Good MornING Asia - 18 February 2019

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In this bundle

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Asia Morning Bites

ASEAN Morning Bytes

General market tone: Risk-on. Markets are seen to trend higher on Monday on reported positive developments on the US-China trade front.

Opinion | 17 February 2019

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In, out, in out, shake it all about...

I could probably pre-write my next morning note, basically reversing all the comments and all the market implications of today's missive. Perhaps there is a clever AI semantic programme out there that could do it for me, saving me the trouble of even getting out of bed?

Today seems the exact opposite of last Friday, where a sour trade-mood was working on markets, hurting risk assets, providing some support to the USD (despite dreadful retail sales figures) and weakening Asian FX across the board.

China, at least, is expressing some optimism on the talks. The US is sounding more guarded, though the US President seems to be more optimistic than some of his negotiators. Perhaps the worst outcome now might be an extension of the March 1 deadline to provide more time. That leaves room for plenty more 180 degree turns in sentiment before, we assume, some eventual "deal" is reached. And consequently, plenty more opportunity for markets to rally, then fade, then rally, then fade...

Cars

One item that may flip the trade-mood back to sourness, is the expected decision on the national security threat to the US of auto imports. The report is due this week from the Commerce

Department. Some speculate that this could result in tariffs of 25% on foreign cars. This is not just an Asian problem, though of course, big automakers Korea and Japan would be in the crosshairs. Importantly, this also drags the EU back into the fight and could see EURUSD break out on the downside which could see spillovers into Asian currency weakness especially for those currencies with basket-peg arrangements.

Asia Day / week

Check out Prakash Sakpal's Asia Week ahead piece for detail of forthcoming releases and events. We'll write up this morning's Singapore NODX numbers separately if there is anything of interest to note. It's also Budget-day in Singapore today. The trade-centric city-state will try to strike the right tone of prudence, while at the same time providing domestic support against a softening external environment. As Prakash notes, Singapore has the financial strength to pull this off.

Otherwise, Prakash also notes that in terms of this morning's 4Q18 GDP for Thailand, there should be a pick-up in growth to 3.5% year-on-year from 3.3% in 3Q18. Underlying this is improved manufacturing growth even as exports continued to weaken. It's still not an exceptional starting point for the government, which is looking for 4% GDP growth in 2019. Besides global factors depressing exports, political uncertainty is likely to overshadow the economy this year. We expect annual GDP growth to slide to 3.8% in 2019 from an estimated 4.1% in 2018. We don't think this will be a sufficient reason for the Bank of Thailand to reverse December's 25bp rate hike, while the currency (THB) continues to be the investors' darling. Aside from the persistently large current account surplus, a major source of confidence in the currency probably rests on expectations that the military Junta maintains its grip on the government after elections in March, keeping political and economic stability.

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ASEAN Morning Bytes

General market tone: Risk-on. Markets are seen to trend higher on Monday on reported positive developments on the US-China trade front.

EM Space: China and the US have reached "consensus in principle"

- **General Asia:** Investors sentiment will likely be boosted on Monday with trade talks apparently going well with the US and China agreeing "in principle" on main topics. Talks will resume in the coming week but for the meantime, market players will likely take this as a cue to snatch up recently beaten down shares.
- **Thailand:** Thailand's GDP data for the final quarter of 2018 is due. Underlying our view of a pick-up in growth to 3.5% year-on-year from 3.3% in 3Q18 is improved manufacturing growth even as exports continued to weaken. We don't think this will be a sufficient reason for the Bank of Thailand to reverse December's 25bp rate hike, while the currency (THB) continues to be investors' darling.
- **Philippines:** The Philippine president penned the all-important rice import bill into law late last Friday, helping ensure a stable supply of rice for the rice-dependent nation. The passage is seen to lop off up to 0.7 percentage points to inflation and this development further cements the central bank's view that inflation will slip to roughly 3% for 2019. Easing inflation pressures may give monetary authorities some leeway to slash policy rates and cut reserve requirements further in the coming months.

What to look out for: US-China trade talks and Fed minutes

- Singapore non-oil exports (18 February)
- Thailand GDP (18 February)
- Germany ZEW confidence (19 February)
- Japan trade (20 February)
- US durable goods (21 February)
- Indonesia policy meeting (21 February)
- Fed minutes (21 February)

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