Good MornING Asia - 16 May 2019

The trade war remains a key theme for the markets with disappointing economic data from China and the US yesterday leading to worries of rising trade barriers weighing down growth.

In this bundle

ASEAN Morning Bytes

General market tone: Wait and see. Markets continue to monitor trade developments with eyes trained on US tariffs for both China and Europe.

4.2%

Malaysia's 1Q19 GDP growth

ING forecast

EM Space: Tariff slinging still in effect while US data disappoints

- **General Asia:** The trade war remains a key theme for the markets with disappointing economic data from China and the US yesterday leading to worries of rising trade barriers weighing down growth. Meanwhile, Trump might delay auto tariffs across the Atlantic while Fed officials remain non-committal to any form of policy move for the time being.
- **Malaysia:** 1Q19 GDP and balance of payments data are due today. The consensus is centered on a 4.3% GDP growth and MYR 12.8bn current account surplus (prior 4.7% and MYR 10.8bn in 4Q18). Our below-consensus 4.2% GDP growth forecast would put growth it below the BNM's 4.3-4.7% forecast range for 2019. However, we expect this to be the bottom of the current cycle. The timely policy boost together with the favourable base effect is likely to shore up growth in the rest of the year, obviating need of further central

bank (BNM) policy rate cuts this year.

- **Indonesia:** Indonesia reported a worse than expected trade deficit for April as imports and exports both contracted by 6.6% and 13.1%, respectively. The $2.5bn trade deficit in the last month was the highest ever. Coming ahead of the central bank's (Bank Indonesia) policy announcement later today, data sustains the BI's focus on currency stability amid ongoing weakness from the escalation of the global trade war. We expect BI to leave the policy on hold today and in the rest of the year.
- **Philippines:** The remittances by overseas Filipino worker jumped by 6.6% YoY in March, lifting the year to date gain to 4.2% despite the sustained weak inflows from the Middle East. Meanwhile, the government returned to the bond market barely a week after floating a Euro issuance, this time with a “panda” bond denominated in CNY. It will issue CNY2.5 bn worth of 3-year paper.

What to look out for: Malaysia GDP and BI decision

- Bank Indonesia policy decision (16 May)
- Malaysia 1Q19 GDP and balance of payments (16 May)
- Singapore April NODX (17 May)

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China: Expect faster activity growth after April's weak data

Investment, manufacturing and retail sales slowed in April. This could reflect that trade negotiations appeared to be progressing well in April, meaning the government could afford to slow down its stimulus measures. But this will change, as China needs faster domestic growth to compensate for slower exports

Slower than expected activity data in April as trade tensions eased

In 2019, the Chinese economy has mostly been driven by fiscal stimulus. But the government is wary about building up unnecessary capacity and debts and is likely to slow infrastructure projects if it sees signs of a breakthrough in the trade impasse with the US. This could have been the case back in April when trade negotiations seemed to be progressing well.

Industrial production and retail sales slowed for different reasons

- Fixed asset investments grew 6.1% year-on-year, year-to-date in April from 6.3% in March. This was probably hit by slower progress in completing investments in planned infrastructure projects and slow manufacturing investment as a result of the trade war. If the trade conflict continues to escalate, more factory owners will plan to move or expand production lines out of China, which will hurt investment and production.

- Industrial production slowed sharply to 5.4% YoY from 8.5% YoY. The slowdown is partly a result of the slower execution of infrastructure projects and partly the continuous disruption of ride-hailing apps on the production of automobiles. Automobile production fell 15.8% YoY in April from -11.8% in Jan-April.
- Retail sales growth dropped to 7.2% YoY from 8.7% YoY. The slower growth is broad-based. This is worrying as April was a month when China's stock market rose amid good progress in trade talks, so consumer sentiment should have been better. This is significant. We think it's likely that some consumers were worried about their job security or wage growth and so tightened their purse strings. This is also reflected in the sales of clothing falling to -1.1% YoY from 6.6.%. When clothing sales shrink it signals consumers want to save rather than to spend.

If the slow down in the activity data continues in May and June, China's GDP growth could fall below 6.0% YoY in 2Q19.

But stimulus is on the way

We believe that the Chinese government will not wait for another set of data before it speeds up stimulus measures.

Premier Li mentioned recently that tax cuts needs to be implemented effectively. We believe an import-tax rebate for exporters could be possible. In addition, we expect that local governments, which control the speed of infrastructure project completions, will press contractors to speed up construction.

We also expect the People's Bank of China to have targeted liquidity injection measures in May or June so that smaller exporters and their suppliers can get credit at a lower interest rate from banks.

> *"The yuan is more of a political tool for the trade war than an economic tool."*

Yuan is calm even with this set of data

The yuan is more of a political tool in the trade war than an economic tool. This is confirmed with today's data. Even though the data slowed unexpectedly, the USD/CNY fell slightly. In other words, the yuan has appreciated from yesterday's 6.8758 to the spot of 6.8726 (12:06 Hong Kong Time). The slight yuan appreciation is probably coming from the US's more optimistic tone on the trade negotiations.

We believe that both USD/CNY and USD/CNH will continue to move in tandem with sentiment on the trade war. If China and the US meet in the forthcoming G20 meeting in June then the yuan should appreciate back to the 6.75 level. Ahead of that, however, expect volatility to be high.

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