

Good MornING Asia - 18 January 2019

Notwithstanding the Treasury's denial of a proposal of rolling back tariffs on China, such consideration is a hopeful sign of things on the trade war moving in the right direction

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International theme: Mnuchin and Lighthizer supposedly on opposing sides regarding China

- The market saw directional trading as reports initially showed that the US may be looking to rollback tariffs on China, only to be denied afterward by the Treasury officials. Meanwhile, more Fed speakers seem to be taking on dovish rhetoric with Vice Chair Williams on deck to speak on Friday.

EM Space: Investors may bargain hunt on Friday but gains to be capped

- **General Asia:** Traders may also refrain from taking on large positions amid conflicting reports about the US-China trade prospects.
- **Indonesia:** Bank Indonesia (BI) kept policy rates unchanged at 6.0% on Thursday, a move widely expected by the market. With the Fed seen to hike at a less aggressive pace in 2019 compared to 2018, BI felt that they had space to refrain from hiking rates as the IDR has been an outperformer Asian currency so far this year. Governor Warjiyo had indicated that

the key rate was likely close to peak but he also vowed to remain pre-emptive and ahead of the curve. After being one of the busiest central banks in 2018, BI may be on hold for now for as long as the IDR remains relatively stable.

What to look out for: China GDP and central bank meetings

- Thailand reserves (18 January)
- US consumer sentiment, industrial production, trade and retail sales (14-18 January pending shutdown)
- Fed Williams speaks (18 January)
- China GDP, retail sales and industrial production (21 January)
- Taiwan trade (21 January)
- South Korea GDP (22 January)
- Malaysia GIR (22 January)
- US existing home sales (22 January)
- Malaysia inflation (23 January)
- Singapore inflation (23 January)
- Philippines GDP (24 January)
- Malaysia policy meeting (24 January)
- ECB policy meeting (24 January)
- South Korea policy meeting (24 January)

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Asia week ahead: Central banks to take cues from GDP

Central bank policy meetings and 4Q18 GDP reports dominate next week's Asian economic calendar. Asian central banks will tread a cautious path but...



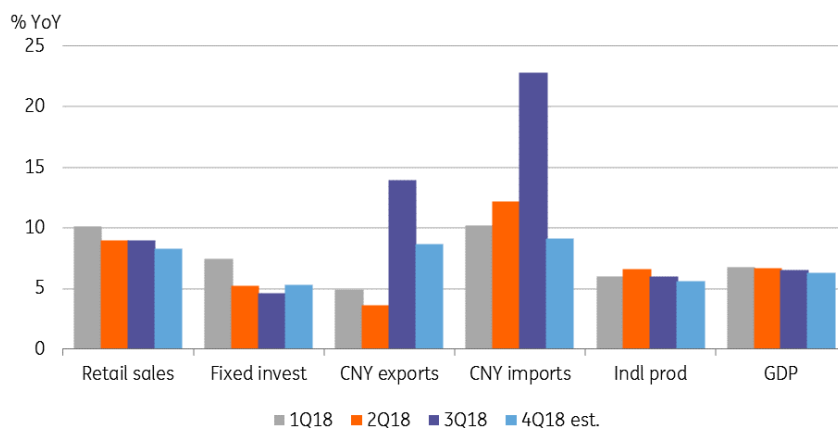
Source: Shutterstock

➔ Downside risk to China's growth

The week begins with China's 4Q18 GDP and December data on retail sales, fixed asset investment, and industrial production. The consensus estimate of 6.4% year-on-year GDP growth is barely a slowdown from 6.5% in the previous quarter despite all the hue and cry that weighed down global markets in the last quarter. However, a sharp deceleration in manufacturing and retail sales as well as in trade growth, and falling industrial profits signal a downside risk to the consensus GDP estimate. Our house forecast is 6.3%.

Net trade seemed to have offset some of the slack in domestic spending. Although export growth slowed in the last quarter, import growth slowed by more than exports and the trade surplus widened from a year ago. Net trade subtracted from GDP growth in the first three quarters of 2018 but contributed to it in the final quarter.

China: What's driving GDP growth?



Source: Bloomberg, CEIC, ING

➔ Asia's GDP growth ends 2018 on weaker note

Korea and the Philippines also report GDP for 4Q18. As with China, we think consensus growth estimates -- 2.8% for Korea and 6.4% for the Philippines -- are subject to asymmetric downside risk (ING forecasts 2.1% and 5.9% respectively).

