Good MornING Asia - 21 June 2019

After all the central bank excitement the week ends quietly.

In this bundle

China

Taiwan central bank stays put as expected

The central bank left policy unchanged in June. This was expected because interest rates are already low and pushing them down further would not have...

Bank Indonesia keeps rates steady but cuts RRR

The central bank opted to keep its powder dry but rate cuts may follow in the near term. Bank Indonesia did however cut the RRR by 50 basis points

Opinion | 21 June 2019

All’s well - S&P500; back to record highs

Is it just me, or is the "Buy assets" market mood a bit disquieting?

Source: shutterstock

Happy, I remember happy...

I suppose I shouldn't grumble (don't get me started though), after all, if I look at my pension valuations later on today, they should make encouraging reading. The S&P500 is at an all-time high again, as President Trump has reminded us. Even the FTSE-100 is looking robust, despite Brexit fears.

As a 50-something, I have over recent years been happy to run with a decent bond allocation in my savings, though still largely equity-based. But given my disquiet with all-things monetary, I have also dabbled with the occasional foray into physical gold. Coins mostly, and a few small bars, mainly as an insurance policy. They are fun to play with. I shall give most of them to the kids when they are 18.

My journey-to-work reading today was filled with stories about gold, which is understandable. But then, of course, it isn't the only thing going up right now. So too are stocks, so too are bonds. Indeed, it seems that the world is so awash with money, that it is creating financial asset price inflation wherever you look. For example, in DM space, there are now eight negatively yielding 10Y government bonds. Money is so plentiful you actually have to pay the government when you lend it to them.

And yet on the other side of the coin, recession fears stalk the pages of investment newswires. Huh?

Something is wrong here. Moreover, the likelihood that if and when this is realized, the positive correlation between all assets means that my portfolio diversification will all count for nothing, is rather disturbing. If you have access, look out on Bloomberg for Robert Burgess' "This is a market only Gordon Gekko could love". It is a much more detailed (and better) synopsis of the paragraph you have just read.

I shall take less comfort than usual from any valuation uptick if I bother to read it later.

Day ahead - G7 and Asia.

After all the central bank excitement this week (which in the end has resulted in a rather paltry haul of one RRR cut (BI) and a hike (Norges bank)), the week ends quietly.

Perhaps too quietly.

We ought, after all, to be hearing news of the next President of the EU Commission, though instead the meeting apparently became a slanging match about environmental targets and didn't make much progress. We aren't anticipating a conclusion to this today.

We do, however, get inundated with PMI data across the developed world. This may shed some light on the true state of the global economy, but PMIs are a little subjective at times, and instead, we may merely get reinforcement of the current market view.

The main Asian event will be the 20-day advance export data from Korea. One or two indices I have been following suggest that the Korean bad news story may be finding a base. These export numbers may throw some additional, and hopefully positive light on what has been a fairly dreadful picture over recent months. Asian FX soared yesterday on the Fed news, with the KRW in particular, gapping lower to just over 1160. Let me put this into the same basket as the other assets I noted in my opening paragraph. There is no fundamental justification for this. It could very easily flip back, but it does make it much easier for the BoK to ease at their next meeting. Governor Lee did comment on the Fed yesterday and reached a completely different conclusion to mine. That's fine, especially if it leads to easier policy in Korea.

Japanese CPI out already this morning was in line with expectations and confirmed that the recent increase in prices was not the start of a trend. Core prices (ex-food and energy, softened a little to 0.5%YoY).

(And a contribution from Prakash Sakpal on today's Thai trade balance): May trade data due today are expected to show steeper declines in both exports and imports, but a return of the trade balance to surplus from a one-off deficit in April which is pretty much seasonal for these months. Backed by a persistently large current account surplus, the Thai baht (THB) remains an emerging market outperformer this year. Nearly half of the 5.3% year-to-date appreciation against the USD has occurred in the current month despite high market uncertainty, prompting the central bank (BoT) to implement "close monitoring" of the market for speculative interest. Maybe a BoT rate cut next week, as justified by stressed real economic situation lately, helps to stem excessive currency appreciation.

