

Good MornING Asia - 19 October 2018

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ASEAN Morning Bytes

General market tone: Risk-off. Equity markets continued to slide on protracted fears on global trade after acerbic comments from a US official on China's trade practices, while Mario Draghi's comments on EU nations' fiscal discipline also sent dealers to seek safety



International theme: Risk sentiment remains scant after Draghi comments

- Equity markets continued to slide as investors remained cautious given the on-going US-China trade spat. Mario Draghi's remarks on fiscal discipline, alluding to Italy, forced bond yields to pullback.

EM Space: China's 3Q GDP likely to show slightly slower growth

- **General Asia:** Markets are likely to trade sideways with a downward bias after the Wall Street selloff, while market players also looking to China's 3Q GDP report for more direction.
- **Malaysia:** The government unveiled the mid-term review of the 11th Malaysia Plan (2016-2020), aiming for an inclusive growth, sustained development, and fiscal consolidation. It scaled back growth target for the plan period to 4.5-5.5% from 5-6%, and inflation target to 2-3% from 2.5-3%. In a sign of shelving the plan to balance the budget by 2020, the fiscal deficit is projected at 3% of GDP over the period. We remain of the view that positive terms of trade shock from rising oil will cushion the economy in the medium-term.

- **Thailand:** The commerce ministry projects 8% export growth in 2019, led by strong growth in exports to China (12%) and ASEAN (8.2%). At 9% year-to-date through this year export growth was steady at the pace a year ago. The escalation of the US-China trade war is the potential risk to exports next year, though it also opens an opportunity for increased intra-regional trade to bypass tariff barriers.
- **Philippines:** The anticipated stock re-issuance of a major conglomerate that was expected to bring in a sizable amount of foreign flows was priced lower than expected. This development moves in-line with our new forecast for the Peso to consolidate by year-end after an expected \$2bn bond issuance by the government.
- **Philippines:** The government approved a Php1 increase in city bus fares for the first 5 kilometers and a P0.15 increase in provincial buses for every kilometer after 5 kilometers to help operators recover costs associated with elevated crude oil prices.

What to look out for: China 3Q GDP

- China 3Q GDP and retail sales (19 October)
- US existing home sales (19 October)
- Fed Kaplan (19 October)

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Asia week ahead: Bank Indonesia to pause tightening

Manufacturing, trade, inflation and GDP releases dominate the Asian economic calendar in the coming week, though an Indonesian central bank policy meeting is likely to capture the most attention



Source: Shutterstock

➔ Bank Indonesia to pause tightening

The Indonesian central bank, Bank Indonesia (BI), announces the outcome of its monetary policy meeting on Tuesday (23 October). We believe it's time for BI to pause the tightening started in May this year, and subsequently intensified amidst the emerging market currency contagion that saw the Indonesia rupiah (IDR) plunge in value. As part of its currency stabilisation drive, BI lifted the policy rate by a total 150 basis points to 5.75% through to September.

With well-behaved inflation, dipping below 3% year-on-year in September for the first time in over

two years, monetary policy remains geared towards stabilising the Indonesian rupiah. And the USD/IDR appears to have traded tightly around 15,200 this month after an early October spike. Recent economic reports-, such as the trade balance swinging back to surplus in September and a lower-than-expected government budget deficit this year, are contributing to improve investor sentiment towards the currency. We believe this has taken pressure off the central bank to hike rates at the forthcoming policy meeting.

5.75% BI policy rate
No change expected

➔ Fine-tuning of GDP growth estimates

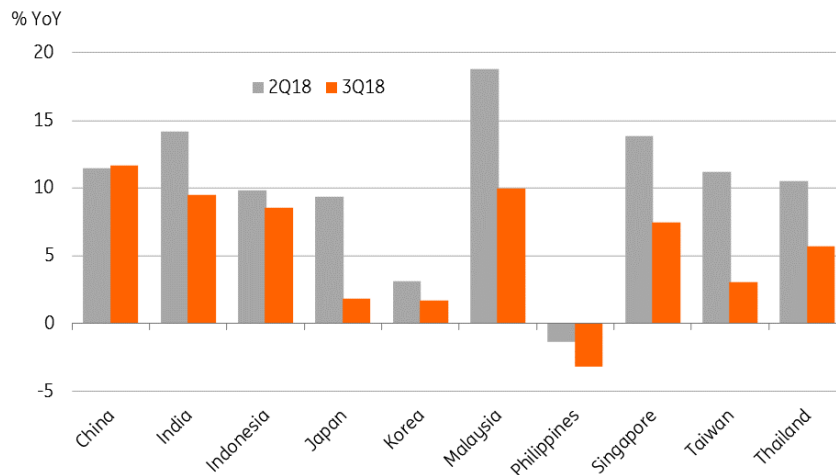
September manufacturing data releases from Taiwan and Singapore will help to fine-tune estimates of GDP growth for these economies, while Korea will report actual GDP data for the third quarter.

