

# Good MornING Asia - 16 August 2019

Trade and recession worries continue to grip markets

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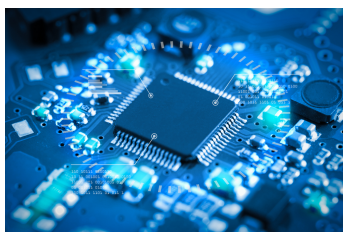
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# ASEAN Morning Bytes

General market tone: Risk-off. Trade and recession worries continue to grip markets



## EM Space: Trade and recession worries continue to grip the markets

- **General Asia:** Investors are likely to stay defensive today, taking a cue from the US markets overnight reacting to strong US retail sales and yet continued trade uncertainty and recession.
- **Singapore:** July non-oil domestic exports (NODX) were a bit better than expected with -11.2% YoY and 3.7% MoM SA growth (consensus -15.4% and 2.0%). Electronics exports were down 24% YoY, though a 23% MoM NSA bounce is a hopeful sign of bottoming out of the ongoing downturn in the sector. Nonetheless, data points to continued sluggish GDP growth in the third quarter of the year, validating downgrade this week of the official GDP growth forecast for 2019 to 0%-1% from 1.5%-2.5% earlier. As the MAS has ruled out an off-cycle easing, there may be something big in the pipeline in the October semi-annual statement.
- **Malaysia:** 2Q19 GDP and balance of payments data are due at noon today. We expect GDP growth picking up to 4.8% YoY from 4.5% in 1Q. This is coming off better export and manufacturing performance, while accommodative policy and low inflation sustained domestic demand as the key GDP growth driver. 2Q current account surplus is likely to narrow sharply to MYR 5.3 billion from MYR 16.4 billion in 1Q, though that still leaves the

total surplus in the first half of the year well above MYR 16.4 billion a year ago. Firmer growth, low inflation, and healthy external payments – all are coming together in support of the MYR in times of escalating global economic turmoil.

- **Thailand:** Reuters reports the Bank of Thailand unwinding some tightening of mortgage loan-to-value (LTV) guidelines introduced earlier this year. As per the revised guideline, a co-borrower who is not the registered owner of a property will no longer be considered as borrow of that property. While this goes to underpin our view of increasingly accommodative BoT monetary policy in the rest of the year, all eyes are on the imminent fiscal stimulus package. There is the talk of THB 170 billion (about 1% of 2018 GDP) stimulus package going for the cabinet approval on Monday and likely to include measures to support farmers, middle-income earners, and small businesses, as well as to boost tourism.
- **Indonesia:** The July trade growth was less negative than expected, though a sharp negative swing in the trade balance was negative for the IDR. Exports fell by 5.1% and imports by 15.2% (consensus -11.2% and -17.8% respectively), leaving a deficit of \$ 64 million, down from a surplus of \$196 billion in June. The government efforts to curb trade and current account deficit has yet to bear fruits, with a current deficit of roughly 2.8% of GDP this year the IDR susceptible to swings in financial markets.
- **Philippines:** Snapping a nine-month-long strong growth streak remittances from overseas Filipinos contracted by 2.9% YoY in June to \$2.3 billion. The inflows from the Middle East remained a key drag with 8.8% fall. The \$14.6 billion total inflow in the first six half of the year is still up 3.2% on the year, a key offset to persistently wide trade deficit.

## What to look out for: US –China trade developments

- Singapore trade (16 August)
- Malaysia GDP (16 August)
- Hong Kong GDP (16 August)
- US consumer sentiment (16 August)

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## Asia week ahead: Spotlight on Indonesia and Thailand

Indonesia's central bank meeting and Thailand's second-quarter GDP report are the highlights in an otherwise light economic calendar



Source: Shutterstock

# 5.75%

Expected BI policy rate

ING forecast - no change

### ➔ Indonesia to pause easing

Indonesia's central bank is due to meet next week but is unlikely to cut rates, however, that doesn't

quite make it a non-event, given the backdrop of accelerated central bank easing in the region.

Last month, the central bank cut rates by 25 basis points, which doesn't imply that it can't cut rates again and admittedly, data since the last meeting has shown growth stuck at about 5% and inflation below the 3.5% policy target (mid-point of the 2.5%-4.5% target range) – supporting expectations for rate cuts using the huge buffer created by the 175bp hikes in 2018.

But throwing a spanner in the works is the heightened currency volatility from the escalation of the trade war into a currency war. The rupiah's 1.6% month-to-date depreciation reasserts its vulnerability in times of emerging market contagion. After all, currency stability was the reason behind the aggressive policy tightening in 2018 after the economic crisis in Argentina that jolted emerging markets. This time is no different and we don't think BI will want to risk more currency depreciation by cutting rates next week but we're not ruling out more rate cuts later in the year.

