

Good MornING Asia - 15 January 2018

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By Robert Carnell



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US data fuel expectations of aggressive Fed hike

Lower gasoline prices drove the headline CPI inflation in the US lower to 2.1% YoY in December from 2.2% in November, in line with expectations, but core measures unexpectedly rose up 1.8% from 1.7% over the same month as a result of higher housing and healthcare prices. At the same time, rising household incomes and strong consumer spending supported the strength in retail sales in December albeit some moderation in growth, which was offset by upward revisions to previous month's figures. ING expects the dip in total inflation to be transitory on the grounds of sustained strong growth, rising wages, higher oil prices and a weak US dollar. The risk to Fed policy seems biased toward more aggressive tightening this year than ING's forecast of three rate hikes. Upcoming US data this week on industrial production, housing starts, Empire and Philadelphia Fed activity indices and Univ. of Michigan Confidence index are likely to reinforce the message.

Breakthrough of German politics

The US dollar continued its weakening streak as reduced political risk in Germany and Brexit risks strengthened the EUR. Germany's CDU and SPD parties have finally moved closer to forming a coalition government. [Click here for more on German politics.](#) Looking ahead this week, ECB speakers -- Weidmann and Coeure -- may add to the debate on whether or not to stop QE in September.

[Click here for more on German politics](#)

North-South Korea dialogue

In Asia, optimism on the peace dialogue between North and South Korea got some setback as North Korea criticised South Korea's welcoming of US involvement in the dialogue as 'ill-boding'. We do not consider the setback strong enough to reignite tensions between two countries as they meet today to discuss the North's participation in the Winter Olympic Games. Dialogue has replaced missile testing as a plausible way of resolving tensions on the Korean peninsula, the most positive for the Asian and global markets in 2018.

Asia week ahead

GDP, central bank policy meetings and trade data crowd this week's Asian economic calendar. China releases GDP data for 4Q17 and full-year 2017, with our forecast of 6.7% growth in both periods. Central banks in Korea and Indonesia meet this week. These may be non-events as both central banks are expected to keep policies on hold. We will look for clues on future policy course. Singapore's trade data will inform on continuation of electronics export strength.

Asia week ahead – Central bank jawboning

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6.7%

China GDP growth in 2017/18

ING forecast

Some moderation in China GDP growth in 4Q17

China will release 4Q17 GDP data next week, and this will probably be the highlight of the week.

Consistent with consensus, we forecast a modest slowdown in growth to 6.7% year-on-year from 6.8% in the previous quarter, yielding the full-year growth of 6.7%.

Even though Premier Li has hinted at a growth of 6.9%, we believe that is a bit too strong given that the overcapacity reduction will have weighed down production. However, this does not

change the fundamentals of the Chinese economy. Consumption was the biggest growth driver, and investment was the second growth pillar in 2017, and those will be the state of affairs we expect to prevail in 2018.

On the industry side, manufacturing should be skewed towards serving more services and technology-related sectors. We expect 6.7% GDP growth in 2018.

Bank of Korea jawboning

Two of the Asian central banks – the Bank of Korea (BoK) and Bank Indonesia (BI) – hold their monetary policy meetings next week. While the consensus of no change in the rate policy by these central banks makes these almost non-events, we may get some clues on what to expect for the rest of the year.

The BoK has started the year in defensive mode, jawboning against KRW strength and threatening to respond sternly to one-sided FX moves.

Such threats are likely to be hollow, given the ongoing trade negotiations with the US and the fact that economic data continues to run strongly, and some KRW strength can be laid at the feet of the BoK and their late November rate hike.

However, it does suggest that any further monetary policy tightening, though probably already warranted, may not happen until 2Q18.

3 - 5% Bank Indonesia inflation target

On-hold Bank Indonesia in 2018

In Indonesia, acceleration of consumer price inflation in December may be behind the consensus of no change to BI policy.

However, we place BI among those Asian central banks unlikely to alter their policy setting in 2018. Inflation returned to BI's 3-5% target zone in the second half of 2017, which is where we see it staying in 2018. Without any policy impetus, the IDR will likely to remain Asian underperformer this year.

Moderation of Asian export strength

Among other things, trade data crowd the Asian economic calendar, with releases of December figures from India, Indonesia and Singapore.

2017 ended on a strong note for Asian exports with the fastest annual growth in more than half a decade. With the high base effect and global growth close to the peak prospects of sustained strong Asian export, further growth in 2018 appear dim. Our baseline is that export growth settles in mid-to-high single-digits in 2018.

Singapore's non-oil domestic exports data will be a stand-out in the forthcoming trade releases. A

sharp slowdown in the island's manufacturing in the fourth quarter of 2017 is a sign of moderation of export strength kicking in.

Hence our below-consensus 7.9% YoY NODX growth forecast for December compared to consensus of 9.4%. Looking forward, export performance in the first couple of months this year will be critical for our view of the Monetary Authority of Singapore moving to tightening stance in April.

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Waste paper

4.5%

Worse than expected

December Import growth

Looks awful, but in fact slows for good reasons

Unexpectedly worse import due to pollution controls

Exports grew at 10.9%YoY from the revised prior month's 11.5%. This slightly slower growth is within expectations because of the end of the gift seasons for Western holidays. But the growth was still encouraging given that global economic growth is on the rise.

Imports grew exceptionally slowly at 4.5%YoY from the prior months' 17.6% and also lower than our forecasts and consensus. This looks scary. But it is in fact not that bad as shown by the details of import items.

We find that there are three items that accounted for the slow import growth.

One is slower imports of computer parts, which we expected because of the end of the production season for consumer electronic gadgets. That is the reason behind our forecast of slower import growth from last month.

Another is lower food prices following the mild 2017 winter weather.

AND finally, which is unexpected in a good way, is the drop in imports of pollution generated items, e.g. coal and solid wastes. That is, in fact, positive for the quality of the economy. And it shows that the Chinese government is very determined to fight pollution.

With this in mind, we are revising downward our import growth forecasts in 2018 from 12% to 10%. We are keeping our export growth forecasts at 8%.

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