Good MornING Asia - 14 November 2019

After a disappointing GDP report from Japan and labour report from Australia this morning, all eyes are now on remaining Chinese activity data for October for what it says about the trade war impact on that economy.

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Philippines central bank to hold fire

After a busy 2019, Bangko Sentral ng Pilipinas (BSP) is expected to keep policy rates unchanged and gauge the impact of its recent round of easing

ASEAN Morning Bytes

Powell remained neutral at his speech while US core inflation slipped, leaving markets to look to Chinese data for direction.

EM Space: China in focus

- **General Asia:** Concerns about the ongoing trade war flared up on Wednesday, while Fed Chair Powell struck a neutral chord about the policy. All eyes today are on remaining Chinese activity data for October for what it says about the trade war impact on that economy.
- **Thailand:** The Bank of Thailand's deputy governor Mathee Supapongse signalled yet another cut to central bank's GDP growth forecasts for this and next years, currently 2.8% and 3.3% respectively, at the next policy meeting on 18 December. He also sees room for further monetary easing after a 25bp cut earlier this month pushed the policy rate to a record low of 1.25%. We expect 3Q GDP next week to show a further dip in growth to 2.0% from 2.3% in 2Q, which tipped us for another cut to our full-year growth forecast to 2.3% from 2.5% and that for 2020 to 3.0% from 3.3%. However, we don't think the BoT will cut the rates again in December.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) decides on monetary policy today. We are part of an unanimous consensus forecast that the central bank will keep policy rates unchanged following such signals recently from the Governor Diokno. While we expect the BSP pause to last through the end of this year as inflation is forecast to remain within target going into 2020, we do expect another round of easing as early as the first quarter of next year.

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

- China industrial production, retail sales (14 November)
- Philippines BSP meeting (14 November)
- US PPI, initial jobless claims (14 November)
- Malaysia GDP (15 November)
- Indonesia trade (15 November)
- Thailand GIR (15 November)
- Hong Kong GDP (15 November)
- US retail sales (15 November)
- Philippines OF remittances (15 November)

Weak Australian labour report

A fall in both full-time and part-time employment has left overall employment in Australia down by 19 thousand in October. This weakness is exacerbated by...

-19,000

October employment change

-10.3K full time

Worse than expected

No silver linings

The AUD took some comfort from a rallying NZD on Tuesday as the RBNZ left rates on hold, but it gave all that and more back today as the October labour market report showed emphatic weakness on nearly every front.

The headline employment figure showed a much larger than expected 19 thousand decline in October against a consensus expectation for a 15 thousand increase (INGf +30K). Sometimes, this weakness can be shrugged off as reflecting volatility in the part-time sector. Not this time. Full-time employment was down 10.3K and made worse by further falls in part-time employment too

(-8.7K).

Unemployment rises to 5.3%

The unemployment rate has been oscillating around 5.2/5.3% for some months. And this can often be put down to noise in the labour force data and participation rates. This time, the unemployment rate was largely driven by...rises in unemployment. The unemployment count rose by 17 thousand in October. Meanwhile, participation in the labour force actually dropped, so the rise in the unemployment numerator was divided by a smaller labour force denominator. There was only one way the unemployment rate was going after those movements, and that was up.

Where now RBA?

In recent weeks, the Governor of the RBA, Philip Lowe, has painted a reasonably upbeat picture of an economy on the mend and a central bank that may have done with easing in this cycle. Today's data draw a big question mark over that view. The RBA has noted that consumer spending will be a part of the economy they will watch closely before making further changes. We would be surprised if such weak labour developments will not have some negative effect on consumer spending, meaning that the RBA's easing work might not be done after all.

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Article | 13 November 2019 **Japan**

Japanese GDP grows 0.2%QoQ in 3Q19

There is no evidence of front-loading of spending ahead of the October consumption tax hike, but does this mean we will not see any fall off afterwards?

