

Good MornING Asia - 2 January 2019

2017 was a good year for Asia, coming after a poor 2016. 2018 started well and finished badly. 2019...? It doesn't seem to be starting all that well, but it could end better

In this bundle



Happy New Year - From ING Asia Economics Team

2017 was a good year for Asia, coming after a poor 2016. 2018 started well and finished badly. 2019...? It doesn't seem to be starting all that well,...

By Robert Carnell



ASEAN morning bytes

General market tone: Wait and see. Markets begin 2019 on a cautious tone with traders looking for fresh leads amid a slew of economic data releases out...

Opinion | 1 January 2019

Happy New Year - From ING Asia Economics Team

2017 was a good year for Asia, coming after a poor 2016. 2018 started well and finished badly. 2019...? It doesn't seem to be starting all that well,...



Source: shutterstock

Crystal ball gazing

After 26 years of this sort of job, I can honestly tell you that forecasting is over-rated - you knew that though didn't you? Moreover, all the fun stuff - Trump, Brexit are the responsibility of my colleagues - I don't want to step on their toes and make any predictions there, though it is tempting, and I certainly have some opinions.

On Asia though, 2019 could provide some further headaches.

Let's start with China, and the slippage of the manufacturing PMI at the end of December into contraction territory is not an encouraging place to start, although the non-manufacturing index was more upbeat. Declining industrial profits is also not a good story to start the New year with and soft retail sales also indicate that China's slowdown is domestic, as well as export based. This could show the impact of the trade war filtering through the broader economy, it could be residual weakness from earlier restructuring / deleveraging or a bit of both.

Notwithstanding the causes, and the stimulus the authorities will doubtless unleash on the

economy (they have already started to do so), China's economy does seem to be losing traction. Moreover, the hotly debated question, "How much stimulus?", is really just a derivative of the alternate question, "How big is the loss of momentum?", and one where the answer does not adequately describe the end condition.

However, there are reasons to be optimistic. A deal of sorts on trade with the US is possible this year, though I doubt it will come without considerable strings attached for China, and I don't see a rapid removal of all of the recently imposed tariffs by the end of March. Also, a push towards greater self-reliance as some of President Xi's latest comments seem to reaffirm, is both possible and to some extent desirable in the current environment of mutual distrust that seems unlikely to dissipate this side of 2020.

Elsewhere, politics dominates

It will be a busy year for politics in Asia this year, and upsets are possible. Elections are to be held in India, Indonesia, Thailand (possibly), and mid-term elections in the Philippines. Both the Indian and Indonesian elections could see changes in government. Economic difficulties can deliver a political pushback, even when the aggregate GDP figures seem to suggest all is going well, as they do in India. We aren't sure if the Thai elections scheduled for 24 February will take place - they have been delayed before, they could be again.

Global headwinds may not turn out so bad

Polls of US CEOs suggest nearly half of them see the US in recession by the end of this year, and an overwhelming majority of them do so by the end of 2020. I would actually put rather more of my money on what they think than on what members of my profession think. The CEOs at least have the benefits of inside information of their firm or industry. My bunch of carnival fortune-tellers has to rely on only publically available data.

But then a little slowdown (if that's what we get) isn't all that bad, more like the inevitable diet that follows the holiday season. We should view it as both cleansing and purgative. For Asia, that too may be on the cards. And headwinds of slower international trade growth could provide the necessary nudge to get governments thinking about economic reforms and productivity-enhancing policies. You are supposed to mend the roof when the sun is shining, but there's nothing like a light rain-shower to hasten your efforts.

Moreover, the news on trade isn't all bad. The New Year ushered in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) trade deal for 11 countries including Japan and Singapore, Vietnam, Canada, Australia and New Zealand (but not the US or China). An ongoing trade spat between the US and China is never going to be an irrelevance for the region, but greater trade between the CPTPP countries can significantly reduce its significance for the rest of the region.

PMIs dominate today's data releases

In a short while, PMI data for Malaysia, Thailand, Philippines, South Korea, Indonesia, Vietnam and the Caixin China PMI will be released. The general picture is likely to be a sombre one, though probably not too alarming. China's private-sector focussed Caixin PMI will be worth close watching after the official index moved below the 50 mark, and after it confounded expectations of falling into contraction itself for the last two months.

Thai CPI will remain very weak, and after last month's hike, the chances of another upwards nudge this year look remote. Likewise, Indonesian CPI today is expected to ease back towards 3.0%, taking some of the pressure off Bank Indonesia to follow through as aggressively with rates hikes as it did in 2018. Hopes for some slowing in Fed tightening this year too from Jerome Powell and his US rate-setting team will make it easier for Asian Central Banks to take it easy with rates and give domestic growth a chance.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Article | 2 January 2019

ASEAN morning bytes

General market tone: Wait and see. Markets begin 2019 on a cautious tone with traders looking for fresh leads amid a slew of economic data releases out...



International theme: Caution seen to dominate

- Global markets will look to any developments on the US government shutdown and US-China trade relations for leads while inflation data dominates the Asian economic calendar.

EM Space: Geopolitics and economic data to guide markets to a caution start in 2019

- **General Asia:** The first trading day for the year will be marked with caution with geopolitical developments seen to dominate while inflation data is scheduled for select Asian economies.
- **Singapore:** Advance GDP estimate for 4Q18 released this morning puts growth at 2.2% YoY (1.6% QoQ ann.). This was slower than 2.5% (3.6%) consensus estimate for the quarter, which imparts downside risk to the 3.3% full-year 2018 growth signaled by PM Lee in his New Year's address. As growth is poised to slow further in 2019 and the US Fed scales back its tightening pace, the case for the MAS to leave the policy on hold this year is strong.
- **Indonesia:** Indonesia will report inflation data for the month of December with Bloomberg

estimates showing a median forecast of 3.01%, a deceleration from the November print of 3.03%. Core inflation is expected to pick-up slightly but still remain well within the target range for Bank Indonesia. The central bank will likely focus more on the IDR's stability in determining policy in 2019 with the currency strengthening to close 2018 with BI likely in the market.

- **Thailand:** December CPI is due today with the anticipation of little-changed headline inflation rate from November's 0.9% and core from 0.7%. We are also watching the Nikkei manufacturing PMI release for December. The index dipped below the 50 threshold level in the previous two months, indicating contraction in manufacturing activity which could depress Thailand's GDP growth in the final quarter of 2018. Data reinforces that the BoT's 25bp policy rate hike in December, the first policy move since 2011, was premature for the economy that's still struggling to grow, while inflation continues to undershoot the 1-4% policy target range. We aren't anticipating the BoT to change the policy in 2019.

What to look out for: Inflation data

- Indonesia inflation (2 January)
- Thailand inflation (2 January)
- Hong Kong retail sales (3 January)
- US ADP employment and ISM manufacturing PMI (3 January)
- Philippines inflation (4 January)
- US NFP (4 January)

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.