Good MornING Asia - 17 July 2019

President Trump's renewed threat of more tariffs on Chinese goods has investors bracing for weak trading in the Asian session today, tracking the negative sentiment in the US overnight.

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31.9%

Fall in Singapore's electronics exports in June

Year-on-year

Worse than expected

EM Space: Strong US data offset by Trump tweet saying trade deal still in the works

- **General Asia:** Asian markets will likely open downbeat as Trump indicates that bagging a deal with China was far from done. While the US economic data on retail sales and manufacturing production continued to indicate firmer economy amid trade war, doves and hawks within the Fed remain at loggerheads over the imminent course of the monetary policy.
- **Thailand:** Deputy Prime Minister Somkid Jatusripitak anticipates GDP growth in 2Q19 in a

2.8-2.9% (range) and with that 1H19 growth staying below 3%. However, he expressed confidence in the Finance Minister Uttama Savanayana in bolstering the economy going forward through increased lending, support to export sectors, and policies to attract more foreign investment into Thailand. We also expect the Bank of Thailand joining in the global easing way to support growth with our forecast a 25bp policy rate cut in August and another like move in the fourth quarter.

- **Singapore:** In yet another worse showing, non-oil domestic exports plunged by 17.3% YoY and by 7.6% MoM SA in June (consensus -9.6% YoY and -3.5% MoM). Electronics continues to be the weak spot with second consecutive month of over 30% YoY fall, while part of bounce in pharmaceuticals in May was retraced. By destination, the weakness was across the board but for shipments to the US. The data reinforces a view that an inter-meeting adjustment to the Monetary Authority of Singapore's policy via a reduction or even flattening of the SGD-NEER appreciation path is imminent.
- **Indonesia:** The Indonesian government estimates that the economy grew by roughly 5.1% in the first half of the year as external trade capped growth momentum. Finance Minister Sri Mulyani Indrawati sees growth settling at 5.2% for the full year with a possible recovery in the second half as government spending accelerates.
- **Philippines:** The Bureau of the Treasury indicated that the upcoming JPY-denominated bond issuance would have a tenor of 3-years. The issue size is unlikely to exceed $1bn as the government remains awash with cash after aggressively tapping the market, while expenditures have been slow due to the delay in the budget passage.

What to look out for: Fed speakers

- Singapore non-oil exports (17 July)
- Fed Powell and Evans speeches (17 July)
- Hong Kong policy meeting (18 July)
- South Korea policy meeting (18 July)
- Fed Bostic speech (18 July)
- Bank Indonesia policy meeting (18 July)
- Fed Williams and Bullard speeches (19 July)

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Philippines and Indonesia to partially unwind 2018 hikes

Two of the busier central banks of 2018, Bank Indonesia and Bangko Sentral ng Pilipas, are set to partially unwind monetary tightening as current account worries ebb

Source: Shutterstock

BI set to cut in July, BSP again in August

Bank Indonesia (BI) and Bangko Sentral ng Pilipinas (BSP) were two of the busier central banks in 2018, each hiking policy rates by 175 basis points as pressure on their respective currencies mounted. Central bank governors rushed to take action as concerns about ballooning current account deficits compounded anxiety over two global developments: the US-China trade war and the Fed's own rate hike cycle. Additionally, the Philippines was adjudged to be "behind the curve" as inflation zoomed past target to peak at 6.7% in September while Indonesia's bond market faced challenges as foreign players headed for the exit. 2019 however now features a Fed that is inclined to cut and not to hike, reshaping investor sentiment even if the US-China trade war appears far from over. As a result, investor concern about the still relatively wide current account gaps of the Philippines and Indonesia have receded, allowing both BI and BSP some scope to reverse at least some of the aggressive 175 bp rate hikes carried out in 2018 and help bolster growth momentum.

Concerns about respective current account gaps recede

Both Indonesia and the Philippines are in the midst of an import binge as the respective governments look to push investment and upgrade infrastructure. Imports of raw materials for construction and capital equipment to carry out ambitious projects have taken their toll on the current account, with Indonesia and the Philippines recording relatively high current account deficits relative to GDP of 2.98% and 2.4%, respectively. The Indonesian government has been seeking to limit the current account gap by reducing imports and boosting exports. President Jokowi recently announced a raft of reforms to attract foreign investment, adding to a long list of projects aimed at boosting the Indonesian export sector, which should help the country hit its 2.5% current account to GDP forecast. For the Philippines, the current account continues to widen, with the BSP predicting the shortfall to hit 2.8% of GDP by year-end, as the government looks to bring in infrastructure related imports, albeit on a delayed basis due to the belated passage of the spending bill. Despite the still apparent current account gaps, market concern about the shortfall has abated, at least for now.

Bank Indonesia: Warjiyo to finally cut in July

BI Governor Perry Warjiyo has been telegraphing a possible rate cut for the past few weeks, openly saying that "there is room to lower the rate" after a relatively positive year for the Indonesian rupiah, which has appreciated by 3.86% year-to-date. Inflation has been less of a pressing concern for the central bank as price gains have been muted so far and well-within the government target of 2.5-4.5%. For months we had gauged that any adjustments from BI's end would hinge on the stability of the IDR and with Fed Chairman Jerome Powell almost sealing the deal on an FOMC rate cut in July, we believe that Governor Warjiyo will have his opportunity to finally walk back a portion of his 2018 rate hike salvo. With re-elected President Jokowi calling for the government to help spur growth, the central bank will likely figure in this equation, as rate cuts will support economic activity and accommodate the investment climate that Jokowi seeks.

Bangko Sentral ng Pilipinas may cut 50 bps in 3Q

After initially cutting rates in May by 25 bp, the BSP opted to enact a "prudent pause" at the June meeting to ensure that inflation was in a downtrend. With the dovish Governor Benjamin Diokno repeating his call for rate cuts, we reiterate our forecast for a BSP 25 bp rate cut at the 8 August meeting and leave the door open for further easing in 3Q. Diokno has indicated that the decision to cut policy rates "had been made" and that the central bank is simply deciding on the proper timing. The Governor also noted that the BSP was taking into account the recent dovish tilt of the Fed, which could convince the BSP to reduce rates a total of 50 bp in the third quarter. Thus, the BSP may opt to slash policy rates by 25 bp at the 8 August meeting and 25 bp at the 26 September or Diokno can opt to cut policy rates by 50 bp at the August meeting.

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