

Good MornING Asia - 2 December 2019

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Source: Shutterstock

Indian GDP

Another weak GDP release from India for 3Q19. And that is in spite of the RBI's 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.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

ASEAN Morning Bytes

Asian markets will open with a tinge of optimism after positive data out from China but the phase one deal remains elusive.



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)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

China: is it true that manufacturing has recovered?

China's manufacturing PMI has moved back above 50, reflecting that manufacturing activity has improved from contraction to expansion. Is this the full picture?



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.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

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.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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