Good MornING Asia - 20 November 2018

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In this bundle

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Turn your back and look what happens

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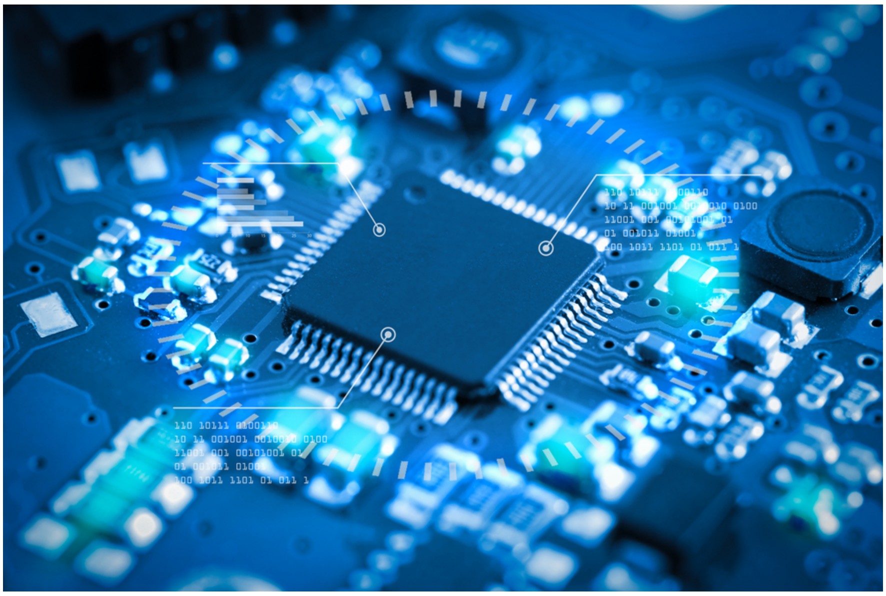

All change

I've been buried in a presentation for a few days and haven't really had my eye on markets as I've grappled with what I hope are some fancy new charts. And a bit like when you have been away from home and see your kids again, to think, "My how they've grown", my first take this morning was "My, they look weak". Now I don't need to tell you this - you're better plugged in than me in all probability. But it does affect the way I look at the world, and what I might expect to happen on a number of levels.

1. The Fed - markets have gone on a big downer with respect to the Fed. The current effective Fed funds rate is 2.20%, near the top of the 2.0-2.25% target range owing to issues with the interest on excess reserves. So to judge what the market is expecting from Fed policy decisions, I look at Fed funds futures, which are based on the average effective Fed funds rate over the relevant contract month, not any part of the policy target. And if I do this, it shows a December hike still firmly priced in. The weakness of stocks has not dented that. But thereafter, they diverge sharply, with only one further hike fully priced in by the end of

2019, though the balance of risks still supports a second hike. As a house, we remain in line with the Fed for three 2019 hikes. Though this does raise questions about what the stock market will do if the Fed sticks to its guidance and our house view ends up being right. It makes you think...
2. Stocks look weak. This is backed up by some very ill-informed technicals (I read about a third of "Murphy" before I got bored...the easy bits). I'm concerned in particular by the tech sector. Oversupply in the semiconductor industry is an issue for Asia (prices as well as volumes under pressure), and made worse by an apparent lack of demand for some well-known producers of hi-tech products (you know the brand I mean), and a drop in demand for chips to run crypto-currency mining, now that the bottom seems to have fallen out of that market. That's not good for KRW or TWD, but in general, it is not a good backdrop for Asia, now that everyone has got in on the chip-game. For those not at the cutting edge of this technology, and operating as price takers in this increasingly saturated market, that is concerning.
3. The USD is weak. Even GBP has made some modest gains against the USD in recent days (which shows how weak it has been) and "proper" currencies have done much better still. So the love of all things USD is dipping sharply...though that does not extend to US Treasuries, where yields are now only 3.06% on the 10Y, which takes the 2s10s spread back to only 27bp, and indicates that market recession worries are mounting again.

