

Good MornING Asia - 16 November, 2018

Brexit Draft in tatters; no-confidence vote in PM May asked for; GBP smashed by markets; May determined to fight on, though the middle ground seems to be disappearing fast; More positively, US and China seem to be sounding more constructive over trade; ASEAN central banks get hawkish.

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Source: Shutterstock
Theresa May holds cabinet meeting

"Tis only a flesh wound

UK PM Theresa May's defiant stand to push on with the UK draft leaving bill reminds me of a scene in Monty Python and the Holy Grail, where King Arthur fights the Black Knight and having cut off both of his arms, assumes the fight is his, only to hear "It's just a flesh wound, I've had worse!".

Our FX strategists have been busy overnight, [re-assessing the outlook for the GBP](#), which despite yesterday's pummelling, they feel has a further 3-4% additional downside in the event of a no-deal exit. We wait to see today if any further cabinet ministers resign, after the quitting of Raab and McVey yesterday. Leadsom and Gove must presumably be poised to jump ship?

Still, the prospects of a swift end to the Brexit saga look as far away as ever, though the new turns could make it very interesting over coming months. Our UK economists will no doubt be covering all this in much greater detail, but a few questions that would be worth answering would be:

1. If a leadership challenge set in train a move for a no-deal exit as Pro-Brexit politicians took over the steering, but that was voted down by Parliament (which seems likely) wouldn't that lead to a General Election?
2. Is failure to get the current draft bill through parliament now the new base case?
3. And so wouldn't this also likely topple the government? (Would presumably be a "no-

- confidence" vote, whose loss would also spur an election).
4. And could a party take control of government by offering a more clear-cut referendum, with "leave" options defined (e.g leave with no deal, leave the single market / customs union etc)

I will get back to you as soon as we hear what they think

Then it gets interesting, because we may then finally see where Labour's true colours lie with respect to Brexit, and whether a party like the Liberal Democrats could re-emerge on a pro-European ticket. Of course, none of this is helped by the current squabbling in Europe over Italy. And weak European growth no longer makes tying one's hands to the European project look all that appealing. What a mess.

US-China...let's talk

There are more positive noises coming out of the US and China about the prospects for some sort of deal over trade. We imagine that China is prepared to make further concessions, given that its economy does really appear to be suffering, and will likely suffer more as tariffs are widened and tariff rates increased.

We imagine that the US is also prepared to hold fire on some of the remaining tariffs (conflicting comments overnight from the likes of Lighthizer and Wilbur Ross), and tariff rate increases as a sign of good faith as talks progress.

However, it seems unlikely to me that anything other than a skeleton framework for future talks could be agreed upon at the G-20 meeting, and even then, I suspect that President Trump would be inclined to leave tariff extension and tariff rate increases on a timer to push China into striking a deal.

BI and BSP hikes - BI was a surprise.

While the 25bp hike from the Philippine Central Bank (BSP) yesterday was no big surprise, it had always been a tight call, [the 25bp hike by Bank Indonesia \(BI\) was not at all expected](#). This now lifts BI's cumulative hiking to 175bp since the start of the year, and there is a chance that they do more at their December meeting. Strong growth provides the cover BI needs to hike rates again, and also the justification, as it is the principle reason for the current account deficit. BI and BSP's moves yesterday also raise the pressure on other regional central banks, the Bank of Thailand, for example, which we believe markets see as the next central bank to hike.

Today's data has already kicked off with a more-or-less consensus outcome for Singapore's non-oil domestic exports, which at 8.3%YoY, are barely any different to the 8.1% growth rate shown in September. An outside 89.7%YoY rise in the volatile pharmaceutical sector provided almost all of the lift. The question is, can it keep doing this? It looks improbable. And is such narrow support sustainable or safe? Electronics exports fell again (-3.5%YoY) as did petrochemicals (-0.1%YoY).

Today's data highlight at 12:00 local time is Malaysian GDP. We see this coming in softer than the consensus following recent activity reports on manufacturing.

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➔ Japan - back in the red

Japan will likely report a trade deficit next week but we don't think this will have any strong implications for the currency. The country essentially operates a balance on trade these days and drifts in and out of deficit with little impact on the yen.

Japanese CPI will rise a little further – in line with the earlier Tokyo release, but core inflation will remain anchored a little above zero. Nothing to excite the Bank of Japan here.

➔ Singapore's core inflation - reassurance for the central bank

Singapore's 3Q GDP might well be revised slightly lower than the initial 2.6% year-on-year figure, based on weaker industrial production data for September. On the expenditure side, retail sales point to slower consumer spending growth, though this may be offset by strength in investment.

Singapore also releases October inflation figures which shouldn't unduly change the prevailing picture, namely a weak headline rate. But stripping out private accommodation and transport, we

could see a much higher core figure, allowing the Monetary Authority of Singapore to feel vindicated in their decision to tighten last month. So long as the core rate remains below 2.0%, a subsequent April tightening will hang in the balance.

→ Bank of Thailand - hawkish tone could be subdued

Thai GDP for 3Q18 will likely deliver a weak 3.7% YoY growth rate, following soft manufacturing data released late last month. Weak service sector indicators may also reflect declining tourism inflows from China. Despite this, the Bank of Thailand has been sounding increasingly hawkish. So it's possible that the run of next week's data will curb their enthusiasm for hikes a little.

→ South east Asia picks - Taiwanese export numbers up from 2Q18

Other south-east Asian releases include the Philippine's October balance of payments data. This should improve as we move into year-end on lower oil prices and rising remittances.

The pick of the Taiwanese data next week is probably 3Q18 export orders. Weakness in electronics demand across the region and especially from key economies like Korea, and a generally downbeat mood in the tech sector may be outweighed this quarter by attempts to front-run incoming and rising tariff rates, so the 7.0% forecast would be an improvement from 2Q18.

