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By Robert Carnell



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Source: Shutterstock

Indian GDP

Another weak GDP release from India for 3Q19. And that is in spite of the RBIs efforts and government spending. What's to be done? Prakash Sakpal writes..."...Has stimulus failed to revive the Indian economy? It seems so, judging from headline GDP growth, which slipped further to more than a six-year low of 4.5% in 3Q19 from 5.0% in 2Q. However, fiscal stimulus was evident from strong government spending figures as well as private consumption growth, which left investment as the key drag, subtracting one full percentage point from the GDP total, a sign that aggressive RBI easing has not worked. There is little doubt that the RBI will ease again at its meeting later this week (5 December). And don't be surprised if it's more than a 25bp rate cut. We think a 40bp cut is probable, taking policy rates to 4.75%.

The question is, what good will that do for the economy? Besides the cyclical element, structural bottlenecks are reasserting themselves in dragging growth down. We think the economy needs more than fiscal or monetary stimulus. Accelerated economic and banking sector reforms and strong infrastructure investment are needed to regain the 7-8% growth potential".

Korean inflation - it's still really low

The headline on Korea's November CPI release is that it had returned to positive growth. Well, yes, if the year-on-year comparison is all you are concerned about. At 0.2%YoY, it is higher than the 0.0% inflation rate recorded for October. But prices still fell 0.6% from the previous month - core prices fell too from the previous month, and here, the inflation rate did fall, dropping back to 0.6% from 0.8%, back to where it was in September.

There aren't any smoking guns in the component breakdown to account for the November weakness. Rather, a welter of weak numbers including those for communication, recreation, transport, furnishings and food all weighed on the price level, with very minor increases in clothing insufficient to do more than offset a small fraction of the declines.

On the face of it, next month provides a helpful base effect to help inflation rise. But that was really all that happened this month, as last November saw prices fall at their fastest all year by 0.7%MoM, and there is no guarantee that December's prices will not match or undershoot last December's 0.3% mom decline.

We don't feel the Bank of Korea is prepped for further easing of rates. But if the inflation numbers remain bogged down around zero, and growth fails to pick up meaningfully, then we may need to review this perspective.

Talking of growth, or rather the lack of it, export data released over the weekend showed a further sharp decline in November exports of 14.3%YoY. That said, the comparison with one of the peak months of exports last year is not a helpful one. If you back out the nominal export value from the year-on-year figures and compare it with recent months, it is still broadly consistent with flatlining exports, rather than exports in ongoing decline.

China official manufacturing PMIs good

China's official manufacturing PMI for November was 50.2, a noticeable improvement on the 49.3 reading for October. Some seasonal factors may be at play in the number, but the over-riding story is more likely one about the lift the economy is getting from fiscal stimulus through infrastructure spending. ([see also this from Iris Pang](#)). That would account for the widening in the gap between new orders and export orders PMIs.

Such an infrastructure boost is in line with our thoughts on what will drive the Chinese economy in 2020, though it is taking root a little earlier than we had imagined. Meanwhile, with the US largely on vacation at the end of last week, there does not appear to be anything new to report on regarding any phase one trade deal.

Weekend political ructions rock Germany

Europe's biggest economy, Germany, has been struggling economically for some time. But now it faces the prospect of political upheaval too, as the SPD party, the coalition party with Angela

Merkel's CDU, has signalled a likely change in leadership that could threaten the current conservative policy stance, and even threaten the continuation of the coalition government.

Carsten Brzesk [put pen to paper over the weekend to discuss this in more detail](#).

From my perspective, such developments may encourage France's Macron to continue to try to re-shape a post-Brexit Europe, with or without the help of Germany. Not all of this is going down well. For example, his comments about the shape of NATO have recently roused the ire of Turkey's President.

OPEC - mutterings sound constructive for crude

Newswires are carrying stories that Iraq is favouring further production cuts at the forthcoming OPEC and OPEC-plus meeting. The meetings, which happen this Thursday and Friday, will be important for Asia as oil prices play a complicated role in Asian economic health, weighing on inflation and current accounts, and indirectly playing a supporting role in the health of the manufacturing export sector, where terms-of-trade for the oil-producing nations can be a swing factor.

Our Singapore-based Head of Commodities, [Warren Patterson, writes in more detail on this in Think](#), where he looks at the three potential scenarios from these talks and what it will mean for crude benchmarks.

