

Good MornING Asia - 17 August 2018

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Watch your step

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By Robert Carnell



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Indonesia

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This is all giving me a headache

The Turkey story is still bubbling away, though its power to affect markets seems to be diminishing. Something else will come along though, of that you can be pretty sure. President Erdogan's son-in-law, and central bank Governor, Berat Albayrah, spoke to investors yesterday with a view to calming nerves and restoring stability to the Lira (TRY). On the basis that a good outcome from an event like this is that you don't actually make things worse, Albayrah has reason to be pleased with himself. Though pledges not to impose capital controls or go to the IMF fall into the "Well he would say that wouldn't he?" folder.

Investors commenting on the speech mainly criticised lack of detail at plans to reduce inflation and rein in the current account deficit. Spending cuts across ministries of TRY 35bn will help, and curbs to big-ticket infrastructure projects will also lend a hand. But investors are having a tough time believing that all this can be done without rate hikes, and many sense the invisible hand of Albayrah's father in law behind these ideas.

Even if markets had been receiving these policy suggestions sympathetically, the US stepped in again last night on the Pastor Brunson issue, with Treasury Secretary Mnuchin threatening more tariffs unless Brunson was released. There appears to be a legal hearing on Brunson next week, so this could be an opportunity for Turkey to extricate itself from at least this aspect of the crisis. Not doing so would be TRY negative. Today, the USDTRY is trading at around 5.85, a bit lower than the

5.99 we wrote yesterday. Some modest improvement then.

More on Trade - this time, China

Sorry if you are getting bored with trade talk, but it really is the main market driver these days. China, apparently at the invitation of the US (though they aren't shouting about that) is sending a delegation to Washington with a view to re-opening trade talks. Wang Shouwen, Vice Commerce Minister, will be meeting David Malpass, US Undersecretary for International Affairs. If both titles sound a bit mediocre, you probably aren't far from the truth.

These are talks about the possibility of trade talks. The US won't allow this to go any further unless China sounds as if it is making sufficient concessions on the bilateral deficit, and intellectual property rights. Given recent disappointing data from China, it wouldn't be ridiculous to think that they will be prepared to make some concessions to put an end to this horrible trade mess. But we aren't getting too excited.

Meanwhile, public hearings on the extension of tariffs on an additional \$200bn of trade will start on August 20 and continue for 6 days. So the pressure on China is definitely on.

Powell to open address at Jackson Hole

It's that time of year when we get excited about the Fed Chair speaking at Jackson Hole, or in some recent years, not talking. The title of the Kansas speech this year according to newswires is "Monetary Policy in a Changing Economy". I have a strong sense of déjà vu about this speech, as this title seems eerily reminiscent of literally dozens of such central bank speeches. If this really is just a dusted down version of one of these old pot-boiler speeches, then it could be worth missing.

Jokowi sets ambitious deficit reduction targets

Indonesia's President, Joko Widodo (Jokowi) gave a speech yesterday outlining his government's economic policies for next year. Our economist for Indonesia, Joey Cuyegkeng has [written about it in more detail](#). But in short, the targets for growth and the deficit (5.3% and 1.83% respectively) look attainable, though the main risk to the view is that the Indonesian Rupiah assumption of a slight strengthening is out of the hands of the government and will be set by international markets. Moreover, the temptation to let government spending overshoot in what will be an election year may undermine the otherwise achievable budget deficit target.

Singapore's July NODX up 11.8%YoY

Singapore's non-oil domestic exports (NODX) rose 11.8% YoY in July on a 4.3% MoM increase. This was a nice statistical bounce from the weakness shown in June. But although the figures were better than the 7.4%YoY consensus expectation, electronics exports still lag behind last year's levels, and an eye-watering 109%YoY gain in pharmaceuticals (mainly driven by last year's weakness) played a helping role in this month's outsize recovery. On the month, electronics provided a decent bounce. But that is normal for this time of year.

It's not that we have anything against Pharmaceuticals. But for some time now, the NODX figures seem to be finding their support in extraordinary strength in usually just one aspect of the export figures, and that makes us nervous that the headline is vulnerable to a downward correction. For now though, it is a useful start to the 3Q activity backdrop.

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Next round of US-China trade tariffs kicks off

First some good news. Latest media reports of trade negotiations resuming between the US and China by the end of August lift hopes of trade tension being averted. However, this comes as the US gets ready to implement the second round of tariffs on \$16bn of Chinese goods. The kick-off date is set for next Thursday (23 August).

Markets should have taken the next batch of tariff implementation into their stride by now, but with the consultation for the next phase of tariffs already underway and set to be completed by early September, trade war concerns are unlikely to fade from being an overhang so soon - a small tweet-trigger by President Trump is enough to unsettle markets.

Thailand's economy to get 2Q report card

Thailand's GDP data for the second quarter comes in on Monday (20 August). We think the economy performed better than expected in the last quarter, drawing support from continued

strong exports and manufacturing. We [recently raised our second quarter GDP growth forecast](#) for Thailand from 4.0% to 4.5%, implying only a modest slowdown from 4.8% growth in 1Q.

Thailand's July trade data is also due next week and is likely to reveal exports strength continued at least in the second half of the year. Trade war risk makes things uncertain for the rest of 2018, and with the likelihood of inflation falling short of the central bank's 1-4% in the coming months, an on-hold Bank of Thailand monetary policy looks like a safe bet.

