Good MornING Asia - 20 November 2019

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The US-China trade war remains the key driver for markets. With President Trump threatening a fresh round of tariffs if there is no trade deal, Asian markets trading today is likely to be more cautious.

EM Space: More tariffs if no trade deal

- **General Asia:** The US-China trade war remains the key driver for markets with President Trump now threatening a fresh round of tariffs if there is no trade deal. Outside trade noise, investors will be looking to the FOMC minutes for direction on the Fed policy as the latest data points to a soft-landing in the US economy. There is little going on in Asia aside from trade figures from Japan and Taiwan, while Malaysian inflation continuing to be a non-event.
- **Malaysia:** October CPI data is due. We agree with the consensus of a dip in inflation to 1.0% YoY from 1.1% in September. As inflation continues to be subdued, growth has now started to weaken with fading export support. Thanks to low inflation, Malaysia's enjoys relatively high real interest rates and a most resilient currency (MYR) in the region. We think all these factors offer scope for the central bank (BNM) to ease monetary policy further to support growth. Hence our forecast of an additional 50bp BNM rate cut in this easing cycle, most likely coming in the first quarter of 2020.
- **Philippines:** Overall balance of payments surplus widened to $163 million in October from $38 million in the previous month as financial inflows offset the current account deficit. The year-to-date BoP surplus of $$5.7 billion is a sharp positive swing from the deficit of $5.6 bn

during the same period in 2018 and this forms the key driver of the currency's (PHP) outperformance among its Asian peers this year.
- **Indonesia:** Finance Ministry sees a wider fiscal deficit between 2.0-2.2% of GDP this year as through October it already hit the 1.8% full-year budget target. With the government aiming to insulate the economy from the ill effects of the slowing global economy, we can expect further deficit widening into 2020.

What to look out for: FOMC minutes

- Malaysia inflation (20 November)
- Taiwan export orders (20 November)
- US MBA mortgage applications (20 November)
- Fed FOMC minutes (21 November)
- Singapore GDP (21 November)
- Thailand trade (21 November)
- Hong Kong inflation* (21 November)
- US existing home sales (21 November)
- Bank Indonesia (21 November)
- Thailand GIR (22 November)
- Malaysia GIR (22 November)
- US consumer sentiment (22 November)

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Japan export plunge an illusion

Japan's worsening export growth is largely illusory and growth rates should soon start to improve

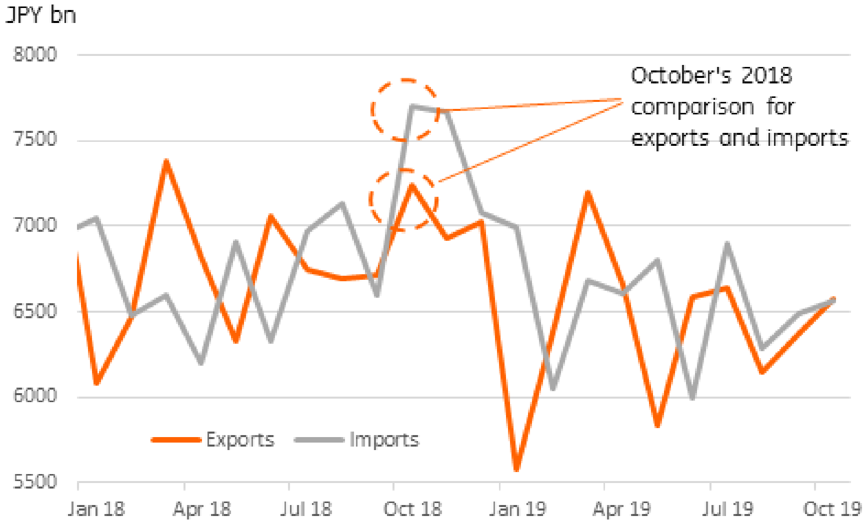
Source: Shutterstock

The curse of annual growth rates

The popularity of year-on-year growth rates in economic reporting in Asia probably stems from the enormous seasonality of some data, which regular seasonal adjustment seems incapable of adequately adjusting. That, together with very choppy series means that usually, year-on-year growth rates can help to smooth data and make the emergence of trends more obvious.