[Indonesia: 2Q GDP at 5.05%, in line with forecasts](#)

**2.3%** Thai 2Q GDP growth  
ING forecast

## ➔ Thailand growth grinds lower

Thailand's economic report card for the second quarter arrives on 19 August. GDP growth hit a four-year low of 2.8% in 1Q19. Weak exports and manufacturing and fewer tourists amid elevated political uncertainty foreshadow a further slowdown in 2Q. We recently cut our growth forecast for the quarter to 2.3% from 3.0%, and to 2.8% from 3.1% for the full-year, well below the official 3.3% forecast for the year.

We don't think the Bank of Thailand's 25bp rate cut earlier this month is the last for the year as that merely reverses the hike in late 2018. With rising global headwinds to growth and slow progress on domestic fiscal stimulus, the central bank will have to do all the heavy lifting to support growth. We have already pencilled in one more 25bp rate cut in the fourth quarter but don't quite rule out more as the global central bank easing cycle gathers speed later in the year.

Meanwhile, the government is due to submit the THB 170 billion (about 1% of 2018 GDP) stimulus package for cabinet approval on Monday. Besides measures to boost tourism, the package will reportedly contain measures to support farmers, middle-income earners, and small businesses.

[Thailand: Downgrading GDP growth forecast](#)

## ➔ And everything else?

Singapore's consumer price index for July is likely to show a further dip in headline inflation to 0.5% from 0.6% in June, as the lower housing component due to the quarterly rebate of services and conservancy charges (S&CC) for public housing more than offset a 6.4% hike in electricity tariffs for

the current quarter. We also see core inflation slowing to 1.0% from 1.2% in June, raising odds of imminent central bank easing. Just as the government this week cut its growth outlook for the year of 0% to 1%, the MAS dashed hopes of an off-cycle easing. Probably, something big is in the pipeline in the October semi-annual statement.

Hong Kong's July CPI will also be an interesting observation as disruption to both supply and demand from anti-government protests will have influenced inflation. Political uncertainty is negative for the territory's hot property market, making housing a key drag on inflation by depressing rents. That said, our forecast has inflation rising to 3.5% in July from 3.3% in the previous month.

Finally, in Taiwan, we will be looking at July figures on export orders and manufacturing for what they say about GDP growth coming in the third quarter. Positive growth of electronics exports in three months through July is a hopeful sign of electronics-driven slowdown bottoming out. More such green shoots will be positive for markets.

## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Monday 19 August</b>					
Thailand	0330	2Q GDP (SA QoQ/YoY%)	0.7/2.3	-/-	1.0/2.8
<b>Tuesday 20 August</b>					
Hong Kong	0930	Jul CPI (% YoY)	3.5	-	3.3
Taiwan	0900	Jul Export orders (YoY%)	-7.0	-5.5	-4.5
	0920	2Q Current account balance (US\$bn)	19.2	-	17.1
South Korea	2200	Jul PPI (YoY%)	-	-	0.1
<b>Wednesday 21 August</b>					
Thailand	-	Jul Exports (Cust est, YoY%)	-3.0	-	-2.2
	-	Jul Imports (Cust est, YoY%)	-8.0	-	-9.4
	-	Jul Trade balance (US\$m)	636	-	3212
	0300	Bank of Thailand's MPC Minutes			
<b>Thursday 22 August</b>					
Malaysia	0800	Forex reserves- Month end (US\$bn)	-	-	103.9
Indonesia	-	BI policy decision (7-day reverse repo, %)	5.75	-	5.75
<b>Friday 23 August</b>					
Philippines	-	Jul Budget balance (PHP bn)	-115	-	-41.8
Singapore	0600	Jul CPI (YoY%)	0.5	-	0.6
	0600	Jul CPI core (YoY%)	1.0	-	1.2
Taiwan	0900	Jul Industrial production (YoY%)	-1.5	-	-0.4
	0920	Jul Money supply (M2) (YoY%)	3.1	-	3.1

