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.

In this bundle

Article | 15 January 2018

Setting the tone for markets from Asia

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

Source: Shutterstock

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 copnsider 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

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486

david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
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

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

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

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
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

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%

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%.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com