

## Good MornING Asia - 22 October 2019

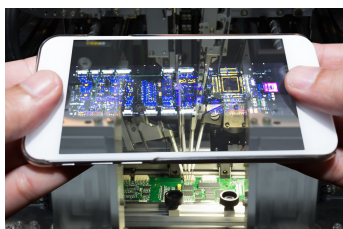
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## The outlook is anything but clear

Today's Brexit vote could provide a glimmer of clarity, at least on this one issue and before the UK descends into the murk of actual trade negotiations. But on all other fronts, the outlook remains clouded.



Source: Shutterstock

### Brexit - today's the day, maybe...

You just have to admire his tenacity. Despite most of his notes having a shelf life that can be measured in hours, James Smith (JS) is at it again, with another look at [what could go wrong in today's "second reading" of the Brexit bill](#). Since writing, option 1 - the "meaningful vote" has already dropped by the wayside, being deemed too repetitive by Speaker of the House, John Bercow.

So it is all the other points that now matter, most notably the second reading of the Brexit bill and the programme motion that will follow it. As JS notes, on paper, Boris Johnson appears to have the votes he needs. But only by a handful. And it would likely need some opposition Labour Party votes, defying their own party whip which wants an amendment to include a referendum on the Johnson plan. There is also a move by Labour to try to form a working alliance with the Democratic Unionist Party (DUP) and others to try to thwart the Johnson plan. They fear that if the Johnson bill passes, he will then seek to secure a "Canada style" loose trading-arrangement with the EU. It is possible that Conservative MPs favouring a softer form of Brexit may be persuaded to side with that. We will hopefully know one way or the other by this time tomorrow.

There is still so much that can go wrong/right, depending on your viewpoint. [This article by the](#)

[Guardian is also extremely good on these areas if you want a further read.](#)

## Market outlook - ask the experts

I chaired the sell-side panel of the Emerging Market Traders Association (EMTA) yesterday here in Singapore. It was the third year I have done this, and I have to say, it is a lot harder chairing a panel than being on one. Hong Kong EMTA on Thursday.

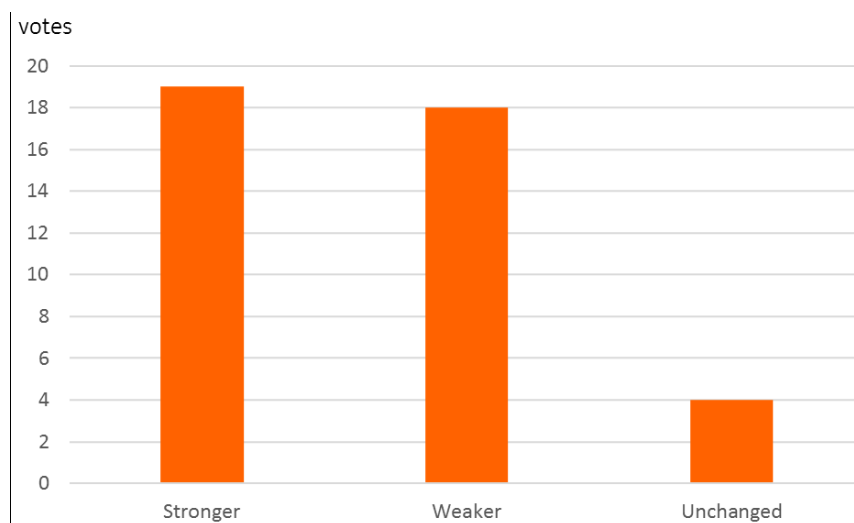
My panelists were, as ever, excellent. Thanks to all of them. I started with a quick poll of the audience's views on the outlook for Emerging markets between now and the next EMTA meeting in 12 months' time. The result was virtually a tie between stronger, and weaker, with a handful of "about the same". (See chart below)

To be fair to the audience, the panelists also expressed views that tended to match this impasse, with strident and well-argued cases for each wing of the outcome, as well as a kind of lingering stagnation that probably best reflects the third option. it was a similar outlook for the USDCNY rate.

In a similar vein, Bloomberg's Cameron Crise' always excellent daily commentary strikes a similar tone.

It's hard to pick the direction right now.

## EMTA Singapore views on EM Market outlook in 12M



Source: EMTA, ING

## Asia / G7 today

It's quiet - too quiet! There is virtually nothing on the calendar for today in Asia. We already got the Korean September PPI figures, and they were soft at -0.7%YoY. Taiwan unemployment and Philippine budget balance are about the only other notable calendar releases.