(And from Iris Pang in Hong Kong) China's Premier Li met multinational CEOs in a conference held in Beijing on 20th June to confirm that China already protects intellectual property and innovation from foreign companies. He stated that China will open more markets to foreigners.

China bringing up these topics before the G20 sideline meeting could mean that China believes it has already fulfilled its responsibility in these difficult topics, and the room for further negotiation could be small...

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ASEAN Morning Bytes

General market tone: Risk-on. Positive developments on trade between the US and Mexico is seen to lift sentiment on Monday.

EM Space: NFP stalls to 75k, adds to case for rate cut from Fed

- **General Asia:** Disappointing US labor report with the only 75k increase in jobs in May as against expectation of 175k increase helped push the case for a Fed rate cut. On the trade front, Trump and Mexico came through with a deal to avert tariffs on Mexico. Markets will look to China trade data on Monday for direction.
- **Indonesia:** Bank Indonesia (BI) deputy governor Dody Waluyo indicated that the central bank has discussed the possibility of cutting rates but qualified that BI needed to remain cautious. Waluyo said that the central bank was monitoring data to gauge the proper timing of easing, while the US Fed could cut rates within the year.
- **Philippines:** Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated that monetary policy decisions would not be reactive with the BSP seen to act in a preemptive manner to avoid blow-ups in inflation. Meanwhile, gross international reserves (GIR) hit $85 bn in May, up from a revised $83.9 bn in April as the central bank rebuilt its buffer of foreign currency.

What to look out for: China trade data

- China trade (10 June)
- Taiwan trade (10 June)
- Indonesia CPI inflation (10 June)

- Philippine trade (11 June)
- Malaysia industrial production (11 June)
- US PPI (11 June)
- China CPI inflation (12 June)
- Singapore retail sales (12 June)
- India CPI (12 June)
- India industrial production (12 June)
- US CPI inflation (12 June)
- Australia employment (13 June)
- US jobless claims (13 June)
- Indonesia GIR (13 June)
- China industrial production (14 June)
- India trade (14 June)
- US retail sales, consumer sentiment (14 June)

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Asia week ahead: Thailand likely to join the easing buzz

Yet another busy week ahead with a couple more central bank meetings lined up and a host of the usual month-end economic releases from across Asia. Investor anxiety about trade may grow ahead of the Trump-Xi meeting, which takes place alongside the G20 leaders' gathering

Source: Shutterstock

RBNZ to stay on hold

While it is unlikely the RBNZ will drop its easing bias anytime

> *soon, it's in no rush to deliver a second rate cut. Besides, the broadly tight labour market may imply a low probability of inflation falling further away from the 2% target. – ING Asia Chief Economist, Rob Carnell*

The Reserve Bank of New Zealand (RBNZ) will review its monetary policy and announce a decision on Wednesday, 26 June. The RBNZ just eased policy at the previous meeting in May, cutting the cash rate by 25 basis points to 1.50%, the first cut after a long hiatus in the easing cycle, which started four years ago. We don't anticipate a back-to-back cut, with RBNZ's Assistant Governor Christian Hawkesby ruling out another cut just yet. However, with the balance of risks skewed towards economic weakness, our house view remains one more 25bp cut in 3Q19.

BoT to join easing buzz

Thailand's central bank, the Bank of Thailand (BoT), also announces its policy decision on 26 June.

A month ago, Thailand's dismal 1Q GDP report, which showed growth falling to a four-year low of 2.8%, forced us to revise our BoT policy view from no change this year to a 25 basis point rate cut within the current quarter. This puts us outside the consensus, which is still solidly behind a stable policy path this year.

However, earlier this week BoT policymaker Somchai Jitsuchon signalled that policy would be data-dependent, with fallout from the US-China trade war on the local economy leaving the bank "open to all possibilities". This being the case, it's hard to imagine the BoT ignoring the 1Q GDP data, while activity data for the second quarter doesn't offer much hope that the worst is over. The time is coming for a BoT rate cut, if only to reverse the 25bp rate hike from late-2018.

Disappointing data elsewhere in Asia

A raft of activity data is expected to reinforce the downside growth risk for Asian economies.

