

Good MornING Asia - 15 February 2019

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In this bundle



Trade talks pantomime

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By Robert Carnell



Asia week ahead: Singapore unveils budget for FY19

The outcome of the ongoing US-China trade negotiations will set the tone for Asian markets next week. Singapore's proactive macro policies give...



Malaysia

Malaysia's GDP beats estimates

Absent a significant hit from the global trade war or a shock from commodity prices, we expect Malaysia's GDP growth to settle in a 4-5% range on...

Opinion | 14 February 2019

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If its "miles apart" then its USD positive

When the trade talks are doing well, the dollar should weaken, Asian FX should strengthen, and when, like today, the news takes the opposite turn, the dollar should strengthen. That more or less holds today, though the further complication was very weak US retail sales yesterday, which though likely affected to some extent by adverse weather and government shutdowns, is also corroborated by some higher than expected jobless claims, raising the prospect that the US slowdown is happening sooner than had been thought, and also raising the chances that we may have already hit peak Fed funds (House view - we still have 1 further hike in 2Q19).

Such a story would also provide support for 10Y US Treasuries at their current 2.65% level - keeping a steady 15bp or thereabouts above the 2Y note (2.495%), 15bp above the Fed funds target upper bound (2.50%) and 25bp above the effective Fed funds rate (2.40%).

Probably not market moving, but anyway...

I don't think the latest twist on the US border wall/government shutdown threat is particularly market moving, but for what it is worth...President Trump will sign the Congressional budget plan which includes some wall funding, but not what he asked for, but he is now indicating that he will press on with an emergency declaration to secure the additional funding. Meanwhile, Nancy Pelosi, House Speaker, says she will probably challenge the emergency declaration in the courts.

This also has a pantomime feel.

He's behind you!

Theresa May would not make a particularly convincing Aladdin character, though there are plenty of contenders for the role of Wicked Uncle Ebenezer (or Abanazar if you prefer the more Persian spelling). I'm not saying who...that would only land me in trouble.

Last night, she once again got a drubbing in the House of Commons on a vote over her process of trying to get better terms for the UK from the EU. May claims to be making progress in these talks. I don't think anyone is buying that story, and it looks much more like she is trying to run the clock down to force Brexiters to vote for her deal, or face a lengthy delay. The smart money is increasingly on a lengthy delay.

Asian Data today

Prakash Sakpal comments on Asian trade data out today.

India, Indonesia, and Taiwan all report their trade figures for January today. And all the figures will be scrutinised for clues about the impact of the trade war. But it's not just the trade war that's affecting these numbers. The ongoing downturn in global electronics demand has already started to depress Asian exports. A steeper decline in Korea's exports in January suggests we can expect the same from Taiwan today, although a surprisingly strong 9% growth in China's exports in the last month clouds the story. India and Indonesia are both experiencing a rising trade deficit, a trend that probably continued coming into 2019 on the back of strong domestic demand and firmer oil prices, while exports continue to be subdued. That's not such a bother if the USD remains on the soft side, but could become problematic if trade talks sour further and the USD strengthens.

Other data already out include Singapore's final 4Q GDP figures, which came in at a softer 1.9%YoY (consensus 2.1%). We have been assuming a 3.2% full-year 2018 GDP figure rather than the official 3.3% figure that has been suggested, and our lower number seems more plausible now with this softer 4Q data.

In contrast, yesterday's Malaysian GDP for 4Q18 came in higher than expected at 4.7%YoY ([see here for more detail](#)). A bigger contribution from net trade helped lift the figures. But with inflation low, and the growth rate sitting comfortably in Malaysia's potential range, this won't require any remedial action from the central bank this year.

