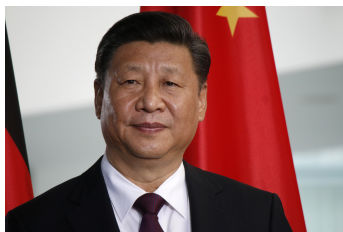


Good MornING Asia - 19 August 2021

Comments from President Xi overnight continue to provide the market with food for thought on China as he talks about redistribution of wealth - not necessarily market-negative

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Australia

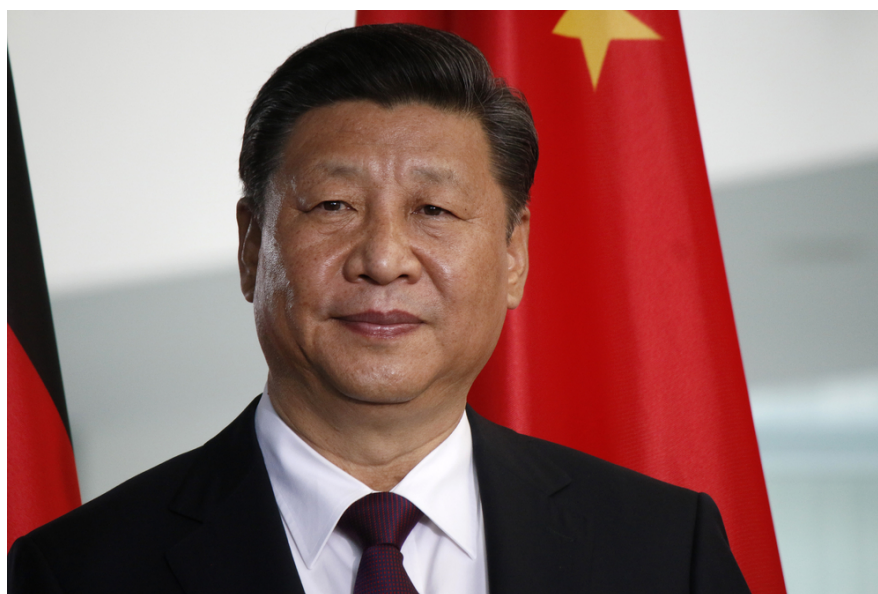
Australia: 2Q21 Wage price index rising sedately

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Source: Shutterstock

Tilt to socialism

It's quite ironic that we are writing about a tilt to socialism in the world's biggest, notionally communist economy. But that seems to be the nub of comments from China's President Xi yesterday. My colleague Iris in Hong Kong sees these latest remarks as a sign that tax rates are likely to rise. But she notes that this is not just going to be about higher property taxes - as many news articles seem to be suggesting. In her view, we will also see more progressive tax rates on individual incomes, and also some increase in corporate tax rates for private-owned companies. We may also see a difference between tax rates in urban centres which favours those in more rural settings to offset the existing income disparities there.

All of this comes on the heels of the increased regulations on fintechs, gaming companies, ride-hailing apps, private education providing firms and so on that have been unsettling investors in recent weeks. It really does look as if President Xi is trying to reshape China's economy, and in a way that protects the everyday person from "big business". That should be popular. Not that policy popularity really matters in China. Markets were also provided some offsetting relief yesterday in the form of the recapitalization of a troubled large state-owned bad debt manager that has been dominating headlines this year. And that likely dominated market sentiment in the face of these latest announcements.

It's not clear to us that any of these latest shifts in China's official policy stance towards private enterprise are necessarily market-negative. Though they might appear so at first glance, a more charitable interpretation is that they put these industries on a more sustainable footing, while pushing back against monopolistic industry characteristics. More competition, less rent-seeking behaviour, this should be generally beneficial. Though markets may not see it that way.

Asia today

With little on the agenda from the G-7 today, after overnight insights into the Fed's thinking on the taper in the minutes of their August meeting ([see also this from James Knightley and Padhraic Garvey](#)), our focus will be mainly local today.

First up, we get the Australian labour report. With the AUD looking pretty heavy recently, any disappointment here could lead to new lows, though the trend of the data has been generally better than expected, the latest numbers coincide with recent lockdowns, so bad news can't be ruled out. The unemployment rate will be worth watching as it could give a counterintuitive move in the face of falling labour participation. We will know soon enough.