China's industrial profit figures for May are expected to show a steeper contraction, by over 10% year-on-year, according to our Greater China economist Iris Pang (-3.7% in April). This follows the slowest industrial production growth of 5% YoY in May since the global financial crisis.

May manufacturing releases from Japan, Korea, Taiwan, Singapore, and Thailand will provide a good sense of 2Q19 GDP growth of these economies. As with the BoT, most other Asian central banks are gauging the impact of the trade war in determining their policy course. Indonesia's trade and the Philippines' government budget data are important from the same perspective.

And, the climax of the week will be...

The global market angst about trade may increase in the run-up to the Xi-Trump meeting taking place alongside the G20 leaders gathering in Osaka at the end of the week (28-29 June). That's something we would rather save for this space in the next week. But we have already thought about the title. How about 'Make or Break'?

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
		Monday 24 June			
Indonesia	0500	May Exports (YoY%)	-	-14.1	-13.1
	0500	May Imports (YoY%)	-	-14.5	-6.6
	0500	May Trade balance (US$mn)	-	-1379	-2501.9
Singapore	0600	May CPI (YoY%)	0.6	0.8	0.8
	0600	May CPI core (YoY%)	1.3	1.4	1.3
Taiwan	0900	May Industrial production (YoY%)	-5.0	-	1.0
South Korea	2200	Jun BOK Consumer Sentiment Index	99.1	-	97.9
		Tuesday 25 June			
Hong Kong	0915	May Exports (YoY%)	-10.1		-2.6
	0915	May Imports (YoY%)	-11.8		-5.5
	0915	May Trade balance (HK$bn)	-32.0		-35.1
Philippines	-	May Budget balance (PHP bn)	-81.0	-	86.9
		Wednesday 26 June			
Malaysia	0500	May CPI (YoY%)	0.3	-	0.2
Singapore	0600	May Industrial production (MoM/YoY%)	2.0/0.0	-/-	2.4/0.1
Thailand	0805	Benchmark Interest Rate	1.50	-	1.75
South Korea	2200	Jul BOK Business Survey Index, mfg	77	-	75.0
	2200	Jul BOK Business Survey Index, non-mfg	74	-	72.0
		Thursday 27 June			
China	0230	May Industrial profits (YTD, YoY%)	-10.2	-	-3.7
Thailand	-	May Manufacturing index (YoY%)	-1.5	-	2.0
		Friday 28 June			
India	-	May Fiscal deficit (INR core)	-	-	-206132
South Korea	0000	May Industrial production (MoM	0.9/0.7	-	-0.1/1.7
Thailand	0830	May Current account (US$bn)	1.00	-	1.8

Source: ING, Bloomberg, *GMT

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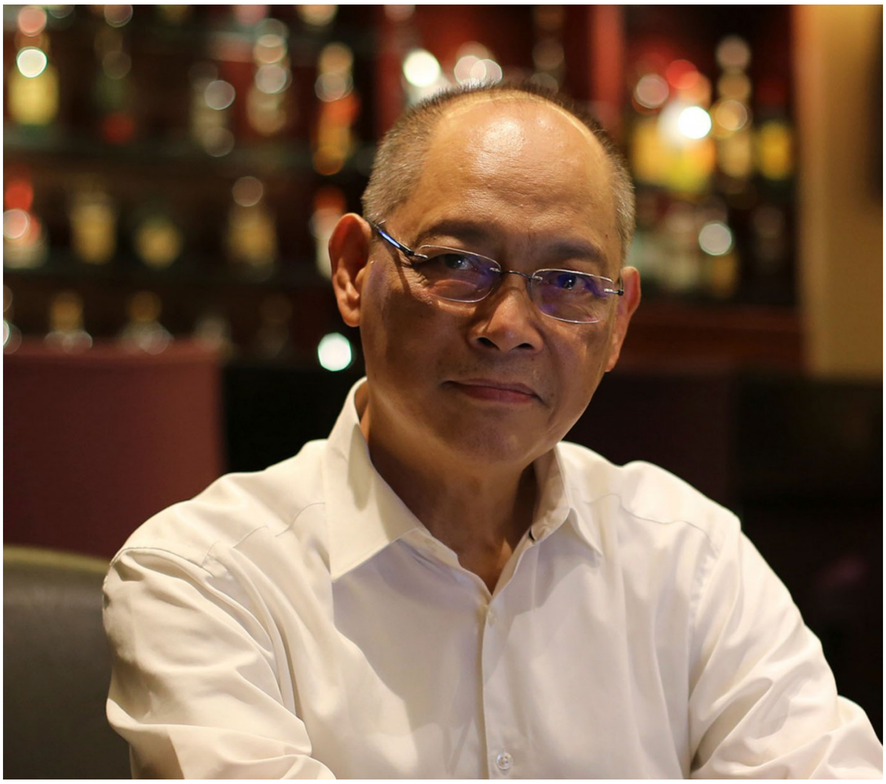
Snap | 20 June 2019