Singapore's industrial production figures for December will indicate the direction of revision to the advance release of 4Q GDP estimate of 2.2%. It will certainly be downward given disappointing non-oil domestic exports in December. Likewise, Taiwan's December IP data will help to fine-tune estimates of GDP growth in the last quarter.

➔ More reasons for central banks to stay on hold in 2019

A weak end to one year makes it arithmetically harder for the following year to score well, underpinning our view that most Asian central banks will leave policies on hold this year, if not ease.

Central banks in Japan, Korea, and Malaysia meet next week. All are expected to remain on hold. Our interest lies in the Bank of Korea's policy as the central bank also releases its quarterly Economic Outlook on the same day (24 January). In its October report, the BoK forecast 2.7% GDP growth for 2019, the same as its estimate for 2018. The 2018 growth forecast is unlikely to be met and the pace for 2019 looks to be far off in view of the global slowdown in the tech sector. As such, a downgrade to the BoK's growth outlook for the current year shouldn't come as surprise to anyone. However, we don't think this will move the central bank to reverse the December rate hike just yet.

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Monday 21 January					
China	0200	Dec Retail Sales (YoY%)	8.0	8.2	8.1
	0200	Dec Industrial Production (YoY%)	5.4	5.3	5.4
	0200	Dec Fixed Asset Investment (YTD, YoY%)	6.1	6.0	5.9
	0200	4Q GDP (QoQ, SA/YoY%)	-/6.3	1.5/6.4	1.6/6.5
Taiwan	0800	Dec Export Orders (YoY%)	-2.0	-	-2.1
Thailand	-	Dec Exports (Cust est, YoY%)	2.5	-	-1.0
	-	Dec Imports (Cust est, YoY%)	8.0	-	14.7
	-	Dec Trade Balance (US\$m)	-1322.0	-	-1180
South Korea	2100	Dec PPI (MoM/YoY%)	-0.2	-/-	-0.7/1.6
	2300	4Q P GDP (QoQ/YoY%)	0.0	-/-	0.6/2.0
Tuesday 22 January					
Hong Kong	0815	Dec Composite CPI (%YoY)	2.6	-	2.6
Malaysia	0700	Forex Reserves, Month-end (US\$bn)	-	-	101.4
Wednesday 23 January					
Malaysia	0400	Dec CPI (YoY%)	0.3	-	0.2
Singapore	0500	Dec CPI (YoY%)	-0.3	-	0.3
	0500	Dec CPI Core (YoY%)	1.7	-	1.7
Taiwan	0800	Dec Industrial Production (YoY%)	-2.0	-	2.1
Thursday 24 January					
Malaysia	0700	Overnight Policy Rate	3.25	-	3.25
Philippines	0200	4Q GDP (QoQ, SA/YoY%)	-/5.9	-/-	1.4/6.1
Taiwan	0820	Dec Money Supply (M2) (YoY%)	3.2	-	3.1
South Korea	2100	BoK Consumer Sentiment Index	96.4	-	97.2
	-	7-Day Repo Rate	1.75	-	1.75
Friday 25 January					
Singapore	0500	Dec Industrial Production (MoM/YoY%)	6.1/-5.9	-/-	2.8/7.6

Source: ING, Bloomberg

Australia home loan approvals fall less than expected

November Home loan approvals in Australia fell by 0.9% MoM, not as bad as the 1.5% decline expected, though in AUD terms, the decline was 2.2% MoM as the...