Source: Shutterstock

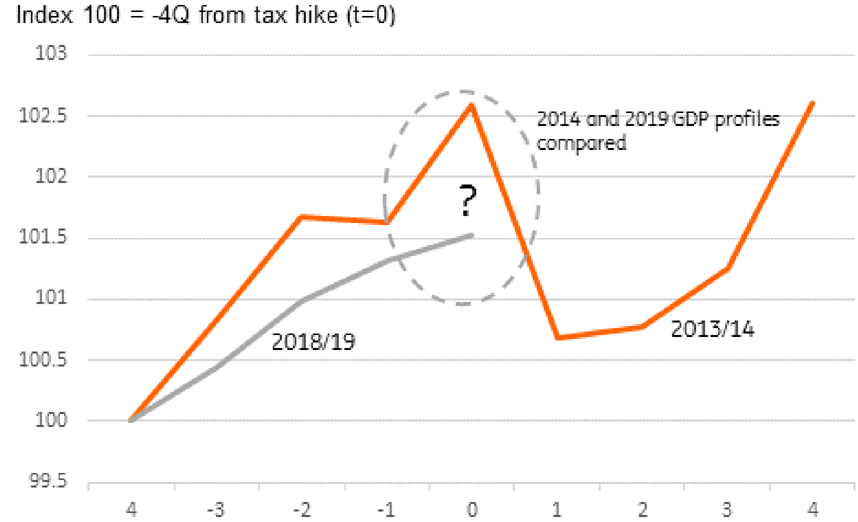
0.2%

3Q19 GDP

QoQ% annualised

Worse than expected

Where's the pre-tax spike?



Source: ING

Little evidence of front loading

In 1Q14, the last quarter ahead of the April 2014 consumption tax hike, GDP growth accelerated to 3.9%QoQ at an annualised rate, having registered -0.2% the previous quarter. The acceleration came from front-loading of spending ahead of the tax hike, on everything from cars to toilet rolls. There is no evidence of anything like this in 2019, ahead of the October consumption tax hike.

3Q19 GDP growth registered only 0.2%QoQ at an annualised rate. In other words, it barely grew at all on a strict quarter on quarter basis according to these preliminary, and admittedly prone-to-revision figures.

GDP components show abject weakness

Private consumer spending grew only 0.4%QoQ (seasonally adjusted annualised rate - saar). Business investment was a bit better at 0.9% on the same basis, but overall, domestic demand was exceptionally disappointing.

Admittedly, there was some drag from inventory destocking (-0.3pp) and net trade also took 0.2pp from the total. But neither of these facts make a material difference to what was clearly a very poor GDP figure.

The big question now is whether this weakness prevents a big drop off in 4Q19, as we saw in 2Q14 after all the front loading. Our first instinct is to say yes. Some drop off does seem probable, as households adjust to higher prices. But the overall profile may be somewhat flatter than we had expected. That may mean we don't have to do too much to our full-year 2019 1.2% GDP forecast - but a tentative re-working of the data assuming a small decline in 4Q19 puts the number closer to 1.0%.

Fiscal policy to the rescue?

Perhaps the clue to today's figures was the recent suggestion by PM Abe that there would be a fiscal stimulus package to help the economy through the rest of this year and through fiscal 2020.

From experience, such packages don't require any forecast response, as they usually mean that things are coming in worse than you had previously expected. And we can't expect any meaningful assistance on the growth front from the Bank of Japan, which despite protests to the contrary, is out of ammunition in our view.

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Snap | 13 November 2019 New Zealand

RBNZ leaves rates at 1.0%

Governor Orr doesn't see any further "urgency to act" and no need to play "catch up" owing to earlier decisions.

Consensus expected a 25bp cut

We didn't really expect to get this decision right. After we decided that there was no real need for rates to be cut at this 13 November meeting, and wrote about this at length (see linked note), the consensus decided that more was needed, and the subsequent newsflow, though ambivalent in our view, provided further support for the consensus view. We were one of only a handful of forecasters looking for no change.

The surprising decision has pushed up the NZD by almost a full cent, and 10Y NZ government bonds rose by 13bp to 1.476% in response.

