Good MornING Asia - 22 October 2018

Markets seem to be struggling to find a theme to latch on to

In this bundle

A lack of inspiration

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By Robert Carnell

ASEAN Morning Bytes

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Source: Shutterstock

OK, what now?

By the time I get into work, I usually have an idea what the key theme for the day, or the week is going to be. Maybe there is a big data release, perhaps a central bank meeting will be pivotal. More usually these days, there is some geopolitical event that is grabbing all the headlines or market pricing hinting at a big breakout.

I regret, that this morning, I can see none of those usual hooks to hang today's note on. So I'll keep it brief and to the point. For more detail, click on links in the text below for the expert views.

Using US markets as the bellwether for the rest of the world, stock markets seem to be hanging on, though not convincingly, bond yields, in contrast, seem to want to nudge higher, but without conviction. The USD seems undecided, but its fate may be decided by what is going on elsewhere in the world (EUR, CNY general risk aversion). And except for Japan, there are few contenders in currency-space that look worse in this gargoyle-infested beauty contest.

Data events

In terms of data, the G-7 has two notable events to watch out for. The first, the ECB meeting on Thursday. Things have not been going quite so well in Europe as many would have hoped (growth outlook, inflation, Italian budget and rating downgrade), so some words of encouragement from ECB President Mario Draghi that their withdrawal from unorthodox policy remains on track would go a long way to underpinning confidence in the Euro. Nevertheless, 1.18 looks a long way away right now and we would need to see a break through 1.16 first to make that look promising.

On Friday, the US releases 3Q18 economic growth numbers. Consensus has this pegged at 3.6% (seasonally adjusted annualised rate), a shade down from the 3.9% Atlanta Fed GDPNow forecast, and the 4.2% rate recorded in 2Q18. But anything starting with a 3 would still indicate continued robust growth, and no threat to expectations of further steady Federal Reserve (fed) rate hikes.

Second tier releases include the Fed's Beige book (Thursday US time for the Asian Friday) which may show the extent of building wage price pressure, though probably won't say too much new. And also Germany's Ifo survey out the same day - currently re-bounding after a mid-year slump.

In Asia, a Bank Indonesia (BI) meeting on Tuesday will likely see them leave policy rates unchanged at 5.75%, as the IDR is looking reasonably stable once more.

Preliminary 3Q18 GDP in Korea might see some undershoot to a skewed consensus view of 0.8%QoQ growth, which if it happens, could see the KRW testing the higher end of 1140 again if doubts surface about a possible November hike.

Other stuff

As for other potentially market-moving background stories, the Khashoggi incident seems to be losing its power to keep oil prices elevated, and recent US inventory figures have been weighing on crude benchmark rates. The front-month Brent contract is now just under $80/bbl. This is a kinder environment for Asian countries with both an inflation problem and a current account problem, India for one, and the Philippines for another. Indonesia doesn't really have an inflation problem but would benefit from a terms-of-trade boost to its current account.

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ASEAN Morning Bytes

General market tone: Risk-off Risk sentiment remains fragile with China reporting slower growth and Saudi Arabia disclosing piece-meal information on the Khashoggi case

International theme: China growth slows, Saudi reveals details of investigation

- Global markets remain on edge with Saudi Arabia shedding some light on the case of a missing reporter while investors continue to be concerned about the US-China trade war.

EM Space: Markets await backlash in oil markets but look to US GDP for direction

- **General Asia:** Markets saw an initial reaction to slowing China growth before steadying on Friday. Investors will wait and see the backlash of the investigation of a missing journalist while looking to US GDP data for direction.
- **Thailand:** September trade data is due today. We share the consensus view that the trade balance swung back to surplus after two consecutive months of deficits. This is despite a sustained slowdown in export growth. Although trade and current account surpluses have been narrowing this year, they are still large enough to sustain a positive investor sentiment towards the THB. The political uncertainty in the run-up to general elections, which Prime

Minister Prayuth indicated will be held between February to May 2019, will be the potential headwind.

