

## Good MornING Asia - 14 December, 2018

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### In this bundle



#### ASEAN morning bytes 14 December 2018

General market tone: Risk off. Investors likely to book gains and keep to the sidelines digesting the developments on US-China trade and the ECB decision.



#### Japan

##### Japan: Tankan survey - not bad!

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By Robert Carnell

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Article | 14 December 2018

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### International theme: Markets to stay cautious with ECB ending its bond-buying program and ahead of the China data dump

- Directional trading was muted on Thursday with market players digesting developments on US-China while the ECB prepared to end its bond-buying program this month. Crude oil prices rose in reaction to supply data while market players will look to Chinese data for direction.

### EM Space: Emerging markets to take their cue from China data reports on Friday

- **General Asia:** Investors will be data dependent on Friday with traders likely to take their cue from the Chinese data dump and US retail sales later in the session. For the time being, profit taking may be the theme with investors looking ahead to next week's Fed meeting.
- **Philippines:** The Philippine central bank kept policy settings unchanged while lowering its inflation forecast to 5.2% in 2018 (from 5.3%), 3.18% in 2019 (from 3.3) and to 3.04% (from 3.3%) in 2020. The lower inflation forecast of BSP likely reflects lower government crude oil

price assumptions and LTFRB's rollback of jeepney fares. With BSP slashing its forecasts over the policy horizon the possibility of an early reversal in policy stance in 2019 has increased with BSP possibly reducing borrowing costs as early as 2Q 2019.

## What to look out for: China data dump

- China retail sales, industrial production (14 December)
- Hong Kong industrial production (14 December)
- US retail sales (14 December)

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## Japan: Tankan survey - not bad!

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Source: Shutterstock

### Headline large manufacturing index steady at 19

Most of the knee-jerk response to any Tankan release is the large manufacturing firm index. Although manufacturing accounts for only 21% of total Japanese GDP, and large firms probably only about 50% of that, the link between the manufacturing cycle and overall economic business cycle in Japan is tighter than in many more service driven economies (the US, or the UK for example).

The 4Q18 Tankan shows the rate of activity remaining strong, in contrast to the very weak 3Q GDP results, with the index steady at 19. This, in our view, is a better indication of the underlying strength of the Japanese economy than the prior GDP figures.

The same message played out in other parts of the survey, where overall index levels remain consistent with ongoing, and in some cases, slightly improved growth from 3Q18. As such, we feel that there is a good chance that the 4Q18 GDP figures, when released next year, will show a strong bounceback from the apparent weakness of the preceding quarter, leaving overall GDP growth only a little shy of 2.0% - a very creditable performance for Japan.

# 19 Headline Tankan index

Large Manufacturing firms

Better than expected

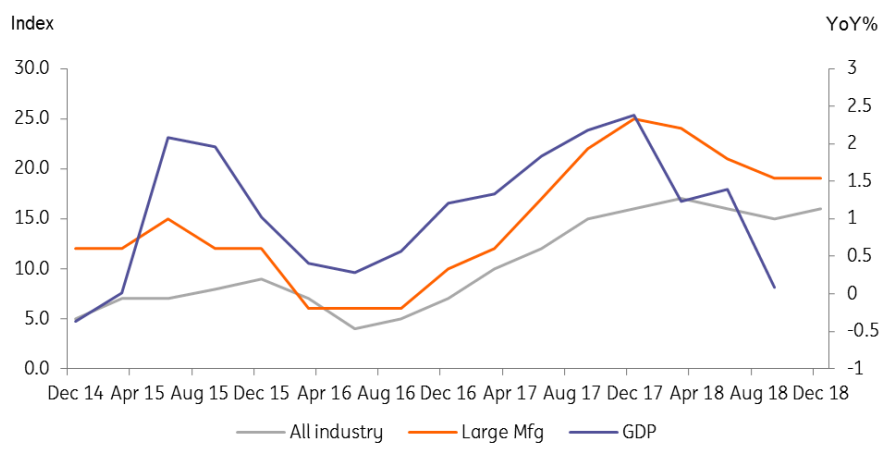
## There's more to a Tankan survey than manufacturing

Many people don't get past the Tankan's headline large manufacturing index, but the beauty of this survey is the depth of other material buried in its guts.

Profits data is a good place to start. The profits figures for 2017 were very strong as Japan and the rest of Asia picked up from 2016 weakness. Profits and net income figures for 2018 look far less impressive, which gives us some concern looking ahead to 2019.

Notwithstanding that, figures for fixed investment, R&D and software investment look robust, though land purchases not so much. Survey data on the financial conditions of firms remains solid, and firms continue to report insufficient employment (tight labour markets) which will hopefully keep wages growth supported into 2019, underpinning consumer spending growth.

## Tankan survey and Japanese GDP growth



Tankan Dec 18

## Outlook for the BoJ - nothing imminent

We continue to expect the Bank of Japan (BoJ) to reduce its purchases of government bonds and other assets. Though their attempts to pursue a taper by stealth have been somewhat undermined by the very boring nature of the ECB's own taper, which provides less cover for any overt move in Japanese monetary policy. Japanese Government Bond yields are currently only 0.05-0.06%, so show little sign the BoJ is changing its JGB yield target. Governor Kuroda has hinted that this will be the clue that policy is changing. So until and unless JGB yields push above 0.1%, it will remain a case of "Nothing to see here" for forthcoming BoJ meetings.

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