

## Good MornING Asia - 18 October 2018

Lifting a key overhang on currency markets, the US Treasury didn't label China as a currency manipulator. But the risk of higher US interest rates continues to weigh on markets

### In this bundle



#### ASEAN Morning Bytes

General market tone: Risk-off. Minutes from the latest Fed minutes showed that almost all members of the FOMC remained in favor of raising rates, despite...



#### South Korea

##### 5 reasons why Korea does not need to hike (they still might)

We don't think the Bank of Korea (BoK) will hike at this Thursday's meeting, and we don't believe a hike is what the Korean economy needs. But...

By Robert Carnell



#### Singapore

##### Singapore's non-oil domestic exports weaker than expected

Non-oil domestic exports (NODX) rise 8.3%YoY, -4.3%MoM.

Pharmaceuticals growth again prevents a bigger export headache.

By Robert Carnell

---

Article | 17 October 2018

## ASEAN Morning Bytes

General market tone: Risk-off. Minutes from the latest Fed minutes showed that almost all members of the FOMC remained in favor of raising rates, despite criticism from the White House



### International theme: Risk sentiments swings on earnings and FOMC minutes

- Risk tone swung about on Wednesday as markets reacted to earnings reports from major corporates while also taking their cue from the FOMC minutes.

### EM Space: US refrains from calling China a “manipulator”

- **General Asia:** Risk sentiment in the region will likely track the dour sentiment at the end of trading on Wall Street with risks of higher rates seen to weigh on markets. The US Treasury pulled back from calling China a currency manipulator, possibly to soothe some tension between the two sides as the trade war continues.
- **Indonesia:** Indonesia recorded a budget deficit of 1.35% of GDP, much lower than the level recorded in 3Q 2017 and down from 2% in 2Q 2018. The government attributed the improvement to improved tax collections, which were up 16.5%. The improved deficit numbers will limit the need for the government to borrow aggressively, helping boost investor appetite for Indonesian bonds overnight.

- **Philippines:** The government granted the petition for a transport fare increase of PHP 1.00 for jeepneys, the iconic, soon-to-be-extinct, mini-buses used by Filipinos. The almost 10% increase in transport costs will likely exert further upward pressure on CPI inflation in the coming months and will likely call the BSP to action with another 25 bps rate hike at its December meeting.

## What to look out for: Fed speakers

- Bank of Korea meeting (18 October)
- US initial jobless claims (18 October)
- Fed Bullard (18 October)
- Fed Kaplan (19 October)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

## 5 reasons why Korea does not need to hike (they still might)

We don't think the Bank of Korea (BoK) will hike at this Thursday's meeting, and we don't believe a hike is what the Korean economy needs. But government pressure is building, and we may see Governor Lee hint at a hike in November.



Source: Shutterstock

### Governor Lee Ju-yeol has sent mixed messages

As far as forward guidance goes, BoK Governor Lee has provided a little for everyone recently. For the seven of 18 consensus hawks looking for a policy rate hike to 1.75% from 1.5% at this meeting, comments that inflation was no impediment to a rate hike now the headline rate was close to 2.0%, house prices high and household debt worrisome, the outcome must seem fairly clear.

But the Governor has also been clear to point out that structural issues such as household debt are not a monetary issue alone. He has also noted that the house price problem is largely a Seoul-only phenomenon. And any hike that is administered would have to be set against the expectation that the BoK will be revising down their GDP forecasts in their latest assessment.

