

Good MornING Asia - 13 January 2020

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Source: Shutterstock
Tsai Ing-wen

Where to start?

I suppose that as I am sitting in Asia, the main starting point today should be the Presidential (and legislative) elections in Taiwan, which saw incumbent Democratic Progressive Party (DPP) President, Tsai Ing-wen win a convincing victory at the weekend.

In a forthcoming note by our Greater China Economist, Iris Pang, Iris notes that the troubles in Hong Kong have probably galvanised nationalist spirit in Taiwan, and she goes on to note that so far, economic policies such as those aimed at bringing high-tech production back to Taiwan from Mainland China have not yielded much substance yet, though they have pushed up inventories and boosted land sales.

Bloomberg News reports in a story today that in their view, the result pushes Mainland China's one country, two systems solution for Taiwan further out of reach. In any case, we don't see the outcome having much bearing on the domestic Taiwanese economy, not that such matters seem to be that important for markets in this age of money printing.

Trouble in Tehran

Meanwhile, the downing of a passenger airliner in Tehran last week has taken a new twist with the Iranian authorities admitting that this was the result of a missile fired in human error. It's not clear if this should be read as a positive shift from political lies to honesty, or as some other newswires are reporting, to outrage at the killings. Anti-government protests in Tehran are underway, but the threat to global oil supplies from any of this is small, given existing US sanctions, and would only really spell trouble in the event that a messy regime-change and a power-vacuum led to internal conflict spilling over into the region. We are way off this yet, and energy benchmark indices seem fairly relaxed for now.

Get out the ceremonial pens

This Wednesday, China and the US are due to sign the phase-one trade deal, which should make for a nice photo-shoot. But besides the prospect that the deal will contain far more substance than we are crediting it at this stage, the likely impact of the signing will be very limited, if any.

What pundits are wondering, is not when or if a phase 2 deal will be struck. I think most analysts, including myself, don't expect to see any further trade deal either side of the US Presidential election, but certainly not this side.

The thornier problem is whether China will actually deliver on what sound at this stage to be fairly "wishy-washy" commitments on things like intellectual property protection. The US maintains that the provisions China will sign up to are enforceable, but this remains to be seen. A plausible scenario in my view is that cracks in this deal begin to spread mid-year ahead of the US elections and that tough trade talk could return ahead of the November election raising tensions once more.

That makes USDCNY a two-way bet over the coming 12 months, though the current trend for CNY strength remains intact and should continue for the time being.

Payrolls, schmayrolls

In the good old days, when my job was a lot simpler, a bad US payrolls report would, at the least, have put a hefty dent into US Treasury yields. The ten-year note now yields 1.8196% (as of writing), not even 4bp lower than the pre-payrolls figure. OK, the headline payrolls number of 160,000 is not actually bad, but about what you would expect from an economy with a labour market as tight as it is in the US. But even with a slight tick up in the average workweek, the standout part of this release was the sub-3% average hourly earnings number (2.9% from 3.1% in November).

For more, [here is a link to James Knightley's note on the Labour data.](#)

India is in the limelight today

It's a quiet day in Asia today, and unless we get some of the Chinese Aggregate Financing data which is due by Wednesday, the main data release today will be that of Indian CPI.

Prakash Sakpal writes "India's December CPI report will show inflation overshooting the RBI's 2-6% policy target for the first time since mid-2016. Besides rising food prices on the back of a disruptive monsoon season, excessive policy loosening last year, which failed to stimulate growth but has helped the INR to weaken, has been pressuring inflation higher. The RBI is coming to terms with

inflation risk as Governor Shaktikanta Das recently highlighted. A shift in the policy stance to neutral from accommodative seems to be a reasonable starting point for the central bank's next policy meeting in early February. We no longer expect the RBI to cut rates this year. Nor do we see any policy tightening on the horizon, at least not until GDP growth recovers to more than 7%. That isn't going to happen anytime soon, we both agree.

Prakash also notes: "In Thailand, Parliament finally passed a THB 3.2 trillion budget for the current fiscal year (a process started in October 2019). The budget passage is seen as a vote of confidence in the ruling pro-military coalition, which holds a slim majority under Prime Minister Prayuth Chan-Ocha. However, a slew of anti-government protests over the weekend suggests that political risk is brewing in the background. From an economic perspective, all this means a slow and tepid economic recovery from the slump last year". It may be worth keeping an eye on the THB, from last year's regional outperforming currency, it is looking rather fragile in the first two weeks of this year.

