

Good Morning Asia - 14 June 2019

Setting the mixed tone for markets today, escalation of geopolitical tensions in the Gulf region counters the positive investor sentiment from rising expectations of the US Fed easing.

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With increased odds of the Fed easing, it's hard to see Asian central banks resisting easing pressure for too long now



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The Reserve Bank of Australia (RBA) thinks the unemployment rate needs to fall to 4.5% (or lower) to spur inflation back to target - so we can expect more...

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EM Space: Oil moves higher on attacks in the Middle East

- **General Asia:** Attacks on two oil tankers caused oil prices to rise with the US blaming Iran for the attacks. Economic data from the US supports growing expectations of the Fed easing, while the markets await more economic data out from the US and China today.
- **Indonesia:** Finance minister Indrawati indicated that the government was aware of the downside risks to the country's economic growth momentum, which are mostly external in nature - the trade war and China's moderating growth. But she also highlighted the need for improvement in investments to maintain the overall growth momentum.
- **Thailand:** Moody's sees Thailand's aging society, moderate competitiveness, and labour skill shortages as key headwinds to growth going forward, while the economy is likely to benefit from continued domestic and foreign investment via the Eastern Economic Corridor (EEC) project as well as potential supply chain relocation due to the US-China trade conflict. Moody's investment grade, Baa1 rating on Thai sovereign credit has been in place since 2003, and it's on par with other main rating agencies - S&P and Fitch.

What to look out for: China retail sales and US retail sales

- Thailand GIR (14 June)
- China retail sales, industrial production (14 June)
- US retail sales, consumer sentiment (14 June)

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Asia week ahead: Riding the wave of easing

With increased odds of the Fed easing, it's hard to see Asian central banks resisting easing pressure for too long now



Source: Shutterstock

➔ Heavy central bank calendar

Four Asian central banks – Japan, Taiwan, Indonesia, and the Philippines meet next week alongside their counterparts in the UK and the US – all announcing their policy decisions on Thursday (20 June). While we expect all these meetings to be largely non-events, Bank Indonesia and Philippines central bank meetings could be of some interest.

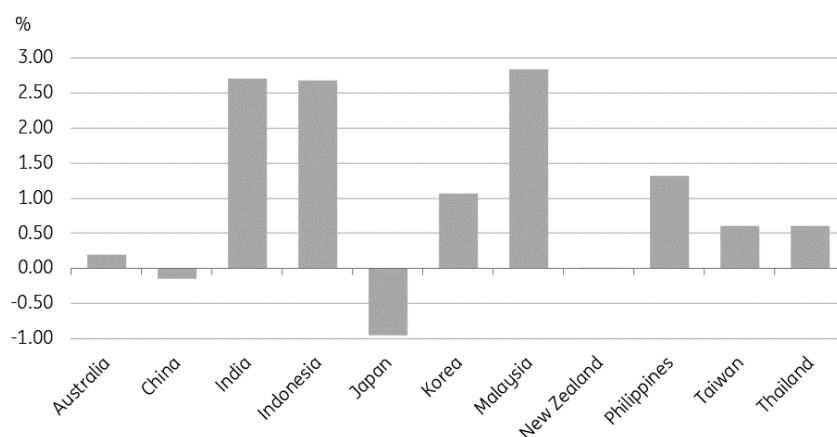
A surprise inflation spike in Indonesia and the Philippines in May has dashed hopes of rate cuts by their respective central banks. We view high inflation as an aberration from the low inflation trend these economies have been enjoying this year. The Philippines central bank started easing policy in

May while Indonesia's central bank isn't quite there yet, but it's probably just looking for the right timing.

The policy dilemma of these central banks comes from their high real interest rates among Asian economies. Even though high real interest rates provide scope for easing, which is the need of the day with the prevalent growth concerns stemming from the trade war, but rate cuts weigh down on currencies impaired by high trade deficits.

With increased odds of the Fed easing, we don't think Asian central banks will resist easing pressure for too long, while subdued inflation provides room to support growth with lower interest rates. We now see most Asian central banks riding a wave of easing by the next quarter.

Real interest rates



Source: Bloomberg, CEIC, ING

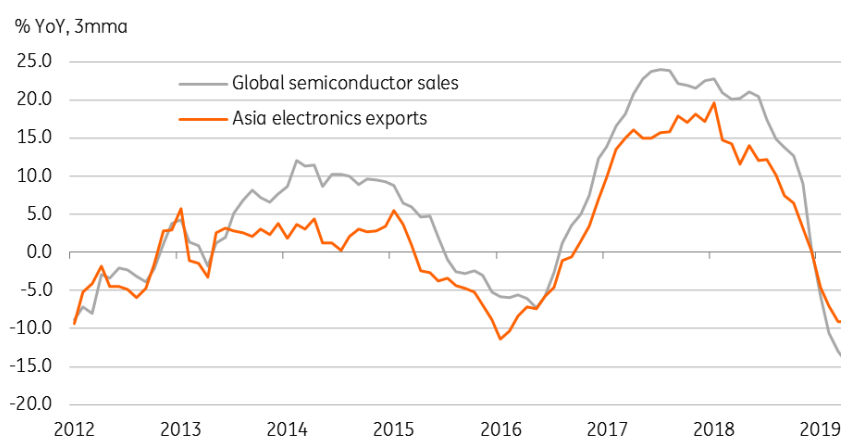
Central bank policy interest rate minus the latest inflation rate.

