effects of the car buying spree in late 2017, but we are mildly concerned about the surprise pullback in capital goods and raw materials. If this continues, this could show that recent aggressive tightening by the BSP is starting to bite into investment appetite, hampering the nascent investment-driven growth story that we have witnessed of late.

Exports slumped again by -12.3% YoY with the key electronics subsector dragging on the entire sector, down 15.2% while the rest of the export base contracting by 8.2% with global trade likely starting to see the ill effects of the ongoing US-China trade spat. For the year so far, exports have posted a disappointing -1.8% growth rate, indicating that the sector may need more than just a depreciating currency to take off.

2018 trade gap swells to US$41.4bn, wider by 51.3%

Despite the blip in December, import growth registered a solid 13.4% expansion, bannered by capital goods (12.9%) and raw materials (13.8%) as the Philippines attempts to move into a more investment-driven growth story. The recent tightening cycle by the central bank may hinder this growth to some extent while fuel imports will also likely be smaller in 2019, leading us to expect only single-digit growth in the import bill for the year. Meanwhile, exports are seen to remain lacklustre given the dependence on the electronics sector to carry the entire export base, all the more given the external environment and the US-China trade war. Despite the continued weakening of the Peso, export performance has not gained the so-called competitive edge that we had hoped it would derive from a weaker currency. Much more will be needed to get the export base off the ground. Overall, the trade gap will remain relatively wide in 2019, which could continue to exert a weakening bias on the Peso throughout the year.