[Read: Thailand: Second quarter ends on a positive note](#)

4.5% Thai GDP growth forecast
Consensus for 2Q is 4.3%

A slew of manufacturing and inflation data elsewhere

July manufacturing data from Singapore and Taiwan comes as an initial guide to 3Q GDP performance for these countries. The heavy reliance on exports makes these economies vulnerable to the US-China trade war contagion. Judging by the already existing July trade data from Asia, there hasn't been an obvious dent in exports just yet. Singapore non-oil domestic exports (NODX) for July due tomorrow (17 August) will be key for manufacturing growth.

Malaysia and Singapore report July CPI data next week, but that shouldn't be a cause for concern.

In Singapore, weak housing and transport CPI components are likely to have had a further negative boost in July. The rebate of Services and Conservancy Charges (S&CC) for public housing depressed the accommodation CPI component, while lower cost of Certificate of Entitlements (COE) for vehicle ownership weighed on the private road transport component. Stripping these two components from the total, core CPI inflation is likely to be steady in July but still close to the top end of the central bank's 1-2% forecast range.

The balance of economic risks is tilted toward growth as trade tensions dampen export outlook. We think Singapore's policy tightening will prove to be one-off for some time.

In Malaysia, the lingering effect of the Goods and Services Tax removal is expected to keep inflation low. Like Thailand, low inflation should be accompanied by firmer GDP growth. Look out for Malaysia's 2Q GDP report tomorrow (17 August) – supporting our baseline of no change to the central bank (BNM) policy in the remainder of the year.

A short trading week for Southeast Asian markets

It will be a short trading week for South and Southeast Asian markets - the Philippines has a public holiday next Tuesday (21 August) and India, Indonesia, Malaysia, and Singapore markets are closed on Wednesday.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 17 August					
Singapore	0130	Jul Non-oil Domestic Exports (MoM/YoY%)	4.4/11.8	0.8/7.4	-10.8/1.1
Taiwan	1000	2Q F GDP (YoY%)	3.3	3.3	3.29
Malaysia	0400	2Q F GDP (YoY%)	5.2	5.2	5.4
South Korea	0000	Jul Unemployment Rate (% SA)	3.7	3.7	3.7
Monday 20 August					
Taiwan	0900	Jul Export Orders (YoY%)	0	-	-0.1
	0920	2Q Current Account Balance (US\$bn)	25000	-	20079
Thailand	0230	2Q GDP (QoQ/YoY%)	1.0/4.5	-/-	2/4.8
South Korea	2200	Jul PPI (YoY%)	-	-	2.6
Tuesday 21 August					
Hong Kong	0815	Jul Composite CPI (%YoY)	2.4	-	2.4
Malaysia	0800	Aug 15 Forex Reserves- Month End (US\$bn)	-	-	104.5
Thailand	0430	Jul Imports (Cust est, YoY%)	11	-	10.8
	0430	Jul Exports (Cust est, YoY%)	12.8	-	8.19
Wednesday 22 August					
Philippines	-	Jul Budget Balance (PHP bn)	-	-	-54.3
Thursday 23 August					
Singapore	0600	Jul CPI (YoY%)	0.5	-	0.6
	0600	Jul CPI Core (YoY%)	1.7	-	1.7
Taiwan	0900	Jul Industrial Production (YoY%)	2.2	-	0.36
Friday 24 August					
Malaysia	0500	Jul CPI (YoY%)	1	-	0.8
Singapore	0600	Jul Industrial production (MoM SA/YoY%)	0.4/7.2	-/-	3.9/7.4
Taiwan	0920	Jul Money supply (M2) (YoY%)	-	-	4.1

Source: ING, Bloomberg

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5.3%

GDP growth target for 2019

In line with current consensus forecast

Assumptions for the targets are generally reasonable

President Jokowi's budget for 2019 with GDP growth of 5.3% and a fiscal deficit at -1.84% of GDP looks attainable to us. The 2019 GDP target is in line with the current consensus forecast and lower than the initial proposal of 5.4% to 5.8%.

- The projected moderate pace of economic activity takes into account the difficult external operating environment and includes more realistic expectations.
- The 2019 budget also assumes a more realistic oil price assumption of \$70/bl. This is in contrast to the quite optimistic initial 2018 oil price assumption of around \$40-\$50/bl. The current average oil price is around \$65-70/bl. With a more realistic oil assumption, the fiscal challenge of 2018 of increasing the energy subsidy could be minimised in 2019.

There is reason to think that the performance of the government in 2019 will not deviate much from the proposed 2019 fiscal deficit of -1.84% of GDP.

- The 2019 budget proposal estimates that revenues will increase by 12.6%, which would support 10% expenditure growth. Recent government performance supports this target.
- The government's seven-month 2018 fiscal performance of -1.02% deficit to GDP is below the operating 2018 fiscal deficit target of 2.12%. Government revenues for the seven month period increased due to a 23% rise in non-tax revenue collection and a 16% increase in the collection of customs and excise tax.
- A cause for concern is the possible IDR assumption of IDR14400, which is around 1.6% stronger than current levels. This could be difficult unless the government and central bank are successful in reducing the current account deficit from -3% of GDP in 2Q to closer to -2.5% of GDP. The consensus forecast is -2.3% of GDP in 2019. A deteriorating current account deficit would keep the IDR on the defensive in 2019 and thus could frustrate economic planners.

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