

Macro matters

It is easy to focus entirely on the political soap-opera that runs 24/7: from Washington to Moscow (via Helsinki). Brussels and Whitehall's dim...



Source: Shutterstock

Take a break from politics

The UK parliament will be taking its summer recess at the end of this week - big sigh of relief for Prime Minister Theresa May, who still clings to a job, against the odds. Many of us would like to take a break from the Twitter stream from Washington too, though that seems more like wishful thinking. But though the political noise is as loud as ever, we will leave aside this for a day - the pantomime of the "Yes they did, no they didn't" from President Trump on Russian interference, the lambasting of Theresa May by the former Foreign Secretary, Boris Johnson, the worries about Brexit from the EU, and chatter of an extended article 50, not to mention Larry Kudlow's recent pop at China's President Xi, that he doesn't want a trade deal. Like the UK parliament, let's take a political recess, and focus back on the macro.

Fair, turning unsettled

Right now, the US earnings season is in full swing and the news is good, helping stocks to push above resistance and making the January peak look like the next target. But Alcoa's earnings expectations downgrade on tariff costs for imported aluminium, remind us again that for all those seeking a positive outcome from the rapidly growing tariff wall, there are losers too. Direct gainers may do well, perhaps very well. But they will likely be in the minority. The losers may not lose so

much, but they will be numerous, and the net losses will almost certainly outweigh any gains, on both sides of the Pacific.

In terms of hard macro data today, we got Japanese trade figures for June. For Asia so far, the news has already been poor this month. Both Korea and Singapore posted much worse than expected trade figures. And this has happened before the US-China tariffs have really had a chance to bite. Most of the tariffs were not even in place in June. Japan's trade figures today also showed slight signs of weakness, though mainly on the import side. That could point to a lack of 'oomph' in the domestic economy, despite better than expected wages figures in recent months.

Whatever the aggregate Asian story for June, the months that follow will be the real story to watch. On the assumption that this isn't going to be pretty viewing (parents, we suggest at least an 'R'- rating), we have already been taking the knife to our Asian GDP forecasts (watch out for detailed note to follow in a few days) - been nudging up the near-term inflation outlook (tariffs make stuff more expensive, exacerbated by weaker Asian FX) - and been nudging down the longer-term inflation outlook (the ensuing drop in growth and rise in local policy rates to offset the FX and inflation effects will turn the backdrop more disinflationary).

That's not a backdrop in which I would like to be going limit-long the stock market, even if I lack the guts to actually short it today.

Australia - place your bets

This morning's labour report from Australia will likely provide its monthly surprise, with the consensus of forecasters, of which we are a small part, scratching our collective heads to work out why we have got it wrong again. The Australian economy seems to be at a saddle point. It's not obviously slowing, as labour gains keep showing. But it is not growing fast enough to get wages to rise (unless we are very much mistaken again today) and there are pockets of market excess unwinding (five of eight metropolitan areas reported falling house prices in 1Q18), and as a major commodity producer, terms of trade have taken a sharp, turn for the worse. That should weigh on the AUD near term.

No wonder that no one expects anything from the Reserve Bank of Australia (RBA) for a very long time. We would concur with that view. Until wages data are released for 2Q18 in mid- August (15th), that view is not likely to change.

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China: Central bank finds different way to cut rates

The auction of government deposits at commercial banks reveals that the central bank is cutting interest rates, but not through its seven-day policy rate



Source: Shutterstock

Central bank guided government deposit rate lower

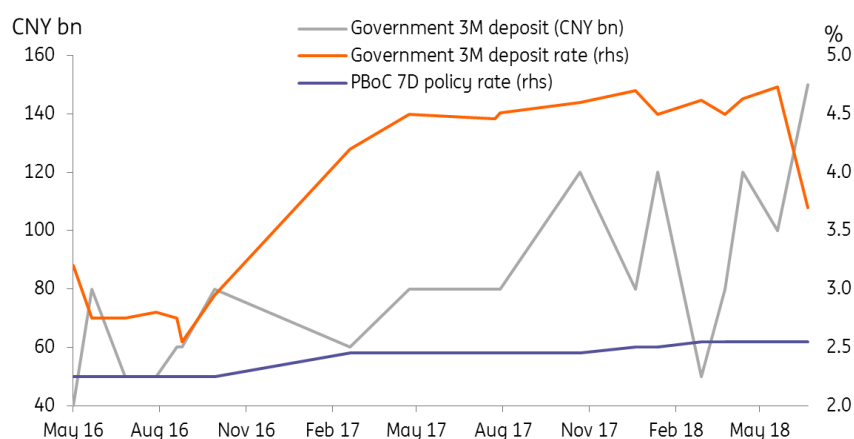
The central bank (People's Bank of China) guided auction rates on 91-day government deposits at commercial banks lower to 3.7% from 4.73% on 15 June.