Asia Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|------------------------------|------|--|---------|--------|---------|
| Monday 19 November | | | | | |
| Thailand | 0230 | 3Q GDP (QoQ, SA/YoY%) | 0.2/3.7 | -/- | 1.0/4.6 |
| South Korea | 2100 | Oct PPI (MoM/YoY%) | -/2.5 | -/- | 0.3/2.7 |
| Philippines | 0845 | Oct Balance of Payments (US\$m) | - | - | -2696.0 |
| Tuesday 20 November | | | | | |
| Taiwan | 0800 | Oct Export orders (YoY%) | 7.0 | - | 4.2 |
| | 0820 | 3Q Current Account Balance (US\$bn) | 20.5 | - | 17.8 |
| Hong Kong | 0815 | Oct Composite CPI (YoY%) | 2.8 | - | 2.7 |
| Wednesday 21 November | | | | | |
| Thailand | 0330 | Oct Exports (Cust est, YoY%) | 3.0 | - | -5.2 |
| | 0330 | Oct Imports (Cust est, YoY%) | 5.0 | - | 9.9 |
| | 0330 | Oct Trade Balance (Cust est, US\$m) | -186.0 | - | 487.0 |
| Thursday 22 November | | | | | |
| Malaysia | 0700 | Nov 15 Forex Eeserves-Month End (US\$bn) | - | - | 101.7 |
| Taiwan | 0800 | Unemployment Rate | 3.7 | - | 3.7 |
| Friday 23 November | | | | | |
| Malaysia | 0400 | Oct CPI (YoY%) | 0.5 | - | 0.3 |
| Singapore | 0000 | 3Q Revised GDP (QoQ/YoY%) | 3.9/2.4 | -/- | 4.7/2.6 |
| | 0500 | Oct CPI (YoY%) | 0.8 | - | 0.7 |
| | 0500 | Oct CPI Core (YoY%) | 1.8 | - | 1.8 |
| Taiwan | 0800 | Oct Industrial Production (YoY%) | 4.0 | - | 1.5 |
| | 0820 | Oct Money Supply (M2) (YoY%) | 3.4 | - | 3.3 |
| | 0820 | 3Q GDP F (YoY%) | 2.3 | - | 2.3 |

Source: ING, Bloomberg

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Indonesia: Surprise policy rate hike

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Source: IMF/Flickr
Perry Warjiyo, Governor of Bank Indonesia

6%

BI policy rate

Surprise 25 bps hike brings total to 175 bps this year

Higher than expected

IDR remains BI's focus by addressing the weak external payments fundamentals.

Bank Indonesia's (BI's) surprise two-pronged tightening addresses a key factor of IDR's weakness this year, the current account deficit. BI surprised the market with not only a 25bps policy rate hike but also tightened liquidity by raising banks' reserve requirements. The rate hike brings the total increase to 175bps this year. The tightening should eventually work through a slowing economy and moderation of domestic demand that has been powering imports and worsened not only the trade balance but also the current account.

Indonesia reported earlier today a trade deficit in October that is the second worst since April 2014. We fear that the worse than expected trade deficit of \$1.8bn would result in a current account deficit of around -3% of GDP for 2018. The monetary tightening would likely moderate the deterioration of the external balances. Meanwhile, IDR is benefiting from the BI's tightening. We expect that BI's support for IDR will continue while offsetting the negative impact of the current account deficit on the currency. We expect BI to hike policy rates by at least another 50bps over the policy horizon.

Philippine central bank hikes a fifth time to anchor inflation expectations

Despite slowing inflation, the central bank bought some insurance with a 25 basis point rate hike



4.75%

Overnight reverse repurchase rate

5th straight hike

As expected

BSP looks to anchor inflation expectations

Despite clear signs of slowing inflation with non-monetary policy measures finally taking hold,

Bangko Sentral ng Pilipinas (BSP) opted to hike the policy rate for a fifth straight time to anchor inflation expectations and stave off any potential second-round effects. Inflation remains elevated at 6.7% and with wage adjustments and transport fares kicking in over the course of November, BSP opted to buy some insurance so that inflation expectations would remain anchored.

Non-monetary policy measures in the offing with inflation forecasts slashed

The BSP hiked rates despite the government rolling out two key and substantial non-monetary measures overnight with excise taxes on fuel suspended in 2019 and the key rice tariffication bill approved by the Senate. These two measures were likely factored into the BSP's inflation forecasts with inflation seen at 3.5% in 2019 (from 4.3%) as BSP estimates the rice tariffication bill to shave 0.73 percentage points from inflation.

Chasing price stability

The BSP's 25 basis point rate hike looks to ensure inflation expectations remain well-anchored, yet remaining aware of tighter global financial conditions and uncertainty emanating from possible geopolitical risks. As such, the central bank moved "proactively", with yet another round of rate hikes despite its much lower inflation forecast for 2019. BSP's primary mandate is price stability to provide an environment conducive for economic growth. With inflation seen to slide back within the target in 2019, the central bank believes that the economy remains resilient enough to ride out the 175 basis point rate hike year to date. But with higher rates already showing signs of sapping economic growth momentum, the Philippines will need to continue to rely heavily on government spending to shore up slowing consumption and investment.

Ready and willing

The BSP closed its statement reaffirming its readiness to take appropriate actions to safeguard its price and financial stability objectives. In the near term, the peso will benefit from the recent action while structural flows ahead of the holiday period may also provide an added boost. Over the medium-term, however, projected current account deficits will likely exert a mild depreciation pressure until a clear reversal is seen on the external front.

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