

## Good Morning Asia - 2 October 2019

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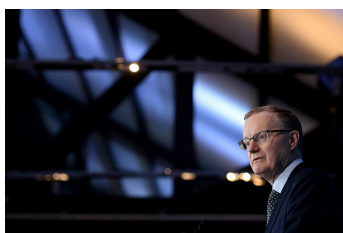
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By Robert Carnell



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Opinion | 2 October 2019

# A bad day for Hong Kong

The first shooting during these protests - hopefully the last.



Source: Shutterstock

## Looking for a way out

The 70th anniversary of the founding of the People's Republic of China was always likely to provide a flash-point for the HK protesters. That it has resulted in the shooting of one (condition as yet unknown) is a tragedy. But what can we conclude from the increasingly violent turn of events that has led to this casualty?

Well, although the protests have turned increasingly violent, there could possibly be a sense in which this was all building up to the national celebrations of the anniversary of the PRC. Hong Kong was also on vacation yesterday - and public holidays provide a good opportunity for rioting. Unlike mainland China, the rest of the week is a normal one, though next Monday (7th) is also a public holiday in Hong Kong.

So far, the demands of the protestors have met very little response from the HK SAR authorities. Nor are they likely to. The dialogue opened by Hong Kong's Chief Executive, Carrie Lam, with the protest movement, and the abandonment of the ill-fated extradition bill barely tick any boxes on the protestors wish list, which includes her resignation, universal suffrage, an independent inquiry into police tactics, and a general amnesty for those involved in the riots. Hopes for any progress here, in my opinion, are vanishingly small, and I would think that the protestors also know this.

So, like most observers outside Hong Kong, I watch these events with a growing sense of despair, but with the ever-present hope that, like the Gilet Jaunes movement, they dwindle into

insignificance. The big difference with France is that President Macron has made some fairly substantial concessions to the French protestors.

My personal sense is that there is as big an economic issue underlying these protests as there is a political one. And the big issue, and not just for disaffected youth, but many working people is affordable housing. This won't be solved overnight, but it can be done.

## Asian PMIs - mixed

After the better than anticipated China PMIs on Monday, the rest of the region had its chance yesterday. The outcome was a messy one. At the top of the leaderboard, the Philippines with a manufacturing PMI of 51.8, only 0.1 points down from August, followed oddly, by Thailand. I say oddly because the THB's strength ought to be a drag on manufacturing exports, and domestic demand is very soft, so this is a hard index to explain. Vietnam comes next, though the 50.5 reading is well down on August's 51.4 - worrying as Vietnam has been the most notable beneficiary of the US-China trade war. Taiwan also managed a respectable 50 reading, indicating it is only on the verge of a manufacturing contraction, not deeply immersed in one. Recent relocations from Mainland China to Taiwan have probably been helping. Thereafter, it is various shades of contraction, with the worst of the bunch - Korea - not surprising after its weak export data yesterday. Indonesia and Malaysia remained in contraction (49.1 and 47.9 respectively) but did at least manage to move higher.

What's happening in Asia is not so different from what is happening elsewhere. The US Manufacturing ISM yesterday recorded a big drop from 49.1 to 47.8. The consensus had expected it to bounce back to 50. The employment subindex was also particularly weak. In my view, this weakness is a result of the Trade War. The US President apparently disagrees, blaming high interest rates from the Federal Reserve keeping the dollar strong.

Since January 1 this year, the dollar index is up about 3%. You can probably put most of that down to Euro and sterling weakness. A more accurate complaint might be to blame the weakness of manufacturing on the ECB, and weak Euro, though with Eurozone manufacturing also in recession, this doesn't really work. No, it's the Trade War.

## Asia Day ahead

There is almost nothing on the Asia calendar today, except for Hong Kong Retail sales. Nothing other than a terrible number is conceivable here.

In the G-8, we await a response from the EU on what seems to be being billed as PM Boris Johnson's big concession to seeking a Brexit deal - a time-limited plan that keeps Northern Ireland in a temporary regime with the EU. I don't anticipate Ireland will be at all impressed, and it is Ireland that has the final say here. Countless others have said this, but I will echo their words, the EU is not about to "throw Ireland under the bus". [There is a story in the Guardian](#) that contains some of the details. The Telegraph [seems to have the main story](#), but it is premium content, so you may need a subscription.

[Intriguingly, the EU has apparently discussed their own version of a time-limited backstop option.](#)

If that has reluctant Irish support, then PM Johnson should grab it with both hands. It would be the best offer he is likely to get and would enable him to get his Brexit with a deal before October 31, avoid death in a ditch, and limit UK "vassalage" to the EU to a few years. I'm not sure about the

Irish view on this though, so this story could be a red-herring, or even a pre-emptive discussion on the Johnson plan, in which case it has no substance.

Apart from this, watch the ADP survey from the US tonight. After the weak manufacturing ISM employment index, we might be heading towards a weak payrolls reading on Friday, which might bring the Fed back to play and a weaker dollar and lower bond yields again. Familiar territory.

## Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## RBA cuts 25bp to 0.75%

Despite the many arguments for not easing, the RBA has cut rates again by 25bp, taking the official policy rate down to 0.75%.