-0.9%

Better than expected

Home Loan approvals

Expected -1.5%

Lending down, but pace steady

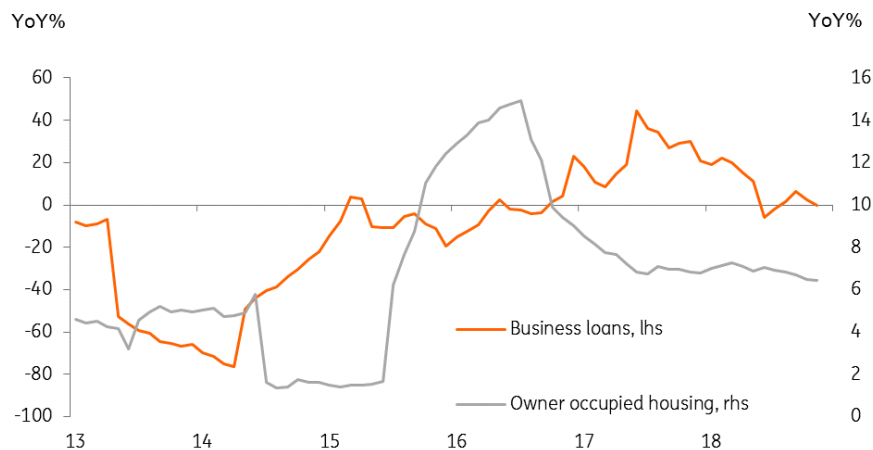
The 0.9% decline in home loan approvals in November was not quite as bad as the 1.5% decline expected by forecasters, though this is based on the number of approvals, and the value still declined at a 2.2%MoM rate, not far off the AUD 2.5% decline in October. Nevertheless, whilst the direction of the run of approvals is disappointing, there seems to be no acceleration in its decline, and this looks like an orderly adjustment rather than the onset of any dramatic loss of confidence in the housing market, which might spill over into faster house price declines.

A couple of regions even saw a pick up in approvals, including Victoria, though again the AUD value comparison reverses this conclusion.

There was a slightly faster pace of decline of home loans for investment purposes, which is not surprising as home prices continue to decline, but at 4.5%, this was not too eye-popping either.

Compared with a year ago, bank lending for owner-occupied housing is still running a positive rate, though we would expect this to diminish over the coming months. Business loans and advances, on the other hand, are no longer growing versus a year ago.

Australia bank lending by type of loan



Consensus view on Australia not changing substantially

Separately, yesterday's release of the January Westpac- Melbourne Institute consumer confidence data, showed a 4.7% MoM fall. This more timely data provides grounds for continued caution on the outlook for Australia, though the level of confidence remains satisfactory, it does not support a conclusion of near-term improvement.

With this mixed economic backdrop, we are expecting further downside to emerge in the AUD this year, and view consensus forecast expectations of RBA rate hikes in 1Q 2020 as too optimistic. Admittedly, the labour market remains strong, but we are concerned that this may reflect past strength, rather than indicate a reason for future optimism.

Bank bill futures still point to cuts in 2020 rather than hikes. This is probably too pessimistic, But in any case, the case for an RBA hike within 12 months time looks very weak.

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Indonesia: Central bank leaves rates unchanged

Bank Indonesia kept policy levers unchanged given a more dovish outlook from the Federal Reserve and a stable rupiah



Central bank pauses as IDR remains stable

Bank Indonesia (BI) kept policy rates untouched to start the year, a move widely expected by the market, after Governor Perry Warjiyo took on a dovish tone by saying that key rates were “close to peak”. With the Fed expected to hike at a less aggressive pace in 2019 compared to 2018, the central bank felt it had space to refrain from hiking rates with the Indonesian rupiah (IDR) being one of the best-performing currencies for the year.

Curbing import appetite and stable IDR

BI also noted that it would work with the national government to control the current account deficit, citing the recent slowing trend in imports, although the bank admitted that export growth may remain tepid in the near-term given slowing global growth. Surging imports in 2018 and a stark widening of the current account were tagged as reasons for the IDR's weakness in 2018.

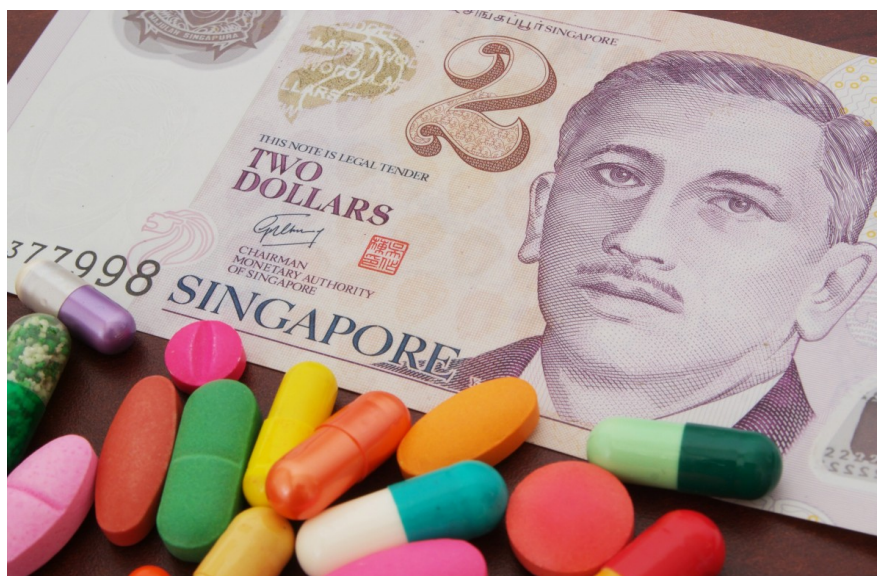
Governor Warjiyo vowed to safeguard the IDR and keep it in line with the economy's fundamentals while remaining vigilant against factors that could affect the currency's path. The central bank also expects the currency to remain broadly stable with a strengthening bias for the year.