Philippines

BSP keeps powder dry, holds policy rate at 4.5%

The central bank of Philippines opted to gauge recent policy moves before acting again, leaving policy rates at 4.5%



Source: Shutterstock

BSP Governor Benjamin Diokno

4.5%

Overnight reverse repurchase rate

Higher than expected

Data dependence is the mantra

In the wake of recent double-barreled easing, the Philippines central bank opted to keep the powder dry today as they look to gauge the impact of their recent policy moves.

Although Governor Benjamin Diokno pledged to slash borrowing costs further in 2019, the central bank chief also indicated that all moves would be data dependent. With the Federal Reserve in holding pattern overnight, the central bank decided to wait for further validation on its inflation path and more evidence of the fallout from the global trade war and finally how 2Q GDP growth stacks up.

Monetary policy conducive for economic growth

BSP's main task of keeping inflation in check is ultimately to provide an environment to help spur economic growth. 1Q GDP's stumble appears to have caught the attention of the central bank as the BSP opted to slash rates by 25 bps given that inflation had fallen rather quickly from its peak in September 2018.

The next policy meeting (8 August) coincides with the release of 2Q GDP growth, which should by all indications be an improvement from the 1Q print with the economy benefiting from the recent round of policy easing (RRP and RRR cuts) with the fiscal support also seen to boost growth momentum after being sidelined for most of the year.

Philippines prudent pause

The central bank opted to keep rates unchanged staying data dependent with moves engineered by evidence.

Current BSP inflation forecasts show 2019 inflation at 2.7% - down from 2.9%, while 2020 inflation is expected to settle at 3.0% (also down from 3.1%). If inflation reverts to its downward path and if signs point to anaemic growth despite the initial stimulus from both the monetary and fiscal side, we could see BSP slashing rates further in 3Q to help reverse 2018's aggressive rate hike cycle.

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Taiwan central bank stays put as expected

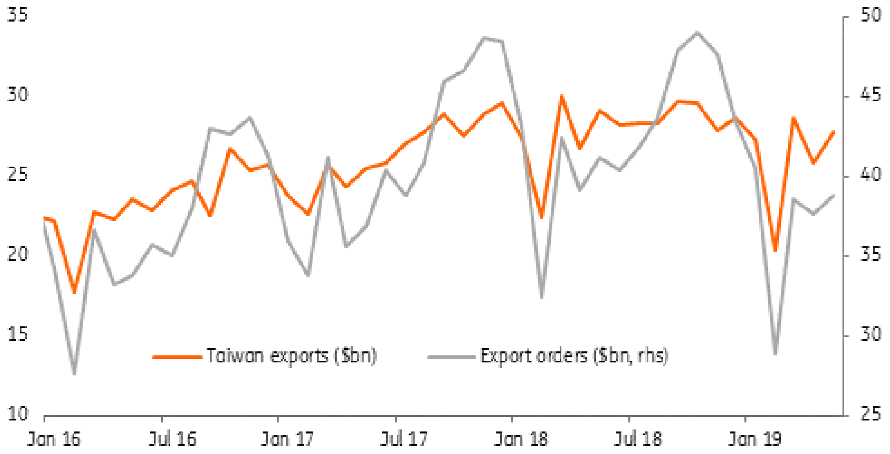
The central bank left policy unchanged in June. This was expected because interest rates are already low and pushing them down further would not have created a big enough marginal impact on credit growth. The economy has to rely on fiscal stimulus instead

