

## Good MornING Asia - 16 July 2018

US President Donald Trump's categorization of the EU as a "foe" on trade is well wide of the mark. And with China and the EU meeting at a summit in Beijing today, we will see what happens when your foe's foe becomes your friend

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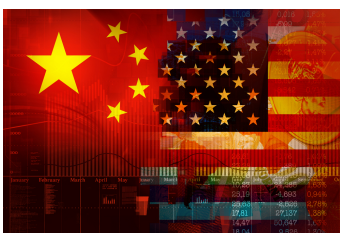
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By Robert Carnell



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Source: shutterstock

### US President goes to Moscow with low expectations - Beijing-EU summit more interesting in our view

President Trump does not expect much out of his visit to Moscow, which really begs the question, "Why is he going?" As far as we can tell, there is no agenda for this meeting. And the indictment over the weekend of 12 Russian security personnel only makes this visit look odder still. Only last week, President Trump was criticizing Germany for being too closely linked to Russia through its natural gas imports. And the weekend was spent insulting the EU, China and also Russia as "Foes", (first define 'Foe', Mr. President, and no, it does not mean 'competitor', it means enemy).

But a point we have made in this note before is that the US President has embarked on a mission to alienate, not just China, but most of the rest of the world, and that is a risky game because, despite the US enormous economic strength, the simple fact is, the rest of the world is bigger than the US. And if the rest of the world decides that they can strike deals on trade, on security, on Iran, on climate change without the US, then the only 'loser' from the trade war will be the US. This is the principle reason the China-EU summit taking place today is worth watching, for signs that the rest of the world, despite its differences, is pulling together. It could be a lot more interesting than the Moscow photo-shoot.

## World this week

Outside the murky world of politics, there are some events worth watching this week - most notably, Fed Chair Jay Powell's first semi-annual testimony to Congress. Key for us will be the extent to which Powell shifts on his views on what the trade policies are doing to US growth, and how that may affect Fed policy ahead. Our best guess is that he will brush it off, as recent US data flow has been pretty good. There is a lot of stimulus holding US economic growth aloft currently, but it won't last forever. Ask former Fed Chair, Ben Bernanke.

Brexit will, unfortunately, not stay off our screens this week, with some Brexit legislation passing through the commons (Taxation cross-border bill) today. With the opposition Labour Party opening up a decent lead in opinion polls, hardline Brexit attempts to undermine PM May's softer Brexit approach raise the chances that the government in the UK falls. That does not seem to be causing any reduction in criticism of the PM from within her own party.

China 2Q18 GDP today will also herald a long hard look by us at all our Asian GDP numbers, not just China. We believe we will need to trim growth forecasts, and in some cases, significantly. The axe is being sharpened. Other bellwether's of the trade war's impact include Singapore's June domestic export data due later this week. [See also our week ahead note for more detail.](#)

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Article | 12 July 2018

## Asia week ahead: The trade war is on

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Next week in Asia kicks off with China's GDP data for the second quarter. This and a slew of trade releases elsewhere in the region will be examined in light of the ensuing global trade war. Indonesia's central bank has seen no fruits from the 100bp policy rate hikes in supporting the local currency and we don't think it will hike again next week.

**6.7%** ING forecast of China GDP growth in 2Q

### China GDP slowdown

A tick down in China's GDP growth in line with the consensus to 6.7% in 2Q from 6.8% in 1Q does

not reflect the trade war impact. Not just yet. The trade war was proclaimed by president Trump in April but the execution only started in early July. However, the downside growth risk from damage to investments in the export sectors cannot be fully discounted. The impact will only be clear from activity data from July. And it could be significant given China's inability to retaliate on the same scale as the US's imposition.

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*We think a growth forecast downgrade cycle for China, and the rest of Asia may be just around the corner.*

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Now the US is aiming for tariffs of up to US\$200bn of imports from China, whereas China imports much less than that amount from the US. As such, qualitative barriers supplementing quantitative restrictions from the Chinese side should be crowding the financial headlines in coming days and weeks. [Here](#) is what our Greater China economist Iris Pang thinks about qualitative retaliation.

