Bundle | 21 September 2018

Good MornING Asia - 21 September 2018

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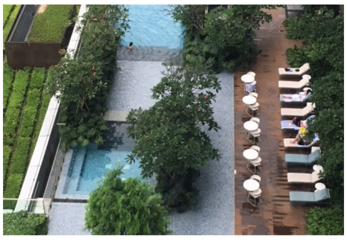
In this bundle



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By Robert Carnell

ASEAN Morning Bytes
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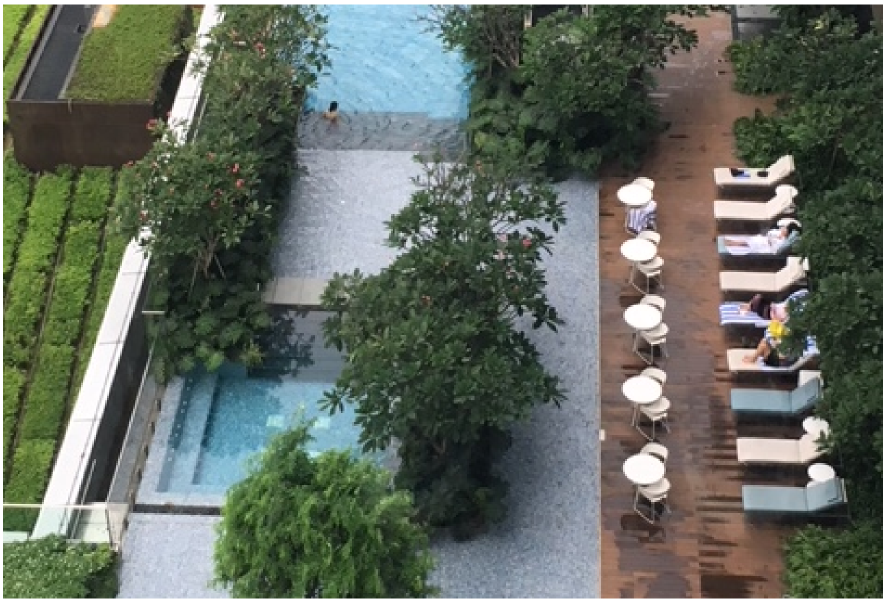

Source: R Carnell
Singapore Swimming pool

Bored of bad news

The current market environment could be summed up not as responding to positive news, but simply rallying because the bad news is simply not very interesting anymore. Within the Asia region, the currencies that have been the litmus tests for market anxiety, INR, IDR and PHP all look stable to slightly stronger, and the same, steady to slightly lower yields story plays out in local currency bond markets, by and large.

So don't we care that the Fed is hiking rates, and won't this lead to capital outflows? The answer it seems is, not necessarily, at least, not if the dollar is not responding by rallying, and right now, it isn't. Indeed, the EUR looks as if it is trying to push into new, higher ranges, and make a test of 1.18, after which, there isn't much to stand between it and 1.20. This all feels a bit like the mood prevailing at the beginning of the year, when the Fed could do no harm, China was in a good economic place, European growth was giving rise to talk of synchronized global growth, and emerging markets, like Asia, felt like nice places to make a good return.

Except the environment isn't anything like as positive. The trade war has barely begun to touch the macro news, the Fed is, it seems, going to gradually tighten rates, at least a little bit too far before paring them back again, the ECB is also going to be tightening, even though its growth numbers don't seem anything like as strong as they did in 1Q18, and China is making the best of the more hostile environment, but is having to give up progress on deleveraging and overcapacity to do so.

Putting it bluntly, about the only way that you can explain this is, all the bad news is priced in, and the market is still sufficiently awash with liquidity, that absent new bad news, the default position is to rally. Nervous anyone?

G-7 wrap

There's nothing "wrong" with Japan's inflation, it just isn't very high. Despite a pick up in the headline CPI for August today to 1.3%YoY, more useful core measures excluding food and energy show inflation at only 0.4%. Admittedly, this is up from 0.3% last month, but in the grand scheme of things, this is essentially zero. This isn't deflation though. Japanese macro data continues to run at an impressive clip, including business investment and, increasingly, consumer spending, helped by wages growth that is trending solidly higher, and that ignoring a volatility-induced spike in July, was running stronger than US wages growth in June.

