Good MornING Asia - 16 October 2018

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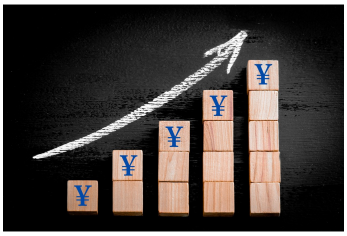
In this bundle



Opinion | 16 October 2018

JPY - stronger by default

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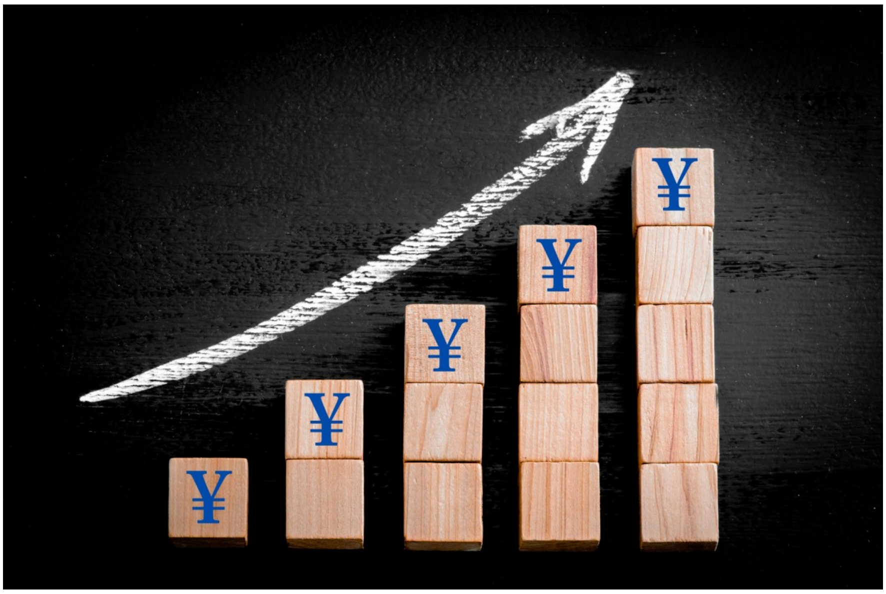

Source: Shutterstock
Rising yen ascending on blocks

Majors - what to hate least

Investors seem for once to be looking forward, as well as backward in their deliberations on the US and the USD. And they fear two things:

1. A slowdown in activity - not remotely on the cards yet as fiscal stimulus continues to fuel a booming economy - notwithstanding poor retail sales data last night, the Atlanta Fed GDPNow forecast for 3Q18 is still 4.0%, only down a little from 4.2% yesterday. But sometime in 2019...nerves are beginning to fray...
2. A sharper pick up in inflation / wages, and with it, a pick up in the Fed's tightening.
3. Both of the above - 1) and 2) are not mutually exclusive thanks to the lags in transmission form activity to inflation. Sure, the indicators of labour market stress are alarming - James Knightley, our Chief International Economist recently referred to the NFIB survey in a note, and it does look red-hot, white-hot even. I personally don't think the labour market and

> wages have anything but a very shallow relationship these days. but it is one thing to doubt the strength of the transmission mechanism, it is quite another to ignore it altogether, and some further modest wages growth could be all it takes to get the Fed to change their tune and cause panic among risk asset investors. It looks as if some are already battening down the hatches.

All of which is not helping the world's primary currency unit, the USD. Though that's providing a sliver of support for Asian FX markets, much appreciated after recent turmoil. Not so much their equity markets, which are looking quite sad.

A cup of cold poison with your meal Madam?

However, choosing amongst the other major currencies these days is a bit like choosing which roadkill to consume for dinner. Sterling? Well, to many, that will obviously be off the menu. Forget the comforting words from PM May and President Macron overnight, this looks toxic unless a miraculous deal is produced, and even then, the UK Parliament may vote it down. The only thing that maybe makes this look worth a bite, is the grassy-knoll theory that this negotiation is being taken right to the line, to make an unpalatable meal seem less hideous. That's not something I want on my plate.

The EUR, by association, is also looking rather gnarly. Don't forget, what's bad for the UK is bad for Europe, just less so. It is notable that during all the recent market unease in the US, the EUR has failed to do much more than make it back into the range it had inhabited for much of the year, reversing the more recent USD rally. The Italian deficit saga can't be helping. And perhaps this is why EURGBP doesn't look better than it does. If you want to give yourself a headache, here is the EU Parliament's overview of the Stability and Growth Pact rules. No, I barely understand it either.

In the end, that only leaves the JPY. Recent growth figures have been impressive, even the inflation figures, ignoring what is driving them, seem closer to their target than in a very long time. There is renewed chatter about BoJ normalization, and this is not being discouraged by BoJ Governor Kuroda. While this lasts, the JPY should do well.

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ASEAN Morning Bytes

General market tone: risk-off The tension between the Middle East and the West begun to brew, sparking risk-off tone and knocking down stock markets and boosting oil prices.

International theme: World markets monitor developments on US and Saudi relations

- Risk-off tone escalated overnight with brewing tension between the West and the Middle East. US data showed mixed trends with the print disappointing markets on the headline print but the so-called core retail sales bested market expectations.

EM Space: EM Asia will likely take their cue from Wall Street and China inflation numbers

- **General Asia:** Asian markets will likely track the slide on Wall Street with global tensions driving sentiment. Traders will be awaiting China's inflation data which could give a glimpse to the impact of recent trade developments on the economy.
- **Indonesia:** Indonesia trade data showed the trade balance swing into the positive with imports growing at a much slower pace than expected. September figures showed imports grow 1.7% while imports missed forecast to expand only 14.18%, missing expectations for a 23.74% gains. Indonesia has moved to narrow the current account deficit via import

compression and this could bode well for the IDR and limit the need for the central bank to hike aggressively.

- **Philippines:** August overseas workers' remittances slipped by 0.9% YoY with a total of \$2.476bn sent home by overseas Filipinos. This brings the year to date haul to \$19.056 bn, up 2.5% from the same period in 2017 as OFW remittances continue to be a stable source of FX to the Philippines. As remittances and BPO call center receipts remain inadequate to cover ballooning trade deficit, we may see continued pressure on the local unit in the near term with the BSP remaining hawkish to contain inflation expectations.

What to look out for: China inflation and FOMC minutes

- China CPI inflation (16 October)
- FOMC minutes (18 October)
- Fed Bullard (18 October)
- Fed Kaplan (19 October)

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