**16.6%** ING forecast for Singapore NODX growth in June

### Who's next to post negative export growth?

A slew of the June trade releases from Indonesia, Singapore, Thailand, and India will also be examined in light of the trade war. Surprisingly, after a strong run in the last year the year-on-year export growth is still holding firm, still in double-digits for some countries like Singapore. But the base effect is becoming more punishing for others. Korea and Philippines have already started posting negative export growth and, based on our forecast, Indonesia will be the next to join this camp.

Underlying our 17% YoY growth forecast for Singapore non-oil domestic exports is almost flat month-on-month growth after a chunky 13% MoM bounce in May. But this will also need steady electronics exports, and the slowdown in electronics exports from Korea and Taiwan in June isn't a good news for Singapore.

**5.25%** Bank Indonesia policy rate

### Bank Indonesia to take it easy after 100bp rate hike

Indonesia's central bank (BI) will be in the spotlight for the policy meeting next Thursday (19 July). BI's interest rate weapon for currency stability may have run out of the steam after a cumulative 100bp policy interest rate hike since mid-May failed to curb the IDR weakness. We aren't expecting BI to use this weapon further, at least not in the forthcoming meeting. There are domestic factors,

like wider current account deficit, responsible for the currency weakness. But there is also the global currency contagion from restrictive trade policies and the strong US dollar.

Judging by accelerated depletion of Indonesia's foreign reserves in recent months, exchange market intervention appears to be at disposal to stave off the IDR depreciation. This is further reflected in the USD/IDR rate meeting a strong resistance at 14,400 since late-June, possibly the BI line in the sand for the pair that's being protected. We remain sceptical of the policy success with our end-2018 forecast of 14,850.

## Asia Economic Calendar

| Country                  | Time | Data/event                                  | ING      | Survey  | Prev.     |
|--------------------------|------|---|----------|---------|-----------|
| <b>Friday 13 July</b>    |      |   |          |         |           |
| China                    | -    | Jun Trade Balance (US\$bn)                  | 23       | 27.715  | 24.922    |
|                          | -    | Jun Exports (YoY%)                          | 14.4     | 9.5     | 12.6      |
|                          | -    | Jun Imports (YoY%)                          | 22.4     | 21.3    | 26        |
| <b>Monday 16 July</b>    |      |   |          |         |           |
| China                    | 0300 | 2Q GDP (QoQ, SA/YoY%)                       | -6.7     | 1.6/6.7 | 1.4/6.8   |
|                          | 0300 | Jun Retail Sales (YoY%)                     | 8.5      | 8.9     | 8.5       |
|                          | 0300 | Jun Industrial Production (YoY%)            | 7        | 6.5     | 6.8       |
|                          | 0300 | Jun Fixed Asset Investment (YTD, YoY%)      | 6        | 6       | 6.1       |
| India                    | 0730 | Jun WPI (YoY%)                              | 5.3      | -       | 4.43      |
| Indonesia                | 0400 | Jun Exports (YoY%)                          | -5       | -       | 12.5      |
|                          | 0400 | Jun Imports (YoY%)                          | -3.2     | -       | 28.2      |
|                          | 0400 | Jun Trade balance (US\$m)                   | 1400     | -       | -1524     |
| Philippines              | 0650 | May OCW remittances (YoY%)                  | 5        | -       | 12.7      |
| <b>Tuesday 17 July</b>   |      |   |          |         |           |
| China                    | 0130 | Jun 70-cities New home prices (YoY%)        | 5.4/0.9  | -/-     | 5.4/0.8   |
| Singapore                | 0030 | Jun Non-oil domestic exports (MoM/YoY%, SA) | 0.2/16.6 | -/-     | 10.3/15.5 |
| <b>Wednesday 18 July</b> |      |   |          |         |           |
| Malaysia                 | 0400 | Jun CPI (YoY%)                              | 1.5      | -       | 1.8       |
| <b>Thursday 19 July</b>  |      |   |          |         |           |
| Indonesia                | 0600 | BI policy decision (7-day reverse repo, %)  | 5.25     | 5.25    | 5.25      |
| Korea                    | 2300 | Jun PPI (YoY%)                              | 2.4      | -       | 2.2       |
| Philippines              | 0845 | Jun Balance of payments (US\$m)             | -        | -       | -583      |
| <b>Friday 20 July</b>    |      |   |          |         |           |
| Taiwan                   | 0800 | Jun Export orders (YoY%)                    | 8        | -       | 11.7      |
| Thailand                 | 0400 | Jun Exports (Cust est, YoY%)                | 7        | -       | 11.4      |
|                          | 0400 | Jun Imports (Cust est, YoY%)                | 19       | -       | 11.7      |
|                          | 0400 | Jun Trade balance (Cust est, US\$m)         | -149     | -       | 1204      |

