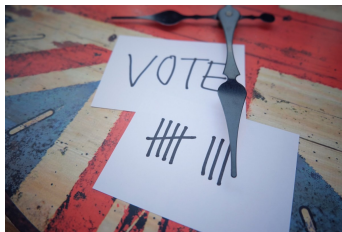


Good MornING Asia - 17 January 2019

Singapore's disappointing NODX growth in December led by an across-the-board weakness in all export sectors and destinations is a further sign of the global demand slowdown beginning to weigh down Asia's growth. Asian central banks will tread a cautious path but will mostly leave policies on hold this year, starting with Bank Indonesia today.

In this bundle



And then there were three...

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By Robert Carnell



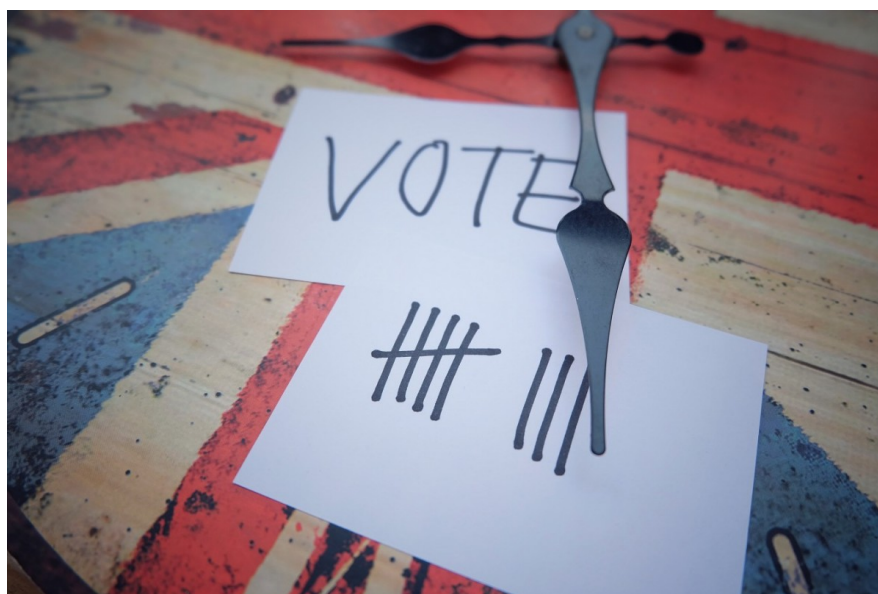
ASEAN morning bytes

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What's left? Not much

I need to stress from the outset that the responsibility for the Brexit coverage and related calls lies with my excellent colleagues in London, notably James Smith, but no doubt with close co-operation with my old mucker James Knightley, and also our FX crew, with Petr Krpata also writing heaps on this together with the two James's. But it is eight hours until they will be getting in, so in the meantime, here are my own un-licensed thoughts:

In recent days, Smith and co have set out in superb fashion the various options of [what's next, as the Brexit saga has unfolded](#).

Their latest version prior to the vote of no-confidence, which Theresa May has survived, included a snap election, but also May's deal getting through, making an analogy with the TARP funding in the US in the financial crisis. However, having been so decisively thumped in parliament (lost by 230 votes - a 100 year record), it might be better off consigning May's bill to the waste-paper basket too.

That does not leave very much:

1. A no deal Brexit - which is being ruled out by most politicians
2. An alternative deal (can't be "Norway plus" as still doesn't deal with the Irish border

- questions without an EU customs union, which then clashes with EFTA's existing customs arrangements - but could be based on it, and look very similar)
3. Or a 2nd referendum, where options 1 and 2 along possibly with Theresa May's existing bill were voting items.

