

## Good MornING Asia - 22 May 2019

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## If at first you don't succeed...

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## Mayday, Mayday

James Smith has given me some bullet points on the latest (and surely last) attempt by Theresa May to get a version of her Brexit deal over the line: Here are his unedited thoughts:

"May has unveiled a "bold" "new" proposal to get her deal over the line, but the changes are really just reheated things from before:

- Legal guarantees to find 'alternative arrangements' to the Irish backstop by 2020 – basically magic up some technology that doesn't currently exist... not going to happen
- Workers' rights and environment commitments – stuff that she agreed with Labour during the cross-party talks, so nothing really new
- Otherwise the same deal

The thing that caught market's attention is a commitment to giving MPs a vote on a 2nd referendum, but this is heavily caveated:

- Because May can't hold another meaningful vote (Bercow said you can't do the same vote more than once), she's doing it in the form of a bill this time
- This has the following stages:
  - First reading: Basically a simple vote – do you want to consider this bill yes or no
  - Second reading: Debate in Parliament followed by another vote – take it to the next stage yes/no
  - If yes – goes to the committee stage where amendments are added, then these are voted on in the third reading
- May has basically said: Approve my deal in the first and second reading, and I'll allow you have a vote on a 2nd ref and a *temporary* customs union as part of the committee stage/third reading

But MPs are not really buying it:

- Brexiteers who backed the deal before are now not doing so - if the second reading of the bill succeeds, then there would be vote on 2nd ref, which obviously they don't want to happen.
- Labour have said they won't vote for it. Why would they vote in favour of May's (Tory) deal at second reading, with no prospect of a vote on a PERMANENT customs union (May is only promising a vote on a temporary one, which is a bit nonsense)
- Pro-people's vote MPs are wary that even if they vote the bill through at second reading AND MPs vote in favour of a 2nd ref (big if), there doesn't appear to be a legally binding mechanism to make it happen. Given that May will resign, what's there to force the next PM to follow through Parliament's demands?

In other words – she will probably be defeated on the bill at the first or second reading, with a margin of defeat much higher than her last attempt in March. Clear possibility that she just cans the whole thing and resigns to save a final unnecessary humiliation.

The other key point is that, even if there is another vote (or set of votes) on different Brexit options, MPs failed to settle on any particular one last time – what's changed since then? No majority for a second referendum.

## Election?

Thanks to James Smith for that: This certainly looks as if it will be the end of May as PM, but will it lead to General Election as some newswires and the bookmakers in the UK seem to suggest?

It could do, but it is not a given: If May steps down, the Conservative Party will hold elections to elect a new leader. This could take some months. That leader may then want to try to re-open the draft bill to negotiate a better deal for the UK, but that is not on the table and they won't get anywhere. So the only course of action seems to be at that stage to either wait for the UK to be ejected on October 31st (hard Brexit as a default outcome and opposed by the majority of MPs) or call a General Election to see if a new party or coalition can see a way through the quagmire.

That said, elections are not due until May 5, 2022, and as this from the UK's Guardian says "Under the Fixed-Term Parliaments Act (2011), brought in under the coalition government, the only way to call an early election is if a motion to do so is backed by at least two-thirds of MPs, or if a no-confidence vote is passed and no alternative government can be cobbled together within 14 days".

With polls showing Labour would be the largest party in an election, it is hard to see why any new Conservative PM would throw in the towel until then and call an early election (which would be backed by Labour) or indeed why they would back a no-confidence motion if Theresa May stepped down.

In short, this remains a political mess with no clarity about the way forward or the outlook for the GBP. Might we see a succession of extensions? Let's face it, we have made no progress in almost three years. I can't see the UK being ready to take action on October 31st, so it's entirely possible...

## Asia Day ahead

The release calendar doesn't contain anything as exciting today as the RBA Governor Lowe's speech from yesterday ([see also this](#)) but there are some construction works data that might add to the RBA rate cut debate - though forthcoming labour data will be the clincher. Our 50bp of rate cuts forecast for this year looks in good shape, the only question is whether it will be back to back cuts of 25bp or whether the RBA will insert a pause. I'm leaning towards back-to-back, which will require some forecast tweaks.

Japanese April machine orders have also posted a decent 3.8% growth from March, which suggests that after a surprisingly good first quarter, the second quarter may not be shaping up too badly either. We may have to rethink our consumption tax view, which we cut out of the forecasts on earlier weakness. We might have to reinstate if this decent run of data continues.

Yesterday's export data out of Korea were weak. Household credit data today are second-tier and won't likely move markets. The KRW at 1194 has already gone a very long way, probably only an imminent rate cut can shift it meaningfully higher. We think that will happen this quarter (next meeting is on May 31st, and there is no June meeting, with the following meeting on 18 July). Our USD/KRW 1190 end of second-quarter forecast has already been overtaken by events and will need pushing higher, perhaps above 1200.