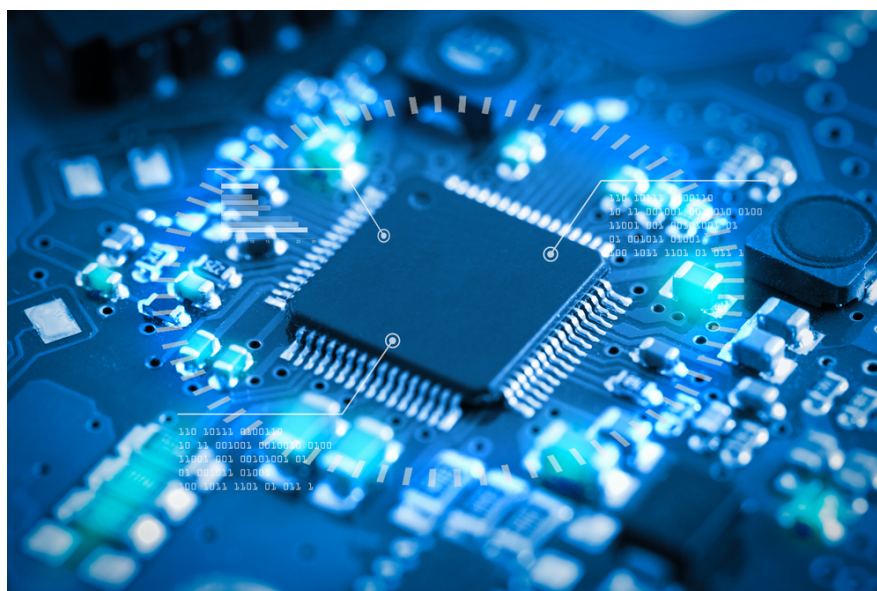
Source: ING, Bloomberg, \*GMT

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## Singapore's NODX falls less than expected

A bounce from last month of 3.7% still leaves non-oil domestic exports (NODX) down 11.2%YoY, but this is a much smaller decline than had been anticipated....



**-11.2%YoY** July NODX

3.7% MoM

Better than expected

### What is going on under the bonnet?

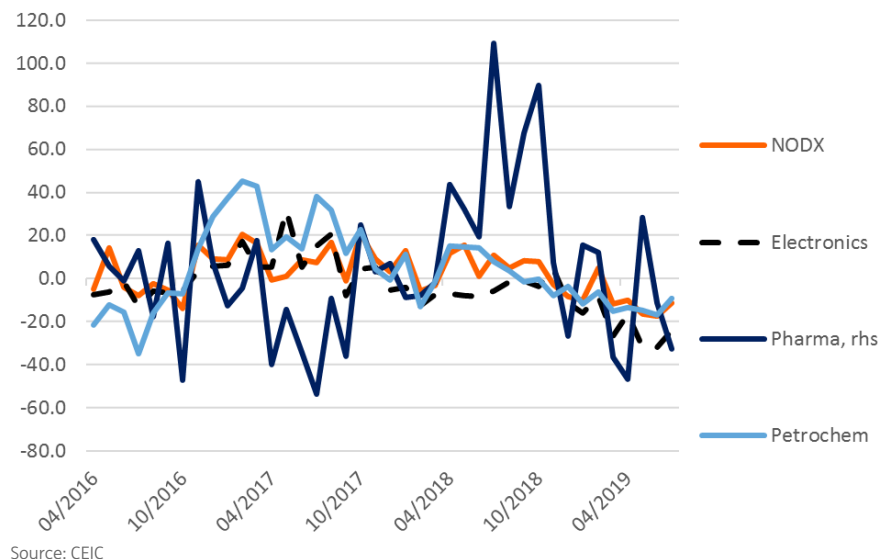
NODX data is very volatile and the year on year figures tell you as much about what happened a year ago, as they do about what is happening now. As such, the relative improvement in the year on year decline (in July only -11.2% up from -17.4% in June) needs some further examination to reveal what is going on.

But because of both massive volatility, and extreme seasonality, looking directly at the NODX figures in terms of "levels" (SGD terms) can also give you a headache. To try to extract as much



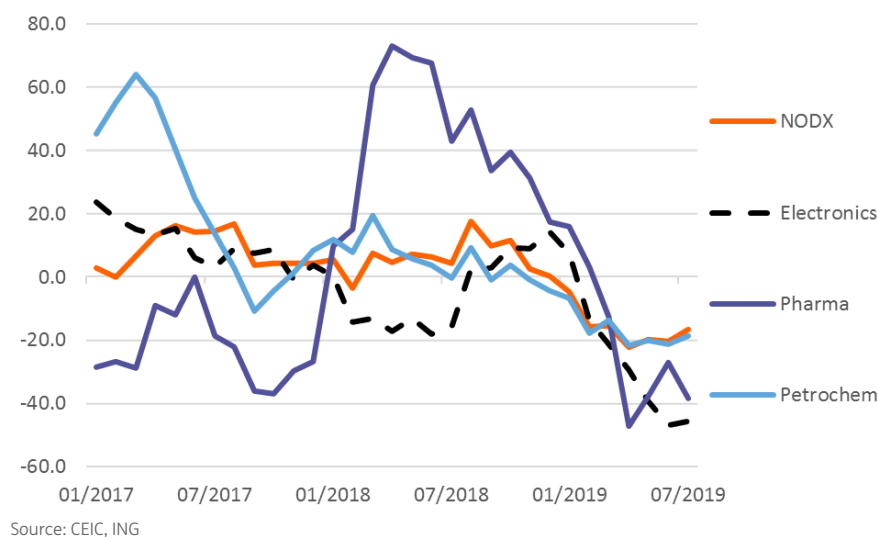
signal from the noise as possible, without losing too much sight of what is going on in SGD terms, the following two charts, the year on year and 6m/6m annualized series are provided for comparison. The 6m series is smoother, but in taking a longer moving average, we lose sight of some of the most recent data moves.