Most of the preceding observations are in the short-term quite helpful to the backdrop of Asian FX, especially coupled with lower oil prices, and lower Treasury yields. But this benign market environment could be a deceptively enticing veil, masking some genuinely less encouraging times ahead. If we add a much weaker US growth picture to the story above, then I doubt that Asian markets would be looking quite so rosy.

UK PM May still holding on to power

My understanding is that the European Research Group (ERG), the Eurosceptic cabal within the Conservative Party, are well short of the 48 letters calling for a vote of no-confidence in Theresa May. This means the EU-UK draft deal, remains the central point for discussion between the UK and Europe, and subject to minor tweaks from either side, is what we should expect to be the subject voted on in parliament in December, though perhaps later.

But here, I am not sure that May has the numbers. The Labour leader yesterday suggested his party would vote against the bill. And the DUP, who Theresa May requires to lead parliament, abstained from two votes on a Finance bill on Monday. The Labour leader has also apparently decided a second referendum might be worth considering...if so, then maybe our house view that politicians will vote for this deal at the last minute as the alternative is so horrific (no deal and WTO trading) could be challenged.

Certainly, the bravado from arch-Brexiters seems to suggest that the reality of a no-deal Brexit has not sunk in, and perhaps never will. So if May doesn't have the opposition, who may be looking for an election, and she doesn't have the DUP and she doesn't have a chunk of her own party, then the arithmetic looks like my youngest son's maths homework - it usually doesn't add up.

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Article | 20 November 2018

ASEAN morning bytes

General market tone: Wait and see. Bluechip technology shares weighed on overall sentiment with major stock indices falling on Monday. Lackluster US housing data sent bond yields lower, which were already pressured by dovish comments from a Fed official.

International theme: US-China trade spat in focus while investors watch oil

- The US dollar pulled back on falling Treasury yields with investors now cautious about the Fed's dot plots in 2019 in the wake of Clarida's comments. Poor outlook for heavyweight tech shares dragged on overall sentiment with investors turning to OPEC for direction on oil prices.

EM Space: Should we start worrying about global growth?

- **General Asia:** Asian equity markets may take their cue from the retreat of tech shares overnight. Energy players may also be struggling given the recent slide in oil prices with investors now more concerned about the overall pace of global growth, especially with the cloud of uncertainty in US-China trade relations.
- **Indonesia:** Financial markets are on holiday today for the Prophet's birthday.
- **Malaysia:** Financial markets are on holiday today for the Prophet's birthday.
- **Thailand:** The 3Q18 GDP slowdown (3.3% vs. 4.6% in 2Q) is bad enough to dent the official

optimism about the economy this year and the next, with expectations of continued 4%-plus GDP growth. We have cut our growth forecast for 2018 from 4.2% to 4.1% but maintain a 3.8% forecast for 2019. The persistent downside growth risk should dampen the central bank's recent hawkish rhetoric on tightening (read more here).

- **Philippines:** China's Xi Jinping is visiting the Philippines today with up to 135 deals set to be signed during his visit. Reports indicate that a Chinese firm would be investing up to $2 bn in an industrial estate, which coincides with the first day of trading of the Yuan spot market in the Philippines.
- **Philippines:** The balance of payments for October was reported at -$458m, slightly wider than the -$368m in October 2017 but an improvement from September's $2.696bn deficit. Portfolio flows for the same month showed an outflow of $67.83m, indicating that the current account deficit was offset to some extent by possible direct investment inflows.
- **Philippines:** Budget Secretary Diokno indicated that the government was confident in keeping the budget deficit at 3% of GDP in 2018 after concerns mounted of a possible breach after 3Q numbers were reported. Diokno indicated that revenues are seen to ramp up towards the close of the year and that spending may pull back. Thus, 4Q GDP may face an uphill battle to crest the 6% handle with consumption, investment and government spending all seen to taper off.

