Good MornING Asia - 19 February 2019

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By Robert Carnell

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Rule of thumb

The rule of thumb regarding trade and currencies that has served us well in the last twelve months runs something like this: If there is a trade dispute involving the imposition of tariffs by one nation against another, the "aggressor" nation (usually the US in the context of recent history) will see their currency strengthen against the "recipient" nation (for which read, China, Mexico, Canada, etc).

The reason for this is that financial markets like *balance*, so if one country gains an advantage through some means such as tariffs, then the currency automatically changes its external value to lean against this. If it went the other way, then tariffs would not only buy you a competitive advantage, but your currency would swing in behind with a double whammy, and everyone would end up tariffing everyone else to enormous benefit, and that simply doesn't make sense. Sometimes (not often) economics actually works.

So it is a bit odd this morning to see how little the latest trade concern over autos and the EU is impacting the EURUSD rate. Since we wrote yesterday, EURUSD (then trading at just under 1.13, is now at 1.1311, having been as high as 1.1334. Of course, there is plenty of other stuff going on. But as a relatively "new" (old really, but having a bit of a renaissance) story, I would have expected this to have gone the other way.

The story was a bit under the radar yesterday, so it may get more prominence today. If not, scrub that. Move on. Look for the next idea.

SGD steady after budget

Yesterday's Singaporean budget delivered a fiscal boost of 1.1% of GDP for 2019, assuming that all of the change from the 0.4% surplus for 2018 to the 0.7% deficit projected for 2019 is policy, not cyclically driven. Even allowing for some small tailing off in government revenues due to the economic slowdown, the budget provides a decent offset to an external environment that is clearly providing headwinds for this very open economy.

The SGD didn't do a lot on the day. Some intraday strength gave way later on, and today the rate of 1.3565 is virtually the same as this time yesterday.

We won't be amending our 2.5% GDP forecast for 2019 just yet. This always felt like a somewhat generous forecast to us, so there is some slack already built into it for things such as this. Indeed, we may yet have to trim the figures.

Asia today

The newsflow has already got off to a weak start with Korean export prices (mainly semiconductor prices) continuing to fall. Import prices have risen, which suggests that a terms-of-trade shock is underway which could benefit from some KRW weakness. There isn't much evidence of that today either, so economics seems to be failing us again...

The other events to watch today are down-under, where the Reserve Bank of Australia's minutes for the Feb policy meeting (rates unchanged, but bias shifted) will be released. That could put meat on the bones of Governor Lowe's more dovish comments and the accompanying statement. The AUD has been doing better in recent days on an improved global trade outlook. But recent comments from Assistant Governor, Christopher Kent, suggest that the RBA would be extremely relaxed to see the AUD weaken further.

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EM Space: Emerging markets to see some gains on trade hopes

- **General Asia:** Risk sentiment will likely be intact on Tuesday with optimism over the trade talks seen to push markets higher. Trump shared that both sides were closer than ever to "having a real trade deal" with Beijing.
- **Malaysia:** Former central bank governor Dr. Zeti Akhtar Aziz expects the Malaysian economy to remain on a sturdy growth path, which she describes to be between 4-6% GDP growth, despite challenging environment. In our baseline scenario, the growth hovers in the lower half of Dr. Zeti's sturdy range and the BNM leaves the monetary policy on hold into the medium term.
- **Singapore:** FY2019 budget delivered a fiscal boost of 1.1% of GDP for 2019, assuming that all of the change from the 0.4% surplus for 2018 to the 0.7% deficit projected for 2019 is policy, not cyclically driven. Even allowing for some small tailing off in government revenues due to the economic slowdown, the budget provides a decent offset to an external environment that is clearly providing headwinds for this very open economy. We won't be amending our 2.5% GDP forecast for 2019 just yet. This always felt like a somewhat generous forecast to us, so there is some slack already built into it for things such as this. Indeed, we may yet have to trim the figures.
- **Thailand:** 4Q18 GDP growth came in at 3.7% YoY, beating consensus of 3.6% and up from 3Q's 3.2% rate. While manufacturing was the industry-side source of acceleration in GDP

growth, the real spending-side drivers were missing as inventory-restocking continued to be a big contributor to GDP growth. An ongoing overhang of global trade restrictions on exports and elevated political uncertainty domestically weigh on GDP growth in 2019. We maintain our view of no more policy moves by the BoT this year.

