

Good MornING Asia - 14 February 2018

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In this bundle



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By Robert Carnell



Indonesia

Indonesia: Mind the (current account) gap

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Indonesia: Central bank to stay on hold

Indonesia's central bank is likely to keep its policy rate steady at this Thursday's meeting, as it focuses on maintaining stability after a...



Bank of Thailand to keep policy on hold

We forecast no change to monetary policy all year

Opinion | 13 February 2018

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Source: Shutterstock

USD reverts to weakness

The recent financial market correction introduced two-way risk to markets - in particular, it reminded investors that the US dollar can strengthen as well as weaken. But having provided that reminder, it looks as if, in the absence of further turmoil, the previous USD weakening trend is due to resume. The USD dropped around a big figure against the EUR yesterday, against a background of what were essentially flat equity and bond markets. In the region, the JPY was also very strong - some putting this down to safe-haven positioning ahead of today's US CPI release, but in all likelihood - probably just tracking the EUR. The THB maintained its regional strength yesterday, with SGD and TWD also making small gains. All other currencies were basically flat or, in the case of the CNY, slightly weaker against the USD. The PHP maintained its position as regional currency laggard.

1.7%YoY

Consensus for Jan US CPI

Down from 1.9% in Dec

Today - its all about GDP and inflation

Today sees a rare return to a fundamental focus. Our taste-buds have already been tickled with some 4Q Japanese GDP data, which showed a growth slowdown breaking the previous run of consecutive strong growth figures. 4Q17 GDP was 0.5% (seasonally adjusted annualized rate), missing the 1.0% consensus view. And there were also some substantial downward revisions to previous quarters, indicating that the momentum was not perhaps as strong in Japan as was previously thought.

Singapore's revised GDP provided a somewhat surprising result, with the QoQ annualized figure being revised only slightly higher at 2.1%, but a big upwards revision to the YoY rate of growth from 2.9% to 3.6%. Newswires are using this apparent GDP strength as justification for some tax increases at the forthcoming budget, and for the MAS to move to a tightening stance at the April meeting. While we don't disagree that the former policy change looks likely, these GDP figures require some fairly imaginative seasonal adjustment or some downward revision to historical data to work, and it is less clear to us that the economy has the momentum these revisions seem to claim. Certainly, recent data from Singapore has been quite mixed, and tighter monetary policy on top of tighter fiscal policy seems like it might be unnecessary against such a background.

4Q17 GDP from Malaysia is also due around noon. We also look for a slightly weaker figure from Malaysia, of 5.5%, slightly below the consensus 5.8% expectation.

The big release of the day, however, is CPI, not GDP. January US CPI inflation should fall from 1.9% to 1.7%, and the core rate of inflation is also expected to decline 0.1pp to 1.7%. This result is predicated on a reasonable 0.3%MoM gain in the CPI index, so it looks as if there is two-way risk around this figure too. With the market currently overly jittery about inflation and higher bond yields, we suspect that if 0.3%MoM remains a balanced outcome for CPI, the market response might be more excessive for an upside, rather than a downside miss.

0.5%

Worse than expected

Japanese 4Q17 GDP

Down from 2.2%

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Source: Shutterstock

-1.6%

Forecast for 2018 current account deficit to GDP

Slightly narrower than 2017

Current account deficit in 2018 is likely to narrow to -1.6% of GDP

The current account deficit jumped to -\$5.8bn in 4Q (2.23% of GDP) from -\$4.6bn in 3Q and -\$1.8bn in 4Q 2016, due to high primary income payments (for investments in equity) and a moderate trade surplus.

- Exports in 4Q moderated to a 13% year-on-year increase from 25% in 3Q and 14% in 4Q 2016.
- Import growth remained above 20% in 4Q and 3Q and accelerated from 7% growth in 4Q 2016.

- Export growth in 2017 averaged at 16.4% while imports posted a 15.7% average increase.
- We expect export and import growth to moderate in 2018 with export growth still slightly outpacing imports. Primary income payments are likely to remain high and increase by 13% this year.
- The result is a current account deficit of -\$18.2bn or -1.6% of GDP (on real GDP growth of 5.4%) in 2018 from 2017's -1.7%.

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Source: istock

4.25%

BI 7-day Repo Rate

No compelling reason to change monetary policy rate

BI is likely to maintain its neutral stance despite uncertainties

Bank Indonesia is likely to maintain a neutral stance after its 50bps rate cut in 2H 2017. BI continues to consider GDP growth, inflation and the Indonesian rupiah as important factors in determining monetary policy. Both the central bank and the market expect GDP growth to improve in 2018.