We're reasonably comfortable in forecasting no change to rates this month, and will provide

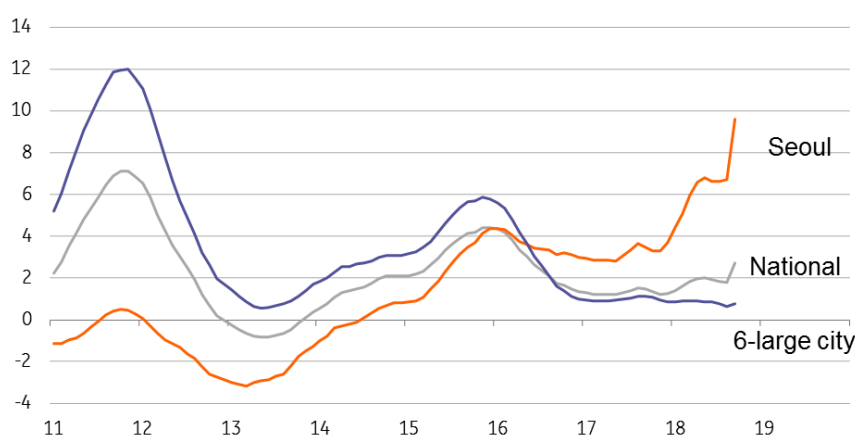
some more detail in the coming paragraphs. But we are less comfortable with our no change in rates this year. We may get a signal on Thursday 18th October that a November hike is coming. In which case, we will not ignore it and will change our current forecasts for no change this year. That doesn't mean we will agree with it.

## Reasons not to hike 1: Housing

As I said, we don't see a rate hike as imminent. Nor does it seem like an effective policy response to Korea's economic stresses. Here are a few reasons why...

- **Housing:** As the chart below shows, Korean house price growth is a Seoul phenomenon. A 6-big city measure produced by Kookmin Bank shows house price inflation outside Seoul to be very low, and on broader measures, there are a number of cities with declining house prices. So popping a Seoul house price bubble may squash weaker housing markets in other regions. This does not seem a desirable, or a finessed policy response.

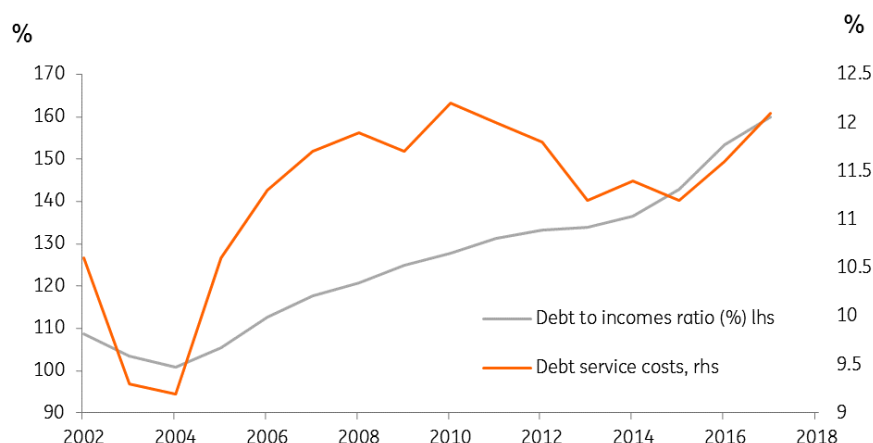
### House prices outside Seoul flat to falling



## Reasons not to hike 2: Household debt

- **Household debt:** A similar argument applies to the household debt problem. Yes, Korean household debt is high, at nearly 160% of incomes. Most of this is mortgage related. And much of it will reflect the Seoul house price situation. Is a national interest rate increase an appropriate response to a regional market issue? Or would some more targeted macroprudential measure be more effective for a lower cost in terms of foregone economic growth. The answer is pretty clear to us, so why not to the Government and BoK?