Dovish outlook

With inflation expected to remain within target to average 2.5-4.5% for the year and the IDR outperforming most of the region, the central bank left rates at 6.00% to open the year. Given Warjiyo's dovish tilt on Wednesday and IDR's recent stability, we expect the BI to remain dovish unless we see a stark reversal in the currency's trajectory in the next few months.

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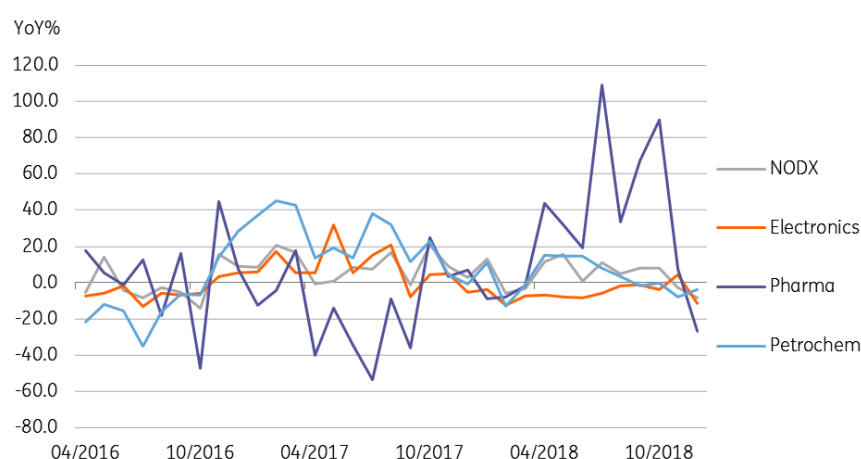


Everything was weak

It's hard to find a single smoking gun for today's 8.5%YoY decline in NODX. Practically everything was weak. The consensus had been looking for a bounce of about 2% following the 2.6%YoY decline in November, It didn't get it.

By product type, electronics continued to run weak, with an 11.2%YoY decline more than reversing November's small 4.3% bounce. Chemicals production was down 10.4%, led by a whopping 26.8% fall in Pharmaceuticals, and helped lower by a 3.5% fall in Petrochemicals.

NODX by major component YoY%



Doesn't look like a trade war effect

It is also difficult to pin this decline down to any single geopolitical event, such as the US-China Trade war.

By country, exports to China recovered most of their losses in November to post a 15.4% increase (fell 16.4%YoY in November). Exports to the Us also held up well at 31.1%YoY.

But across Asia, the export story was an unmitigated slump, with negative growth in Hong Kong (admittedly only -0.1%), Malaysia 9-15.5%), Japan (-17.5%), Indonesia (-12.1%), Taiwan (-10.7%) Thailand(-23.2%), India (-20.6%) and Korea (-39.1%).

GDP revisions look likely

Our own estimate for full-year 2018 GDP was already 0.1pp below the official estimate of 3.3% based on preliminary data, which already suggests that this release was on the verge of a rounding revision downward.

Today's data almost certainly will result in a downward revision to the 1.6%QoQ 4QGDP release and will either confirm 2018 at our lower estimate, or perhaps even take it a notch lower still. Next week's industrial production figures (25 Jan) should give us a pointer.

If so, then it could force us also to ease down our full-year 2019 GDP forecast, currently 2.5%. A weak end to one year always makes it arithmetically harder for the following year to score well. It also lends weight to our view that the MAS will not be conducting any more tightening of monetary conditions through the nominal effective exchange rate index this year.

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