What to look out for: US-China trade developments

- HK CPI inflation (20 November)
- US housing starts (20 November)
- TH trade (21 November)
- US durable goods (21 November)
- US existing home sales (21 November)
- JP CPI inflation (22 November)
- SI 3Q GDP (22 November)
- MY CPI inflation (23 November)
- SI CPI inflation (23 November)
- TH GIR (23 November)

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Article | 19 November 2018 Thailand

Thailand: A huge downside GDP miss

The 3Q18 performance is bad enough to dent the official optimism about the economy this year and the next, with continued 4%-plus GDP growth. It should also dampen the central bank's hawkish rhetoric on tightening recently

Source: Shutterstock

3.3% 3Q18 GDP growth

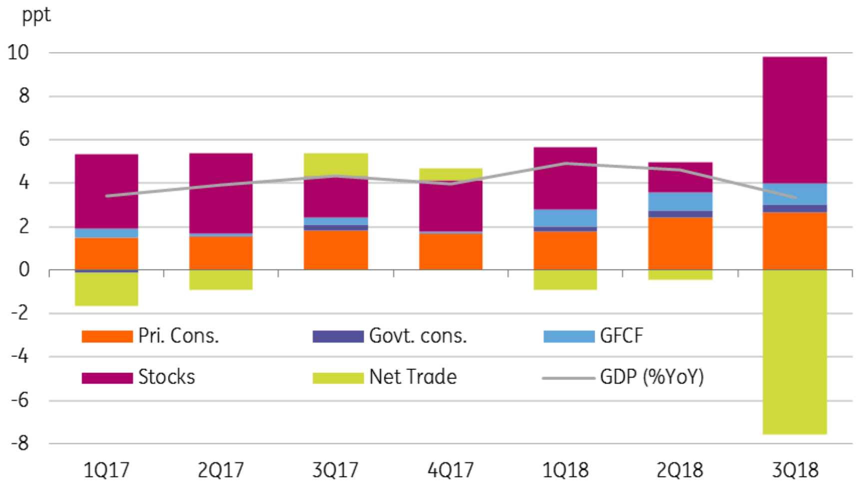
Worse than expected

Net trade dents GDP growth

Thailand's GDP growth slowed more than expected to 3.3% year-on-year in the third quarter of 2018 from 4.6% in the second quarter. The outcome was far below the analysts' consensus, which centred on 4.2% growth. We were at the low end with a 3.7% estimate.

As the graph below shows, net exports were the main drag on GDP growth in 3Q18, led by a sharp slowdown in export growth. While import growth remained robust, this seems to be more due to higher oil imports rather than an improvement in domestic demand. The contribution of private consumption to GDP was slightly better than the second quarter, while that of government consumption and fixed capital formation was little changed. This left inventories in the prime spot as the GDP driver for yet another quarter, not a healthy sign for future growth.

Where GDP growth is coming from?



Note: Bars may not stack up to GDP growth due to statistics

Source: Bloomberg, CEIC, ING

No more reasons for optimism

We believe the data is bad enough to dent the official optimism on the economy's performance this year and the next, with continued 4%-plus GDP growth, as well as dampen the Bank of Thailand's (BoT) hawkish rhetoric on tightening recently. The National Economic and Social Development Board (NESDB), the agency responsible for the National Accounts statistics, forecasts 2018 GDP growth at 4.2%, slower than the finance ministry's 4.5% and the BoT's 4.4% forecasts.

On its own, the 3Q18 data has pushed our 2018 growth forecast to 4.1% from 4.2%. We anticipate a further slowdown to 3.8% in 2019 (consensus 3.9%, BoT 4.2%).

Weakening support for the THB

Our view of the BoT maintaining the policy rate at 1.50%, the level it's been at since early 2015, in the rest of the year remains on track. Aside from a softer USD and falling oil prices recently, we see no reason to remain positive on the Thai baht (THB) as the currency is also losing the strong support it enjoyed from the wide current account surplus. The THB's 1.9% depreciation since October is the worst among Asian currencies. We continue to see the USD/THB rising to 33.60 by the end of the year from the current spot rate of 32.96.

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