## Household debt to incomes ratio



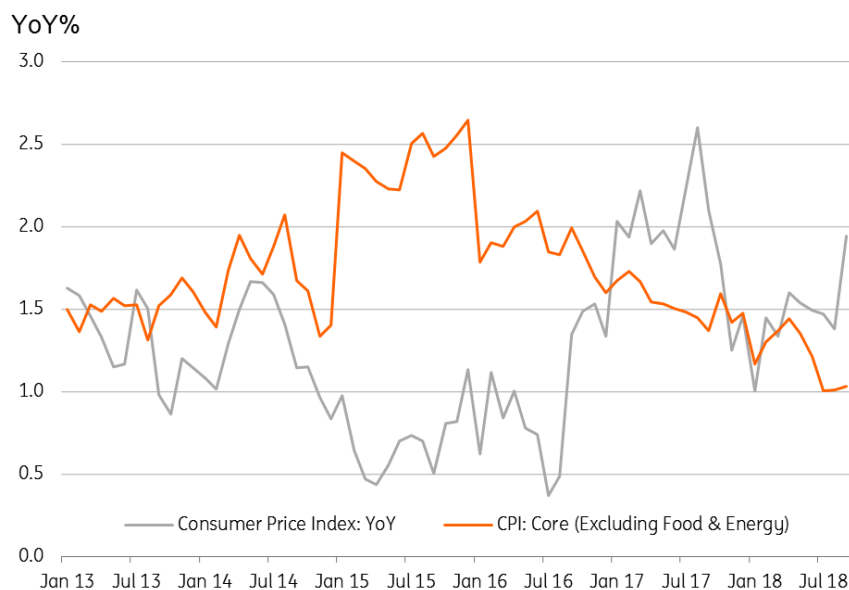
### Reasons not to hike 3: Official growth forecasts

- Economic Outlook:** The Korean growth outlook has deteriorated this year, with softer exports and production growth as well as weaker labour market data spoiling the picture. GDP for 2018 and 2019 was forecast respectively at 2.9% and 2.8% in the BoK's July outlook update. Both these figures are likely to need downgrading. That seems an odd backdrop against which to be raising rates. This is why any rate hike decision will likely be postponed to November to avoid the glaring inconsistency it would otherwise generate. It doesn't really make it any less inconsistent though...

### Reasons not to hike 4: Inflation

- Inflation:** At 1.9%, the headline inflation rate is not far from the BoK's 2% target. Unlike the GDP backdrop, this is slightly more convenient from a reporting perspective. But besides some higher energy and food price-related inflation (stemming from higher crude oil prices and weather affected food prices) core inflation is very steady at only 1.0%. Given time, the food and energy price increases will drop out of the index. There is no evidence of second-round price effects. And with the labour market softening, there are not likely to be any in the future either. Inflation, therefore, does not warrant higher rates even if it does not create the reporting dilemma of GDP.

## Korean Inflation



## Reasons not to hike 5: Rate divergence

- Rate divergence:** The divergence of Korean and US rates is only problematic if it results in a weaker Korean won (KRW). And even then, it really isn't a big deal. Korea has no external debt problem, having run a current account surplus for decades. Indeed, a softer economy and the additional currency competitiveness it would deliver might be quite helpful. Any imported inflation would, as noted, also likely only have transitory effects on the inflation rate. In any case, it is not as if Korea's regional trading competitors have seen tremendous currency strength recently. In fact, quite the opposite. So if Korea bucked this trend, it might find itself with a quickly uncompetitive currency.

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

# Singapore's non-oil domestic exports weaker than expected

Non-oil domestic exports (NODX) rise 8.3%YoY, -4.3%MoM.  
Pharmaceuticals growth again prevents a bigger export headache.



Container yard

## Pharma does all the hard work, electronics looks weak...again

There are some rather predictable export trends emerging at an industry level: Singapore's electronics exports were lower than the same month a year ago, for the tenth consecutive time in September. Admittedly the year-on-year decline is reducing. But September is usually a very weak month anyway for electronics exports. All those electronic components destined for electrical consumer durable goods will already have been exported ahead of the gift-giving season in the West, so there is little comfort to be gleaned there.

