# Good MornING Asia - 17 May 2019

Australia goes to the polls over the weekend, while an end to long-standing political uncertainty in India, Indonesia, and Thailand finally seems around the corner

## In this bundle

Article | 17 May 2019

# Asia week ahead: Politics over economics

Australia goes to the polls over the weekend, while an end to long-standing political uncertainty in India, Indonesia, and Thailand finally seems around the corner. GDP, manufacturing, and inflation data dominate the economic space

Source: Shutterstock

## Australia goes to the polls

The Federal elections are scheduled on 18 May, with results to be made public in the evening on the same day or early morning the following day.

The pro-incumbent wave seems stronger elsewhere and probably in Australia too. The ruling minority coalition of prime minister Morrison is seen leading in the latest opinion polls. With the current lacklustre economic backdrop, the hopes for the incumbent leader rest on long-term tax reforms, while the opposition Labor Party focuses on issues about education and healthcare.

We expect the lifting of political uncertainty next week to pave the way for the Reserve Bank of Australia's policy rate cut at the June meeting.

## Indian voters' verdict on Modi arrives

The seventh and final phase of Indian general elections takes place over the weekend (19 May). The counting of votes of all phases is scheduled on 23 May, and the results are expected to be out on the same day.

We continue to consider this a close-to-call election, though our baseline remains one of the Modi administration clinging on to the power for the second term. Indeed, the recent opinion polls point to the Modi's National Democratic Alliance winning by a thin margin. We believe the markets also are priced in for such an outcome. The outperformance of Indian markets and the currency (INR) since February, after the terror attack in Kashmir and the nationalistic sentiment fuelled by the government's handling of the same, reflects increased investor confidence of the incumbent staying in power.

However, judging from anti-incumbent sentiments that swept through last year's state-level elections (Chattisgarh, Madhya Pradesh, and Rajasthan) there remains a potential for election surprises.

## Jokowi is leading in Indonesia

With 86% of votes of the Presidential Election held on 17 April counted, incumbent Joko Widodo (Jokowi) is running ahead of his rival Prabowo Subianto. The counting is due to be complete by Wednesday, 22 May, and Jokowi is widely expected to continue for the second term - the most market-friendly outcome, or one less thing for investors to be worried about amid rising external uncertainty.

## Thai parliament may endorse Prayuth

Thailand's newly elected parliament will be convened on Wednesday, 22 May, to elect the new prime minister. Incumbent prime minister Prayuth Chan-Ocha stands a high chance of retaining that post with strong backing from the Senate. This week the King approved the new Senate comprising all 250 appointees from military cadre. As for the 500 members lower house of parliament, for which the election was held on 24 March, the Junta-backed party of incumbent prime minister Prayuth Chan-Ocha emerged as a dominant party and is set to form a coalition government with 256 seats in the lower house.

We think the political uncertainty in Thailand is largely over and the focus will be back on the economy. There is just enough on the calendar next week – GDP report for 1Q19 and car sales and external trade data for April. The high-frequency economic data for 1Q19 supports our forecast of a sharp slowdown in GDP growth to 3.1% from 3.7% in 4Q18. This combined with heightened trade tension will make it increasingly hard for the Bank of Thailand to sustain its hawkish rhetoric going forward. Indeed, we are reviewing our on-hold forecast for the BoT policy this year.

## And leftover focus on economics

1Q GDP releases also are due in Japan, Singapore, and Taiwan. As for Japan, the macro story hasn't been any good, which is what backing the consensus view of a GDP contraction in the last quarter. With inflation nowhere close to the Bank of Japan's policy target, the negative rate policy has a longer life than the central bank's guidance of this state of affair changing for good by Spring of 2020.

Singapore's and Taiwan's GDP data are the revised figures. Instead, the markets will pay attention to their April manufacturing releases to gauge GDP performance in the second quarter. Reeling under the tech downturn and escalation of the US-China trade war, things aren't looking any promising for these heavy export-dependent economies.

