Good MornING Asia - 21 August 2018

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By Robert Carnell

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Source: The White House

USD weaker against EUR overnight

Just a couple of days ago, I remember skimming an article in the Financial Times that began to make a comparison of Donald Trump with President Erdogan. I confess I didn't read it properly as I wasn't convinced by the notion and moved on to a story about weak Korean productivity. But reports overnight (unless they are fake news) suggest that the US President has been publicly lamenting the lack of assistance from the Fed, at least compared to say the eurozone or China (who he allegedly called currency manipulators).

It was just such remarks made by the Turkish President, that put Turkey under the international market spot-light, and potentially, provided the catalyst for markets to sell the lira (TRY) at the first excuse. I'm not suggesting anything similar for the dollar, but it is a little weaker overnight, and you might attribute a little of that to the slow erosion of Fed independence that such remarks will be bound to have. Markets, correctly in my view, hold central bank independence sacrosanct. Like FX policy, this is something you mess with at your peril.

I suspect that Jerome Powell's Jackson Hole speech later this week will be aimed squarely at econo-nerds - dealing with issues like the real equilibrium interest rate. A point of reflection is coming closer at the Fed, but we suspect that most FOMC members will want to see the yield curve a little closer to inversion before they relent on the cautious tightening phase. And with inflation currently exceeding their targets on any measure you choose to take, that seems prudent. I don't believe Powell will cave-in to Trump's comments and offer a much more supportive view of policy.

That said, any hint that the Trump pressure on Powell is beginning to work, and we may well see the USD under further pressure - after all, the ECB is nearing the end of the summer of inaction they promised before looking at their asset purchase programme. And unless concerns about Italy take centre stage, then the EUR could find itself under more support as the end of the year draws in.

RBA - time to consider the other thing

The Reserve Bank of Australia did not, of course, raise rates at its August meeting, nor will today's minutes of that meeting suggest any hike is probable next month or the month after that. Indeed, the RBA seems so glued into inaction that it is becoming something of an irrelevance for markets. But that could change, and in ways that have not yet been picked up by markets. A quick look at Australian newspapers sees headlines about the sharp fall in Sydney house prices. I know, there's more to Australian housing than Sydney, and it is the only metropolitan housing market that is yet showing year on year declines.

Give it time though. On a quarter on quarter basis, only Adelaide, Hobart and Canberra are showing further house price gains, and only in Hobart are these accelerating. By 3Q, Melbourne could also be seeing year on year house price declines, and it is only going to take this long to get there because the previous pace of gains was so rapid.

Australian implied interest rates from bank bill futures still suggest a slight upward tilt to expectations. But there is a scenario unveiling where this flattens or even tilts lower. Rates could go down before they go up.

Watch also for some political noise in Australia over the coming days, as PM Turnbull drops his plans for a carbon emissions target. Both this and the RBA stance could weigh on the AUD.

Asia Day ahead - Quiet

Its quiet in Asia, with national holidays across much of the region this week. 20-day Korean trade data may provide the sole interest in addition to Japan's erratic and little-watched retail sales figures. Machine tool orders is not a market-moving release.

Thailand's July trade data due tomorrow (22 August) will provide a glimpse of the economy coming into the second half of 2018. As elsewhere in Asia, we believe Thailand's export strength likely persisted in July. Yet we expect a sharp narrowing of the trade surplus in July from June. Narrower trade and current account surpluses made net exports a drag on GDP growth in the first two quarters (see 'Thailand: GDP growth beats expectations, again'). After a significant Thai baht (THB) sell-off in 2Q18, the currency has returned to its position as one of Asia's outperformers since July. While this weakens our confidence in our forecast of the THB trading toward 35.0 by end of the year, we are waiting for more concrete developments on the US-China trade standoff before making any revisions.

It is a public holiday in Singapore tomorrow. We will be back with you on Thursday.

