

## Good MornING Asia - 15 January 2018

US data support the case for more aggressive Fed tightening while ECB moves closer to ending the QE. GDP, central bank policy meetings and trade data crowd this week's Asian economic calendar.

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# Setting the tone for markets from Asia

US data support the case for more aggressive Fed tightening while ECB moves closer to ending QE



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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.

### Author

**Amrita Naik Nimbalkar**

Junior Economist, Global Macro

[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

**Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany  
[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**  
Senior Editor and Supervisory Analyst  
[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**  
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)  
[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**  
Credit Strategist  
[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**  
Senior Economist, Poland  
[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**  
Senior High Yield Credit Strategist  
[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**  
Head of European Rates Strategy  
[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**  
Global Head of Sector Research  
[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**  
Senior Sector Economist, Industry and Healthcare  
[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**  
FX Strategist  
[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**  
Senior Sector Economist, Transport and Logistics  
[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**  
Sector Economist  
[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS  
[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**  
Senior Economist, Philippines  
[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**  
Senior Credit Analyst  
[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**  
Consumer Economist  
[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**  
Senior Sector Economist, Energy  
[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**  
Head of Corporates Sector Strategy  
[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**  
Senior Economist, France and Switzerland  
[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**  
Behavioural Scientist  
+31(0)611172684  
[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**  
Chief Economist, Romania  
[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**  
Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**  
Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)



**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro  
[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**  
Foreign Exchange Strategist  
+44 20 7767 6405  
[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**  
Global Head of Editorial Content  
+44 (0) 207 767 5331  
[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**  
Chief Economist, Netherlands  
[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**  
Chief Economist, Belgium, Luxembourg, Eurozone  
[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**  
Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**  
Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**  
Chief Economist, LATAM  
+1 646 424 6464  
[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**  
Economist, Digital Finance  
+44 20 7767 5306  
[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

# Asia week ahead – Central bank jawboning

GDP, central bank policy meetings and trade releases dominate the Asian economic calendar next week



## 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.

## Author

### **Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

## China: imports slow unexpectedly as the country fights pollution

Headline trade numbers can give a distorted view of the underlying trade story. China's exports in December grew 10.9%YoY, better than our forecast. But imports took an unexpected nose-dive to only 4.5%YoY from the prior month. After looking at the details, we find few reasons to be alarmed by this decline in import growth.



Waste paper

# 4.5%

## December Import growth

Looks awful, but in fact slows for good reasons

Worse than expected

### 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%.

## Author

### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

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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.

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