Needless to say, the balance of economic risk around the region remains tilted toward growth, not toward inflation as a slew of April consumer price figures are expected to reinforce next week.

## Asia Economic Calendar

| Country | Time* | Data/event | ING | Survey | Prev. |
|---|---|---|---|---|---|
| | | **Monday 20 May** | | | |
| Taiwan | 0900 | Apr Export Orders (YoY%) | -12.0 | - | -9.0 |
| | 0920 | 1Q Current Account Balance (US$bn) | 18.0 | - | 18.6 |
| South Korea | 2200 | Apr PPI (YoY%) | - | - | 0.1 |
| | | **Tuesday 21 May** | | | |
| Singapore | 0100 | 1Q F GDP (QoQ Annualised/YoY%) | 3.1/1.6 | 2.3/1.3 | 2.0/1.3 |
| Thailand | 0330 | 1Q GDP (QoQ/YoY%) | 1.5/3.1 | -/3.0 | 0.8/3.7 |
| | | **Wednesday 22 May** | | | |
| Thailand | - | Apr Exports (Cust est, YoY%) | - | - | -4.9 |
| | - | Apr Imports (Cust est, YoY%) | - | - | -7.6 |
| | - | Apr Trade Balance (Cust est, US$m) | -143.0 | - | 2005.0 |
| | | **Thursday 23 May** | | | |
| Hong Kong | - | Apr CPI (YoY%) | 2.2 | - | 2.1 |
| Singapore | - | Apr CPI (YoY%) | 0.9 | - | 0.6 |
| | - | Apr Core CPI (YoY%) | 1.6 | - | 1.4 |
| Taiwan | 0900 | Apr Industrial Production (YoY%) | -7 | - | -9.9 |
| | | **Friday 24 May** | | | |
| Malaysia | 0500 | Apr CPI (YoY%) | 0.2 | - | 0.2 |
| | 0800 | May Forex Reserves, Mth-end (US$bn) | - | - | 103.4 |
| Philippines | - | Apr Budget Balance (PHP bn) | - | - | -58.4 |
| Singapore | - | Apr Industrial Production (MoM/YoY%) | -3.0/-6.5 | -/- | -2.6/-4.8 |
| Taiwan | 0900 | 1Q F GDP (YoY%) | 1.7 | - | 1.7 |
| | 0920 | Apr Money Supply (M2) (YoY%) | 3.4 | - | 3.1 |

Source: ING, Bloomberg, *GMT


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Snap | 16 May 2019 Indonesia

# Bank Indonesia keeps rates unchanged as expected

Citing mounting global risks, Governor Perry Warjiyo keeps rates unchanged


**6.0%** 7-day reverse repo rate

As expected

## Trade tensions heap pressure on IDR yet again

After performing relatively well in the first four months of the year, the Indonesian rupiah has come under renewed pressure on concerns about a protracted trade war between the US and China. Already we are seeing a negative spillover from the ongoing tariff slinging, with Indonesia reporting worse than expected trade deficit numbers for the month of April. With a fresh round of tariffs levied across borders, the IDR was pushed back, which was enough to convince Governor Warjiyo and the rest of Bank Indonesia to keep rates unchanged at 6.0%.

## BI will monitor external developments and the current account

In tandem with the central bank, the government has attempted to roll out several measures to help alleviate concerns about the current account deficit. Meanwhile, BI has kept its presence in the bond and spot market to help slow the retreat of the IDR in the face of this risk off environment. Central bank officials will look to continue participating in the market to maintain the stability of the IDR, which remains their key strategy for overall financial stability. Moving forward, the government will remain committed to bringing down the current account deficit to lower external vulnerabilities, with Warjiyo indicating that the current account should improve in the third quarter. For now, we expect Warjiyo to retain his neutral stance until we see how the global trade issues play out and if the Federal Reserve reverses course to hike policy rates in 2019.

