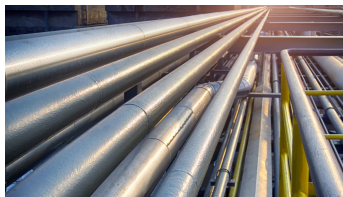


Good MornING Asia - 13 June 2019

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Singapore

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Source: Shutterstock

To our Hong Kong Readers - our best wishes

First of all, if you're reading this in Hong Kong, stay safe. The turmoil ongoing in what is one of the biggest financial hubs in the region is very concerning, and I hope we return to calm before very much longer.

Markets sour

Markets have reverted to what is looking like a classic "Trade-related risk-off" pattern. Equities are lower, bond yields are lower, oil is lower, gold is higher.

Interestingly, US President Trump is actually now expressing optimism that a trade deal with China can be done. Just not when. Hopes for something from the Osaka G20 meeting are very low indeed. Markets, however, are maybe responding less to the day by day switch in message, than to the ongoing grind that the existing situation is exerting. This may also be related to the threats of sanctions on Germany/Russia over NordStream2.

One of the things that caught my eye today was that the USD is appreciating again. This is a key part of the classic "Trade-related risk-off" market pattern. But very recently, US Treasury yields had reached such a low point that this part of the relationship looked as if it were breaking down. Clearly, the Nordstream 2 squabble is EUR negative, and we need to see what happens on a day when this isn't hitting the newswires as hard. But the dollar-positive trade aspect seems to be back on.

US inflation unerwhelms

Although it might be a bit early to expect a rate cut just yet, yesterday's inflation undershoot in the US does add weight to the argument that cuts are coming. James Knightley has written about the [outcome and implications here](#). In his view, the June FOMC will be used to tee-up markets for a cut at the following meeting on 1 August. That could begin to put a dent in the dollar.

Asia Day Ahead

Eyes down for the region's most capricious data release - the Australian labour report. Probably even more unpredictable than US non-farm payrolls. The important figure to watch today is the unemployment rate. This is the thing the RBA reckons needs to reach 4.5% to start generating higher inflation and take them closer to their 2-3% target range (1.3% currently). A 0.1pp decline is predicted. But this hinges not only on the numbers of unemployed, which is itself a function of the numbers of jobs created but also on the participation rate. And that figure jumps around more than an angry kangaroo. Still, with markets taking an exceptionally aggressive view on the forthcoming RBA easing (a view we feel is substantially overdone), a drop in the unemployment rate could be quite positive for the AUD, even if it is the consensus view - it will be a low conviction consensus.

After softer than anticipated aggregate finance data yesterday from China, we have to wait until tomorrow for the next installment of their economic struggle, when industrial production, fixed asset investment, and retail sales will be released. Our Greater China Economist, Iris Pang [thinks the soft finance data this could be a harbinger for weaker activity](#).

Japan's Ministry of Finance Business survey helps frame where we ought to be looking for the 1 July Tankan survey. The large manufacturing index released today fell to -10.4. This is a hard figure to read. 2Q surveys invariably fall. But today's reading was considerably down on the -3.2 figure last year. The forthcoming Tankan survey will be important as a very bad figure could be an excuse for the government to shelve the consumption tax hike, scheduled for October this year.

(And from Prakash Sakpal) India's May CPI inflation of 3.1% YoY was in line with the consensus, while the April figure was revised up to 3% from 2.9%. 3.4% YoY industrial production growth in April was also a significant upside surprise given the consensus view for only 0.6% growth. This heralds a recovery in GDP growth in the current quarter from a 5-year low of 5.8% in the previous quarter. This data undermines the case for the RBI continuing on an easing path during the rest of the year after a total of 75bp of rate cuts.

India's current account balance data for 1Q19 is expected anytime from now until the end of the month. The consensus of a sharp narrowing of the deficit to \$6.1bn from \$16.9bn in 4Q18 will be positive for the INR if it is correct, though we see no reason for the currency to react to such a backdated figure amid high external trade uncertainty.

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A broad measure of credit and liquidity, total outstanding social financing in China grew to CNY 1.4 trillion from 1.36 trillion in April according to data from the People's Bank of China. This was less than our expectation of CNY 1.9 trillion.

In May, Chinese banks loaned CNY 1.18 trillion, which was higher than April but still fell short of our expectations of CNY 1.45 trillion. Local government special bonds, which is a funding channel for infrastructure investments, increased by CNY 1.25 trillion. Surprisingly, shadow banking activities shrank.

The data leads us to believe that most infrastructure investments were funded by local government special bonds and other economic activity was funded via bank loans.

Investment growth could only be modest

The data implies that investment activity was quite modest in May and most investment growth should come from infrastructure investments.

This is in line with our view that the Chinese economy is currently a stimulus-driven economy but regular economic activity has slowed down.

More infrastructure investment expected

The Chinese government issued a document on 10th June 2019 to promote issuance and investments of local government special bonds as an important funding source for infrastructure projects.

To us, this indicates fiscal stimulus could increase and will mainly be through speeding up existing infrastructure investment as planned as well as adding new infrastructure projects if trade and technology wars escalate.

Don't worry about GDP growth

This is the reason why we're not concerned about GDP growth being lower than the 6% lower bound target. But this shows that the Chinese economy has suffered from the trade and technology war.

Therefore, we maintain our GDP forecast at 6.3% for 2019.

Singapore April retail sales falls

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Source: Shutterstock

-1.8% YoY April Retail sales
-2.0% Ex Motor vehicles

Lower than expected

Food sales supporting total

Focussing mainly on year on year growth (monthly series are volatile), these latest retail sales figures suggest that Singapore households remain cautious when it comes to family expenditure.

Big ticket items like motor vehicles were weak compared to a year ago, and worse than last month (-1.1% from +0.9%YoY), leading to the ex-motor vehicles total declining by 2.0% - a worse result than the -1.8% headline.

Sales on necessities held together better, Food and beverage sales growth of 3.1%YoY in April was one of the few high spots, with a strong bounce-back especially in the cheaper fast food segment, though restaurants also just about clawed their way out of annual declines.

Poor start to 2Q spending

With exports still suffering the dual impacts of the US-China trade war, and global technology slump, weakness in key domestic demand areas such as private consumption raise the prospects of another weak quarter for GDP growth.

Today's sales figures are a poor start to private consumer spending in 2Q19, and add weight to the growing body of evidence suggesting that the Monetary Authority of Singapore will need to ratchet back its monetary stance to a more accommodative setting at their meeting in October.

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