We aren't learning much from the NAFTA talks about the likelihood for a future theoretical US-China deal, except that any such talks are likely to be tough. Talks continue in Canada today and will continue next week. That is positive. But until we see either a resolution and what Canada has had to give away to achieve a deal or no deal, we won't be much wiser as to the hurdle that China (and before long, we suspect Japan) faces.

Asia Day ahead

Korean 20-day trade data out today for September will be worth a quick look. I'm just back from a couple of days in Seoul, and what I have learned is, depending on who you talk to, you either get a very upbeat, or very downbeat view of Korea's outlook. Informative, just not terribly useful. Korean exports this year have been flat except for electronics, where the demand seems to remain strong, though I'm told, concern is mounting that the current cycle of electronics demand may be peaking. That looks in line with the data I am watching, so any confirmation of this in today's figures will be interesting. Conversely, the KRW's weakness recently must be helping to boost competitiveness, not least with US rivals, so I go into this release with an open mind.

And this from Prakash Sakpal:

Thailand reports trade data for August. We estimate a trade surplus of $1.2 billion, a sharp positive swing from a $516 million deficit in July. A report yesterday showed the Chinese tourist arrivals in Thailand fell by 11.8% YoY in August, a sign that services may possibly be a drag on the current account in the last month. The trade and current surpluses are narrowing this year, but not by a lot. Our forecast 9% of GDP current account surplus this year will only be a modest drop from 11% in the last two years. We see the THB remaining an Asia outperformer over the remainder of the year.

The Indian government lifted interest rates on its saving schemes by up to 40bp for the Oct-Dec quarter. These rates are linked to government bond yields and are adjusted quarterly. Yields from the short to the long-end of government bonds have gone up by almost 100bp since the start of the year. The Reserve Bank of India is poised to hike policy interest rates again at the upcoming meeting in early October. The question is whether it will be the conventional 25bp move or more. We maintain our view of the 25bp hike, although the continued INR weakness warrants more.

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International theme: Trump twitter account remains busy, turns his ire to OPEC

- Donald Trump turned his ire towards OPEC ahead of their meeting in Algeria with the US President calling on the "monopoly to get prices down now!". With the mid-term elections around the corner, Trump looks to curry favor with the voting public.
- Canada and the US appear miles apart on their trade negotiations with Canadian foreign minister Freeland sticking to script that talks remain constructive.

EM Space: Enjoying it while it lasts, CB meetings looms in the coming week

- **General Asia:** Asian financial markets are seen to open higher, taking their cue from the rally overnight in the United States. Investors will likely take stock of the trade developments but it would be worthwhile to consider the stacked central bank meeting calendar in the coming week as the Fed is all but poised to hike yet again on Wednesday.

- **Thailand:** Thailand reports trade data for August. We estimate a trade surplus of $1.2 billion, a sharp positive swing from a $516 million deficit in July. Chinese tourist arrivals in Thailand fell by 11.8% YoY in August, a sign that services being a drag on the current account surplus in the last month. We forecast 2018 current surplus equivalent to about 9% of GDP, a modest dip from 11% in the past two years. This is still strong enough to sustain the THB as an Asian outperformer in the remainder of the year.

- **Indonesia:** Government officials continue to wield moral suasion, asking exporters to convert up to half of the receipts to the local currency and keep rest onshore for up to six months in a bid to stabilize the IDR. On top of these efforts, the central bank has retained its hawkish stance and is projected to hike rates by 25 bps at its meeting on 27 September, according to the latest Bloomberg survey.
- **Philippines:** BSP Officer-in-charge Chuchi Fonacier vowed to smooth out volatility in the FX market although the Peso continues to feel no love from traders. Mid-month corporate demand and sustained foreign selling in the local stock market (which also failed to join the regional rally) could be the reason for the weakness. Traders may also be skittish on the anniversary of the declaration of martial law given the heightened political tension onshore. The BSP is widely expected to hike rates by 50 bps on 27 September.