Source: ING, Bloomberg



# China's slower import growth reflects challenging future trade environment

China's export growth beats consensus but slower import growth signals that future exports will be tough.



Source: Shutterstock

## Slower imports a bad sign for future exports

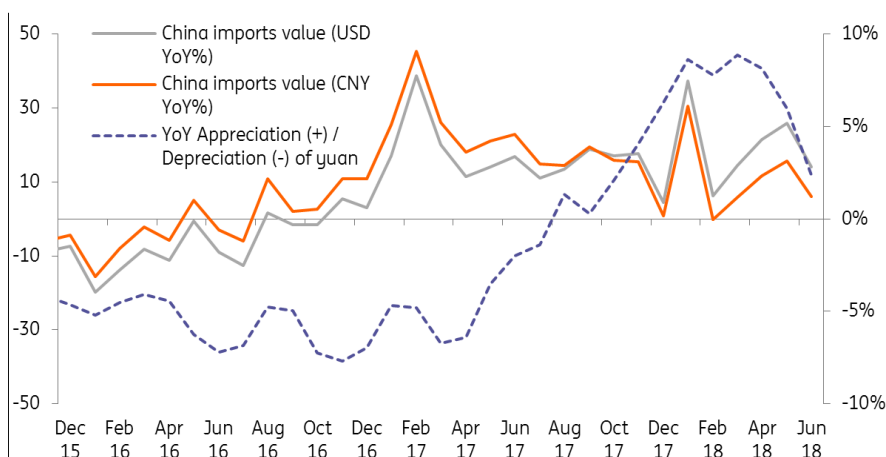
Imports only grew 14.1%YoY in June, lower than the consensus of 21.3%. Almost all import items shrunk from the previous month except copper sands and coal, which means that projected manufacturing is slowing.

However, exports grew at 11.3%YoY outperforming the consensus forecast of 9.3%. Export items under tariff threats seem to front-run tariff charges. That may explain why integrated circuits grew 9% MoM.

We believe that future exports are unlikely to extend sustained growth.