[As Smith has also pointed out](#), these various options, with the one exception of no-deal, would involve the UK asking for an extension of article 50 - so that looks virtually definite. Overnight, the EU has made overtures to suggest it is open to such an extension (this is their call, not the UK's, but the UK must ask for it), but the condition is that the UK must accept the Irish backstop, which seems unlikely ever to be passed under May's current bill, but which may not be an issue under a "Shadow-Norway plus" model with customs Unions.

All of which rather begs the question, why bother? As such a deal would not deliver the break with the EU wanted by the Brexiters, whilst taking the remainers out of the EU for no obvious gain. By the day, the case for a second referendum seems to be strengthening in my unauthorized view.

With a YouGov poll suggesting that such a referendum would be comprehensively won by the remain vote, this is at least one reason why sterling has rallied (see also this "[Silver Lining](#)." piece by Petr Krpata).

We would be writing about recent US data but...

...not that anyone will care, and rightly so, but economists are the latest victim of the US government shutdown. Today, we might have had some comment to make on US Retail sales, but that data is collected by the US Census Bureau, and is not being collated during the shutdown. We would also potentially have US housing starts data today too, but that is also affected.

I looked hard, but I could find no news on this overnight that would indicate any move towards ending this shutdown. Estimates of 0.1pp per week off 1Q19 GDP sound a bit wet-finger, but they are probably about the right ball-park. All of which lends credibility to the Fed pause thesis, though this doesn't seem to be hurting the USD too badly.

Day ahead.

We'll cover Singapore's very weak NODX And Australian housing data separately.

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International theme: May government survives, oil continues to grind higher

- UK Prime Minister May lives to fight another Brexit day while the US government remains in a partial shutdown but market players focused on decent earnings. Meanwhile, oil prices continue to inch higher while the Fed flags a tightening labor market and faster wages.

EM Space: Bargain hunting may be the theme on Thursday

- **General Asia:** Investors may snatch up beaten down shares as positive sentiment emanates from decent earnings seen on Wall Street. Investors, however, will likely keep their eyes on the protracted US shutdown and developments on Brexit now that May has survived another day.
- **Malaysia:** New vehicle sales eked out a 3.8% annual growth in 2018 after a contraction in the previous two years as the scraping of the GST lifted demand in the second half of the year. The Malaysian Automotive Association has warned about flat growth in 2019 citing economic uncertainties and government policies.
- **Singapore:** In a dismal performance, non-oil domestic exports plunged by 8.5% YoY and

5.7% MoM SA in December. As elsewhere, electronics were a drag though all other main export sectors also posted contraction. Falling NODX signal the same for the manufacturing for which December data is due next week, which will be associated with a downgrade of the 2.2% advance GDP growth estimate. With growth poised to slow this year, the MAS will leave the policy on hold.

- **Thailand:** USD/THB dipped to the lowest level since May as the softer dollar combined with strong demand at the government bond sell buoyed the local currency. We continue to see the political risks surrounding the timing of the general election to weigh on the THB's performance this year.
- **Indonesia:** Bank Indonesia (BI) began a two-day meeting on Wednesday with the market expecting the central bank to keep policy rates unchanged on Thursday. BI Governor Warjiyo indicated that the "key rate was already near its peak" but he also emphasized that the central bank would remain pre-emptive and ahead of the curve to safeguard stability. He expects the currency to remain stable this year and pledged to intervene in the market if needed.
- **Philippines:** Senate bill 1998 or the proposed law that would liberalize rice imports into the Philippines has moved to the President and can be passed within the next 30 days. The new law would slash up to 0.9 percentage points to inflation and is a key determinant in the central bank's new inflation forecasts. The government has expressed the desire to allow the free flow of imports for sugar with budget secretary Diokno indicating that they target to pass this law in 2019.

What to look out for: Fed speakers

- Fed Quarles speaks (17 January)
- Bank Indonesia policy meeting (17-18 January)
- Thailand reserves (18 January)
- US consumer sentiment, industrial production, trade and retail sales (14-18 January pending shutdown)
- Fed Williams speaks (18 January)

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