The last 24 hours has also seen some new cabinet appointments in Indonesia. An unusually (these days) inclusive decision has seen President Joko Widodo appoint the opposition leader, Prabowo Subianto to the cabinet in charge of defense. This augurs well for political cooperation and

progress.

Comments on the US-China trade negotiations are looking a bit more positive. Iris Pang in HK writes, "The SCMP reports that "...White House economic adviser says 15 percent US tariffs on many consumer goods from China could be withdrawn if negotiations continue to go well". But how well are the negotiations going? We still haven't even seen the texts of the agreement. China has requested the US to roll back all the tariffs in order to buy an annual amount of \$50 bn agricultural produce. But so far, what is really being talked about is deferring some tariffs that have not yet been implemented. Actually rolling back some tariffs that are currently being levied would, of course, be great news. So even though both sides so far say there has been progress in the draft deal expected to be released in November, there remains considerable uncertainty about this trade negotiation".

There isn't much going on in the G-7, with UK public finances and business trends vying with Canadian retail sales and business outlook for attention. Keep an eye on September US existing home sales though. The US housing market has been buoyed by lower bond yields and hence mortgage yields. But it is about the only part of the US economy that looks in decent shape right now and is providing a lot of support to the consumer sector. If residential housing begins to lose steam, although it is small in its own right, it could bring large parts of the rest of GDP with it. That would change the picture. With US Treasury yields now back up at about 1.80%, a lot of the refinancing activity that spurred this housing pick-up will have been choked off.

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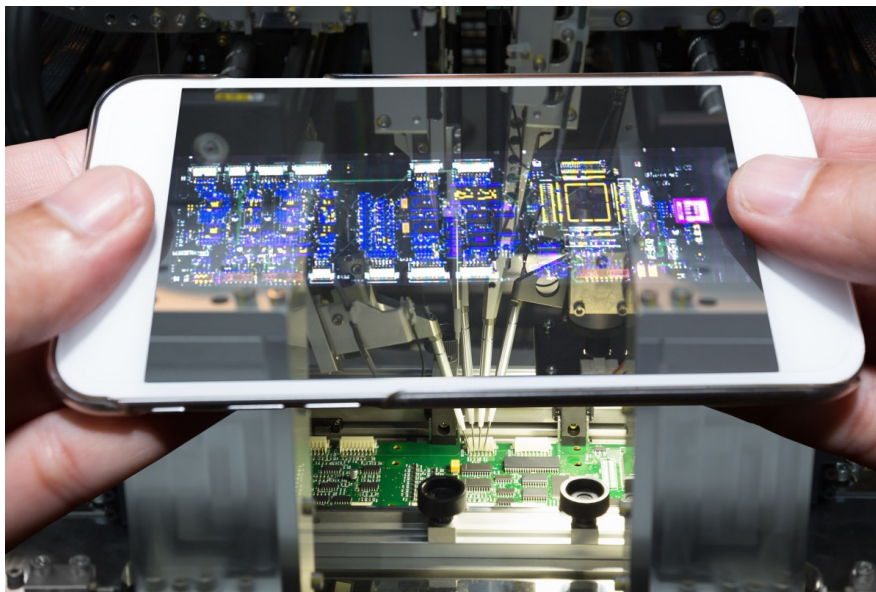
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# Taiwan's smartphone sales can't alone rescue falling exports

Taiwan continues to suffer from the contraction in yearly export orders even though smartphone sales have been better than expected



Source: Shutterstock

Taiwan export orders contracted by 4.9% year on year in September after contracting by 4.6% in the previous month. It was the eleventh consecutive contraction in a row.

## Smartphone sales can only do so much

Smartphone-related equipment sales fell by 1% this month in Taiwan, which is less than last month. This has helped overall export orders on a monthly basis grow by US\$5.479 billion in September, which is higher than the monthly growth of US\$4.182 billion seen in September 2018.

But can this trend last? Given that sales of new smartphones and related equipment tends to dull after three months, Taiwan's monthly growth in export orders might have reached its peak in September. We don't expect a repeat of such strong monthly growth in October 2019.

Therefore, it is quite likely, Taiwan's export orders will continue to contract on a year-on-year basis, which will, in turn, put negative pressure on industrial production and the economy after this round of smartphone sales fades.

