

Good MornING Asia - 18 September 2020

Odds and ends round off the week, with the longer-term direction still looking undecided

In this bundle



Philippines

Catch of the week

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Indonesia

Indonesia's central bank takes a pause as rupiah comes under pressure

Bank Indonesia kept rates unchanged again today making extra effort to highlight their independence

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Will Britain rule the waves after Brexit negotiations?

Lots going on, no theme

I usually like to wrap these notes around some sort of theme, but I can't find one today. So this is going to read like a very disjointed set of comments today.

I'm going to start with a first, a link to an August story in "[Fishing Daily](#)" (I kid you not). Why? I can almost hear the handful of you that have not already stopped reading. Well, EU President, Ursula von der Leyen has been sounding more positive about a trade deal with the UK overnight, though noting that there are still big gulfs over fishing and state aid/subsidies.

But as we've known all along, fishing accounts for less than 0.1% of UK GDP (confirmed by Fishing Daily), almost all of which (mainly mackerel) are sold to the EU and not even consumed in the UK. So not striking a deal to protect a handful of fishing boats seems a bit lopsided, to be kind.

Then on the subsidy issue, the UK recently signed a trade deal with Japan, to make up for the one it is losing as it leaves the EU trade deal. That new deal included some strict conditionality on unfair state subsidies. In other words, of the two substantial issues remaining to reach an agreement, one is a non-issue, and the other is already ruled out through other treaties.

I'm beginning to wonder if a deal is possible after all. Anyway, [here's a link to the latest from](#)

[James Smith in the UK](#), who is our real expert on all this. And he's not quite so chipper (chipper, get it? Fish and chips? OK, never mind...)

Covid-19 update

On the Covid front, which we haven't talked about for some time, globally confirmed cases surpassed 30 million last night. That unhappy milestone also comes against comments from some of the vaccine makers, which have indicated that they are unlikely to have a vaccine safe for roll-out by October, though they still seem confident that the end of the year is possible.

And we've had some slightly more positive news on fiscal support in the United States, with President Trump sounding supportive of the Republican's larger \$1.5tr stimulus plan, though it still falls well short of the Democrats demands, and does not even have the full support of the Republican party, with some feeling it already goes too far. I'd file this under "worth watching, but not market-relevant yet" as far as our local markets here in Asia are concerned.

Markets unsure of direction

Yesterday's FX market action mirrors the rest of this dis-jointed note. The EUR fell back sharply yesterday, though has since recovered much of the ground it lost. USDCNH largely followed this EUR pattern too.

Just looking at the price action since August, when the EUR began to consolidate after strong gains. A month ago, it was still making higher highs and higher lows. But that isn't the case now. Non-Commercial EUR longs are still very elevated according to CFTC data, but they have been coming off their recent peaks. We may not be facing imminent correction but a range-bound pause looks to be forming before the next leg of the action commences, whichever way that is.

Scant data

Today's macro data wasn't really worth getting out of bed for. The Japanese August CPI numbers were weak, with headline and core measures all declining. The ex-food and energy inflation rate is now -0.2%YoY, the headline is 0.2%. Neither rate is anywhere near the 2% inflation target, and neither is likely to be without a fresh look at policy, which new PM Suga does not appear likely to do.

Tonight's US University of Michigan sentiment indicators have been demonstrating a fairly classic dead cat bounce since the end of the US lockdown. They aren't likely to demonstrate anything new today to encourage a market re-think.

And my colleague in Manila, Nicky Mapa, has the following comment on Bangko Sentral ng Pilipinas (BSP) today: "BSP will be conducting its maiden issuance of bills today. The size of the first issuance will be modest at Php 20bn with the central bank issuing 28-day bills. This move is not expected to affect overall liquidity in the market given its relatively small size but BSP will likely be conducting these auctions as test runs for possible larger issuances when it needs to siphon off liquidity eventually."

Happy Friday

That's it for another week. I'm off all next week, so I will leave you in the capable hands of my colleagues in the region. It looks as if it will be an uneventful week, though those are often the ones that deliver the biggest market headaches. Good luck to everyone.

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Indonesia's central bank takes a pause as rupiah comes under pressure

Bank Indonesia kept rates unchanged again today making extra effort to highlight their independence



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

4.0%

7-day reverse repurchase rate

BI policy rate

As expected

Bank Indonesia pauses for the second time

Indonesia's central bank decided to keep rates on hold again today despite below-target inflation and a dimming growth outlook.

Price pressures have fallen sharply with August inflation at 1.3%, well below the 2-4% inflation target for the year. Meanwhile, the need for additional monetary stimulus remains apparent as growth prospects dimmed further with authorities expecting 3Q GDP to fall close to the lower end of the forecast range of -2.0 to 0.0%.

Pressure on the currency was undoubtedly the reason for Thursday's pause with IDR down roughly 2% for the month with concerns about central bank independence acting as the main drag on sentiment and the currency.

Central bank hopes to convince markets that bond purchases will end in 2020

Monetary authorities took extra effort to highlight their independence after the decision, indicating that “burden-sharing” bond purchases would undoubtedly end in 2020.

Officials however admitted that they would remain on “standby” for potential financing, but reiterated that President Jokowi and finance minister Indrawati had clearly stated that BI would remain independent.

We expect the central bank to keep rates unchanged until the currency stabilises which will likely only surface when concerns about potential follow-on bond purchases are put to rest for good.

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