Underlying our estimate of 2.1% year-on-year growth in Korea's GDP in 3Q, which is close to the low end of analysts' estimates ranging from 2% to 2.7% in the latest Bloomberg poll, is a sustained slowdown in export growth. September's 8.2% YoY fall in exports was the worst showing in over two years although partly coming off a high base, as growth peaked at 35% in the same month a year ago. As it left monetary policy on hold this week, the Bank of Korea also downgraded its outlook for growth this year and next, the second downgrade this year.

We don't think it's just Korea. Asia's other export-reliant economies Taiwan and Singapore are also exposed to a growth slowdown amid lingering US-China trade tensions. [Singapore's weaker-than-expected non-oil domestic exports](#) in September are likely to have depressed manufacturing, raising the risk of a downward revision to the 3Q advance GDP growth estimate of 2.6%, which in itself was a sharp slowdown from 4.1% growth in 2Q.

And being on the frontline of the US-China trade conflict, Taiwan's exports have already started to take a beating, keeping both manufacturing and GDP growth in the low single-digits. Look out for Taiwan's export orders data for September; orders' growth has been firm but it failed to translate into actual shipments.

Asian export performance in last two quarters



ING's 3Q18 estimates for Philippines, Malaysia and Thailand.

Source: Bloomberg, ING

➔ Sustained low inflation in most of Asia

Of the two countries to report September inflation data in the coming week, Malaysia and Singapore, we consider Malaysia's to be the more closely-watched report. This is not because of any alarming outcome but because of the re-introduction of the Sales and Services Tax (SST) from 1 September. Replacing the Goods and Services Tax (GST), which was scrapped in June this year, we anticipate the SST impact on consumer prices to be benign, keeping inflation well under 1%. With persistently low inflation through most of 2019, the central bank (BNM) will be under no pressure to change policy next year.

Similar to Malaysia, Singapore continues to enjoy the lowest inflation among the Asian economies. We expect headline inflation to tick up to 0.8% YoY in September from 0.7% in the previous month but no change in the core inflation rate from 1.9%. The central bank's (MAS) semi-annual Macroeconomic Policy review will provide insight into its thinking behind the recent tightening via a slight increase in the slope of the SGD-NEER policy band.

Apart from India and the Philippines, inflation in most other Asian countries has been subdued. This is despite higher global oil prices and weaker Asian currencies this year.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 22 October					
Malaysia	0800	Oct Forex reserves- Month end (US\$bn)	-	-	103
Philippines	-	Sep Budget Balance (PHP bn)	-71.2	-	-2.6
Taiwan	0900	Sep Export Orders (YoY%)	-	-	7.11
Thailand	0430	Sep Exports (Cust est, YoY%)	2.5	5.6	6.7
	0430	Sep Imports (Cust est, YoY%)	16	12.2	22.8
	0430	Sep Trade balance (US\$m)	1045	-	-588
South Korea	2200	Sep PPI (MoM/YoY%)	-/-	-/-	0.5/3.0
Tuesday 23 October					
Indonesia	-	BI policy decision (7-day reverse repo, %)	5.75	5.75	5.75
Singapore	0600	Sep CPI (YoY%)	0.8	-	0.7
	0600	Sep CPI Core (YoY%)	1.9	-	1.9
Taiwan	0900	Sep Industrial Production (YoY%)	-	-	1.3
Wednesday 24 October					
Malaysia	0500	Sep CPI (YoY%)	0.5	-	0.2
Singapore	-	3Q Jobless rate (Q) (% , SA)	2.2	-	2.1
Taiwan	0920	Sep Money Supply (M2) (YoY%)	-	-	3.4
Thursday 25 October					
Hong Kong	0930	Sep Exports (YoY%)	-	-	13.1
	0930	Sep Imports (YoY%)	-	-	16.4
	0930	Sep Trade balance (HK\$ bn)	-	-	-52.149
South Korea	0000	3Q P GDP (QoQ/YoY%)	-/2.1	-/-	0.6/2.8
	2200	Oct BOK Consumer Sentiment Index	-	-	101.7
Friday 26 October					
Singapore	0600	Sep Industrial production (MoM, SA/YoY%)	5.8	-/-	2.2/3.3

Source: ING, Bloomberg

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