But sometimes, this process delivers misleading messages. For example, the October export figures from Japan released this morning worsened from -5.2%YoY in September, to -9.2%YoY. It looks as if the trade war and technology slump still has Japan deep in its grips. The reality is much less dramatic and much more optimistic.

Japan exports and imports (JPY bn)



Source: Bloomberg

Japan exports and imports

Never mind the percentage growth, feel the levels

When you look at the raw data, unadjusted and in terms of JPY levels, exports rose in October from September (JPY6577bn from 6368bn). The only reason that the year on year growth rate plunged, was that October 2018 exports spiked up to JPY7243, the second-highest reading of that year. And there doesn't seem to be anything particularly seasonal and repetitive about that increase. October 2017 exports were actually a little lower than those in September that year (JPY6692 vs 6810bn), as were October 2016 exports.

In other words, what is really driving the year-on-year deterioration this time, is series noise. Nothing more.

Take a look at what happened to exports in the immediate aftermath of October 2018 - they managed to eke out a few more months at around JPY7000bn, then plunged. Semiconductors, the main victim of the technology slump, played a big role here. And so assuming that export levels remain fairly steady from here to the end of the year, year-on-year growth rates should improve to about -5%YoY in November and December, and then when January figures are released in February 2020, will shoot up to about +18%YoY. And bear in mind, that is on the assumption of flat export levels in billions of JPY. Things could look considerably better than that.

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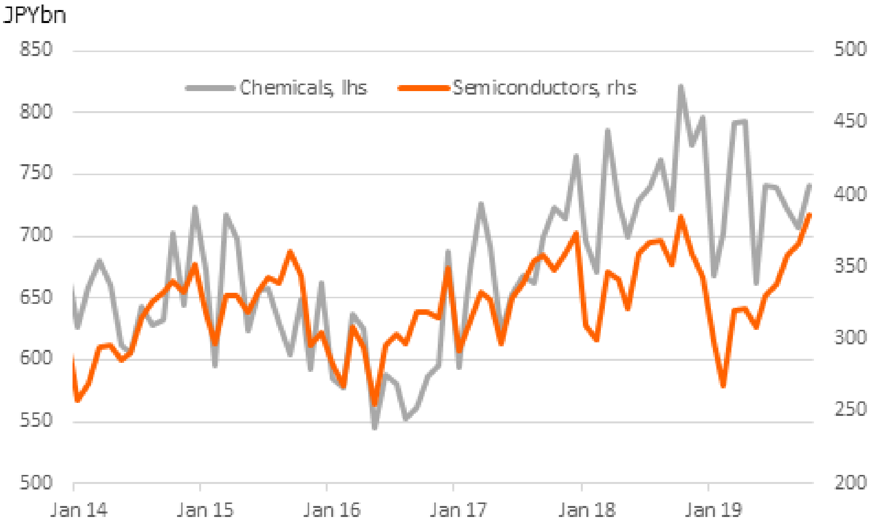
Japan chemical and semiconductor exports improve



Source: Bloomberg

Japan semiconductor and chemicals exports

Chips and chemicals

The disappointing trade spat between South Korea and Japan is hard to discern in the breakdown of chemical exports from Japan. Neither the overall chemical figures nor the organic chemicals subset appear to be exhibiting anything other than random fluctuations. So there is neither evidence of an attempt to front-run export embargoes, or of the bans hitting this sector.

And as for semiconductors, exports of these have not been higher since the global financial crisis in 2008, which is not only good news for Japan, but it perhaps shines a positive spotlight on other tech-heavy economies in the region (Korea, Taiwan, Singapore).