➔ And lots of trade figures

Lots of May trade data from Japan, Taiwan, Singapore, and Thailand will be interesting for what it says about the trade war. It's no longer just a trade war, but also a technology war aggravating the ongoing slump in the global tech sector. With Asia's heavy reliance on electronics exports, we see nothing in the forthcoming releases calming the nerves of regional exporters and markets.

We anticipate accelerated export weakness in most reporting economies next week. Of most interest will be Singapore's non-oil domestic export growth - an economy at the forefront of the tech downturn. The forecast by our in-house Singapore watcher, Rob Carnell, of about 19% year-on-year NODX contraction is the worst reading in over six years. But he isn't alone; the consensus estimate (as of this writing) is -20.4%. If this is correct, the data will push the Monetary Authority of Singapore towards easing in October.

Asia following the global tech downturn



Source: Bloomberg, CEIC, ING

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Monday 17 June					
Philippines	-	Apr OCW Remittances (YoY%)	-	-	6.6
Singapore	0130	May Non-oil Domestic Exports (MoM, SA/YoY%)	5.5/-18.7	-/-	-0.6/-10.0
Tuesday 18 June					
China	0230	May New Home prices (MoM/YoY%)	0.7/12.0	-/-	0.6/11.4
Wednesday 19 June					
South Korea	2200	May PPI (MoM/YoY%)	0.2/0.6	-	-/0.6
Thursday 20 June					
Indonesia	-	Jun BI Policy Decision (7-day reverse repo, %)	6.00	-	6.00
Philippines	0900	Overnight Borrowing Rate	4.5	-	4.50
Taiwan	0900	Benchmark Interest Rate	1.38	-	1.38
	0900	May Export Orders (YoY%)	-7.2	-	-3.7
Friday 21 June					
Hong Kong	0915	May CPI (YoY%)	3.2	-	2.9
Taiwan	-	May Money Supply (M2) (YoY%)	3.7	-	3.7
Thailand	-	May Exports (Cust est, YoY%)	-5.5	-	-2.6
	-	May Imports (Cust est, YoY%)	-4.5	-	-0.7
	-	May Trade Balance (US\$m)	1045.0	-	-1457.0

Source: ING, Bloomberg, *GMT

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Australia's unemployment rate stays at 5.2%

The Reserve Bank of Australia (RBA) thinks the unemployment rate needs to fall to 4.5% (or lower) to spur inflation back to target - so we can expect more rate cuts as this isn't happening yet



5.2%

May unemployment rate

Unchanged from April

Higher than expected

Labour report not as strong as it looks

On the face of it, this was a solid looking labour report. Employment growth in May was up 42.3 thousand, and there were some upward revisions to the previous month's total, which was similar at 43.2 thousand (formerly reported as 28.4K).

The problem comes with the details. Full-time employment rose only 2 thousand four-hundred. So more than 94% of all employment created was part-time. And barely two-thousand full-time jobs

have been created in total in the last two months.

Even so, a job is a job, and that ought to help lower the unemployment rate. But jobs created is not the same as unemployment reduced. Unemployment only fell by two thousand in May from April, and even with the participation rate rising a bit (66% from 65.9%) the denominator (labour force) didn't rise enough, and the numerator (unemployment) didn't fall enough to nudge the unemployment rate down from 5.2%, even on rounding.

RBA still has work to do

With the RBA believing that an unemployment rate of 4.5% (perhaps even lower if Assistant Governor Luci Ellis is to be believed) is now necessary to push inflation higher, and today's figure showing the gap between the current unemployment rate and the full employment rate as wide as ever, about the only conclusion you can draw is that the RBA will need to provide further monetary stimulus to bridge that gap.

The next rate meeting is on 2 July, and markets are already pricing in a 64.1% probability that it results in a further cut. We don't have a strong objection to this market pricing. Though it has come a long way in a short time. The one cut already made won't make much difference to the economy, and about the only argument for taking a slower and more considered approach to easing would be that it takes a long time for rate cuts to have their full effect, so it makes picking the point at which to cease easing without overshooting a little easier.

Then again, with limited room for easing in total (many believe that an effective lower bound for the RBA is 0.5%), the counter-argument is that you get more bang for your buck by being bold with policy. It is a tricky decision, but today's labour report does play to current market pricing of more, and more rapid easing than either we or the market thought likely a month or two ago.

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