Good MornING Asia - 20 July 2018

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He's behind you!

Yesterday we wrote that we wanted to focus on macroeconomics again. But with political noise doing most of the driving in markets, that hope has proved exceptionally short-lived.

Anyone who grew up with the pantomime tradition of theatre will know the "Oh, yes he did, Oh, no he didn't" spectacle of Cinderella, or Aladdin. But there are certain elements of this that alarmingly seem to be playing out at the top of the US administration currently, not least with respect to what the Fed is doing.

There is a tradition that the US Treasury does not comment on rate policy, and that the Fed never comments on the appropriateness of the currency or FX policy. This is done for a reason. Both policies influence each other, and loose comments by one could undo the work done by the other. Big deal? Not maybe, unless you count wiping billions of dollars of FX, or rates trades off one side and giving them to the other. And then giving them all back again when you deny what you said, or what you meant.

US President Trump has in the past given a fairly mixed message about his preference for the dollar, with most of the comments seeming to side with a weaker currency unit. Overnight, he briefly pushed it that way, though not directly, but with critical comments about the Fed's cautious tightening. It didn't last, and today, the EURUSD rate is roughly where it was when I dragged myself in yesterday morning, thanks, mainly to some hefty back-pedaling from the Whitehouse.

Now having talked about the US Treasury and the Fed, the US President usually stands aloof from all of this, as do most heads of state (Turkey's Erdogan excepted). This is because rate and FX policy is complicated stuff, with teams of boffins working away for the common good of their economy. It is optimistic to think that one person, especially one whose main responsibilities lie elsewhere, can have a solid grasp of what either of these two other bodies is trying to achieve.

That said, aside from the President, the relationship between the Fed's Powell and Congress seems decidedly warmer than it did under either Bernanke or Yellen. They seem to like, or at least appreciate what Powell and the Fed are doing with their cautious tightening. They understand that this is done, not to damage the prospects for US growth, but to help sustain it for as long as possible. Even Larry Kudlow, President Trump's economic adviser, seems supportive.

To avoid unnecessary miscommunication and market volatility, it does seem at the least as if someone should re-emphasize the traditions of responsibility laid out for the various Federal institutions, and why they are in place. Otherwise, this could get messier.

BoJ Inflation target - unachievable

Since the Bank of Japan (BoJ) chopped out its reference to achieving its inflation target in 2019, there has been a lot of speculation about what if anything this means for the target, and in turn, monetary policy. Suffice it to say, the 0.7%YoY June National inflation rate released today, will only encourage those who think that the target should be quietly dropped altogether. This was a bad result, as the normally reliable Tokyo figures had suggested a small increase in the year-on-year rate. In my view, the 2% target is not only not achievable by normal means (so, not by currency devaluations, consumption tax hikes or commodity price spikes), but is set too high, implying an excessively weak monetary policy response that no longer has any effect. Chop the target? Why not?

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Asia week ahead: Prepare for slower growth

Weak exports, weak manufacturing, and therefore slow GDP growth. This was the storyline across Asia in the last quarter and likely to prevail for the rest...

The key Asian economic releases next week are Korea's GDP for the second quarter and June manufacturing data from Singapore and Taiwan, all informing about Asia's growth outlook in the tariff era. Weak exports, weak manufacturing, and therefore slow GDP growth was the economic story across Asia in the last quarter. And it's likely to remain the theme for the rest of the year.

Weak exports and manufacturing, and slower GDP growth

In its quarterly Economic Outlook report released earlier this month, the Korean central bank (Bank of Korea) cut its GDP outlook for 2018 to 2.9% growth from 3.0% previously. This is the result of the slowdown already underway in the country's exports and manufacturing. Export growth of 3.4%

year-on-year in 2Q slowed from 9.9% in 1Q. And industrial production growth has been flat in recent months. We expect 2Q GDP growth of 2.6%, down from 2.8% in the previous quarter.

2.6% ING forecast for Korea's 2Q GDP growth

With the trade war risk intensifying, GDP growth is poised to slow for the rest of the year. We are reviewing our full-year 2018 growth forecast of 2.8% for a downgrade. While this could make a case for Bank of Korea (BoK) policy easing, there is little policy space for such a move, which is also unlikely as higher tariffs and a weak Korean currency exert upward inflationary pressure. We expect the next move in the BoK policy rate to be higher, not this year though.

In Singapore, the advance estimate of GDP in 2Q revealed a slowdown in growth to 3.8% from 4.3% in the previous quarter. This estimate is typically based on data for the first two months in the quarter. Manufacturing drives GDP growth and the June data next week (26 July) is a good guide for revisions to the advance estimate. Unexpectedly weak non-oil domestic export growth in June (1.1% YoY, down from 15.5% in May) signals weak manufacturing. If realized, our forecast of 2.4% manufacturing growth in June, down from 11% in May, will mean a downgrade of 2Q GDP growth to 3.6%.

2.4% ING forecast for Singapore's manufacturing in June

The heavy dependence on exports makes Singapore's economy more vulnerable to the global trade war. While we are looking to downgrade our growth forecast for this year from 3.2%, it will take a big slump in the economy for the central bank (MAS) to reverse the April policy tightening. And that’s not what we are anticipating at the moment.

