Good MornING Asia - 22 May 2018

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In this bundle

Everybody's happy nowadays

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By Robert Carnell

Thailand

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Source: Shutterstock

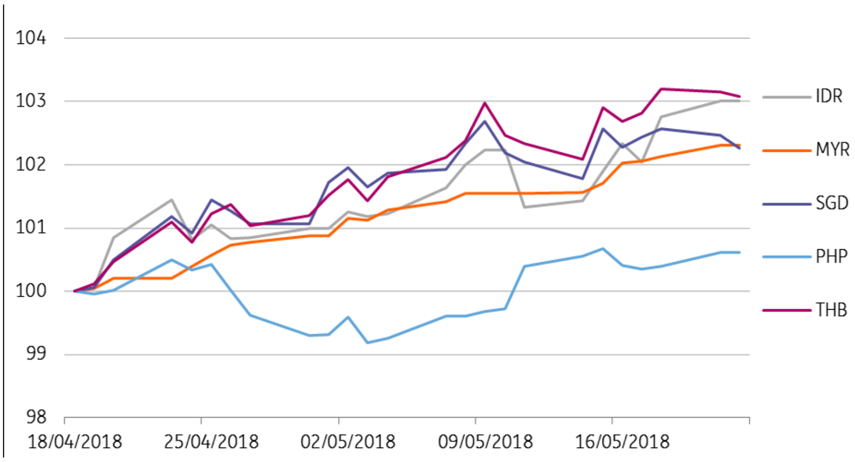
What could go wrong?

When all seems well with the world, and my pension funds are all pointing to a future that will be slightly less bad than slow starvation, the natural tendency of economists is to ask how it will all go wrong? Fortunately for the perennially miserable, the bad news is lurking all around us, just out of sight for the moment. Don't underestimate the newly formed Italian government shaking things up, just when it looked like Europe was making an opportunity, rather than a crisis out of Brexit. Then there is the better outlook on trade. All that has happened is that the US has temporarily called a truce in the trade war to allow China to respond. It could easily come back with accusations of insufficient change at a moment's notice, probably at a time when it suited them - the Mid-term election in November for example.

And as for the North Korea talks, is it just me, or is anyone else mildly sceptical about North Korea's apparent change of tack? So far, they have been pretty clear that complete de-nuclearisation is not on the table, so we are not sure why everyone on the other side seems to think that it is. Does disappointment await? Followed by disillusionment, anger?

And lurking in the background is a nasty emerging market issue. Harvard professor Carmen Reinhart thinks the EM world is not looking in great shape. So far, we would take issue with that assessment, except for certain countries. But the recipe for future problems is present, and it wouldn't take too much to poison the outlook. Further oil price rises, a much stronger USD, some overzealous Fed tightening, return of disinflation in the Eurozone or Japan... All or any of the above could take what is a fairly nice backdrop today, and make my retirement solvency look considerably worse.

ASEAN FX performance (April 18 = 100)



BI - its the dollar's fault the IDR is weak!

We had to laugh when we read on the newswires this morning, that the Governor of Bank Indonesia was blaming the dollar's strength for the IDR's weakness. But it turns out he is not far from the truth. While the IDR is indeed one of the region's worst performing currencies on a two-month basis, it is not much worse. The Thai baht, one of the last few year's regular regional outperformers, tops the list for weakest since this time in April. Interestingly, the Philippine peso has been the steadiest amongst the bigger south-east Asian currencies.

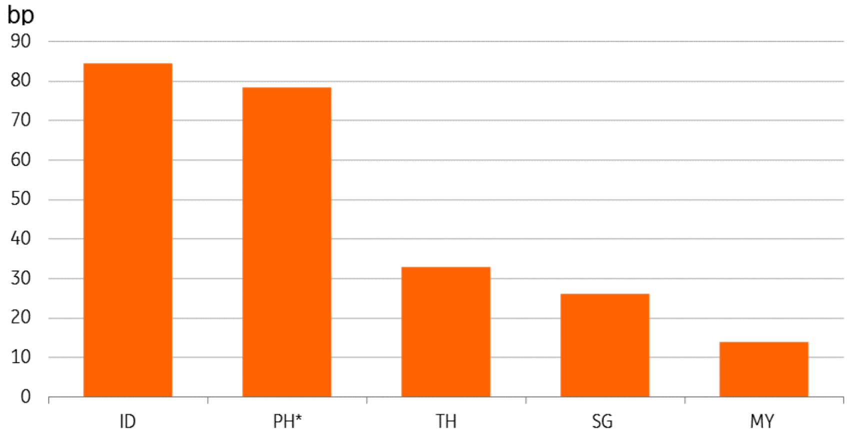
But it is the bond market where Indonesia's financial and intervention battles are really being waged. At an 84bp rise over the last three months, Indonesia's 10Y bonds have sold off more than those in the Philippines (78.3bp but for 15Y bonds) almost three times as much as Thailand (+33bp), Singapore (+26bp), or Malaysia (+14bp).