We believe that this rate cut through a different channel than the PBoC seven-day (7D) policy rate means the central bank would like to see lower interest rates but doesn't want to send an obvious signal that it is loosening policy because financial deleveraging reform should still be ongoing.

The move has likely been triggered by the lower GDP growth rate of 6.7% in 2Q18 from 6.8% in 1Q18.

Though this is not a usual tool used by the PBoC, it's not the first time the bank has cut rates in this way. We saw this in June 2016 when GDP growth fell to 6.7% in 1Q16 from 6.8% in 4Q15.

Interest rate is set to fall from lower government deposit rate



Source: ING, PBoC, ChinaBond

Further stimulus from fiscal and monetary policy coming to cushion trade war impact

We expect the PBoC to cut its reserve requirement ratio (RRR) at the beginning of each quarter from now to 1Q19. This may extend further out if the trade war escalates.

Still, the marginal impact from monetary policy will not be enough to support the economy in this trade war. The central bank has commented that the Ministry of Finance should implement more aggressive fiscal stimulus. It's rare for the PBoC to make such a comment. The central bank has sent a strong signal to the market that further stimulus from both fiscal and monetary policy, is more likely than before.

We expect fiscal stimulus to come mostly in the form of investment pools for high-tech R&D to foster future growth. Tax relief would be a supplementary boost as the impact is more short-lived.

Malaysia: GST removal dents inflation

We revise our 2018 inflation forecast from 1.8% to 1.0%. Lower inflation allows greater scope for the stable central bank policy



Source: Shutterstock

Gone with the Goods and Services Tax (GST) are inflation worries. This could be a loud statement about Malaysia's just-released consumer price data for June. We revise our full-year 2018 inflation forecast from 1.8% to 1.0%. Lower inflation will allow a greater scope for the central bank (Bank Negara Malaysia) to keep the monetary policy stable for a prolonged period, or even ease in the event the global trade war adversely impacts the economy.

0.8% CPI inflation in June

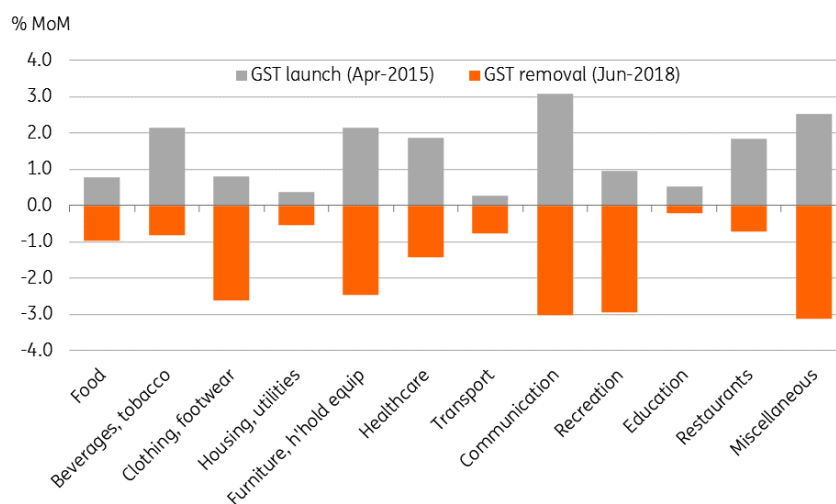
Lower than expected

A downside inflation surprise in June

In a huge downside surprise, CPI inflation slowed to 0.8% year-on-year in June from 1.8% in the

previous month. The consensus was centered on 1.3%. A sharp slowdown was mainly the result of the cut in the GST rate from six to zero percent effective June 1 by the new government. The effect is clear from the month-on-month price changes across CPI components, almost mirroring the impact upon the introduction of GST in April 2015 (see figure).

The GST impact



Source: Bloomberg, ING

Downgrade of 2018 inflation forecast, again

The year-to-date inflation of 1.6% YoY has more than halved from 4% a year ago, led by a steep slowdown in key components of food and the transport prices. The GST will be replaced by a less severe Sales and Services Tax (reportedly by September), and any impact is likely to be transitory without significantly reversing the ongoing inflation downtrend.

Headline inflation is likely to turn negative in some months and remain low in the first half of 2019 - BNM policy statement in July

We now see inflation remaining well below 1% in the remainder of the year, or possibly even turning negative as the central bank has pointed out in the latest policy statement. This prompts another downgrade to our full-year 2018 forecast from 1.8% to 1.0%, the second since May when we cut it from 2.4%.

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