Good MornING Asia - 13 November 2018

Brexit feels a long way from Asia, but are there any implications of a no-deal exit for our region? In short, yes.

In this bundle

Br-Asia

Brexit feels a long way from Asia, but are there any implications of a no-deal exit for our region? In short, yes.

ASEAN morning bytes

General market tone: Risk-off. Risk sentiment was absent again on Monday with investors heading for cover after technology shares plunged. Oil prices...

Opinion | 12 November 2018

Br-Asia

Brexit feels a long way from Asia, but are there any implications of a no-deal exit for our region? In short, yes.

Countdown to chaos?

According to some media sources, one way or another, we should get a good idea by tomorrow whether the EU and UK negotiators have come up with a Brexit deal. If so, markets will briefly rejoice. But before the sound of champagne (or sparkling Kent wine) corks popping dies away, the hard question of "will it pass parliament?" needs to be answered and this highlights a huge problem that has been there from the very start of these negotiations.

Whatever deal the EU agrees to allow the UK to have (don't kid yourself that the UK has much say in this), has to be sufficiently bad that no one else in the EU would want to take it. If so, then won't it be insufficiently "good" for parliament to accept? You would think so, wouldn't you? Which raises the possibility of either a no deal exit, or, as some are beginning to suggest, a second-round referendum. Because no matter what the politicians say, no one specified the sort of Brexit that is likely to emerge, deal or no deal.

For more detail on how the Brexit sage is progressing (or rather, not progressing) take a look at James Smith's Brexit Blog. But what of Asia? Who here (apart from me) even cares what happens to the UK?

There's more to Brexit than a potential UK disaster

To listen to some commentators, you would think that Brexit involved only one country, the UK. The reality is, it involves at least 27 other countries (the other EU nations) and a bad Brexit will hurt trade, economic growth and employment to varying degrees across the whole region. Ireland is most exposed in terms of trade, but Belgium and the Netherlands are also well in the frame, and judging by the noises out of Munich, Germany's car-makers are none too happy with the prospect of a bad Brexit deal either.

The UK's nearest neighbours across the Channel will probably be content to see their rival in a thousand year love-hate relationship humbled by a bad exit. But with thousands of French jobs reliant on Briton's love of French food, climate and countryside, that schadenfreude may not last long.

One thing does seem evident, a bad Brexit is not good for the euro - so by definition, is positive for the dollar.

Stronger USD means weaker Asian FX

A hefty boost to the US dollar is not in the interests of much of Asia. For one thing, it will tend to reduce Asian FX strength, raising the prices of imports and inflation, and putting central banks back on watch to tighten policy - just as they were earlier in the year. Tighter policy rates most likely mean weaker domestic economic growth. And as we move into 2019, with elections in the Philippines, India, and Indonesia, some of our region's more vulnerable economies to economic and market volatility could see spillover from economic weakness with upsets at the ballot boxes that could spillover into financial markets.

Nor should we relax just because the UK is only a small percentage of any of our region's export destinations. Sure - if we only focus on the UK, the threat seems small. But the EU as a whole is a similar economic size to the US. EU data for 2017 showed the region accounted for 32% of all Asian exports, just behind the US (34.5%). EU growth already looks rather tepid by comparison with the beginning of the year. Couple a further EU slowdown with the US fiscal stimulus turning to a drag, and you have a fairly downbeat global growth backdrop - add in some lagged inflation effects from earlier capacity overshoots, and you have in addition a toxic environment for risk assets too, with not much room for central banks outside the US to respond.

These are not base case forecasts, merely downside scenarios. And some of these downbeat outcomes could emerge even if the UK and EU do cement a workable exit deal over the next few days. But a bad exit will push the balance of probabilities in the direction of a nastier global economic outcome, and I for one would rather be stacking the chips the other way if possible.

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Alissa Lefebre
Economist

alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Article | 13 November 2018

ASEAN morning bytes

General market tone: Risk-off. Risk sentiment was absent again on Monday with investors heading for cover after technology shares plunged. Oil prices tanked in return with OPEC officials hinting of possible supply cuts.

International theme: Tech stocks drag on overall risk sentiment and oil follows

- Equity markets in the US took a beating with investors focusing on the drop in technology stocks while also fretting the possibility of slower global growth. Oil prices tumbled again with WTI slipping below $60/barrel with OPEC officials pointing to a possible 1.2 million barrel cut back in daily production.

EM Space: Stock rout may spillover to Asia

- **General Asia:** Asian stocks may take a pounding after the decline on Wall Street led by technology shares and their suppliers. Energy shares may also be pressured with crude oil prices sliding anew on global growth fears.
- **Thailand:** Growth in bank lending quickened to 6.3% YoY in 3Q18 from 5.4% in the previous month on increase in borrowing by consumers. Although this reflects firmer economic growth, the real economic data points to a GDP slowdown over the period. We recently cut our 3Q GDP growth forecast to 3.7% from 4.1%, and full-year 2018 growth forecast to 4.2%

from 4.3%. We expect the BoT to leave the monetary policy on hold tomorrow.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Deputy Governor Fonacier gave a balanced view indicating that the BSP had room to pause at its next meeting but also reiterated that the economy could handle another 25 bp rate hike. These comments come ahead of the policy meeting on Thursday with market undecided on whether the BSP would hike rates further or leave policy unchanged.
- **Philippines:** Domestic pump prices continued to track the fall in crude oil with major oil retailers announcing substantial cutbacks in retail pump prices. Gasoline prices will dip by 4.3% while diesel slips 4.2%, which translates to the fourth straight week of declines. However, with Saudi Arabia flagging possible supply cutbacks, local pump prices may remain flat to close the year.
- **Philippines:** Prices for food commodities continued to show a downtrend with the latest report from the Philippine authorities indicating that regular rice prices had fallen 1.2% from the previous week. Prices for meat, fish, and chicken also showed a slowdown in select regions while fruits and vegetables tiptoed lower. Despite the slowing inflation, headline prints will likely remain elevated given that price cuts have not been substantial enough to force inflation back to within target quickly. Inflation is seen to decelerate towards year-end but still remain above 6%, with the BSP seen to retain its hawkish bias despite a possible pause on Thursday.

What to look out for: ASEAN central bank meetings

- CH money supply (13 November)
- JP 3Q GDP (14 November)
- TH central bank meeting (14 November)
- EZ 3Q GDP (14 November)
- US CPI inflation (14 November)
- UK CPI inflation (14 November)
- CH retail sales (14 November)
- PH central bank meeting (15 November)
- ID central bank meeting (15 November)
- ID trade data (15 November)
- PH OF remittances (15 November)
- US retail sales (15 November)
- MY 3Q GDP (16 November)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Disclaimer