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Article | 21 October 2019

## Philippines: Double dose of stimulus to boost growth above 6%

The Philippine economy hit a speed bump in 1H as revamped consumption failed to offset downbeat capital formation and government spending, with GDP slowing to the worst print since 2015. Within-target inflation and stimulus efforts from the government will push growth back to the 6% handle over the next six quarters as economic growth returns to form



Source: Shutterstock

### Growth to accelerate in 2020

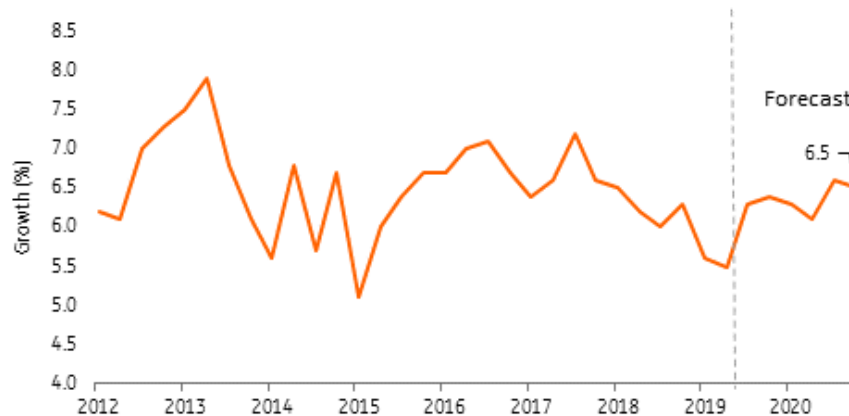
The Philippines posted a disappointing 1H GDP print of 5.5% as government outlays slipped on the budget delay while capital formation lost its lustre after the central bank hiked aggressively in 2018. Going forward, we expect growth to return to the 6% handle on the back of aggressive stimulus from both the fiscal and monetary side, while household consumption is seen to recover as inflation remains well within the central bank's 2-4% target.

After the delayed passage of the 2019 spending bill, government spending bounced back with the latest expenditure reports showing a decent 8.78% expansion last August. Meanwhile, monetary authorities injected stimulus with several policy rate cuts in tandem with successive infusions of liquidity via reductions in reserve requirements. These actions will help revive lost momentum in

capital formation, which contracted by 8.5% in 2Q19. Lastly, household consumption will continue to rebound sharply as inflation has fallen to less than 1% (latest print at 0.9%).

With growth emanating from three major sectors of the economy, ING forecasts economic growth to return to form with stimulus driving growth momentum back above the 6% level over the next six quarters.

## Philippine GDP growth



Source: Bloomberg and ING estimates  
2000 prices

## Inflation outlook: Forecast to remain stable into 2020

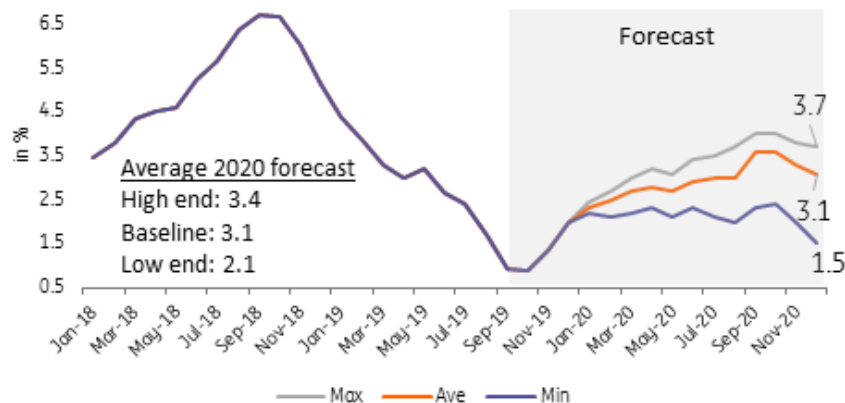
Inflation in the Philippines is largely driven by the food and beverage subcomponent as it accounts for roughly 38% of the entire CPI basket. In the past, episodes of above-target inflation were traced to surging food prices and to a lesser extent transport prices.

Inflation decelerated sharply in 2019 and ING forecasts inflation to remain within the central bank's 2-4% target throughout 2020 on improved supply conditions and given new legislation which removed quotas on rice imports. Although the Philippine agriculture sector remains susceptible to storms (average of 19 typhoons annually), the government has recently become more open to importing basic foodstuffs to ensure ample supply. Meanwhile, the El Niño climate disturbance ended last August 2019 and neutral weather conditions are predicted until mid-2020.

On the commodity side, forecasts for weaker global growth will limit the rise in crude oil and in turn lead to only benign price pressures on Philippine transport costs over the next six quarters and there are no pending tariff fare adjustments for local jeepneys or buses.