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Article | 20 August 2018 Thailand

Thailand: GDP growth beats expectations, again

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Source: Shutterstock

4.6% GDP growth in 2Q18

Better than expected

Above-expected 2Q GDP growth

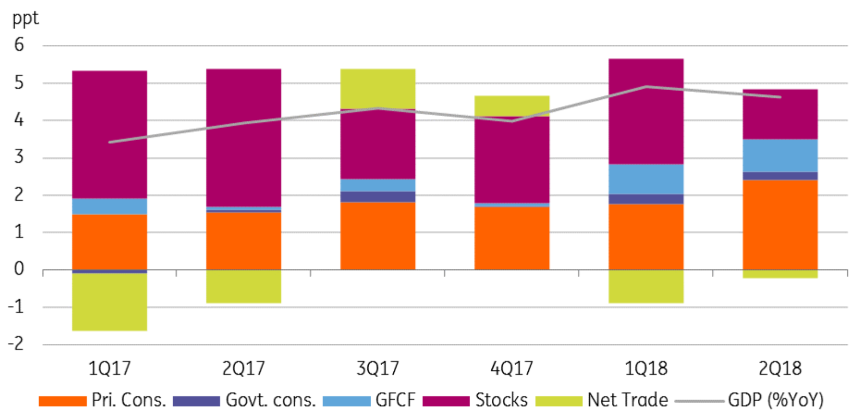
Thailand's economy performed better than expected in the second quarter, drawing support from continued strong exports and manufacturing. GDP grew by 4.6% year-on-year in 2Q18, faster than our 4.5% forecast and the consensus 4.4% view. 1Q18 growth was revised up to 4.9% from 4.8% initially. Today's report prompts an upward revision to our 2018 growth forecast to 4.3% from 4%.

The expenditure breakdown revealed net exports remaining a drag on GDP growth for the second straight quarter, albeit by less than the first quarter (see chart). This is consistent with a year-on-year narrowing of the current account surplus. In terms of the current account, exports continued to strengthen, but imports derived their strength mostly from oil, where higher global oil prices boosted the import bill.

On the domestic side, there was a marked improvement in the private consumption contribution to GDP growth, to 2.4 percentage points (ppt) in 2Q from 1.7ppt in 1Q. However, there was no improvement in government consumption or gross capital formation. An upswing in the inventory cycle continued to play a key role in driving the headline GDP number - possibly a bad omen for future growth.

Services remained the key industry-side driver of GDP growth.

Source of GDP growth



Note: Bars may not sum up to GDP growth due to statistics discrepancy

Source: Bloomberg, CEIC, ING

Global trade risk, low inflation warrants stable policy

July trade data due on Tuesday (21 August) will provide a glimpse of where the economy is heading in the current quarter. As elsewhere in Asia, we believe Thailand's exports strength likely persisted in July. But the trade war makes things uncertain for the remainder of the year, imparting downside risk to the official growth forecast for this year - the Finance Ministry recently raised its 2018 forecast to 4.5% from 4.2%, while the central bank's (BoT) forecast is 4.4%.

Just as the trade war risk looms, and with the likelihood of inflation falling short of the BoT's 1-4% policy target in coming months, an on-hold central bank policy looks to be a safe bet for the rest of the year.

After a significant Thai baht (THB) sell-off in the 2Q with a 6% depreciation against the US dollar, the currency has returned to its position as one of Asia's outperformers since July. Although this weakens our confidence in our forecast of the pair trading toward 35.0 by end of the year, we aren't changing this forecast until more concrete news on the US-China trade tensions emerges.

Economic forecast summary

Thailand	2017	1Q18F	2Q18F	3Q18F	4Q18F	2018F	2019F
Real GDP (% YoY)	3.9	4.9	4.6	3.8	3.9	4.3	4.0
CPI (% YoY)	0.7	0.6	1.3	1.3	1.1	1.1	1.3
BOT 1D repo rate (%, eop)	1.50	1.50	1.50	1.50	1.50	1.50	1.75
3M interbank rate (%, eop)	1.57	1.57	1.58	1.60	1.70	1.70	1.95
10Y govt. bond yield (%, eop)	2.32	2.40	2.58	2.80	2.90	2.90	3.00
THB per USD (eop)	32.58	31.18	33.04	34.20	35.00	35.00	33.60

Source: Bloomberg, CEIC, ING