- The consensus forecast of 5.3% GDP growth in 2018 is within the BI's forecast range of 5.1% to 5.5%. We expect GDP growth that is in line with the government's target of 5.4%.
- Inflation is low with January inflation moderating to 3.25% from December's 3.6% rate. Low inflation is expected to spur consumer spending, which also benefits from higher wages, faster economic activity, higher government expenditures and election spending. BI expects inflation to average 3.5% in 2018 although the consensus expects an inflation rate of 3.8%. We expect an average inflation rate of 3.6% for 2018, which is within the BI's target range.

- However, USD/IDR delivered some instability recently with the currency swinging from IDR13280 late last month to IDR13648 last week. Direct intervention and steady policy settings are seen to stabilise the currency, especially with US monetary tightening and the uncertainty that accompanies elections as well as the selection of the BI governor.
- Indonesia election uncertainty starts with June regional and local elections. The President appoints a new BI governor in the next few months. We expect the President to appoint a candidate who would continue the current monetary policy path and is respected in the local and global capital markets. Governor Agus Martowardojo's term ends in three months but the market still considers a second term as possible.

Snap | 14 February 2018

Bank of Thailand to keep policy on hold

We forecast no change to monetary policy all year



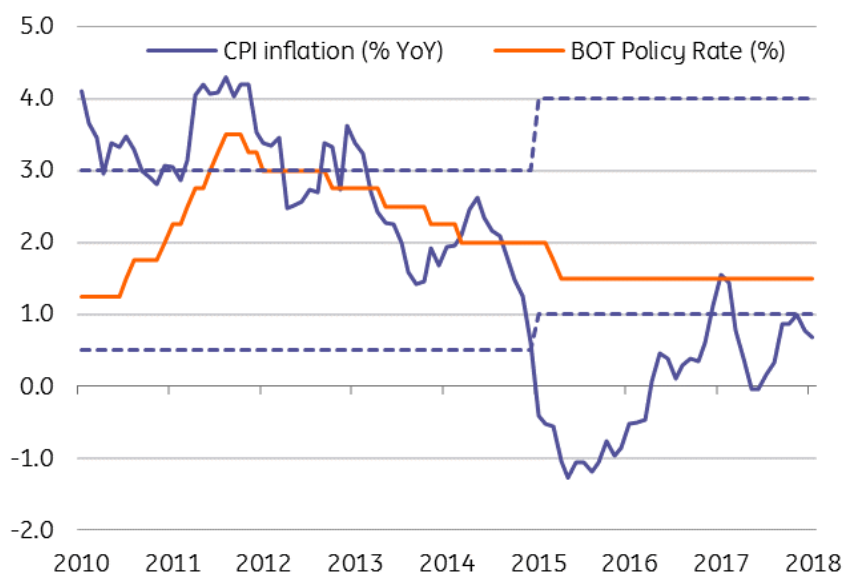
1.5% BoT policy rate

Consensus of on-hold BoT policy

The Bank of Thailand (BoT) Monetary Policy Committee meets today. There is a unanimous consensus that they will keep policy unchanged. The main policy rate, the 1-day repurchase rate, has been at 1.5% since April 2015 when the last easing cycle ended.

There are no strong reasons for the BoT to change the policy anytime soon. Even as GDP growth picked-up to a five-year high of about 3.8% in 2017 from 3.2% in the previous year the underlying economic fundamentals remained weak. The much-touted increase in infrastructure spending is still missing in action. And consumer price inflation has undershot the BoT's 1-4% medium-term policy target for the third straight year (see chart), thanks to weak domestic spending and an appreciating Thai baht (THB).

Inflation isn't a policy worry



Dotted lines are BoT's target for CPI inflation, currently 1-4%.

Source: Bloomberg, ING

Thai baht outlook

We forecast no change to monetary policy all year. There was no let-up in the THB appreciation trend coming into 2018 with 2.8% year-to-date appreciation against the USD. The key force behind THB strength is a persistently large current account surplus. At about 11% of GDP in 2017 the surplus was barely changed from 2016.

The large current account surplus is the result of weak domestic demand. The textbook remedy for such an imbalance is demand-boosting economic policies. With no scope for monetary easing, more needs to come from the fiscal side. Without this, a repeat of 2017's THB performance looks difficult this year. Our year-end USD/THB forecast is 31.0 (spot 31.5, consensus 31.3).

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