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Asia week ahead: Singapore unveils budget for FY19

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Source: Shutterstock

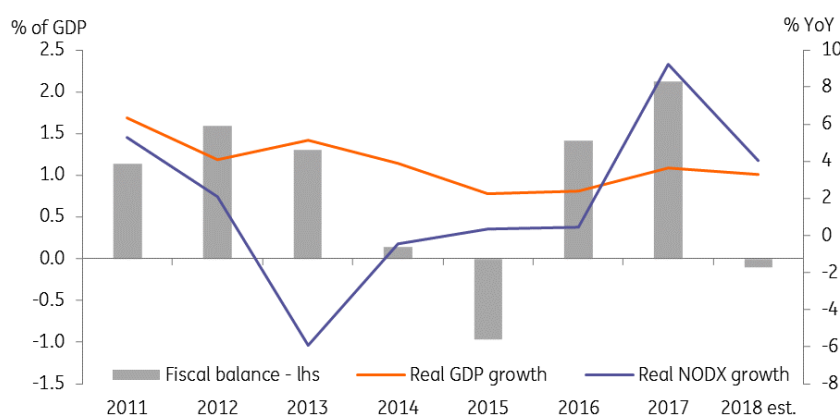
➔ Singapore: Embarrassment of riches

Next week in Asia kicks off with Singapore's trade data for January on Monday, followed by the budget statement by the country's finance minister later that day. An outsized slump in non-oil domestic exports (NODX) in December suggests some retracement of that is in order while the likely front-loading of shipments ahead of the Lunar New Year holiday should have helped the bounce. However, with semiconductors remaining a weak spot – taking a cue from the large fall in Korea's chip exports in January – our baseline remains a persistent weak NODX trend.

Undoubtedly, the FY19 budget will focus on supporting the economy from the adverse impact of the widely-anticipated slowdown in global demand this year. The public finances have surpassed the government's expectations in recent years. With decent 3.3% GDP growth and better revenue performance so far, the budget is likely to produce a surplus contrary to the initial forecast of a fiscal deficit in 2018, and this leaves scope for more growth supportive fiscal policy in 2019.

Among the popular budget measures in 2019, there are more incentives for the workforce to improve their skill set, more help for low-income households, increase in provision for healthcare for the elderly, possibly a sugar tax, and greater support for small-and-medium enterprises towards digital transformation.

Singapore: Wide fiscal surplus allows for growth-friendly budget



Source: CEIC, ING

➔ Indonesia: Central bank to leave policy on hold

Indonesia's central bank meets next Thursday (21 February), and we expect no change to the policy rate of 6.0%. A total of 175 basis points rate hikes over June-November 2018 was aimed at curbing the depreciation pressure on the rupiah. Although the Indonesian rupiah has been an Asian outperformer so far in 2019, the depreciation risk from widening current account deficit prevails and could be further intensified by political uncertainty surrounding the elections in April.

The year-to-date rupiah performance combined with well-behaved inflation has raised hopes of policy rate cuts. However, the deputy governor Dody Waluyo recently thrashed such hopes, noting still 'cautious' policy preference to financial stability over growth. We aren't ruling out further rate hikes this year. But for now, we think BI policy will take a backstage until the political uncertainty is lifted.

➔ Thailand: 4Q18 report card arrives

Thailand's GDP data for the final quarter of 2018 is due on Monday. Underlying our view of a pick-up in growth to 3.5% year-on-year from 3.3% in 3Q18 is improved manufacturing growth even as exports continued to weaken. It's still not an exceptional starting point for the government looking for 4% GDP growth in 2019.

Besides global factors depressing exports, political uncertainty is likely to overshadow the economy this year. We expect annual GDP growth to slide to 3.8% in 2019 from an estimated 4.1% in 2018.

We don't think this will be a sufficient reason for the Bank of Thailand to reverse December's 25bp rate hike, while persistently large current account surplus supports the baht's outperformance.

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Tuesday 12 February					
Malaysia	0700	Forex Reserves, Mth-end (US\$bn)	-	-	102.1
Monday 18 February					
Singapore	0030	Jan Non-oil Domestic Exports (MoM/YoY%)	10.9/2.9	-/-	-5.7/-8.5
	-	Singapore Budget Release			
Thailand	0230	4Q GDP (QoQ/YoY%)	0.4/3.5	0.6/3.6	0.0/3.3
Wednesday 20 February					
Thailand	0200	Bank of Thailand's MPC Minutes			
Thursday 21 February					
Indonesia	-	BI Policy Decision (7-day Reverse Repo, %)	6.0	-	6.0
Thailand	-	Jan Exports (Cust est, YoY%)	-5.0	-	-1.7
	-	Jan Imports (Cust est, YoY%)	-1.0	-	-8.1
	-	Jan Trade Balance (US\$m)	-880.0	-	1065.0
South Korea	2100	Jan PPI (MoM/YoY%)	-0.1/0.4	-	-0.5/1.0
Friday 22 February					
Hong Kong	0130	Jan CPI (YoY%)	2.6	-	2.5
Malaysia	0400	Jan CPI (YoY%)	0.3	-	0.2
Taiwan	0800	Jan Export Orders (YoY%)	-10.0	-	-10.5
	0820	4Q Current Account Balance (US\$bn)	12.0	-	14.0

