

Good MornING Asia - 14 January 2019

The trade data from China and inflation from India will be the key data reports for the day with investors looking for signs of the slowdown in the world's second-largest economy

In this bundle



Mayday, Mayday

UK PM May makes last-ditch plea to save Brexit, but looks like going down in flames, what next?

By Robert Carnell



ASEAN morning bytes

General market tone: Wait and watch. Investors will likely focus on earnings and the China trade data for direction on Monday.



FX

Asian FX Talking: It's complicated!

Multiple layers of overlapping influences and idiosyncratic factors make 2019 an interesting, but challenging year for forecasting

By Robert Carnell



Australia

Australian shoppers defy housing slowdown

Despite house prices falling across the country, and modest wages growth, Australians are still confident enough to keep shopping, or is this just retail...

By Robert Carnell

Opinion | 13 January 2019

Mayday, Mayday

UK PM May makes last-ditch plea to save Brexit, but looks like going down in flames, what next?



Bundles | 14 January 2019

Will the people get a vote?

Our Brexit-guru - James Smith - has done an excellent piece on ["What next"](#) after what looks to be an almost certain rejection of UK PM Theresa May's draft exit bill tomorrow, January 15th. For those who prefer their information in 30-second chunks, the upshot is that Article 50 looks very likely to be extended, with the three likely contenders of alternatives being:

1. General Elections (which the Conservatives won't necessarily lose, especially if opposition leader Corbyn backs Brexit);
2. Some holding pattern like the "Norway for Now" limbo some have suggested whilst renegotiation continues (ignores Norway's antipathy for the UK joining EFTA);
3. A second referendum.

There is a very interesting survey by [YouGov in the centre-left newspaper, the Guardian](#) last week, which shows that in the event of a second referendum, where the choice is remain or May's exit bill, remain would win 63% to 37%, and if it were a choice of remain versus leave with no deal, the lead for remain would still be 58% to 42%. Explaining the difference, many of those who voted leave last time wanted a clean break, which the May bill doesn't offer.

Sadly, we don't look like we will be in a Brexit-free news zone any time soon. As James Smith points out, all of these alternatives would take time to arrange.

US - No end in sight to Government shutdown

As the government shutdown in the US continues, it becomes less of a political only story, and more of an economic one, with around 800,000 estimated government workers affected. There are no talks ongoing, and none scheduled. The main chance for an end to this political mess is President Trump calling a national emergency, which would enable him to syphon money from other budgets, most notably defense, to build his wall and move on. He is being encouraged to open government in advance of this.

As time drags on, and the likelihood of this weighing heavily on 1Q19 GDP and indeed on equity markets increases, the odds of 1Q19 being a "pause" month for the Fed grow.

We still look for 2 rate hikes this year, so if 1Q19 is indeed a pause, this most likely puts these remaining hikes in 2Q and 3Q19. Our main forecasts are included in our [monthly update](#), with the full forecast details published shortly in Think (search INGF). For how this will affect FX markets in Asia, please also refer to our latest ["Asia FX Talking"](#). As the title says, "It's complicated!".

Asia

We get a lot of trade data out of Asia this week, not least from China. China's trade data has been holding up reasonably in recent months, despite the trade war, but mainly, many speculate, because exporters and importers alike have been battling to beat looming tariffs by pushing goods out more quickly than normal, or stockpiling inventories of inputs before they become more costly. December data for trade today will likely show this stimulus waning, with the most likely prospect of further declines in January.

What is important here is not the net trade balance, which in terms of GDP is very small anyway (less than 2%), but the overall *level* of trade in both directions, since that is what determines

employment in those trade-directed industries. Hi-tech jobs may come to China's rescue at some point. But even a command economy like China cannot imagine that it will do so in a rapid enough fashion to absorb all the impact of this dispute. Even with the growing likelihood of massive stimulus, this is going to hurt.

Other events in Asia this week include BI - no change in rates expected from them, and in the rest of the region, Indian and Indonesian trade and Singapore's NODX release.

And this from Prakash Sakpal on India:

India's consumer price inflation data for December is due today. Food prices had been a drag on inflation last year, and prices typically fall more than in other months in December. This underpins our and the consensus view of a further dip in headline CPI inflation to 2.2% YoY from 2.3% in November. Barring supply shocks to food prices or fuel prices, inflation is likely to stay well below the RBI's 4% comfort level for most of this year. Meanwhile, the growth slowdown seems to be accelerating as reflected by last Friday's release of November industrial production data showing only 0.5% growth (consensus 3.6%). With RBI policy being guided by the government to boost growth ahead of the May 2019 general election, a rate cut as early as next month cannot be ruled out, sustaining the INR as Asia's most underperforming currency this year.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Article | 13 January 2019

ASEAN morning bytes

General market tone: Wait and watch. Investors will likely focus on earnings and the China trade data for direction on Monday.



International theme: US government shutdown continues

- **Trump banks on calling for a state of emergency while allies pressure him to end shutdown soon.** Markets await earnings season and any developments out from the US shutdown for direction.