## NODX YoY%



What we see is that overall NODX growth is still down about 20%YoY on the 6M measure, though it seems to be troughing out, and this should head back towards the zero line over the next 6 months. Electronics is more negative, though it too is showing signs of troughing, as are petrochemicals, a barometer for global economic demand. Pharmaceuticals, by far the most volatile of the major export components is less clear.

## NODX 6M/6M annualized



## "L" stands for limp

Today's data don't really change our perception that Singapore's export facing industries are still struggling, and we expect this to be reflected in ongoing production weakness in the months ahead. But it may be beginning to look like the worst of the declines may already have passed. Without a catalyst to stimulate a big pick up in demand, and we don't expect one unless the trade war suddenly ends or 5G bursts into life, any upswing is likely to be very muted, however. Think in terms of "L"-shaped recoveries, not "V".

Consequently, although the MAS has indicated that it will not change policy until the October scheduled meeting, that meeting may have to deliver a fairly substantial change to the current path for the SGD NEER. At the very least, it should revert to a "flat" path.

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# Australian employment comes in strong

A 41K increase in employment in July - most of it full-time, does not really tally with thoughts of a near-term further easing from the RBA, or a much...



Source: Shutterstock

# 41,000

Higher than expected

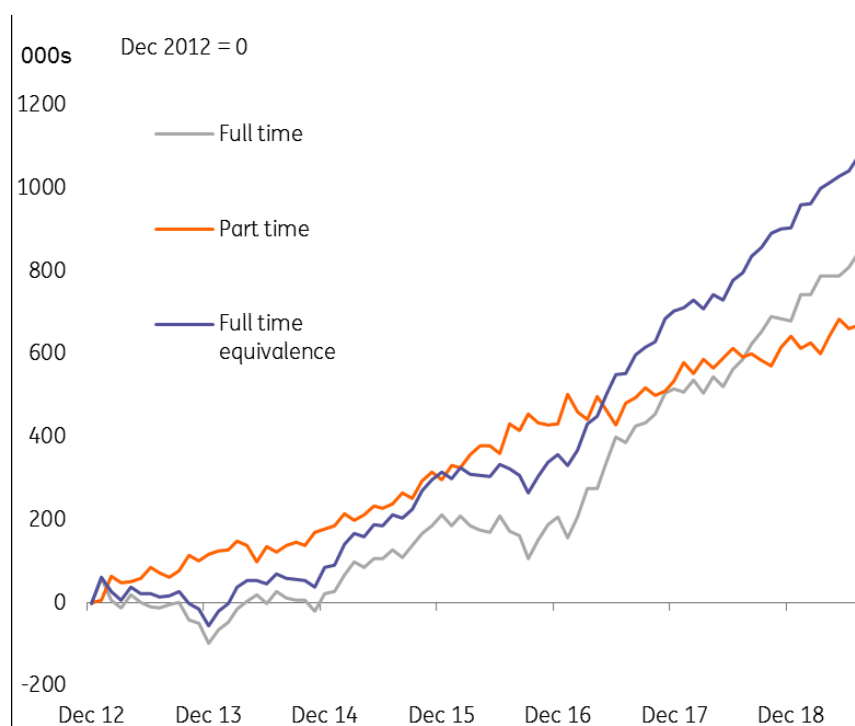
## Employment change

July, up from -2.3K in June

## RBA may ease again, but this data says "pause"

We don't rule out further easing from the RBA before the year-end, but they have done a lot already, and today's strong labour data suggest that the Fed is more likely to be easing before the RBA moves again.

## Full and part-time employment



Source: Bloomberg, ING

### Its a good 41K, not a bad one

The 41K employment change is even more impressive than it first looks as 34.5K of that total was full-time employment, and only 6.7K part-time. The consensus view was for only a 14K increase (ING f +37K). We were not too surprised by this data, which we find roughly follows a negative serial correlation pattern (in short, it saw-tooths).

The unemployment rate remained unchanged at 5.2%, but that was also well within expectations and came despite an increase in the participation rate.

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