What to look out for: Calendar loaded with CB meetings

- FOMC meeting September 25-26
- Reserve Bank of New Zealand meeting September 27
- Bangko Sentral ng Pilipinas meeting September 27
- Bank of Indonesia meeting September 27
- US-Canada trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (on-going)

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Asia week ahead: More central bank rate hikes

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Source: Shutterstock

Trade war: New US tariffs on China effective Monday

The week kicks off with the next round of US tariffs on $200 billion of Chinese products on Monday (24 September). China's retaliatory tariffs on US products take effect at the same time, possibly setting in motion the next phase of US tariffs on $267 billion of imports from China.

As markets have long been pricing in the intensification of the US-China trade conflict, deliberations continue about the gravity of consequences on respective economies and the rest of the world. While we will hear more about this from the US Fed (the third rate hike this year to come with the Fed's revised economic outlook), China's Purchasing Managers Index (PMI) for September may provide a glimpse of the impact on that economy. We anticipate both manufacturing and services PMIs to have ticked down from their levels in August, with new export orders and employment persisting as drags on the manufacturing side.

Monetary policy: Further tightening in Indonesia and Philippines

Central banks in Indonesia (BI), the Philippines (BSP), and Taiwan (CBC) will announce policy decisions on Thursday (27 September). It's not about whether they will raise interest rates again, but by how much. Accelerated tightening by both since May this year – BI hiked the policy rate by 125 basis points, and the BSP by 100bp – haven't been of much support for their respective currencies in the recent emerging currency rout.

Some market stabilisation this week doesn't mean that the worst is over just yet. Indonesia and the Philippines (and also India) share a weak economic backdrop characterised by rising twin-deficits (trade and fiscal) and elevated inflation, which will continue to subject their currencies to intense weakness in the event external risk rears its head again. This and already negative real interest rates in the Philippines lead us to expect the BSP to catch-up with another 50bp policy rate hike, while BI is likely to hike by 25bp next week.

We expect Taiwan CBC to keep policy on hold at the forthcoming meeting. Taiwan's export-driven economy is one of the most vulnerable in Asia to the trade war. Not only that, the US-China trade war prompting Taiwanese companies to relocate supply chains out of China will weigh on the island's growth going forward. As such, an on-hold CBC policy through the forecasting horizon up to 2020 is our baseline.

Activity data: August manufacturing dominates

August industrial production releases from Taiwan, Singapore, and Thailand will help to fine-tune GDP growth forecasts for the third quarter of the year. Underlying our forecast of moderate production growth in all three economies are slower exports in August.

We think the cyclical peak of Asia's growth is behind us. What's in store for the future? It could be that the export-dependent region drags its feet amid greater trade protection. Or conversely, a possible reallocation of resources and diversion of trade flows to overcome tariff barriers could unleash better growth prospects. Only time will tell.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 24 September			
Philippines	-	Aug Budget Balance (PHP bn)	-	-	-86.4
Singapore	0600	Aug CPI (YoY%)	0.6	-	0.6
	0600	Aug CPI core (YoY%)	1.9	-	1.9
		Tuesday 25 September			
Taiwan	0900	Aug Industrial Production (YoY%)	0.5	-	4.43
	0920	Aug Money supply (M2) (YoY%)	3.8	-	3.68
		Wednesday 26 September			
Singapore	0600	Aug Industrial production (MoM,SA/YoY%)	-/-	-/-	-1.7/6
		Thursday 27 September			
China	0230	Aug Industrial Profits (YTD, YoY%)	-	-	16.2
Hong Kong	0815	Aug Exports (%YoY)	12.8	-	10
	0815	Aug Imports (%YoY)	13.6	-	14
	0815	Aug Trade Balance (HK$ bn)	-43	-	-47.1
Indonesia	-	BI Policy Decision (7-day reverse repo, %)	5.75	5.75	5.5
Philippines	0900	Overnight Borrowing Rate	4.5	-	4
Taiwan	-	Benchmark Interest Rate	1.375	-	1.375
Thailand	-	Aug Manufacturing Index (YoY%)	3.2	-	4.6
	0730	Aug Current account balance (US$bn)	2.9		1.086
South Korea	2200	Sep BOK Consumer Sentiment Index	98.6	-	99.2
		Friday 28 September			
China	0245	Sep Caixin Manufacturing PMI	-	-	50.6
India	1200	Aug Fiscal Deficit (INR crore)	-	-	111224

Source: ING, Bloomberg

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