

Good MornING Asia - 15 October 2018

The S&P500 sits just above its 200-day moving average today. That is an encouraging sign after recent declines. But just as you shouldn't breathe too big a sigh of relief after earth tremors end, we remain anxious of a market that seems jittery, even against the backdrop of a very strong US economy

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Up, but still vulnerable

Friday's stock rebound in the US was a welcome relief after the nail-biting two days of losses that preceded it. And it was somewhat unexpected to see stocks making a fight back into a weekend when you might have expected them to hunker down, lick their wounds and wait for a new week. Strong bank earnings figures last Friday surely helped. But with US Treasury bonds still up at 3.16%, a V-shaped equity recovery seems a stretch too far as we head into the year-end. Buying this dip may take a while to pay off. And the downside risk remains substantial.

A little bit of politics

The week ahead offers a lot for us to digest on the political front. Bavarian elections over the weekend show us that even in Germany, the old political order is under threat, with new regional elections in a couple of weeks. Carsten Brzeski outlines the details of this [in his recent note](#).

Then there is the Brexit deal, or rather the lack of it, which is weighing on both the GBP and EUR.

There was supposed to be a meeting of EM ministers today to proclaim some sort of deal having been struck. But it appears that weekend talks have reached a stalemate. Instead, the EU is meeting to talk about contingency measures in the event of no-deal. That doesn't sound very optimistic.

Emerging market sentiment may have been given some support by the Pastor Brunson release from Turkey - but the alleged murder of the Saudi journalist in their embassy in Turkey opens a new source of risk, as President Trump threatens "punishment". Any Saudi retaliation will presumably mainly come through reduced oil supply and higher prices. That won't help market sentiment.

Then in terms of the macro picture, there are the Fed minutes to digest mid-week. After recent market turmoil, these will be pored over for any signs that the Fed is veering towards a faster pace of tightening. I don't expect there to be any.

Asia ahead - CBs in the spotlight

Reserve Bank of Australia (RBA) minutes provide some of the central bank interest in Asia-Pacific this week, though they haven't been interesting for a very long time. You have to at least have some potential near-term policy action for such publications to be worth a read. This is not the case for Australia, though it would be interesting to see how the RBA were evaluating Australia's house price declines and high household indebtedness (mainly housing related) with their longer-term positive view of the economy. It seems to me that you can paint a much bleaker scenario based on the household balance sheet erosion.

The BoK has been a bit more interesting of late, with some hints about hiking rates (same household debt problem as Australia), though later backtracked. We aren't expecting a rate hike this week. But the confusing signals coming out of the BoK mean that we shouldn't rule anything out. Tough talk might just be one way for the BoK to try to realign the KRW which has been one of the worst performing currencies in the region month-to-date. Indeed, a number of economists are looking for a hike this week - about 7 out of 18 according to the Bloomberg poll.

For a bit of real economy data, Singapore's Non-oil domestic exports on Wednesday offers a break from all the political and central bank noise.

But the key event to watch will be China's 3Q GDP release on Friday, where a very slight slowdown of the YoY growth rate from 6.7% to 6.6% is the consensus expectation. Any softer than that will likely put the yuan under weakening pressure.

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International theme: IMF-WB tell markets to brace for risks ahead

- Stocks managed to recover on Friday after a volatile session but mainly on bargain hunting but recent caustic rhetoric out from Washington may spark renewed tension to push oil prices higher. IMF-WB meetings concluded with a message we all know: brace for risks from trade wars and higher interest rates.
- ECB minutes and the Italian budget appear to be brewing on the sidelines but the general tone will follow the warning from the IMF and the World Bank about potential risks.

EM Space: EM Asia looks for cues after volatile week, the Italian job clouding the periphery

- **General Asia:** Asian markets managed to make up some lost ground on Friday after an extremely volatile week of trading with investors still worried about global growth.
- **Malaysia:** Anwar Ibrahim, Prime Minister Mahathir's pick as his successor, made his formal entry in the parliament after winning a by-election in Port Dickson with a landslide 71%

votes. The markets are now focused on the upcoming national budget for 2019 on November 2, especially turn the fiscal policy takes under the new administration after PM Mahathir's recent signal of new taxes. Local media suggest that the widely talked-about capital gains and inheritance taxes won't be introduced in the 2019 budget.

- **Thailand:** Markets are closed today for the King's Memorial Day holiday.
- **Indonesia:** Bank of Indonesia Governor Warjiyo assured market players that the level of international reserves held by the central bank remains "more than enough" even as he indicated that he felt the current IDR levels pointed to a currency that was undervalued given Indonesia's current fundamentals.
- **Philippines:** The government is likely to approve the suspension of an additional PHP 2.50 excise tax on fuel, which is scheduled for implementation on January 1, 2019. Domestic inflation has remained well-beyond the central bank's target of 2-4% with the planned move said to be carried out to anchor inflation expectations. The government, however, warned that the move, even if implemented may not result in a drastic drop in overall prices given that global oil prices remain elevated.
- **Philippines:** Philippine government officials kept up the hawkish rhetoric with the central bank deputy governor and finance chief both signaling the willingness to hike rates further to tame inflation. Speaking at the sidelines of the IMF-WB meetings in Indonesia, top-level officials have pointed to further rate hikes by the regulators, pointing to at least another rate hike by the BSP going into 2019 with inflation still elevated.
- **Philippines:** Foreign selling in the local equity market has hit a 31-session streak as investor sentiment continues to sour on the Philippines. Official data shows \$440 million left Philippine bond and equity markets in September and we expect this to continue into October. Inflation and possible weaker growth prodded the flight with the PHP seen to remain on the back foot given the sustained outflow of the Peso, possibly convincing the central bank to hike rates again to contain the currency's slide.

What to look out for: EM trade data and FOMC minutes

- IMF-WB annual meeting in Bali (12-14 October)
- Indonesia trade data (15 October)
- India trade data (15 October)
- PH OFW remittances (15 October)
- US retail sales (15 October)
- China CPI inflation (16 October)
- FOMC minutes (18 October)
- Fed Bullard (18 October)
- Fed Kaplan (19 October)

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