Market implications

The JPY is a little weaker on these trade figures, with their accompanying smaller than expected trade surplus (JPY17.3bn) and the adjusted balance swinging into a small deficit (-JPY34.7bn). The import growth figures at -14.8%YoY down from -1.5% in September also suggest terribly weak domestic demand, whereas in JPY, they were also up slightly (JPY6560 vs 6491bn) and suggest nothing out of the ordinary occurring. The import growth figures for December will likely outpace those of exports in returning to positive annual growth, even if nothing, in reality, is really changing.

What these figures do hint at, is a broad moderation in the cyclical damage caused by the tech slump, together with no further general deterioration stemming from the ongoing trade war. The JPY has been a beneficiary of these global risk events, and if these negative forces are now ebbing, the JPY may see its support beginning to fade, even as its local fundamentals start to improve.

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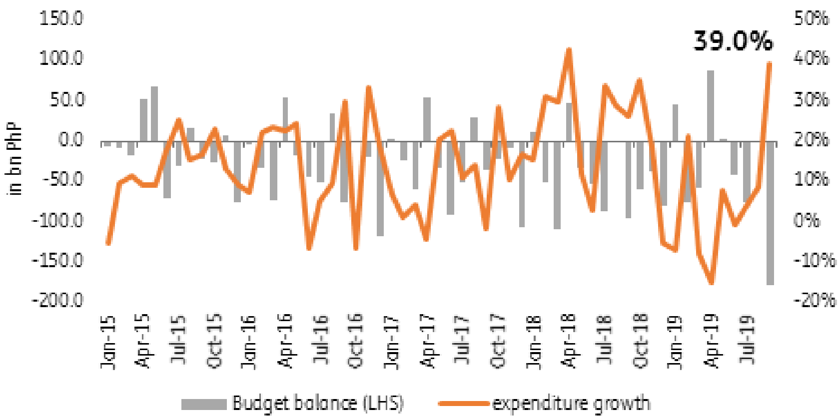
Philippines: What's better than a super budget? Two of them

The Philippine congress passed a bill seeking to extend the validity of the 2019 budget, bringing the prospect of a parallel fiscal push in 2020

Source: Shutterstock

Philippines budget balance and expenditure growth



Source: Bloomberg

Fiscal push could last well into 2020

The Philippine congress has approved a bill extending the validity of the 2019 budget (both for operating expenses and for capital outlay) until December 2020. Although the bill will require approval from both the Senate and the President, this development is crucial to ensure that the sustained fiscal push which helped lift 3Q GDP to 6.2% (September surged by 39%) will continue to deliver. Given cash-based budgeting, the government would not be able to carry project funds over to 2020 without this bill being passed into law, making this development worth noting. And although public construction and operating and maintenance costs of the government account for a mere 13% of overall GDP, the recovery in government spending was able to provide a welcome boost to 3Q GDP growth momentum, as capital formation remained in the red.

What's better than a super budget? Two of them

The International Monetary Fund (IMF) upgraded its 2020 forecast to 6.3% (from 6.2%) on expectations the 2020 budget would be approved and as the Bangko Sentral ng Pilipinas (BSP) walks back part of the 2018 rate hike cycle. Most analysts also point to possible clearer skies in 2020 should the budget be passed on time and global headwinds fade. However, should the 2019 budget be extended, we are now faced with the prospect of a double dose of fiscal stimulus (2019 and 2020 operating in parallel) in tandem with BSP's current easing cycle. From here we can see even faster GDP growth in 2020, base effects withstanding, with robust consumption, rejuvenated investment and the two-headed fiscal budget working together to deliver a solid growth performance next year. Should these factors come together, the prospect of effectively chasing the higher 2020 growth target of 6.5-7.5% will become more tenable, with or without a global slowdown.

Spend spend spend = borrow borrow borrow

The projected increase in spending will ostensibly result in an increase in borrowing from the national government in late 2019 and into 2020. We expect liquidity conditions to tighten considerably in 1Q 2020, just as they did in early 2019, with the national government bond issuances expected to crowd out the rush of private sector capital raising exercises. We forecast that the tighter liquidity conditions could prod the BSP to sustain its easing momentum but tighter liquidity conditions could still very well see bond yields revisit an upward trajectory.

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