For Taiwan, it's the same economic story as in Korea or Singapore -- weak exports, weak manufacturing, and therefore weak GDP growth.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Friday 20 July			
Malaysia	0800	Jul 13 Forex reserves- Month end (US$bn)	-	-	104.7
Taiwan	0900	Jun Export Orders (YoY%)	8	8	11.68
Thailand	-	Jun Exports (Cust est, YoY%)	7	9.5	11.4
	-	Jun Imports (Cust est, YoY%)	19	15	11.7
		Monday 23 July			
Philippines	-	Jun Budget balance (PHP bn)	-	-	-32.9
Singapore	0600	Jun CPI (YoY%)	0.6	-	0.4
	0600	Jun CPI Core (YoY%)	1.6	-	1.5
Taiwan	0900	Jun Industrial Production (YoY%)	4	5.8	7.05
Hong Kong	0415	Jun Composite CPI (%YoY)	2.2	-	2.1
		Tuesday 24 July			
Taiwan	0920	Jun Money supply (M2) (YoY%)	3.8	-	3.73
South Korea	2200	Jul BOK Consumer Sentiment Index	106.3	-	105.5
		Thursday 26 July			
Hong Kong	0930	Jun Exports (YoY%)	7.9	-	15.9
	0930	Jun Imports (YoY%)	8.5	-	16.5
	0930	Jun Trade balance (HK$ bn)	-54.3	-	-43.2
Singapore	0600	Jun Industrial Production (MoM, SA/YoY%)	-0.7/2.4	-/-	0.4/11.1
South Korea	0000	2Q P GDP (QoQ/YoY%)	0.5/2.6	-/-	1/2.8
		Friday 27 July			
China	0230	Jun Industrial Profits (YTD, YoY%)	18	-	21.1
Singapore	0330	2Q Jobless Rate (Q) (%, SA)	2	-	2

Source: ING, Bloomberg

Australia: Jobs surprise

Employment growth of 50,900 in June beat the consensus view of a 16,500 gain in jobs. What's more, these are mostly full-time jobs.

Source: Shutterstock

50,900 jobs growth

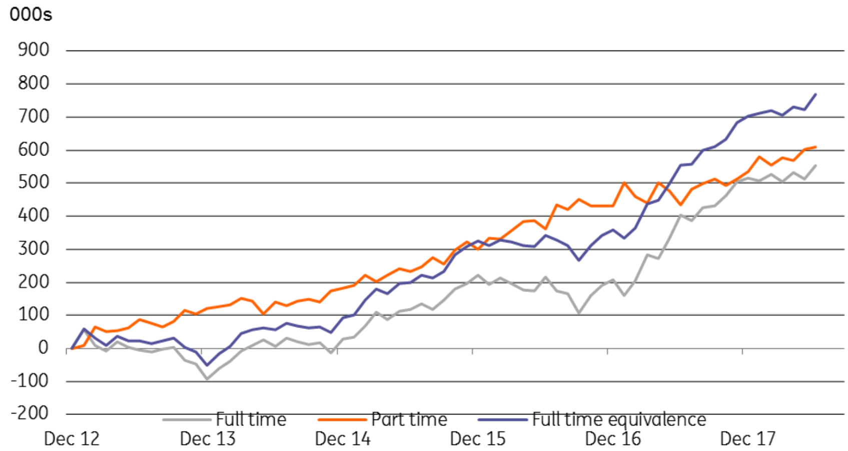
June 2018

Higher than expected

Full time jobs dominate

Strong growth in full-time jobs in June helped to shift a labour market that was beginning to be dominated by part-time jobs. Our full-time equivalence measure suggests that labour demand is now picking up strength. Were this to also be reflected in some improved wages growth, it could radically change the outlook for the Reserve Bank of Australia, which most forecasters see on hold all this year, and possibly all of next year too.

Cumulative Australian employment growth since 2012



Source: Bloomberg

Queensland provides most of the pick up

While the labour markets in Victoria and New South Wales seem to be alternately chopping up and then down for no significant aggregate trend, this month, an outsize 14,800 gain in Queensland has provided most of the upwards push, making this state the second biggest job creator year to date at 26,600, behind New South Wales at 62,600, but ahead of Victoria at 21,900.

The local government puts the gains down to Back to Work programmes and re-skilling, though tourism associated with the April 2018 Commonwealth Games, and heavy investment in LNG export infrastructure projects and population inflows from expensive property areas such as Melbourne and Sydney are more likely to be doing the heavy lifting.

The June employment data were certainly an outsize month on month bounce. Though given the volatility of this series, not that eye-watering. This data will only likely become a significant market mover if repeated in July.

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Indonesia: Central bank pauses after aggressive tightening

Bank Indonesia (BI) decided to keep policy rates steady at today's meeting. But the central bank may need to show it stands ready to be aggressive...

Source: Shutterstock

5.25%

BI 7-day reverse repurchase rate

Pause in the tightening cycle

As expected

The recent stability of IDR and funds inflows argued for a pause in the tightening cycle

The Indonesian rupiah (IDR) has traded between IDR14350 and IDR14480 since a 50 basis point rate hike late last month. And foreign funds amounting to $650-$670 million have flowed back into the local government bond market in the past two weeks. These developments supported BI's decision to keep policy rates unchanged at today's brief meeting. BI remains vigilant to protect the recent stability by also continuing to intervene directly in both the currency and local government bond markets. The central bank also indicated its readiness to further tighten monetary policy. However, the market tested BI's resolve soon after the decision was announced, with IDR breaking above the upper end of the recent trading range and breaching IDR14500. One reason for the weakness is the central bank's view that the current account deficit would be less than 3% of GDP, which likely raised concerns. Previously, BI expected the current account deficit to be around 2.5% of GDP in 2018. We continue to expect BI to resume its tightening in the coming months with at least another 25 basis point hike this year and another 50 basis points in 2019. We cannot rule out BI turning aggressive again to support the IDR.