Source: Shutterstock

Reserve Bank of Australia Governor Philip Lowe

**0.75%** Policy rates  
Down 25bp

As expected

### A cut in line with consensus

Although this cut was in line with the consensus view, there was, in our opinion, still a very strong case for not moving at this meeting. The RBA now has only three (or possibly even fewer) more conventional cuts available to them before they will have to venture into unconventional monetary easing territory - negative rates, QE, or bond yield targeting.

With the economy, according to Governor Lowe, at a turning point, this latest cut may turn out to have been unnecessary. If so, the comment in the statement that it would be reasonable to "expect an extended period of low rates", might need the qualifier "but they may also have to go up a little bit too if we are right about the economy turning".

## RBA could still ease some more

The statement also noted that further easing was possible - of course - to have said otherwise would have been to turn this into a hawkish cut and undo any good it might have done. but that doesn't mean this comment needs to be taken strictly at face value.

The statement adds that inflation was likely to remain subdued for some time, which may be a problem for a central bank that is running out of room to ease. But it also noted also that the main uncertainty for policy was the outlook for consumption. This is where the modest, albeit positive upturn in wages, and the apparent stabilization of the housing market could prove very handy in the months ahead. Although they clearly weren't persuasive enough this time to stay the hand of the RBA.

## AUD not much moved

The AUD had been running stronger into this release but gave back most of that in the minutes following. It is currently closer to 0.67 than 0.68, but looks reluctant to move conclusively lower, probably because so much easing (80% of the cut) had already been priced into today's decision. Further price movements may depend on Governor Lowe's remarks at a dinner in Melbourne later today, in which he may choose to finesse expectations for future rate movements or provide more clarity on the focus on consumer spending, as opposed to the recent focus on the labour market.

### Author

#### **Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

# Thailand: Inflation continues to drift away from target

With inflation further undershooting its target, the BoT should move to cut rates sooner rather than later. We maintain our view of a 25bp policy rate cut...



Source: Shutterstock

**0.3%** September inflation

Lower than expected

## Another downside surprise

Thailand's consumer price index (CPI) rose by 0.3% year-on-year in September, slower than consensus of 0.4% rise and the slowest gain in eight months. Our forecast of unchanged inflation rate at August's 0.5% rested on expectations of supply shocks to food prices from heavy rains and floods in the northeast parts of the country being countered by persistently weak transport component. In the event both these CPI components posted slower gains with the added drag from deeper decline in clothing component.

The slowdown in core inflation to 0.4% in September from 0.5% in August was in line with our forecast, however.

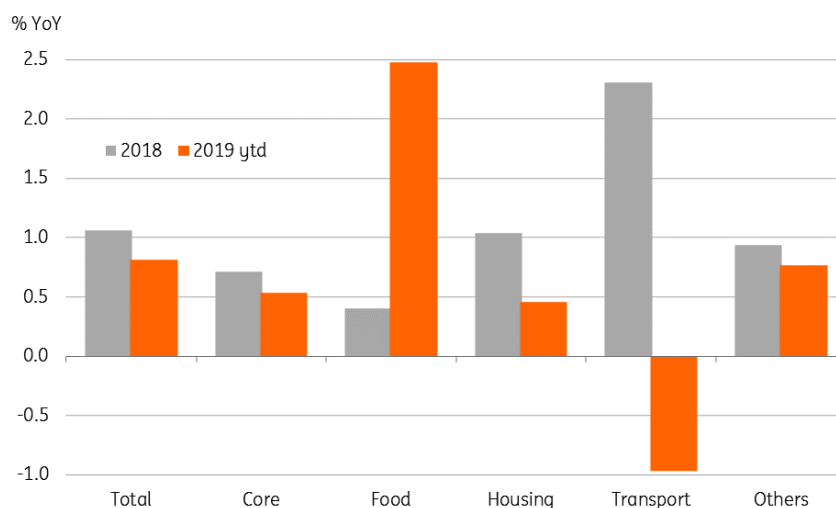
## ING forecast downgrade

Inflation has been drifting away from the Bank of Thailand's 1-4% medium-term target range for the monetary policy operation. And this is not just about the monthly rate. The year-to-date average inflation rate of 0.8% YoY is also under the BoT's target and down from 1.1% a year ago.

The base year effect is turning favourable and this could result in some pick-up in the annual inflation rate over the rest of the year, possibly taking it up to the 1% low end of the BoT's target by December. However, with persistently weak domestic spending and absent any severe supply shocks to food or fuel prices, it's hard to imagine it staying in the target range on a consistent basis.

We are revising our inflation forecast for 2019 to 0.8% from 1.0% and for 2020 to 1.0% from 1.4%.

## There is no inflation outside food prices



Source: Bloomberg, CEIC, ING

## Cut rates sooner rather than later

Increasingly weak activity data supports the call for more policy accommodation from the central bank. Less than a week ago at the routine monetary policy meeting, the BoT downgraded its growth and inflation outlook but stopped short of cutting the policy rate.

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*Central bank is ready to review the key rate and use policy tools if economic situation veers away from forecast -- BoT Governor Veerathai*

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We see no merit in the BoT delaying what looks to us to be an inevitable and much-needed rate



cut. If nothing else, it might help to rein in the currency appreciation that the authorities are increasingly concerned about. There was some relief on that front in September when the THB turned out to be an Asian underperformer, though that may not become a trend against a backdrop of a large current account surplus. We maintain our view of a 25bp policy rate cut to 1.25% before the yearend.

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