

Good MornING Asia - 21 January 2019

No significant movement by PM May on Brexit despite cross-party talks; US President's attempts to restart government meet opposition from both sides; US-China trade talks progressing well; but China GDP data could be weak. Is this a good or a bad start to the week?

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Plan B - It's plan A

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By Robert Carnell



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Plan ~~A~~ B

plan A

It started well

A quick look at the universal green numbers on the equity screens today, both actual and futures markets, suggests that markets start the week in ebullient mood. It's been a choppy start for the EUR/USD, which spiked as high as 1.1410 in early Asian trading but seems to have calmed down now to about 1.1370, and there is little significant movement in the Asian FX pairs this morning so far.

That does not necessarily signify all is well though, and there are a number of reasons why we ought to start the week in a more cautious fashion than equity markets suggest.

The international scene is far from rosy

We will keep the Brexit commentary brief this morning, as 1) Our London-based colleagues will be all over it when they start work in about eight hours, and 2) there is nothing much new to add, save that Prime Minister Theresa May is sticking to her utterly failed plan A, and calling it Plan B merely by having talked to a few cross-party leaders and having failed to secure a bilateral arrangement with Ireland over the backstop.

The week in parliament will see all manner of amendments to the Brexit bill being suggested with the vote on these on 29 January. These will doubtless include a Norway-style single market option, as well as a second referendum. The question is, is there a single resolution that could command a majority of MPs? We'll find out in eight days.

President Trump has offered a compromise to try to end the long-standing US partial government shutdown, providing an extension of three years for "Dreamers" to stay in the US whilst their residency status is being determined. This has met opposition from both sides of Congress, but at least it suggests that answers are being sought. Not much comfort for those still on furlough, but better than nothing.

And according to Larry Kudlow, there is still good progress being made on trade talks with China before the 1 March deadline. Ok, good, but he would say that wouldn't he?

Davos this week, watch the news TV channels for pictures of famous and extremely rich people incongruously dressed in improbable skiwear. Otherwise, skip. Nothing here for most of us, or for markets in all probability (sour grapes because I have never been invited - not that I'm an avid skier, far from it. But I do love a drop of vin chaud).

China 4Q18 GDP - confirmation of what we already know?

We are looking for a 6.3% print for Chinese 4Q18 GDP today, a shade lower than the 6.4% consensus figures, down from 6.5% in 3Q18, and itself one of the lowest GDP results since the financial crisis. The consensus low is 6.2%. It really doesn't seem all that bad does it? But if it beats on the upside, most of us will dismiss this as statistical fudging. We know how the quarter shaped up in 4Q18, weak industrial production, fixed asset investment, and disappointing retail sales. A boost from a falling GDP deflator will not excite the market, but that could be where any upside surprise lies.

Asia rest of the week - CBs dominate

Following China's GDP release today, Asia Central banks will dominate the data for the rest of the week, though none are expected to change policy rates.

The Bank of Japan meets on Wednesday. Most watchers expect it to trim its GDP and inflation forecasts for 2019, and some are using this as an excuse to back out of consumption tax hike plans for later this year. There may be something in this, though I haven't written off Japan yet, and am still viewing 3Q18 GDP weakness as a weather-induced aberration.

Bank Negara Malaysia also meets this week. No policy moves for them whilst inflation remains well behaved and growth a little subdued, nor from the Bank of Korea, where we are still trying to understand the motivation for the 18 October 25 basis point rate hike.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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International theme: US-China talks see breakthrough but US shutdown continues

- The US government remains in lockdown as Democrats rebuffed an offer from Trump for a compromise. Meanwhile, even the most hawkish of Fed officials espoused “patience” while China appears ready to make concessions, which are seen to boost risk appetite on Monday.

EM Space: Et Tu Williams? #Fedovish

- **General Asia:** Positive US-China trade developments will be viewed in light of China's GDP report for 4Q18 today,
- **Malaysia:** Direct tax revenue surged to a record annual collection of MYR 137bn in 2018 even as GDP growth eased in the last year. An 11% annual growth should offset some of the revenue losses from overhauling of the consumption tax and ease the deficit burden, which the government estimated to be equivalent to 3.7% of GDP in 2018, the widest in five years. Resumption of the upward march in the crude oil prices since December bodes well for the economy and government revenue this year.
- **Thailand:** December trade data is due. The consensus is centered on continued contraction in exports but a sharp slowdown in import growth reducing the trade deficit. There was a

sharp narrowing in trade surplus in 2018, to our estimated \$60m from over \$15.1bn in 2017. We estimate this to result in narrower current account surplus of about 7% of GDP than 11% in 2017. It's still large relative to other Asian economy and a sustained source of THB appreciation. However, underlying our view of the USD/THB weakening above 33 within the next 3-6 months is intensified political risks surrounding the timing of general elections.

- **Vietnam:** Vietnam is positioning itself as a safe haven for manufacturers affected by the US-China trade war. Prime Minister told Bloomberg that “We are ready to grab opportunity” and that “The government has been doing a lot to help foreign investors to grow businesses long-term in Vietnam”.
- **Indonesia:** Finance minister Sri Mulyani Indrawati indicated that the government was willing to implement even more tariffs on imports in the coming months should the trade deficit continue to be wide. Struggling exports and still strong import growth forced the trade gap to widen substantially in 2018, prompting a run on the IDR. The latest trade numbers show a narrowing of the deficit but the government appears ready to do more to bring the trade back to balance.
- **Philippines:** The Bangko Sentral ng Pilipinas reported the balance of payments data for the month of December 2018, seeing a hefty inflow of \$2.44bn, the highest monthly inflow seen since 2012. Nonetheless, the full year deficit settled at -\$2.31bn and year-end gross international reserves dipped to \$79.19bn from \$81.57bn in 2017.

What to look out for: China GDP and central bank meetings

- China GDP, retail sales and industrial production (21 January)
- Taiwan trade (21 January)
- South Korea GDP (22 January)
- Malaysia GIR (22 January)
- US existing home sales (22 January)
- Malaysia inflation (23 January)
- Singapore inflation (23 January)
- Philippines GDP (24 January)
- Malaysia policy meeting (24 January)
- ECB policy meeting (24 January)
- South Korea policy meeting (24 January)

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