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ASEAN Morning Bytes

Asian markets to remain in holding pattern awaiting the signing of the US-China 'Phase 1' trade deal



EM Space: Economic data remains light but geopolitics remains a risk

- **General Asia:** This week's data calendar features trade data from China and inflation from the US on Tuesday while several Federal Reserve officials provide insights on Fed policy. Investors will likely tread water amid continued geopolitical risks while also awaiting the signing of the 'Phase 1' US-China trade deal on 15 January.
- **Thailand:** Parliament finally passed a THB 3.2 trillion budget for the current fiscal year (a process started in October 2019). The budget passage is seen as a vote of confidence in the ruling pro-military coalition, which holds a slim majority under Prime Minister Prayuth Chan-Ocha. However, a slew of anti-government protests over the weekend suggests that political risk is brewing in the background. From an economic perspective, all this means a slow and tepid economic recovery from the slump last year.
- **Philippines:** Financial markets will be partially closed with several towns in the southern parts of the national capital region shutdown after a volcanic eruption 60 kilometres south of Manila.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo indicated that the recent escalation in US-Iran tension has had limited impact on the IDR so far although he did admit that BI will be monitoring the situation alongside the US-China trade deal moving forward. Warjiyo also

shared that the IDR is expected to appreciate, in-line with Indonesia's solid fundamentals and that foreign investors' confidence in the government and BI has helped the IDR rebound sharply. Despite these pronouncements, we expect the currency to remain vulnerable to any swings in risk tone all the more given that the continued risk about current account deficit in the near term.

What to look out for: US-China Phase 1 trade deal

India CPI (13 Jan)

China trade (14 Jan)

US CPI (14 Jan)

Indonesia trade (15 Jan)

Philippines remittances (15 Jan)

US-China trade deal (15 Jan)

US PPI (15 Jan)

US retail sales (16 Jan)

China GDP (17 Jan)

Korea central bank meeting (17 Jan)

Singapore NODX (17 Jan)

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Asia week ahead: US-China trade deal is near, but uncertainty lingers

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Source: Shutterstock

6.3%

China GDP growth in 4Q19

ING forecast, consensus 6.0%

China

The US looks ready to sign the 'phase one' trade deal next week. However, President Trump's

unilateral decision to sign the agreement on 15 January, without consulting Beijing, together with Beijing's refusal to increase quotas of grain imports from the US add a great deal of uncertainty to this event. This is likely to be accompanied by reports of somewhat softer economic activity in December, suggesting the markets are probably in for a week of elevated volatility.

The good news is that the Chinese economy held up in the final quarter of 2019. Quarterly GDP data is due next week and we forecast growth of 6.3%, above the consensus estimate of 6.0% (unchanged from the third quarter). Trade, manufacturing, and consumption (retail sale) gained traction, investment growth was stable, and industrial profits started to rise – all pointing to faster GDP growth.

Korea, Taiwan, Singapore

Korea's December labour report will help to shed light on the health of the economy, just ahead of the Bank of Korea's policy meeting on 17 January. With the worst of the growth slump over, the BoK will probably stay put throughout this year.

Politics will take a centre stage for markets in Taiwan following the presidential elections this weekend.

And in Singapore, the non-oil domestic exports data for December could offer clues about the risk to fourth quarter GDP growth, which was estimated at 0.8% year-on-year earlier this month.

India

Of all the Indian economic data next week, a significant inflation spike, although widely expected, could unnerve local markets. We are in line with the consensus, with our forecast of 6.6% consumer price inflation in December, up from 5.5% in November and far ahead of the Reserve Bank of India's 2-6% policy target. High inflation shouldn't be a total surprise after the excessive boost to policy in the last year via both monetary and fiscal channels. This failed to stimulate growth while the negative output gap continued to widen.

The RBI is coming to terms with the inflation risk as Governor Shaktikanta Das recently highlighted. A shift in the policy stance to neutral from accommodative seems to be a reasonable starting point for the central bank's next policy meeting in early February. We no longer expect the RBI to cut rates this year. Nor do we see any policy tightening on the horizon, at least not until GDP growth recovers to more than 7%.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 13 January					
India	1200	Dec CPI (YoY%)	6.6	-	5.5
Tuesday 14 January					
China		- Dec Exports (YoY%)	2.5	1.6	-1.3
		- Dec Imports (YoY%)	17.9	8.2	0.5
		- Dec Trade Balance (US\$bn)	33.0	45.0	37.9
India	630	Dec WPI (YoY%)	2.5	-	0.6
South Korea	2300	Dec Unemployment rate (% SA)	-	-	3.6
Wednesday 15 January					
Brazil	1200	Nov Retail Sales (YoY%)	-	-	4.2
India		- Dec Imports (YoY%)	-10.0	-	-12.7
		- Dec Trade deficit (US\$bn)	-10.9	-	-12120
		- Dec Exports (YoY%)	-2.0	-	-0.34
Indonesia	400	Dec Exports (YoY%)	-0.7	-	-5.67
	400	Dec Imports (YoY%)	-4.4	-	-9.24
	400	Dec Trade balance (US\$m)	-277.2	-	-1329.9
Philippines		- Nov OCW remittances (YoY%)	3.2	-	8
Friday 17 January					
China	200	Dec Retail Sales (YoY%)	7.6	7.8	8
	200	Dec Industrial Production (YoY%)	6.4	5.8	6.2
	200	Dec Fixed asset investment (YTD, YoY%)	5.2	5.2	5.2
	200	4Q GDP (QoQ SA/YoY%)	-6.3	-6.0	1.5/6.0
Singapore	30	Dec Non-oil domestic exports (MoM/YoY%)	-2.0/-	-/-	5.8/-5.9
South Korea		- 7-Day Repo Rate	1.30	-	1.25

Source: ING, Bloomberg, *GMT

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