## Don't blame yuan for import decline



Source: ING, Bloomberg

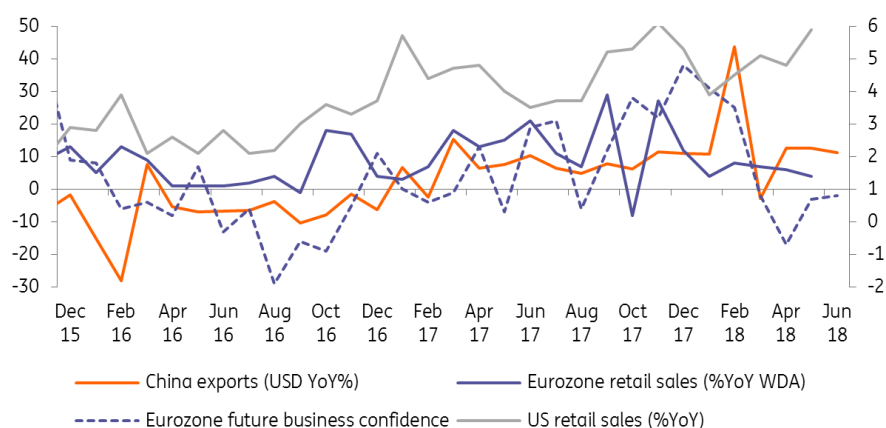
## Trade war impact implications

It is just a matter of time before trade volumes shrink, directly impacting manufacturers that rely on the global supply chain.

While a softer yuan may cushion Chinese exports, the best it can do is to reduce the tariff effect by around 7% based on our USD/CNY forecast of 7.0 by end-2018.

The Chinese government will also use fiscal and monetary policies to stimulate the economy, and the coming activity data on Monday will provide us insight into the extent of policy support needed.

## Good global demand supports June's export but will not stop tariff damage in 2H18



Source: ING, Bloomberg

## India: Downgrade of growth forecast

We cut our GDP growth forecast for FY18-19 from 7.2% to 6.7%. Yet elevated inflation supports our forecast for two more central bank policy rate hikes...



Source: Shutterstock

The message from the latest activity from India was that the economy slowed coming into the beginning of the financial year 2018-19 (runs from April to March). This prompts a downgrade of our GDP forecast for this year. But the balance of economic risks remains tilted toward inflation rather than growth, keeping the Reserve Bank of India (RBI) on track for a second rate hike of the year at the August meeting. There may be one more hike in October.

# \$16.6bn

Trade deficit in June

Higher than expected

### Widening trade deficit

The trade deficit increased by \$2bn to \$16.6bn in June from May, as export growth slowed by 18%

year-on-year and imports rose faster by 21% compared with 20.2% and 15% growth rates, respectively, in the previous month. This resulted in a cumulative deficit in the first three months of FY18-19 (financial year runs from April to March) at \$44.8bn, or \$4.8bn wider on the year. About a 50% YoY surge in imports of oil accounted for almost half of the total trade deficit year-to-date.

A wider trade deficit tells us that net exports possibly contributed negatively to India's GDP growth in the first quarter of the current financial year. We expect the widening to continue ahead as the trade war will hurt exports and the high global oil price buoys imports. These trends will be associated with the continued weakening pressure on the Indian rupee.

## Elevated inflation, slower manufacturing

Consumer prices rose by only 5% in June, lower than the consensus of 5.3%. It's still higher than the 4.9% in the previous month, and above the RBI's 4.8% to 4.9% forecast range for the first quarter of the current financial year.

Food prices were a source of downside inflation surprise in June. This is the month when food prices typically rise more than most other months in the year. This June's 1% month-on-month rise was the smallest in more than a decade. But most other CPI components rose during the month, pushing headline inflation higher. Average inflation in 1Q FY18-19 quickened to 4.8%, and this was the fastest in the last seven quarters. Our full-year inflation forecast is 4.7%.

The 3.2% industrial production (IP) growth in May was much weaker than the consensus of 4.4%. A sharp slowdown from 4.9% growth in April was at odds with a sharp acceleration in exports growth. We see 1Q FY18-19 average IP growth at 4.6%, a slowdown from 6.3% in the previous quarter. Such a pace is consistent with about 7% GDP growth.

# 6.7%

## ING forecast for FY18-19 GDP growth

Revised down from 7.2%

## We downgrade our GDP forecast

We revise our 1Q FY18-19 forecast for GDP growth to 7.0% from 7.5%, a significant dip from the 7.7% growth in the previous quarter. That's not it. We now see growth slipping below 7% in the forthcoming quarters as the global trade war takes its toll. This leads us to cut our full-year growth forecast from 7.2% to 6.7%. At least this is an unchanged pace from the last year, if not worse.

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