Bank Indonesia has said that it will conduct additional forex swap auctions to provide liquidity in the interbank market, and will conduct additional intervention in currency and bond markets. Additional rate hike threats haven't been enough to settle markets. Nor are they likely to unless the government can address the main source of concern - an over-cooked domestic economy dragging in imports and pushing the trade balance into deficit. Markets don't care that much of this activity is infrastructure and ultimately productivity-enhancing. They should, but they don't. No amount of intervention will change that and rate hikes will only work if they rise sufficiently far to slow other parts of the economy and pull trade back into balance. That is many hikes from now.

The economic calendar today in both the APAC And G-7 region is very thin. Another day for filing and project work.

ASEAN 10Y* BOND yields - 3 month change

*PHP 15Y bond



Source: Bloomberg

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Snap | 21 May 2018 Thailand

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Source: Shutterstock

Some positives for the THB, but not many

The USD/THB has been creeping up to our recently revised 32.3 forecast for end-2018 (spot 32.2), which we are reviewing for another upward revision. Some positive GDP data may help to stem some of the recent depreciation pressure on the currency, though the narrowing external surplus suggests that the best of the appreciation is over.

4.8% GDP growth in 1Q18

Fastest pace in five years

Better than expected

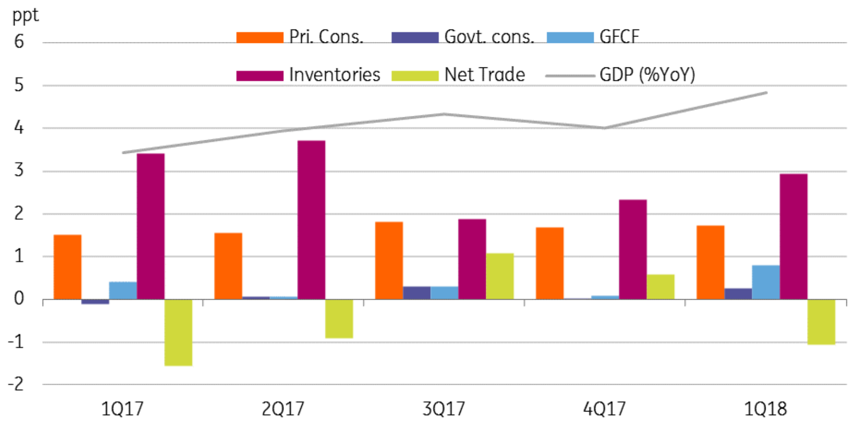
Inventories remain a dominant GDP driver

Thailand's GDP growth accelerated to a five-year high of 4.8% year-on-year in the first quarter of 2018 from 4.0% in the previous quarter, beating the consensus of 4.0% and our 3.6% forecast. The 2.0% quarter-on-quarter (seasonally adjusted) growth was also the highest in five years and up from 0.5% in 4Q17.

As has been the trend for over a year now, inventories remained the main driver, contributing more than half of GDP growth (see figure). This isn't a healthy source of growth as the potential de-stocking will weigh down GDP, in our view. The contribution of private consumption to GDP growth was unchanged at 1.7 percentage point (ppt). There was some recovery in government consumption and also in fixed capital formation, though nothing outstanding. And consistent with the narrowing trade surplus, net exports turned out to be a drag on GDP growth, after contributing positively in the previous two quarters.

Agriculture, manufacturing, and hotel and restaurant services were the industry-side drivers of GDP growth in the last quarter.

The expenditure-side sources of GDP growth



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

Source: Bloomberg, CEIC, ING

Upward revision to 2018 ING growth forecast

The government forecast for GDP growth this year is 4.2%, slightly above the Bank of Thailand's 4.1% forecast. We consider these subject to more downside than upside risk due to still anemic domestic spending and rising global oil prices causing a greater drag from next exports. That said, the above-expected first-quarter growth prompts us to revise our full-year 2018 growth forecast to 4.0% from 3.5%.

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