1.0%

NZ Official Cash rate

Unchanged

Higher than expected

Orr says no intention to surprise

Although this was not the first time this year the RBNZ has bamboozled market expectations, Governor Orr said that this was not something they did on purpose, but that market expectations had shifted around a lot recently and so there were always a few that were likely to be surprised.

In our view, what it does indicate, is that the RBNZ sets its own decisions and is not unduly moved by the market, or feels it necessary to steer them at times when they are off-message. if they get it wrong, it's their hard luck and they should look at the data more, and each others' forecasts less. Well, that's our interpretation.

Orr also noted that current policy was "very stimulatory", and that there was "no urgency to act" further. So this does indeed sound as if it is the last cut in this series. This is a little contrary to any suggestion after the rate decision had been published, that the RBNZ might try to talk the market back down. Although Orr did note that the RBNZ would add further stimulus if needed, it is also apparent that he didn't think they would have to.

Orr added a few times that monetary policy was now "very accommodative" and moreover, that contrary to suggestions that monetary policy was no longer effective, in New Zealand, it was indeed working. He also hinted that fiscal policy was likely to provide some additional support, though there was little offered to back up this suggestion.

Orr also noted that there was no need to play catch-up (to Australia, where rates are 0,75%) due to the RBNZ's decision to start cutting rates early - the implication here is that the RBNZ has been ahead of the game.

Other takeaway messages Orr was keen to highlight were that :

1. Monetary policy would likely remain low for some time, but that;
2. It would be data-dependent (so an expectation but no commitment to keep rates low);
3. Growth was likely to stay slower than usual;
4. But the projections for inflation were a bit higher, and;
5. Lower potential for growth meant that inflation could still pick up with slower than usual growth.

Orr's comments did take the edge off the NZD spikes, but it remained above 0.64 by the end of the press briefing.

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BSP expected to hold rates steady on Thursday

After unloading a salvo of rate cuts and a hefty round of infusions of liquidity throughout 2019, BSP Governor Benjamin Diokno is widely expected to hold fire on Thursday. Market consensus points to a pause, with all 19 participating analysts in the Bloomberg survey expecting BSP to stay on hold. The self-professed "pro-growth" governor moved swiftly to unwind BSP's previous rate hike cycle, cutting policy rates by a cumulative 75 basis points year-to-date, but he recently indicated that the current monetary stance is "appropriate".

Pro-growth governor to wait for dust to settle

After the string of rate cuts and flurry of reductions to the reserve requirement (RR), we expect

Governor Diokno to gauge the impact of his recent policy moves before he acts again. The recent 3Q GDP outcome beat market consensus and limits pressure on Diokno to deliver an immediate policy reduction. But given his pro-growth leaning, we expect him to factor 4Q 2019 GDP (release on January 2020) into his policy direction next year. Meanwhile, the governor appears to have fully embraced the mantle left by the late BSP Governor Nestor Espenilla, championing cuts to the reserve requirement with 400 bps worth of reductions under his belt, so far. We expect the BSP to continue to monitor the impact of its RR reductions given that successive rounds of liquidity infusions have had only a marginal impact on bank lending thus far, as freed up funds have simply driven the local bond rally further.

Pro-growth Governor to continue to "normalize" in 2020

Diokno began his term indicating that he would like to "normalise" rates after they had been raised to what he termed "crisis level" rates. Given the benign inflation environment and his pro-growth leaning, we expect Diokno to continue to partially unwind the previous rate hike to bolster growth momentum given that the government is chasing a higher growth target of 6.5-7.5% (from 6.0-7.0% in 2019) by 2020. We are currently pencilling in up to 50 bps worth of rate cuts in 2020, with the first move possibly as early as 1Q should full-year 2019 GDP come in right at the lower end of the government target of 6%. Meanwhile, we expect Diokno to continue his directive to lower the RR in a phased and well-telegraphed manner with up to 200 bps worth of reductions carried out evenly throughout the course of 2020.