Good MornING Asia - 22 August 2019

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In this bundle

Opinion | 22 August 2019

Central Bank Minutes? More like hours

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egg timer

It was an insurance cut - deal with it

Markets are a bit mixed this morning here in Asia. Stocks rose in the US overnight, well, they were down the day before, so a rise was due. The Fed minutes from the last meeting were the main focal point, and the central story was one that leaves Fed Chair Powell with a lot of work to do at Jackson Hole tomorrow.

Here's the problem in a nutshell: The last rate cut was an insurance rate cut. And the minutes support that proposition. Call it a mid-cycle correction if you will. But it amounts to the same. That suggests that there is at most another 25bp, 50bp if you are really generous, of easing to come.

Markets are still priced for more. Give or take the odd basis point here or there, markets are priced for Fed funds to be cut to 1% by the end of next year. The current Fed funds range is 2.0-2.25%, so 100-125bp of easing is priced. Something has to give.

Weak consensus

Not all agreed within the Fed agreed, however. Some of the members felt that there was a case for an immediate 50bp of easing. But others thought the case for any easing was weak. All of which means that another 25bp of easing should probably be a shoo-in, and even 50bp with a helpful tailwind from data and overseas risks. But there is still a way to go before the market will get what it wants - namely a longer spell of easing.

Leaving open that possibility, whilst emphasizing that the likely path is only modest reductions, could be a difficult path for Powell to tread. The market reaction to the Fed minutes has been quite substantial, with 2-year Treasury yields up more than 6bp, with 10Y yields up only 5bp. The 2s10s slope isn't inverted, but there is only about 1-2bp in it.

India and Thailand also pen minutes

Central Banks in Asia have also been busy releasing minutes of recent meetings, most notably the Reserve Bank of India (RBI) and the Bank of Thailand (BoT). Prakash Sakpal pens his own thoughts on these below:

"Supporting their latest rate cut moves the central bank policy minutes in India and Thailand yesterday struck a dovish cord. In India, the RBI minutes tried to justify the unconventional 35bp rate cut on the need for a 'larger push' to the economy amid a continued benign inflation outlook and fiscal constraint. Though one policy committee member preferred more time for earlier policy transmission to take effect, noting that with such a big cut they "will be burning through monetary policy space without much to show for it".

And in Thailand, released alongside surprisingly strong July trade growth signaling a good start for the economy in 2H19, the BoT policy minutes noted that "more accommodative monetary policy would foster the continuation of economic growth and the return of headline inflation to target in the context of heightened uncertainties mainly from external factors". We expect both these central banks to continue to cut rates over the rest of the year with the RBI doing an additional 50bp and the BoT at least 25bp more".

Talking of central banks...

Talking of central banks, I have been invited to a round-table for a central bank from the Asia - Pacific region next week to chat about unconventional monetary policy. I'm looking forward to this. As you know, I think such policy has been badly mis-used in the past, and looks as if it will be so again in the near future.

I will be pressing the case for a non-linear investment-savings function at low nominal interest rates and hoping that they don't just respond with "Huh?". Hope there is a whiteboard and marker...this might take some convincing.

I'll fill you in after the event as much as I am able given the likely Chatham House rules nature of these things.

China update

Iris Pang, our Greater China economist adds on the status of the US-China Trade War:

"China's regular Ministry of Commerce press conference emphasized that the US has to meet China halfway. However, we believe that it will be difficult for the US to give concessions ahead of September's trade negotiations and that as a result, China will stand firm. The stand-off on trade should therefore continue".

That could put us back into a risk-off mode, especially as President Trump doesn't seem to like to let things stand - perhaps another ratchet up on the last $300bn of tariffs?

Iris adds: "PBOC officials claim that the recent interest rate liberalization reforms won’t replace RRR cuts and interest rate cuts if those are necessary for the economy. This matches our forecast of 0.5 percentage points cuts in RRR and 5bps cuts in 7D repo each in 3Q and 4Q, respectively to support borrowers during the trade war and technology war".

As we said earlier, rate cuts coming, across the world.

Asia today

It's another reasonably quiet day here in Asia, but we have already had a surprisingly weak service sector PMI from Australia, dropping into a contractionary 49.2 from 52.3. Markets don't seem to be too bothered, with the AUD holding relatively firm following the RBA's own relatively upbeat minutes released earlier this week. The manufacturing PMI was also down, but only 0.3ppt to 51.3.