EM Space: Markets will likely be mixed today

- **General Asia:** China's trade and India's inflation are the key data reports for the day with investors looking for signs of the slowdown in the world's second-largest economy.
- **Thailand:** The political risk is rising as protests over further delay in the general election from the scheduled date of 24 February are gathering momentum. This will be the key headwind for gains in local financial assets and the Thai baht going forward. We expect the USD/THB rate re-testing the 33 level by end-1Q19.
- **Indonesia:** Bank of Indonesia (BI) reported that inflation remains stable and within the target, with the Deputy Governor Budi Waluyo indicating that for the first week of January it was at roughly 3.03%. The central bank did flag possible inflationary pressure from the recent rebound in oil prices but BI will likely remain more focused on IDR's stability.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) reported October foreign direct investment (FDI) data on Friday. The net FDI inflow of \$491m for the month was 74% lower than

the year ago, putting the ten-month haul at \$8.53bn. The FDI contraction moves in line with the fall in investment pledges in a major economic zone as investors are turning skittish over possible tax adjustments. With the economy registering a current account deficit, foreign funding will now rely heavily on flows in the financial account such as FDI.

What to look out for: trade numbers and Fed speakers

- China trade data (14 January)
- India inflation (14 January)
- Indonesia trade (15 January)
- Philippines OCW remittances (15 January)
- Fed Kashkari, Kaplan and George speak (16 January)
- Bank Indonesia policy meeting (17 January)
- Fed Quarles speaks (17 January)
- Thailand reserves (18 January)
- US consumer sentiment, industrial production, trade and retail sales (14-18 January pending shutdown)
- Fed Williams speaks (18 January)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Asian FX Talking: It's complicated!

Multiple layers of overlapping influences and idiosyncratic factors make 2019 an interesting, but challenging year for forecasting



Source: Shutterstock

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

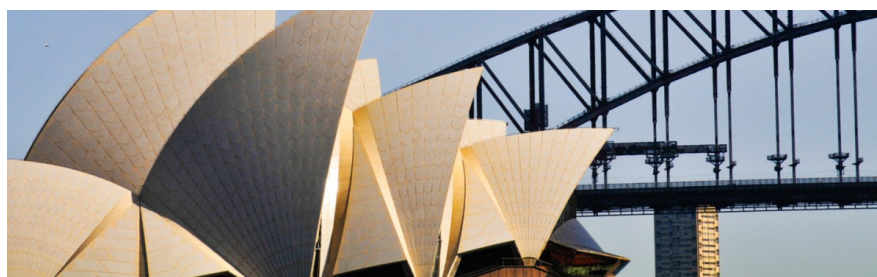
Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Australian shoppers defy housing slowdown

Despite house prices falling across the country, and modest wages growth, Australians are still confident enough to keep shopping, or is this just retail therapy?



Shoppers defy the housing gloom

Household goods and clothing were the strongest gainers amongst retail components in the November release, items that typically can't easily be shrugged off as seasonal quirks (food) or statistical aberrations (both these components have registered strong gains since October).

Yet in the background of this, yet another index is pointing towards sickness in the Australian property market.

0.4% MoM

Australian Retail Sales

0.3% expected

Better than expected

Construction outlook worsens

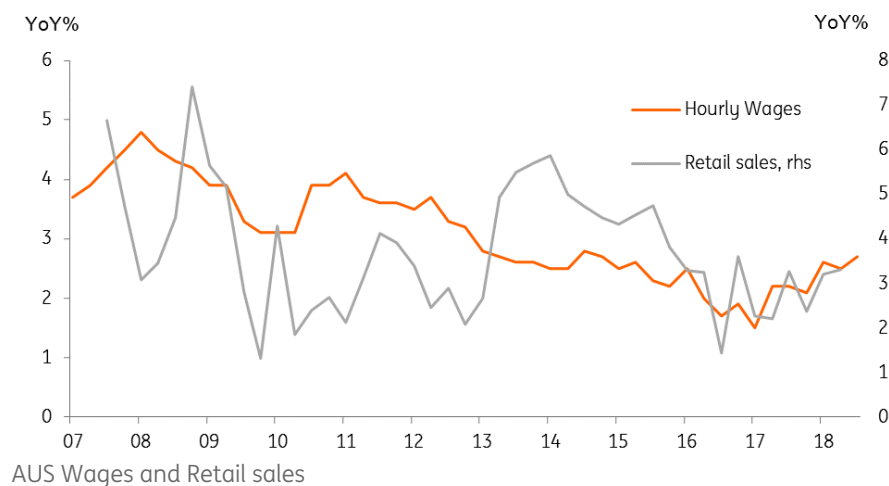
The AIG performance of construction index for December fell a further 1.9 points to a dismal 42.6 in December. You have to go back to June 2013 to match figures this bad. Helping offset the gloom from the housing market, Australian wages growth is slowly recovering. At 2.7%YoY currently, it is way off its 4.8%YoY peak in 2008. But it is also a decent pick up from the 1.5%YoY trough in 1Q 2017.

Labour data remains quite strong, and the unemployment rate low, so this could well be providing

the offset to the housing market that is keeping the household sector alive and kicking, and keeping the Reserve Bank of Australia (RBA) maintaining its uneasy no-change policy, with markets divided on what direction their next move will be.

A little further AUD weakness wouldn't hurt, and we continue to think that the RBA will be relaxed if we see the AUD return to its flash-crash levels of sub 0.70.

Australian wages and retail sales growth



Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.