(And from Prakash Sakpal on Thailand): Following yesterday's data showing a sharp slowdown in Thailand's GDP growth to a 4-year low of 2.8% YoY in the first quarter of 2019, we have revised our

full-year growth outlook to 3.1% from 3.8%. Our view on the central bank (BoT) policy is also changed from no policy change this year to a 25bp rate cut at the next meeting in June. We don't see this severely impacting the THB's Asian outperformer status, which remains backed by the large current account surplus. That said, the April trade report due today is forecast to show swing in the trade balance to a deficit from a surplus in March.

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## ASEAN Morning Bytes

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### EM Space: Sentiment to recover in Asia after the Wall Street bounce.

- **General Asia:** The news of the US pushing back sanctions on Chinese tech giant was a relief for risky assets in the US yesterday. This bodes well for Asian markets today though gains could be capped ahead of the release of the FOMC meeting minutes.
- **Thailand:** Following yesterday's data showing a sharp slowdown in Thailand's GDP growth to a 4-year low of 2.8% YoY in the first quarter of 2019, we have revised our full-year growth outlook to 3.1% from 3.8%. Our view on the central bank (BoT) policy is also changed from no policy change this year to a 25bp rate cut at the next meeting in June. We don't see this severely impacting the THB's Asian outperformer status, which remains backed by the large current account surplus. That said, the April trade report due today is forecast to show swing in the trade balance to a deficit from a surplus in March.
- **Indonesia:** Incumbent President Jokowi secured a second term amidst protest from supporters of his rival Prabowo. The IDR steadied somewhat in reaction to the relatively peaceful proclamation with growth seen to be aided by government spending and a bid to boost investment in the country.
- **Philippines:** The Philippines proclaimed the winners of the recent senatorial race early on

Wednesday with the opposition party completely shut out of the upper house of legislators. President Duterte now commands both upper and lower chambers and this could help speed up the passage of key reforms and even spending budgets, tagged largely as the root cause of the poor 1Q GDP print, in the future.

## What to look out for: GDP numbers from region and FOMC minutes

- Thailand trade (22 May)
- Fed Bullard, Williams, Bostic (22 May)
- Hong Kong CPI (23 May)
- US initial jobless claims (23 May)
- FOMC minutes (23 May)
- Malaysia CPI (24 May)
- Fed Kaplan (24 May)
- Taiwan GDP (24 May)



## Reserve Bank of Australia's Lowe talks up rate cuts

At a speech to the Queensland branch of the Economic Society of Australia, Governor Lowe said the RBA would discuss rate cuts at their next meeting.

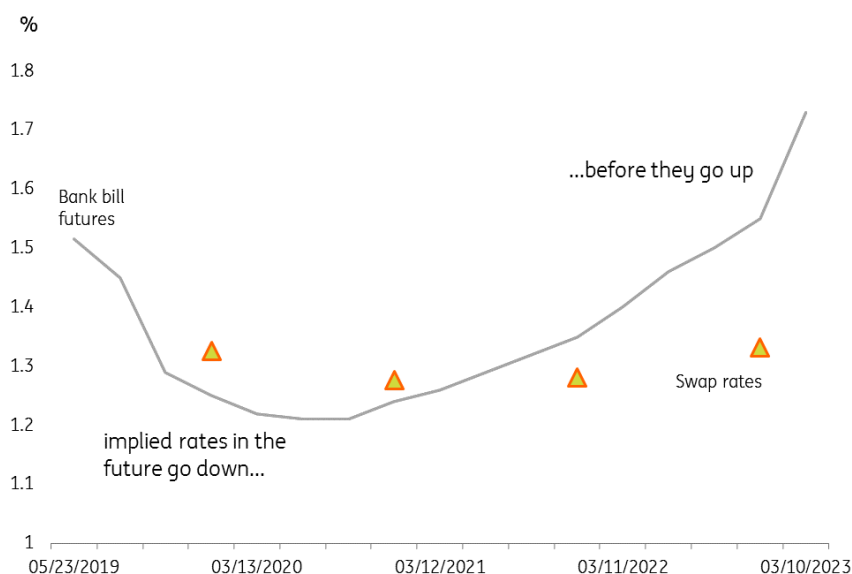


### We are already looking for 2 cuts this year

We penciled in two 25bp rate cuts by the RBA this year at [our last forecast update](#), following on from the very weak 1Q19 inflation figures (1.3%YoY). RBA Governor, Lowe seems to agree, noting at his speech on Tuesday that inflation would not likely reach its 2-3% target range without further falls in the unemployment rate, and that achieving this would be easier with some additional monetary support.

"Given this assessment, at our meeting in two weeks time, we will consider the case for lower interest rates".

## Implied future policy rates from bank bill futures



Source: Bloomberg  
Bank bill futures

## RBA now has a clear easing bias

Why two 25bp cuts? Well, if the argument is strong enough for one, then we figure it is probably strong enough for at least two. There are some in the market now calling for a total of 100bp of easing, though we don't believe things have come to that just yet.

Our 2Q19 forecast of AUD/USD 0.69 has already been achieved, and now exceeded, with the AUD trading below 0.69 today. We clearly have to re-look at that forecast with a view to a lower trough should we get the two rate cuts we now expect. That said, markets are already aggressively pricing easing, so the additional AUD weakening may not be substantial.