And there is also Bank Indonesia, though we don't anticipate anything from them today, or for months. For more on this, [see our sister publication, ASEAN Bytes.](#)

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ASEAN Morning Bytes

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EM Space: Investors focus on Taper talk

- **General Asia:** Asian markets may open on the backfoot on Thursday as investors react to the minutes of the FOMC meeting which suggested most Fed officials support beginning the taper before the year-end. The focus will shift back to economic data with US initial jobless claims scheduled for release on Thursday before shifting to the upcoming Jackson Hole symposium next week. Meanwhile, market sentiment will likely remain sensitive to data on global growth as the Delta variant spreads across several jurisdictions.
- **Philippines:** Authorities downgraded the official GDP growth forecast for 2021 to 4-5% (6-7% previously) citing the negative impact from the ongoing Delta variant wave. Official growth projections for 2022 (7-9%) and 2023 (6-7%) were retained. Government officials will focus on accelerating the pace of vaccination with only about 11.5% of the total population vaccinated as of today. We had previously trimmed our GDP growth projection to 3.8% and we may need to rework our forecast should the current period of heightened restrictions be extended further.
- **Indonesia:** Bank Indonesia (BI) meets to discuss policy today. Governor Warjiyo is widely expected to keep rates at 3.5%. Previously, Warjiyo had signaled a “pro-growth” stance suggesting he would be on hold for the rest of the year to provide monetary support for the

economic recovery. We do not expect additional rate cuts from BI however as Governor Warjiyo also cited currency stability as one key objective for this year. We expect BI to unveil specialized incentives to help boost bank lending with further rate cuts off the table for now while IDR will likely come under pressure in the near term with market focus back on the Fed taper.

What to look out for: Covid-19 developments

- Hong Kong CPI inflation (19 August)
- Bank Indonesia policy meeting (19 August)
- US initial jobless claims (19 August)
- Regional GIR data (20 August)
- Fed Kaplan speech (20 August)

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Australia: 2Q21 Wage price index rising sedately

Arguably the number one data point for the Reserve Bank of Australia (RBA), the wage price index rose less in the second quarter than forecasters were expecting. No one anticipated a result consistent with imminent policy normalisation, but this may make that prospect seem even more distant now.



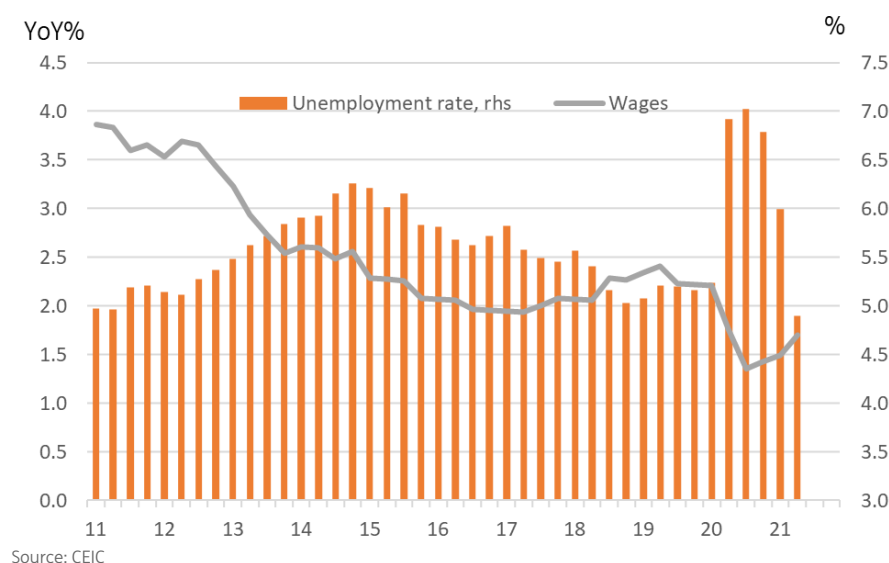
1.7%

Wage Price Index

Year on year growth

Lower than expected

Wages growth and unemployment rate



Australia's 2Q21 wage price index is quite a big deal, as the RBA has put a lot of weight on wages growth as the trigger for an eventual normalisation in policy. The 2Q21 wage price index showed growth of only 1.7%YoY following a 0.4%QoQ increase.

This was up from 1.5%YoY in 1Q21, but lower than the 1.9%YoY growth expected.

To be fair, no one was expecting this latest set of data to deliver a reading consistent with an imminent change in the Reserve Bank's policy stance. But the labour market has been improving faster than either the forecasting community or the RBA has been expecting, so an upside miss might have been thought more likely than this downside result.

Market expectations for the first RBA hike are way out at the end of 2022 using bank bill futures to imply future policy rates. This is earlier than the RBA suggested in its [latest statement](#) and [recent board minutes](#). These wage figures may push those expectations further out into 2023, weighing on an already heavy-looking AUD.

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