Good MornING Asia - 13 July 2018

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In this bundle

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Malaysia

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Opinion | 13 July 2018

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Source: Bloomberg

Markets remain true to form

While certain segments of the bond market, and increasingly, commodity markets are signaling looming recession, equities continue their Pollyanna-like behaviour. The mere absence of an additional set of tariffs from the Trump administration overnight, or of a formal declaration of retaliation from China (they can't match the US tariffs as they don't import that much US stuff!) has led the S&P500 to a four-month high.

But let's be clear, the end of the trade war has not been announced, no tariffs have been reversed, the trade war is progressively more negative, and so an absence of news does not justify a celebration. We wrote yesterday to the effect that although this exuberance could not be maintained indefinitely, on current form, markets would be recovering from the $200bn tariff announcement quite rapidly. But we are surprised at the speed and extent to which they have not only eaten up the gap but have surpassed it. This doesn't feel right. And sometimes, that is a better metric than any P/E or PEG ratio or earnings yield gap.

So are there any bright spots which could illuminate a positive story? Well, not really, but for full disclosure, there has been increasing and bipartisan noise coming from Congress about the trade war's impacts on American jobs. This is a long way from rescinding the President's rights to set trade policy. There is also some very loose chat about restoring talks between the US and China on trade. But it seems to be driven from the US, and on the basis of China making substantial further concessions first. I don't see China coming to the negotiating table with a tariff-based gun held against its head. This has no future. Markets should realize this.

Martin Wolf speaks sense on Trade and Trump

It seems a long time ago that I castigated the FT's Martin Wolf for some comment or other in a piece called, "Return of the Wolfman" - I wish I could remember what that was all about... But freedom of the press is as much their right to write stuff as it is mine to criticize it, and on this occasion, I wanted to note the very sensible piece Wolf wrote on Trump and Trade in the FT on 11 July.

Donald Trump creates chaos with his tariffs trade war

Hopefully, you can access the article, though you may need an FT subscription - if so, a colleague with a subscription might have to gift it to you.

It gets a bit bogged down in the description of the impact of trade on global GDP, and I admit I will have to read that bit again to see if I can make it make sense. But the rest is a poetic excoriation of the Trump trade agenda. There's a very nice chart too which I will be borrowing on the growth of tariffs.

Please give it a go.

Trump comes to the UK

After England's semi-final defeat in the World Cup and the disastrous mess being made over the Brexit negotiations, could it get any worse for England and the UK? Well, at least they have a visit by Donald Trump to look forward to...!

I'm sure Britain's PM, Theresa May is drooling at the thought of being told she didn't follow his advice on the Brexit negotiations. And on the possibility of a quick trade deal with the US, apparently, that is off the table now too, as Trump views that the UK will still be too firmly "in" the EU, even once it is 'out' of it, thanks to May's plan. He likes Boris Johnson, the ex-Foreign Minister. Maybe something to do with the hair?

At least the UK meets its share of NATO spending - just, but only by fudging the data and including the cost of MI5 and MI6 - the 'M' stands for military, don't you know!

Singapore's 2Q18 GDP - soft

Singapore's GDP has slowed slightly to 3.8 in 2Q18, down from 4.4% in 1Q18, a bit lower than the market expected and with a small downward revision to 1Q18 GDP too.

This data largely predates the trade war, and so we can't read too much into it in terms of what it means for the Monetary Authority of Singapore (MAS), and their policy stance, but for now, it merits a re-look at our full-year GDP forecast of 3.2% growth, with a possible view to a reduction.

This is not to single out Singapore by any means. In fact, we will be looking at all of our Asian GDP numbers with an eye to reducing them in the coming weeks, purely to reflect the worsening trade outlook. Small open economies like Singapore are likely to be buffeted by a deeper trade conflict.

But the big trading economies - Korea, Taiwan, will be hit too. There are few safe havens, but in a trade war, 'large' and 'closed' sound good places to shelter. Oddly, China springs to mind.

US Confidence - undented?

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Malaysia: Manufacturing slows in May

We have cut the 2018 GDP growth forecast for Malaysia from 5.5% to 5.2%. It is still a respectable result likely to sustain the MYR performance for the remainder of 2018

3% Industrial production growth in May

As expected

Exports depress manufacturing

Malaysia's industrial production (IP) is a good guide to the country's GDP growth and the slower IP growth in May supports our view of more moderate GDP growth in the second quarter.

In line with the consensus forecast, IP growth has slowed to 3% YoY in May from 4.6% in the previous month. While growth was driven off the high base effect, weak exports have contributed to the slowdown. Export growth contracted to 3.4% YoY in May from 14% in April, dragging the expansion of the manufacturing IP component to 4.1% from 5.3% over the same period. Aside from manufacturing, mining and utility sectors also registered slower growth in May.

Manufacturing sales, employment, and wages also posted weaker growth in May. Manufacturing sales slowed to 5.5% YoY from 8.2% in April, while employment growth eased to 1.7% from 2.1% and wage growth contracted slightly to 10% from 10.2% over the same period.

Slower manufacturing points to slower GDP growth

Average April-May IP growth of 3.7% YoY is a modest slowdown from the 3.9% average in the first quarter. This is consistent with our forecast of a modest GDP slowdown to 5.2% in 2Q18 from 5.4% in 1Q18.

> *With weakening export support to the economy, GDP growth is poised to moderate this year*

We have revised our full-year 2018 growth forecast to 5.2% from 5.5% as the ensuing global trade war will continue to erode the country's export strength for the rest of the year. It is still a respectable result likely to sustain the Malaysian ringgit's performance relative to other Asian currencies for the remainder of 2018. We are not forecasting any change to the central bank's (BNM) policy through end-2018.

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