

Good MornING Asia - 16 March 2018

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Source: Shutterstock

4.5%

Higher than expected

Philippines inflation in February

Surpassing the 2-4% medium-term target

Philippines central bank defies tightening

The recent spike in Philippines' consumer price inflation (CPI) above the central bank's 2-4% target has put monetary policy under the spotlight ahead of the March 22 policy meeting.

Inflation jumped to 4% year-on-year in January and further to 4.5% in February from 3.3% in 2017. The impact of tax reforms, rising food and utility prices are the main reasons which we expect to continue in the coming months.

However, Bangko Sentral ng Pilipinas's (BSP) policymakers have flagged their intention of not rushing into tightening to curb inflation. They argue that inflation would return to the target zone within the next 12 months and given the 12-18 months of policy lag, any tightening now would be ineffective anyway.

ING revises rate hike forecast

ING's economist for the Philippines, [Joey Cuyegkeng](#) expects inflation to peak within the next three to six month and expects no rate hike next week. He has also revised his forecast to no change from two 25bp rate hikes this year.

The stable monetary policy and widening trade and current account deficits will keep the Philippine Peso Asia's underperforming currency this year.

Expect no change in Indonesia or Taiwan

The other two Asian central banks to meet next week are Bank Indonesia (BI) and Taiwan's Central Bank of China (CBC), and there is a unanimous consensus that there will be no policy change by either. We expect both central banks to maintain the current policy settings throughout 2018.

Running little over 3% inflation has faded to be a policy concern in Indonesia. The expectations are that it remains well-anchored within BI's 2.5-4.5% medium-term target. Growth is a bigger concern in Taiwan and weakening exports will put it above inflation as the policy goal this year. Taiwan data on export orders and industrial production will capture more attention next week.

A slew of inflation releases

February CPI inflation releases in Hong Kong, Malaysia and Singapore will be closely watched, and Malaysia and Singapore data will be of particular interest.

Our forecast of a further dip in Malaysian inflation below 2% means no pressure on the central bank to change policy anytime soon.

In Singapore, seasonally high food prices in the Lunar New Year month will pressure inflation up from zero percent in January, though these effects are transitory. We aren't so confident about our forecast of the Monetary Authority of Singapore (MAS) moving to tightening in April.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Thursday 15 March					
India	-	4Q Current account balance (Q) (US\$bn)	-12.9	-	-7.213
Friday 16 March					
Singapore	0030	Feb Non-oil domestic exports (MoM/YoY%)	-0.3/8.3	0.1/4.4	-0.3/13
Monday 19 March					
China	0130	China February Property Prices	5.5	-	5.4
Thailand	-	Feb Exports (Cust est, YoY%)	9.7	-	17.6
	-	Feb Imports (Cust est, YoY%)	15.3	-	24.3
Thailand	0400	Feb Trade balance (Cust est, US\$m)	831	-	-119
South Korea	2100	Feb PPI (MoM/YoY%)	-/0.8	-/-	-/1.2
Philippines	0845	Feb Balance of payments (US\$mn)	-	-	-531
Tuesday 20 March					
Taiwan	0800	Feb Export orders (YoY%)	18	2.8	19.72
Hong Kong	0815	Feb Composite CPI (YoY%)	2.7		1.7
Wednesday 21 March					
Malaysia	0400	Feb CPI (YoY%)	1.7	2.8	2.7
Thursday 22 March					
Malaysia	0700	Mar 15 Forex reserves- Month end (US\$bn)	-	-	103.7
Indonesia	-	Mar 22 BI policy decision (7-day reverse repo,%)	4.25	-	4.25
Philippines	0800	Overnight Borrowing Rate	3	-	3
	-	Jan Budget balance (PHP bn)	-	-	-107.1
Taiwan	-	Benchmark Interest Rate	1.375	1.375	1.375
Friday 23 March					
Singapore	0500	Feb CPI (YoY%)	0.6	-	0
	0500	Feb CPI core (YoY%)	1.6	-	1.4
Taiwan	0800	Feb Industrial production (YoY%)	3	0.3	10.86
	0820	Feb Money supply (M2) (YoY%)	3.5	-	3.42

Source: Bloomberg, ING

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-\$116m

February trade deficit

2M trade deficit of -\$871m (2M 2017 \$2.7bn surplus)

Better than expected

Strong domestic demand keeps the trade balance in deficit and pressures IDR.

Import growth remained strong at 25.2% annual increase in February but is still marginally slower than January's 27.9% annualized pace. Imports of capital equipment increased by 32% YoY while consumer goods imports surged to a 55.3% YoY increase. Export growth improved to 11.8% in February from January's upwardly revised increase of 8.6%. The improvement in exports resulted to a narrower trade deficit of \$116m last month from January's deficit of \$756m and December's deficit of \$220m. The 2M 2018 trade balance turned into a deficit of \$871m from the 2M 2017

surplus of \$2.7bn. Efforts to increase household spending through a low inflation environment, government stimulus and subsidies, and infrastructure spending coupled with election-related spending should sustain the strengthening of domestic demand. Strong domestic demand results in more challenging trade and current account balances. We now expect the current account deficit to be wider this year, to -\$21.2bn or -1.9% of GDP from 2017's deficit of -\$17.3bn or -1.7% of GDP. These challenges should exert pressure on IDR. We expect IDR to trade weaker than the 2018 government budget assumption and the government's revised expectations.

Philippines: Overseas remittances surprise

Overseas Filipino workers' remittances surged 9.7% year-on-year in January to \$2.4 billion. But this does little to reverse the peso's weaker bias



Source: Shutterstock

9.7%

January overseas worker remittance growth

Strong remittance growth from US, Canada, Singapore and UAE

Higher than expected

Strong remittance growth is unlikely to change the peso's bias towards weakness

BSP, the Philippine central bank, reported that the 9.7% YoY increase in cash remittances came from host economies with favourable economic activity. The US, Canada, Singapore, and the UAE posted significant increases. Remittances from the US increased 14.3% YoY and accounted for 4.6ppt of the overall growth. BSP also reported that remittances from Canada, Singapore and the UAE were responsible for another 4.6ppt of overall growth. Remittances from Europe are likely to

recover this year as economies within the bloc continue to expand. Despite strong remittance growth in January, the amount still fell short of financing the trade deficit. The shortfall amounted to \$938m. The three-month moving average shows a deterioration from September's excess of \$94m to December's shortfall of \$1.1bn and January's 3-month moving average shortfall of \$1.2bn. We expect the shortfall to increase this year by at least \$5.5bn from around \$2bn in 2017. The underlying weak current account will continue to pressure the Philippine peso unless significant foreign direct investment- similar to last year's \$10bn inflow- is repeated this year.

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