Source: ING, Bloomberg, *GMT

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Source: Shutterstock

4.7% 4Q18 GDP growth
Year-on-year

Better than expected

Net trade boosts GDP growth in 4Q18

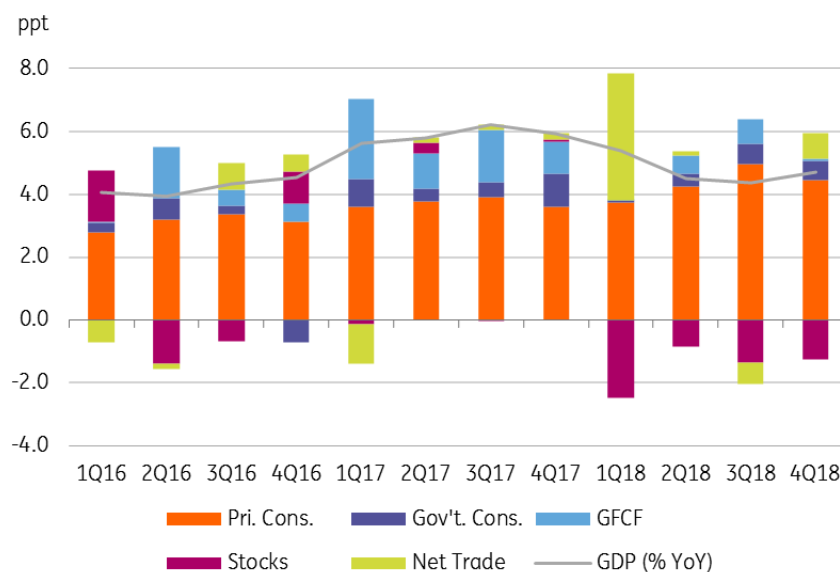
Malaysia's economic growth gained some momentum from improved exports in the final quarter of 2018. GDP grew at 4.7% year-on-year in 4Q18, more than expected, and up from 4.4% growth in the previous quarter. Even as the seasonally adjusted quarter-on-quarter growth eased slightly to 1.4% from 1.6% over the period, it was still a better performance compared with the consensus estimates of 4.5% YoY and 1.3% QoQ.

As expected, most of the uptick in GDP growth came from net trade, contributing 0.8 percentage points (ppt) to headline growth in 4Q18 - a reversal of the 0.7% drag in the previous quarter. Unsurprisingly private consumption remained the main GDP driver with a 4.5ppt contribution -

slightly smaller than the 5ppt registered in the previous quarter. We credit populist policies, steady and strong wage growth as well as low inflation for strong consumer spending. That said, ongoing fiscal constraints and suspension of some big-ticket investment projects weighed down government consumption and investment spending.

On the industry side, manufacturing and services remained the main GDP drivers albeit with some moderation in growth, which was more than offset by improvements in agriculture and mining output.

Where GDP growth is coming from?



Source: Bloomberg, CEIC, ING

Growth and policy outlook

In response to their tighter fiscal stance and the impact of global trade tension on the economy, the government recently downgraded their GDP growth target for the remaining years of the 11th Malaysia Plan (2016-2020) by half a percentage point, from 5-6% in the original plan to 4.5-5.5%. Full-year 2018 GDP growth of 4.7% is within this range. While the slowdown from 5.9% is sharp, we view this as more of a return to a normal growth path, rather than a material slowdown. To us, Malaysia looks more like a 4-5% GDP growth economy rather than 5-6%.

Against a backdrop of expected low inflation for most of 2019, we believe the central bank (BNM) will assess economic risks as fairly balanced and will leave monetary policy on hold throughout the year. A softer US dollar after dovish comments by the US Fed Chair and firmer oil prices support the currency (MYR). We see the USD/MYR rate hovering around 4.10 for most of the year (spot rate 4.07).

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