We also have central bank interest from Bank Indonesia (BI). They cut in July by 25bp and we don't expect them to follow up so soon with another cut, but another 25bp of easing in 4Q19 looks a good call. BI has been playing a cautious game, mindful of the potential for EM volatility to undermine their currency, and conscious of their current account deficit. The result has been a currency that is Asia's fourth-best performing one this year after the PHP, JPY and perennial top performer, THB - even despite the weakness of this month. We suspect that BI will want to see the US Fed cut again before they trim their own policy rates.

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ASEAN Morning Bytes

General market tone: Risk-on. Markets may tiptoe higher ahead of Jackson Hole as investors continue to price in a Fed rate cut.

EM Space: Trump keeps pressure on Fed to cut with bargain hunting seen to lift Asia

- **General Asia:** Minutes of the most recent meeting pointed to a divided FOMC on communication with one camp favoring cutting as insurance as opposed to a long series of rate reductions. President Trump has kept on the rhetoric for rate cuts and markets appear to price in a rate cut in September despite robust data and some hawkish Fed speakers. Investors will likely push the market higher ahead of Jackson Hole on Friday but gains will likely be capped until we get more clarity from Fed Chair Powell.
- **Thailand:** Released alongside a surprisingly strong July trade growth signaling a good start for the economy in 2H19, the BoT policy minutes noted that “more accommodative monetary policy would foster the continuation of economic growth and the return of headline inflation to target in the context of heightened uncertainties mainly from external factors”. While we expect the BoT to cut rates again this year, at least by 25bp, if not more, hopes also remain pinned on fiscal stimulus. The Thai cabinet has just cleared a $10 billion stimulus package, likely lifting growth by 0.5-0.6%. Still, it seems a tough ask for the economy to outperform the 3% "new-normal" growth rate of recent years.
- **Indonesia:** Bank Indonesia (BI) meets today to discuss policy. The consensus forecast is no change to the BI policy. However, given a dovish undertone from finance minister Indrawati

and previous hints by Governor Warjiyo for further rate cuts a growing minority expects BI to ease policy soon. We are in the majority forecasting no rate cut today, but we expect the central bank to telegraph a rate cut further until such time that the IDR exhibits more stability.

- **Malaysia:** Bank Negara Malaysia increased the income threshold for first time home buyers tapping the central bank's MYR 1 billion fund for affordable homes for financing their home purchases. The income ceiling is nearly doubled to MYR 4,360 from MYR 2,300 for a maximum property price of MYR 300k, also doubled from MYR 150k earlier. Macroeconomic policies in Malaysia continue to be consumer-friendly.

What to look out for: Jackson hole on Friday

- Malaysia GIR (22 August)
- Taiwan unemployment (22 August)
- US Markit PMI manufacturing (22 August)
- Bank Indonesia (22 August)
- Japan inflation (23 August)
- Singapore inflation (23 August)
- Taiwan industrial production (23 August)
- Fed Powell speaks at Jackson hole (23 August)

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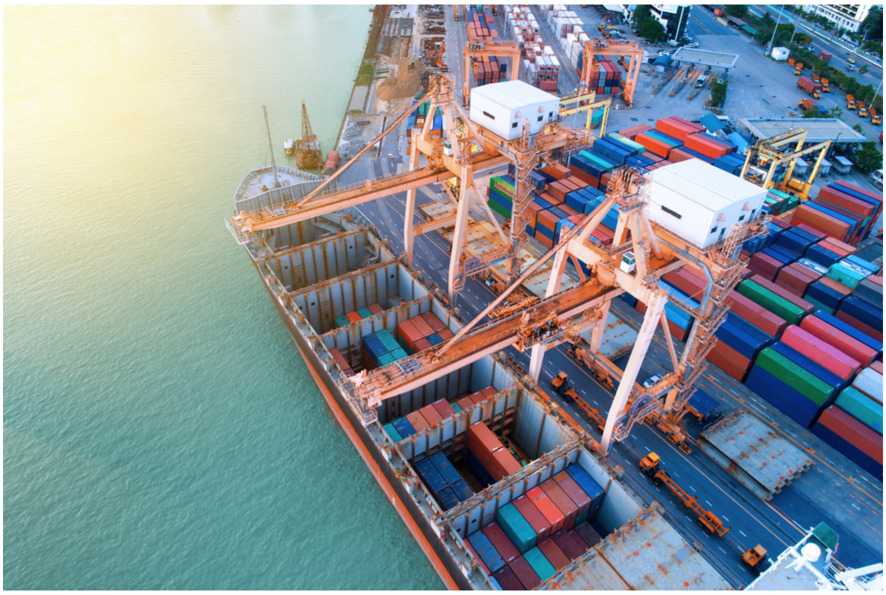
Article | 21 August 2019 Thailand