- **Indonesia:** Seeking to narrow its trade deficit, Indonesia has moved to increase tax rates for imports but exempting from it inbound shipments of materials used in export production. The move is seen to limit import growth while at the same time boost Indonesia's export sector by keeping input costs manageable. Director-general for customs and excise Heru Pembudi indicated that non-export related imports fell 7.1% since the start of the year as import rates were raised beginning 2019. The IDR is seen to strengthen along improvements in Indonesia's external sector.
- **Philippines:** The Philippines is looking to offer retail treasury bonds within the quarter, according to Deputy Treasurer Sta. Ana with an announcement on the tenor of the issuance expected within the week. Market players remain on their toes for the possible issuance, which was expected to be timed close to 19 February after roughly PHP 70bn worth of bonds mature.

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

- Germany ZEW confidence (19 February)
- Japan trade (20 February)
- US durable goods (21 February)
- Indonesia policy meeting (21 February)
- Fed minutes (21 February)

Thailand: Better GDP growth, lack of spending drivers

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Source: Shutterstock

3.7% 4Q18 GDP growth

Year-on-year

Better than expected

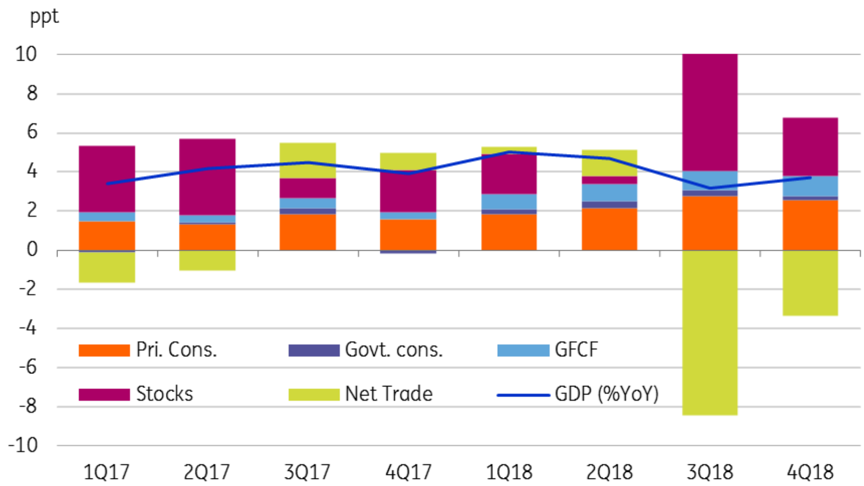
Above-expected 4Q18 GDP growth

Surpassing expectations, Thailand's GDP growth accelerated to 3.7% year-on-year in the fourth quarter of 2018 from a three-year low growth of 3.2% (revised from 3.3%) in the previous quarter. A low base effect may have helped an improvement in annual growth but it wasn't just that. The 0.8% quarterly (seasonally adjusted) expansion followed flat GDP growth in the third quarter. The consensus estimates were centered on 3.6% YoY and 0.7% QoQ growth.

As expected, an improvement in manufacturing growth (3.3% YoY vs. 1.6% in 3Q18) stood out, explaining all of the 0.5 percentage point (ppt) recovery in headline GDP growth. Services remained the biggest source of GDP growth, though its 2.7ppt contribution was little changed from the third quarter.

On the expenditure side, there was little evidence of any recovery in the key components. Inventory restocking remained the main driver and net exports the main drag, albeit at a more moderate pace than in the third quarter. The contributions of private and government consumption to GDP growth weakened, while that of fixed capital formation was unchanged.

Lack of spending-side GDP drivers



Note: Bars may not stack up to GDP growth due to statistical discrepancy

Source: Bloomberg, CEIC, ING

2019 economic and policy outlook

This puts full-year 2018 GDP growth at 4.1%, in line with our forecast and up slightly from 4.0% in 2017. The government expects annual growth to hold steady at this pace in 2019, while the central bank (BoT) recently cut its forecast for this year to 4.0% from 4.2%. However, the balance of risks is tipped downward in view of an ongoing overhang of increasing global trade restrictions on exports and elevated political uncertainty domestically. We maintain our 3.8% growth forecast for 2019.

The BoT tightened policy with a 25bp rate hike in December, a move we consider premature as the economy is poised to slow in 2019 while inflation will continue to be absent. The central bank has been playing down the likelihood of further tightening and has also expressed concern about THB strength. We maintain our view of no more policy moves by the BoT this year.

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