- **Indonesia:** Indonesia is set to decide on the monetary policy on Tuesday with the majority of analysts expecting the central bank to hold off on rates given the relative stability seen in the IDR of late. Bank Indonesia's Governor Warjiyo was quoted as saying that "supply and demand in the forex market run quite well and the IDR rate shows stable movement".
- **Philippines:** The initial imports of 250,000 MT of rice last September appears to have borne some fruit with prices for the staple slipping 1.2% week-on-week although year-on-year growth rates remain elevated at 19.84%. Efforts to flood markets with supply to lower prices may have hit a snag as the government reported only 46,000 MT out of the 250,000 MT for the October tranche have successfully been bid out. This may mean that even if inflation has peaked, the deceleration of prices may be much slower.
- **Philippines:** The Department of Labor and Employment (DOLE) forecasts a 20-30% drop in the deployment of Filipino workers to the Kingdom of Saudi Arabia due "Saudization". Despite the projected fall in deployment, the DOLE downplayed the possibility of massive layoffs of existing workers. However, a slowdown in deployment may lead to a weaker remittance haul and exert more pressure on the Peso to weaken.

What to look out for: 3Q US GDP and ECB meeting

- Thai trade data (22 October)
- Bank of Indonesia meeting (23 October)
- Fed Kashari (23 October)
- Fed Kaplan and Fed George (24 October)
- US new home sales (24 October)
- Korea 3Q GDP (25 October)
- ECB meeting (25 October)
- Fed Bostic and Fed Mester (25 October)
- US durable goods orders (25 October)
- US 3Q GDP and core PCE (26 October)
- Fed Clardia (26 October)

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Article | 19 October 2018 Indonesia | Philippines

Indonesian and Philippines central banks can afford to hit the pause button

Bank Indonesia (BI) and Bangko Sentral ng Pilipinas (BSP) can keep the powder dry as pressure on emerging markets eases in October

Source: IMF/Flickr
Perry Warjiyo, Governor of Bank Indonesia

Relative calm affords some breathing room

Two of the busier Asian central banks this year have been the Bank Indonesia (BI) and the Bangko Sentral ng Pilipinas (BSP), both having hiked their policy rates by a cumulative 150 basis points in 2018. BI has been aggressive in tightening monetary policy to provide financial market stability and to ensure "that the country's financial markets remained attractive to investors", according to Governor Warjiyo (pictured). Meanwhile, the BSP has unleashed a flurry of rate hikes, with the last two policy actions being more forceful 50bp rate adjustments, as domestic inflation moved well-past their 2-4% target range.

With risk sentiment improving somewhat in recent sessions despite elevated levels for oil and Treasury yields, we've witnessed both the Indonesian Rupiah (IDR) and Philippine Peso (PHP) strengthened over the past week. Positive economic data has helped improve sentiments towards the two currencies. Indonesia's trade balance swung to surplus in September from deficit in the previous month, while the government budget also improved to produce a smaller than target fiscal deficit this year. And in the Philippines, inflation slipped below market expectations in September. Given these developments, the respective central banks are under less pressure to hike rates further, at least for their upcoming policy meetings, while still leaving the door open for respective 25 basis point rate hikes by the end of the year.

Dovish undertones from BI and BSP

The BI's governing board meets on 23 October with the latest comments from Governor Warjio pointing to improved confidence in the currency on as he believes the "supply and demand in the forex market run quite well and the IDR rate shows stable movement". With economic data helping to boost sentiment and with the IDR relatively stable, the BI may afford some breathing space to hold off the policy tightening for a while.

The BSP's next policy meeting is scheduled in mid-November. There has been a growing chorus of Philippine monetary policy officials singing dovish tunes of late. A voting member, Medalla, indicated that a pause in rate hikes was plausible given that the BSP had "done a bit already and that 150bp was very significant". Another voting member, Tolentino, appears to share the same opinion, suggesting that they could afford to pause if the numbers (data) prove helpful. Utilising a mix of hawkish bias with dovish undertones, the BSP has remained consistent in the past few weeks to signal both readiness to hike, though with an adherence to their "data dependent" ways. Financial Secretary Dominguez noted that "if more aggressive actions are required, (BSP) will take it. If not, (BSP) will ease off", while BSP Officer-In-Charge Amador has pledged to remain "watchful for all developments so that systematic policy responses can be considered".

The EM space has faced a rocky September but for most of October pressure appears to have abated to some extent, affording central banks some breathing room to allow their policy initiatives so far to bear fruit and economies to regain their growth momentum while keeping the powder dry for possible rate hikes (25 basis points) to close out 2018.

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