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# Thailand's growth slips to 4-year low in 1Q

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Source: Shutterstock

**2.8%** 1Q19 GDP growth

As expected

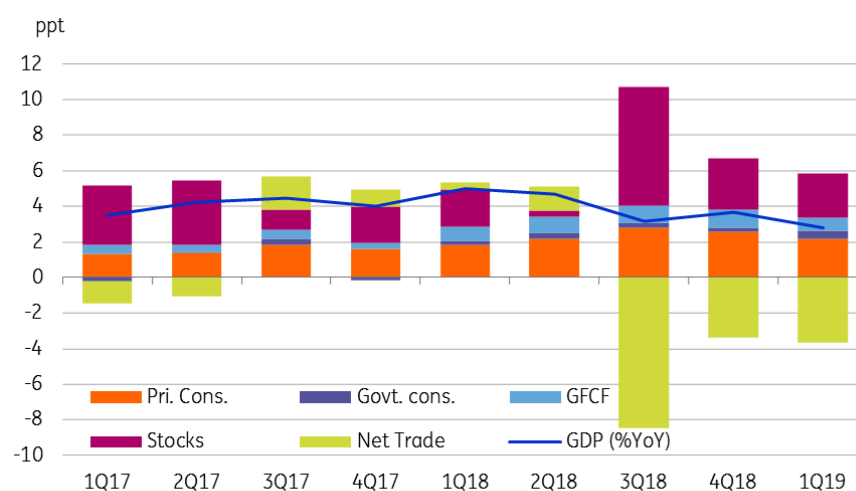
## Weak domestic demand dents growth

Thailand's GDP growth slowed sharply to 2.8% year-on-year in the first quarter of 2019 from 3.6% in the previous quarter. Spot on with the consensus median estimate, but below our 3.1% forecast, this was the slowest pace of quarterly GDP growth in four years.

A spike in the political risks surrounding the general election weighed on the domestic economy with nearly half of the slowdown in headline growth coming from private consumption and the rest from investments. Albeit a slightly narrower contribution, inventory re-building remained a key

driver of GDP growth. And net trade remained a big drag, which was a bit surprising given a persistently wide current account surplus.

## What's driving GDP growth?



Note: Bars may not stack up to GDP growth due to statistical discrepancy

Source: CEIC, ING

## Increased downside risk for the rest of 2019

The National Economic and Social Development Council, the government agency keeping the national accounts data, downgraded its growth outlook for the current year to 3.3% from 3.8% on expectations of much weaker export growth, 2.2% versus 4.1% earlier forecast, as the headwinds from the US-China trade war and Brexit continue to rise.

Data also prompts a revision in our 2019 GDP growth view to 3.1% from 3.8%. While we expect the export slowdown to broaden out to domestic demand, underlying our more bearish forecast is the persistent inventory overhang on growth.

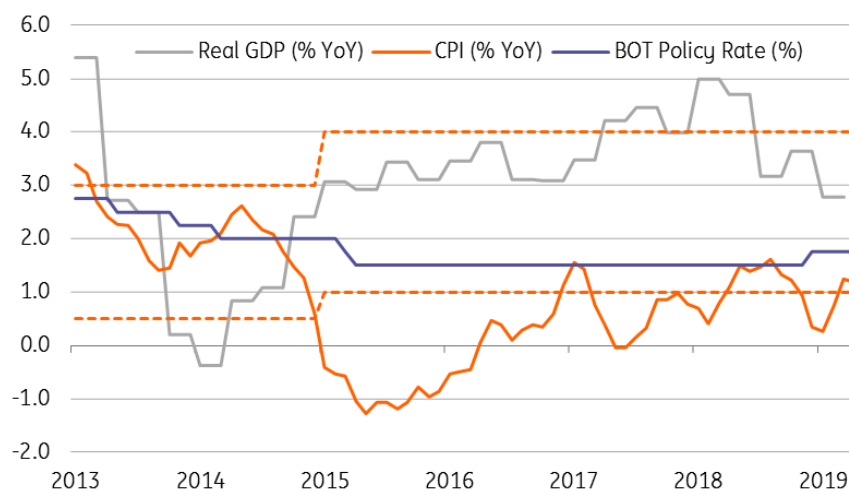
## It's time for the BoT to reverse the December rate hike

We expect the Bank of Thailand (the central bank) to follow suit with a downgrade of its growth forecast for the year, currently 3.8%.

And a downgrade will, in all likelihood, be accompanied by a shift in the BoT's policy stance from stable to easing. The current low inflation provides sufficient room for easing to support growth with lower interest rates. We continue to believe that the 25 basis point BoT policy rate hike in December 2018 wasn't necessary and it's now time to reverse it.

On that note, we revise our BoT policy view from no policy change this year to a 25 basis point rate cut to 1.50% at the next meeting in mid-June.

## The central bank has policy space



Dotted lines are BoT's target for CPI inflation, currently 1-4%.

Source: Bloomberg, CEIC, ING

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