Thailand: July trade signals good start for economy in 2H 2019

One month of trade outperformance doesn't make it a trend though, especially when persistent external risks and anemic domestic demand continue to hinder the upside growth potential of the economy



Source: Shutterstock

4.3% July export growth

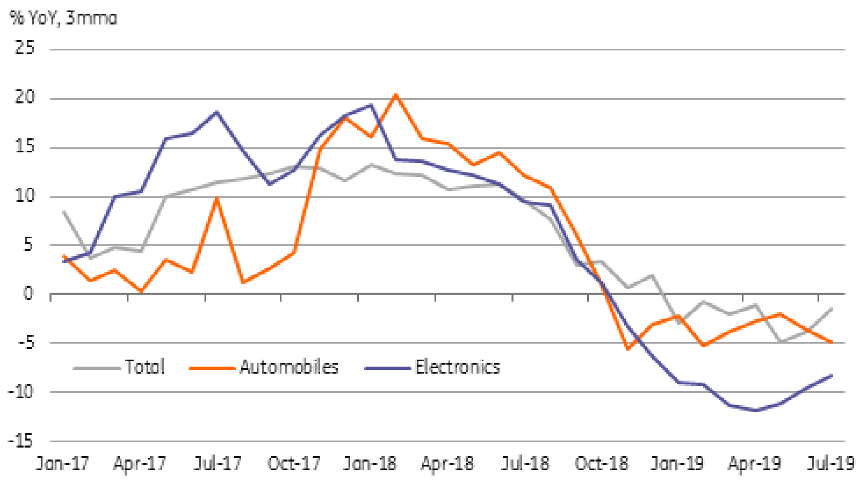
Higher than expected

Low base effect lifts annual growth

In a big upside miss, Thailand's external trade swung back to growth in July after several months of contraction this year. Exports rose by 4.3% year-on-year and imports by 1.7%, against consensus estimates of a 2% and 6% contraction respectively.

However, a positive swing in exports from 2.9% YoY fall in June rather tells us more about what happened a year ago – a low base effect from a big month-on-month (MoM) fall in July 2018, while key drivers of automobiles and electronics with a combined weight of about 30% continued to hold down the headline export growth. Electronics were down by 5% MoM and autos and parts by 2.5%.

Autos and electronics have been key export drivers



Source: Bloomberg, CEIC, ING

Good start for the economy in 2H19

But even bigger positive swing in import growth, to +1.7% YoY from -9.7% in June, lift hopes of some recovery in domestic demand. Growth of all key import segments – fuel, raw materials, capital goods, and consumer goods – improved, though this was also associated with a sharp narrowing of the trade surplus to $110 million in July from $3.2 billion in the previous month.

Data puts year-to-July export growth at -1.9% and import growth not far apart from that at -1.8%, down sharply from +11.1% and +9.5% in the same period of 2018. But the $4.1 billion of cumulative trade surplus through July was little changed from a year ago to sustain positive sentiment toward the Thai baht (THB).

Still, the economy is in need of more stimulus

One month of trade outperformance doesn't make it a trend though, especially when persistent external risks and anemic domestic demand continue to hinder upside growth potential in the periods ahead. However, just as with trade growth, we see a favourable base year effect preventing further slippage in GDP growth in the rest of the year from a 5-year low of 2.3% YoY in 2Q19.

Indeed, the Bank of Thailand (BoT) minutes of the recent policy meeting on 7 August released today reinforced the need for continued policy support for the economy going forward. Supporting the decision of a 25 basis point rate cut at that meeting, the minutes noted, "Most Committee members viewed that more accommodative monetary policy would foster the continuation of economic growth and the return of headline inflation to target in the context of heightened uncertainties mainly from external factors".

While we expect the BoT to cut rates again this year, at least by 25bp, if not more, hopes also remain pinned on fiscal stimulus. The Thai cabinet has just cleared a $10 billion stimulus package, likely lifting growth by 0.5-0.6%. Still, it seems a tough ask for the economy to outperform the 3% "new-normal" growth rate of recent years.

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