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# Malaysia's economy outperforms in 1Q

With growth firmly sitting within the central bank's 4.3-4.8% forecast range for 2019 there will be no need for more rate cuts this year. And the external payments position remains positive for the Malaysian ringgit

## Firmer growth, steady policy ahead

Last week's 25 basis point rate cut by the Bank Negara Malaysia seems to be a timely boost to the economy given the slack in domestic investments, while the latest escalation of the US's trade war with China, and persistent risk of it spreading beyond China, also warrants greater policy support for the economy. This, together with the favourable base effect, should drive GDP growth near the top of the BNM's 4.3-4.8% forecast for this year. Meanwhile, persistently low inflation sustains the scope for more BNM policy easing in the event growth weakens further, though this is not what we expect for the rest of the year.

We maintain our forecast of no more BNM rate cuts this year. And unless we see broad emerging market contagion, we don't see any reason why the MYR should remain under weakening pressure going forward, especially as the economy enjoys a healthy external payments position. Our year-end USD/MYR forecast is 4.16.

# 4.5%

1Q19 GDP growth

Better than expected

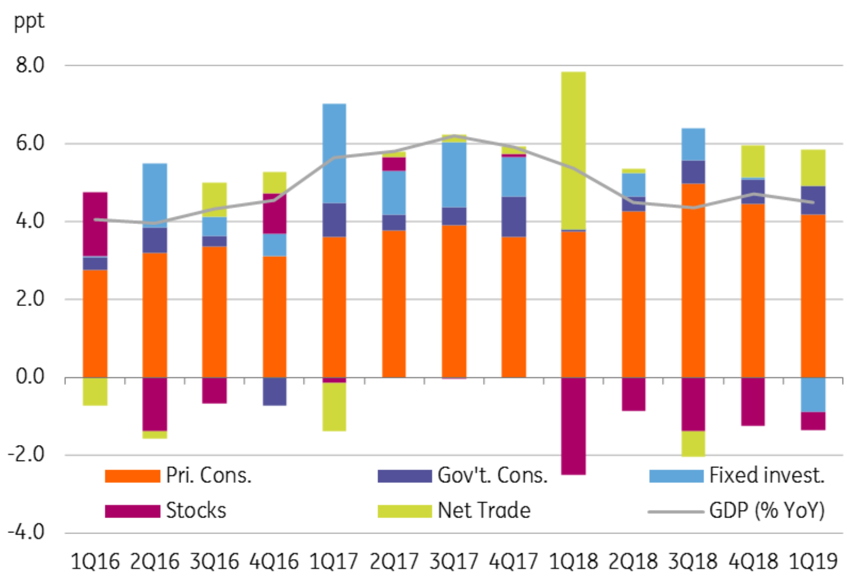
## Just a modest GDP slowdown

Malaysia's GDP grew by 4.5% year-on-year in the first quarter of 2019, surpassing the consensus of 4.3% (and ING forecast of 4.2%). A slowdown from 4.7% growth in the previous quarter resulted from weak domestic demand, especially investment spending. A 3.6% YoY contraction in the fixed capital formation GDP component was the worst since the global financial crisis a decade ago and this alone shaved off nearly a percentage point from the headline GDP growth.

Private consumption growth also eased a bit, though this component continued to be the key GDP growth driver. Firmer government consumption and net trade were some of the offsets. On the industry side, all but the agriculture sectors posted a slowdown.

The above-expected first-quarter GDP on its own lifts our full-year growth forecast from 4.6% to 4.7%, putting it close to the top end of the BNM's 4.3-4.8% forecast for this year. We don't think the government's expectations of 4.9% growth this year will be unachievable given the accommodative macro policies.