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ASEAN Morning Bytes

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EM Space: Better China PMI lifts sentiment

- **General Asia:** China reported better than expected PMI manufacturing and services data, lifting hopes for a similar performance from regional PMI indicators reported throughout the week. The [data calendar](#) is also quite substantial with two Asian central banks deciding monetary policy. But all eyes remain on the US-China phase one deal, which remains elusive.
- **Thailand:** Expectations of a slight pick-up in consumer price inflation in November (consensus 0.3% YoY vs. 0.1% in October) comes off the low base effect rather than underlying price recovery. With continued low inflation and sluggish GDP growth, the argument of more Bank of Thailand easing remains strong. But, having cut rates by 25bp in November, the likelihood of another cut at the December is low.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) sees November inflation between 0.9-1.7%, up from 0.8% in October, as base effects from last year's inflation spike continue to fade (consensus 1.2%). Still, it's within the BSP's target band, giving BSP Governor Diokno ample scope to cut rates further in 1Q to support the objective of 6.5-7.5%. Peso expected to benefit from this development in the short term, all the more with seasonal remittance flows trickling in ahead of the holidays.
- **Indonesia:** We expect the November inflation rate at 3.1%, in line with consensus. Well-within Bank Indonesia's policy target, inflation allows room for further easing ahead, while

Governor Warjiyo has signalled continued accommodative policy. Last Friday he hinted at “a mix” of policies to help safeguard growth which suggests he could continue cutting policy rates and reducing reserve requirements should growth numbers continue to underwhelm. We pencil in further rate cuts from BI as early as 1Q.

What to look out for: RBA and RBI policy meetings

- Taiwan manufacturing PMI (2 December)
- Indonesia inflation and manufacturing PMI (2 December)
- China Caixin manufacturing PMI (2 December)
- Thailand inflation (2 December)
- US ISM manufacturing PMI (2 December)
- Australia RBA policy meeting (3 December)
- Singapore PMI (3 December)
- China Caixin services PMI (4 December)
- Malaysia trade (4 December)
- US ADP and services ISM PMI (4 December)
- India RBI policy meeting (5 December)
- Philippines inflation (5 December)
- US factory orders (5 December)
- Regional GIR (6 December)
- US non-farm payrolls (6 December)

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50.2 Nov Mfg PMI
Up from 49.3

Better than expected

Domestic orders are the main support of growth

Official manufacturing PMI jumped to 50.2 in November, after 6 consecutive months below 50.

New domestic orders (51.3) are the main support for growth, which is in contrast to new export orders which remain in contraction (48.8).

We expected some improvement in domestic new orders, but the data has surprised us by coming earlier than our expectations. One of the major pushed of new orders is that infrastructure investment has moved from the investment stage to the production stage. This will continue to

give support to new orders in the coming year.

This view is also supported by the rise in prices of steel and cement, which are used in infrastructure projects.

New export orders are still the pain point

New export orders continued in contraction (48.8). There has been some improvement from the previous month (47.0) but export orders have now been in contraction for 18 months consecutively.

Tariffs have pushed down selling prices from factories since May (with the exception of October, which was the month of new smartphone release).

We expect that new export orders will continue to be affected by the tariffs imposed as well as the uncertainty of upcoming tariffs.

The report card reflects our analysis

We have expressed several times that infrastructure investment will move from the investment stage to the production stage. The opposing force from tariffs will persist. The data confirms our view. And therefore we don't need to change our forecasts for the time being.

We expect China's GDP will reach 6.2% in 2019 with USDCNY at 7.0 by the end of 2019.

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Indonesia: Central bank open to easing further in 2020

After pausing at the 21 November meeting, Bank Indonesia points to further easing in 2020



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

BI retains accommodative stance

Bank Indonesia (BI) Governor Perry Warjiyo retained his dovish leaning, indicating that the central bank would continue to deploy a "mix of policies" to push for growth momentum. Warjiyo has unloaded 100 basis points worth of rate cuts and also lowered reserve requirements to provide fresh liquidity to help support Indonesia's sagging growth trajectory. The governor indicated that the central bank's easing would likely be moving in line with stimulus from the fiscal side as "rate cuts and liquidity injections have not been able to save the world" on their own.

Bank Indonesia to ease policy rates further in 2020

The recent comments from the BI governor reflect our earlier expectation that the [central bank would resume rate cuts in 2020 to give growth an added push](#). The November pause, in response to the Federal Reserve's own neutral stance, will likely give way to calls for monetary easing, with growth in Indonesia remaining trapped in the 5% range. President Jokowi had earlier vowed reforms in the area of labour and corporate taxes with the aim of plugging a chronic current account deficit via increased high-value exports and a cutback on energy imports. Although such

moves will boost the Indonesian rupiah and growth in the medium term, the outlook over the coming months remains challenging, with the central bank likely to be called upon to cut policy rates further, with the first strike as early as 1Q 2020.

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