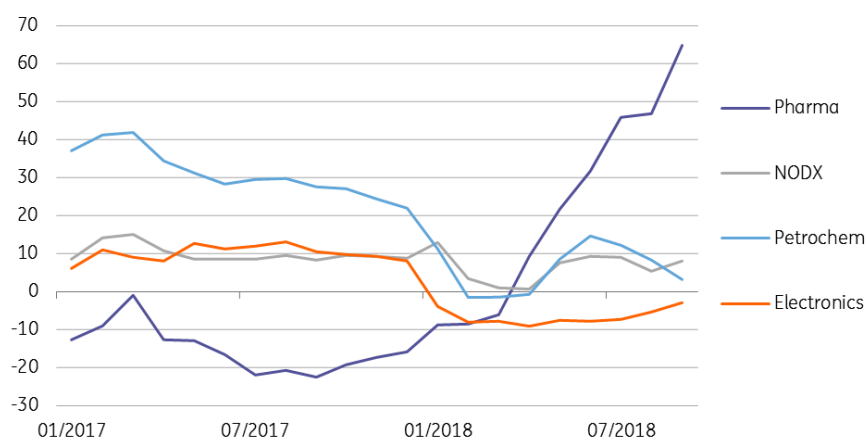
There isn't all that much life in the petrochemical sector either, which is 1.5% lower than a year ago. That's a bit worrying. This sector should be a good litmus test for regional activity...

So were it not for another stellar performance by the pharmaceutical industry, showing a 67.5%YoY gain, exports overall would have looked dreadful.

Given the vagaries of year on year data and inconsistent base effects, the chart below shows the data in year-to date year-on-year form, which irons out some of the wrinkles. Again, the message is, pharma looks awesome, everything else looks distinctly moribund.



## Non-Oil Domestic Exports (year to date year-on-year)



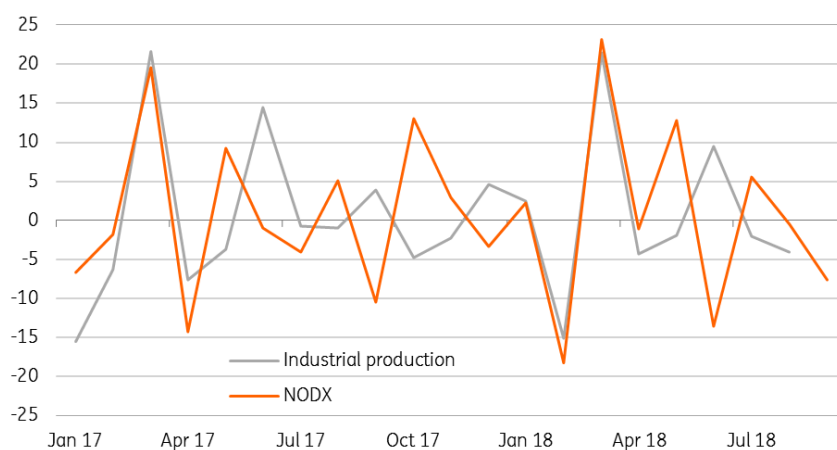
## Exports and production linked - sort of

Although there is clearly a longer term relationship between non-oil domestic exports and industrial production in Singapore, it is not particularly tight. What then, is the relationship between monthly moves in these indicators? Does the September NODX tell us anything about the later release of industrial production, and hence GDP growth?

Well, it turns about that the answer is yes, albeit somewhat unreliably. The month-on-month percentage change in non-seasonally adjusted NODX does move with industrial production - much of the time in the same month. Where deviations occur, it looks as if the NODX data tends to provide a one month lead over the production numbers. So it seems, production responds to export demand, sometimes with a lag, rather than exports responding to production. That sort of makes sense.

In this case, with production playing catch up with exports, a decline in unadjusted production data would equate to a negative year on year result, and potentially, some downward revision to the advance 3Q18 GDP figure (was 2.6%YoY).

## NODX and Industrial production, MoM% (non-seasonally adjusted)



## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).