## What's driving GDP growth?




Source: Bloomberg, CEIC, ING

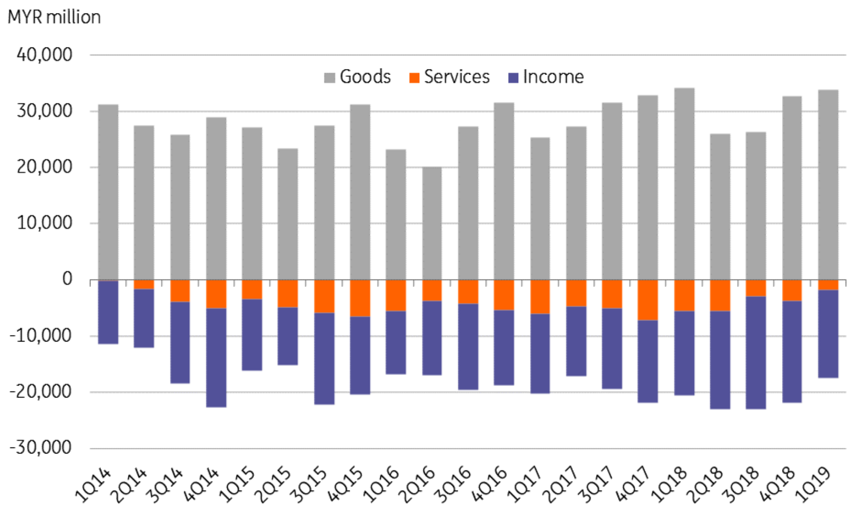
## Current account surplus at 5-year high

Consistent with a steady net trade contribution to GDP growth, the current account of the balance of payments posted a 16.4 billion Malaysian ringgit (MYR) surplus in 1Q19, the highest surplus since 1Q14.

We knew from a wider customs-basis trade surplus that the current surplus widened too; the median consensus was MYR 12.8 billion, up from MYR 10.8 billion in the previous quarter. But narrower deficits on services and income accounts drove the current account surplus to exceed expectations.

A strong first-quarter surplus imparts upside risk to our view of an annual current account surplus equivalent to 2% GDP this year (consensus 2.4%, 2018 2.1%).

## What's driving current account?




Source: Bloomberg, ING

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# Philippine's central bank announces phased RRR redux

The central bank will carry out a cumulative 200 bps cut to the RRR, 100 bps at the end of May, 50 by the end of June and another 50 by the end of July

16% BSP Reserve Requirement Ratio

by end July

## Central bank trims RRR with a twist, the 1st under Diokno

The Philippine's central bank followed through its recent policy rate cut with a reduction to its reserve requirement ratio (RRR) at a non-policy meeting on 16 May 2019, with a twist.

With inflation gliding back within target and expected to remain benign well into 2020, this was the perfect opportunity for the central bank to cut both the policy rate and reduce RRR more so with GDP dropping to 5.6%. In 2018, BSP announced the policy stance would be signalled by changes to the RRP, thereby removing RRR from the official statement and relegating it to an operational tool.

The BSP will carry out a cumulative 200 basis point cut to the RRR, 100 bps at the end of May, 50 by the end of June and another 50 by the end of July. The gradual reduction in RRR will definitely help alleviate the current tight liquidity conditions and complements its recent policy rate cut.

## The right tool for the right problem

After slamming hard on the proverbial brakes in 3Q18 by jacking up rates by 175 basis points, the central bank believed it was time to give the economy a much-needed breather especially with the inflation objective well in hand. Meanwhile, with liquidity conditions tight, as evidenced by seven months of single-digit M3 growth and multi-year high time deposit rates, BSP looked to finally address the lack of funds circulating in the system. Deploying the appropriate tool to address specific ailments was key in this round of decisions despite being tempted to deploy one tool to address all concerns.

## BSP to monitor price developments moving forward

We believe the central bank will remain data-dependent and forward-looking as they look to safeguard price stability to achieve an environment conducive for economic growth.

Moving forward, growth prospects appear to point north post-budget passage and all the more with slowing inflation and the recent BSP easing seen to drive both consumption and capital formation. But for now, after priming its “pacemaker” for growth, the BSP’s move for a “transfusion” was welcome as it complements its previous policy rate cut. Growth will likely fall within the government’s 6-7% target while inflation remains benign, all the while continuing BSP’s reform agenda.

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