

## Good MornING Asia - 15 November, 2018

GBP rises on May cabinet support, but the real battle is ahead. European data generally poor - ECB plans questionable. US core inflation falls, should have been better news for risk assets. ASEAN central banks toy with rate hikes...why? All this and more...

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Source: Shutterstock  
Theresa May, UK Prime Minister

### But first, your daily Brexit update...

I can do no better this morning than steer you to [this article by Chris Turner and James Smith on Brexit and the pound](#) published overnight. All I would add is that when I came into work this morning, having read on my phone that overnight, UK cabinet "approval" for the draft Brexit deal had been achieved, (grudging acquiescence would be a better way to put it), sterling might have been a little stronger than it was. With cable still under 1.30 and EURGBP a shade over 0.87, this is a miniscule recovery.

This might tell you that the market remains unconvinced that this draft will pass UK Parliament. I share their misgivings. According to Turner and Smith, a vote on this could happen in mid-December, before Parliament breaks for Christmas. That means lots more jawboning to push sterling around in the meantime. Our house view remains that deal gets done, but reading between the lines, our conviction on this call is very low. More of a wish than a forecast perhaps?

### A bad day for the hawks in Europe

For the ECB, which famously never "pre-commits", the policy path has been fairly clearly mapped out over the next 15 months, with an end to quantitative easing (QE) and then eventual restoration

of negative deposit rates to zero by end 2019.

So it must be somewhat awkward when the bloc's largest economy, Germany, posts a 0.2% GDP contraction in the third quarter. Sure, [as Carsten Brzeski points out](#), there were some one-offs and other aberrations, but when aren't there? And it wasn't just Germany. The Eurozone as a whole also grew only a [dismal \(as Bert Colijn puts it\) 0.2% QoQ](#) in 3Q18.

And still, the EUR managed to claw back a little ground from the USD, which just goes to show that the competition amongst the majors for the bottom spot is currently very strong.

## Fed Chair Powell - balanced view, December still on

Not that anyone is seriously questioning the December Fed hike, but let's get that out of the way first. Nothing Powell said yesterday indicates that the Fed will not hike again in December. Now with that out of the way, his comments (given in a discussion with Robert Kaplan at the Dallas Fed) suggest the following:

1. Powell is very happy with the real economy
2. The Fed is trying to balance the pace of tightening to avoid policy errors in both directions.
3. Powell is concerned about slowing global growth (see earlier comments about Europe, though also note Japan also contracted in 3Q18)
4. He is mainly focussed on the real economy but is not ignoring financial conditions (for which, read the stock market)
5. The trade dispute may push up inflation

In the background yesterday, headline US October CPI inflation rose to 2.5%YoY, but the core rate, which is possibly more important to the Fed than the headline (though headline is their actual target measure) fell back a little to 2.1%.

For those who have been worrying about a slowdown in US growth in 2019 coupled with a lagged rise in inflation, creating a toxic stagflationary backdrop for risk assets, this should have been some relief. It reduces the chances that the Fed has to accelerate its tightening. Equities fell anyway, as the tech market suffered further losses as smartphone component suppliers provided further fuel for selling, even as crude oil managed to stabilize for a day, helping the energy companies.

## ASEAN Central bank action today - Thailand yesterday was a clue

With central banks for Indonesia (BI) and the Philippines (BSP) meeting today, what can we expect? Well if yesterday's Bank of Thailand meeting is any guide, then at the least, some hawkishness, and possibly even a hike. Our house call is no change from either bank, but Bank of Thailand yesterday voted by 4:3 to leave rates unchanged, saying that the time for extremely low policy rates was nearing an end, signaling very clearly their intention to hike next month. That seems at odds with the slowdown in GDP growth we saw in 3Q18 and weakness in manufacturing, and tourism inflows, but that is the message they are sending.

And it could be similar for BSP today (less so BI) even if they don't hike, with a clear message to markets that further tightening is on its way. Consensus actually is now positioned for a hike from BSP. Our Manila team are in the minority looking for no change today.

Following oil's recent plunge, and the likely improvement in both current accounts and inflation positions, coupled with some recovery in exchange rates, I find it hard to summon up much enthusiasm for this policy stance, which seems to be predicated on the notion of hiking rates "because you can" not because you "should". Creating room for future easing is another argument, which I find baffling. It's probably a good thing I don't work for a central bank. I clearly lack the mindset.

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### International theme: Tech shares remain vulnerable, markets fret global growth

- Energy prices managed to recover on Wednesday, helping boost appeal for energy players but tech shares continued to weigh on sentiment on poor sales projections for hardware. Despite the bounce in crude oil, market players remain worried about the global growth outlook.

### EM Space: Asia to rebound?

- **General Asia:** Asian equity markets may rebound on the bounce in oil prices but the rally may not be convincing with Chinese economic data showing mixed trends and with risk sentiment still smarting from the recent oil price slide.
- **Thailand:** The Bank of Thailand (BoT) kept policy unchanged, a move predicted by the majority of analysts with inflation at the lower end of the target and with manufacturing and exports slowing. However, given that 3 out of 7 voting members were in favor of increasing rates, the BoT may be closer to finally adjusting its policy rates to defend the currency and ensure inflation remains in check with growth posting now four straight

- quarters of above-4% growth.
- **Indonesia:** Bank Indonesia (BI) meets on Thursday for a rate-setting meeting with analysts expecting the central bank to leave rates untouched. With inflation relatively held in check, the central bank has been busy hiking rates to steady the IDR, which came under pressure given general risk-off tone and concerns about the widening current account. With the IDR seeing some relief for the time being, appreciating by roughly 2.8% for the month, BI may look to keep the powder dry for the time being although Governor Warjiyo will likely retain his hawkish bias.
  - **Philippines:** The Senate approved bill 1998 or the rice tariffication bill, which removes quantitative restrictions on rice imports but slaps a 35% tariff from grain from ASEAN and a 50% tariff on rice coming from other regions. The bill is seen to generate up to Php 27.7 bn in revenues but these are expected to be redeployed to a fund to improve the competitiveness of local rice production. On the inflation front, the bill is seen to shave off as much as 0.73 percentage points from 2019 inflation if it is implemented next year. The bill goes to a bicameral vote for approval.
  - **Philippines:** The Bangko Sentral ng Pilipinas (BSP) meets to decide on monetary policy today with the Bloomberg consensus at 11 out of 19 analysts expecting a rate hike. ING expects the BSP to stand pat given the decelerating trend seen in local inflation although the BSP may need to retain its hawkish stance to keep market guarded over possible rate hikes in the future with inflation still above target.
  - **Philippines:** The government has approved the proposal to postpone the scheduled excise tax of Php2 on domestic fuel but will conduct quarterly reviews to determine if the taxes may be reinstated. The suspension would result in annual foregone revenue of Php41.6 bn but this may be partially offset by up to Php14 bn from VAT collections. The delay in the excise tax may help limit inflation but it may lead to increased borrowings by the government to shore up the foregone revenue.

## What to look out for: CB decisions

- PH central bank meeting (15 November)
- ID central bank meeting (15 November)
- ID trade data (15 November)
- PH OF remittances (15 November)
- US retail sales (15 November)
- MY 3Q GDP (16 November)

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