Source: istock

The central bank stands pat

Taiwan's central bank has not moved its policy interest rate since the middle of 2016. Even though export orders have contracted for seven straight months, falling 5.82% year-on-year in May, the bank has continued to keep policy on hold. This is largely because rates are already low, at 1.375%, so a cut would have little marginal impact on creating money, i.e. credit growth. In addition, each cut by Taiwan's central bank has been just 12.5 basis points (half of each normal move by the Federal Reserve), which makes the marginal impact even smaller.

Taiwan's export orders have shrunk for seven straight months



Source: ING, Bloomberg

Fiscal stimulus in the spotlight

As monetary policy can do very little to stimulate growth at this point, Taiwan's economy- which has been affected by the ripple effect from the US-China trade war- has to depend more on fiscal stimulus.

However, we know from the experience of 2016 that government support only lasts for about a year, at most. If the government implements a big fiscal stimulus package, it would certainly hurt its debt level, as there has been almost no fiscal surplus for the past four years.

As such, the government has been trying to encourage manufacturers to move their production on the Mainland back to Taiwan. This has led to several firms proposing a total investment of $1.29 billion in 2019. Still, we doubt that all the investments will be realised this year. Even if the whole amount were to be invested in Taiwan, it would only contribute around 0.2% of GDP.

Presidential election in 2020 will help the economy

Unless the economy falls into recession-which we don't expect- we doubt the central bank will cut interest rates in 2019.

Taiwan will hold a presidential election in January 2020, and the economy could benefit as a result. This is because the current government is likely to be more supportive to the economy to try to earn votes and keep Tsai Ing-Wen (the leader of the Democratic Progressive Party, DPP) in power.

If Tsai wins the election, Mainland China is likely to tighten its control on cross-strait business and individual activities. If the KMT party (Kuomintang) wins, the Mainland administration is likely to deliver preferential policies to Taiwan, for example by relaxing restrictions on Mainland tourists going to Taiwan.

We believe that Mainland China will continue to leverage its economic ties with Taiwan. And the government will probably work harder to convince Taiwan of the benefits of working alongside it.

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Bank Indonesia keeps rates steady but cuts RRR

The central bank opted to keep its powder dry but rate cuts may follow in the near term. Bank Indonesia did however cut the RRR by 50 basis points

6.0% 7-day reverse repo rate

As expected

Bank Indonesia keeps policy rate at 6.0%

With the Fed standing pat but opening the door for possible easing, Bank Indonesia opted to keep its powder dry given the uncertainties emanating from the ongoing trade war. Citing a widening trade deficit (2.5-3.0%) on likely weaker exports, the central bank did vow to implement a policy mix that would spur growth momentum while still ensuring stability of the Indonesian financial system.

IDR stable for the time being

Governor Perry Warjiyo cited a stable currency, with the Indonesian rupiah seeing a relatively less volatile year in 2019 compared to 2018. Bouts of currency weakness have still surfaced this year mainly due to concerns about the still wide current account and the impact from the global trade conflict. The stability of the IDR appears to be one of the focal points for decisions regarding monetary policy and we expect any moves by the central bank to take the IDR's progress into consideration.

Bank Indonesia keeps rates steady, cuts RRR by 50bps to spur lending

With the Fed widely expected to cut rates as early as July, comments from Governor Warjiyo point to possible further easing from BI, which was one of the busier monetary authorities in 2018. Warjiyo did indicate that he had room to cut rates, with the central bank looking to time such a move appropriately. The door appears wide open for easing from Bank Indonesia. Meanwhile, in a bid to help boost loan growth and overall growth momentum, the central bank opted to enact a token cut to the reserve requirement ratios (RRR), trimming the RRR across the board which will likely be a prelude to possible policy rate cuts down the line should the IDR's stability prove resilient.

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