Thus, we expect inflation to remain within the 2-4% inflation target for the rest of 2019 and into 2020 (ING forecast of 2.7% and 3.1% for 2019 and 2020), given expectations for ample supply of food stuffs to counter potential occasional spikes in food inflation due to probable inclement weather conditions.

## Philippine inflation and forecast



Source: Bloomberg and ING estimates  
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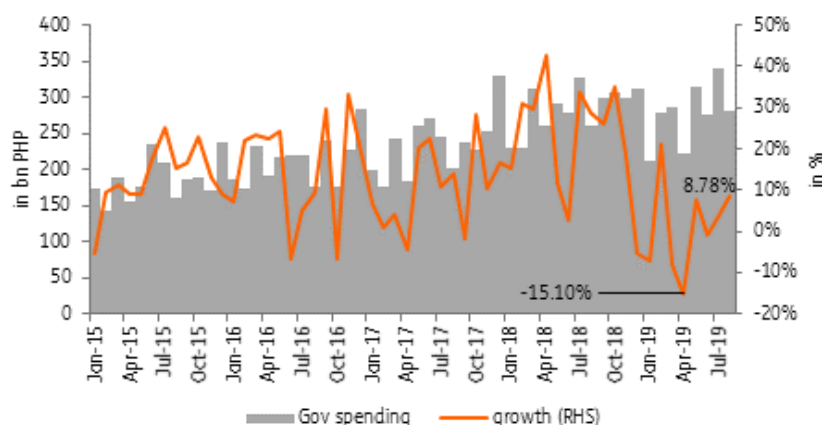
## Country specific highlight: government underspending

The Philippine legislative body failed to pass the national government budget in January 2019, triggering an automatic shift to the 2018 spending plan until congress could pass the 2019 version. The legislative body finally passed the 2019 budget bill in May but ambitious plans to accelerate state spending have been derailed with the year-to-date budget deficit a mere PHP120 bn compared to the PHP282 bn deficit posted in the same period of 2018.

The government pledged “catch up” spending in the second half of the year, with state spending up 8.78% and disbursements hitting 92% of budget as of August (versus 86% in 2018), showing early signs of a turnaround.

Meanwhile, Congress passed the 2020 spending bill in record time, handing the bill to the Senate for approval last September in an attempt to ensure that the country avoids another budget delay. Given the administration’s resolve to ensure timely passage of the spending bill, ING expects government spending to come back online in 2H19 and bounce back sharply next year with congress looking to extend the validity of the 2019 budget for an additional 12 months.

## Philippine national government spending



Source: Bloomberg

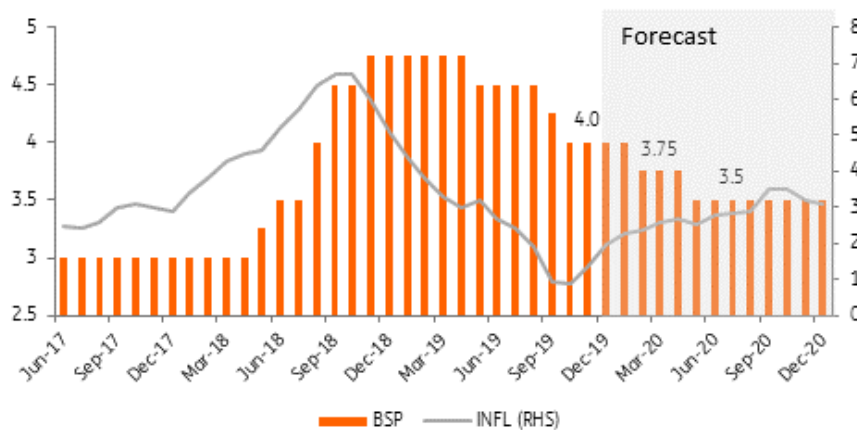


## Monetary policy and interest rates: BSP cut 75 bp in 2019, more possible in 2020

With inflation sliding quickly back within the 2-4% target, the Bangko Sentral ng Pilipinas (BSP) opted to gradually unwind the previous year's 175 basis point rate hike in a bid to provide a boost to the ailing economy. The BSP cut policy rates by a total of 75 bp while also reducing reserve requirement ratios (RRR) by 300 bp in a phased manner, starting in May and ending in November.

Given ING's inflation forecast for next year (average inflation at 3.1%) and a dovish outlook for the Fed, we expect BSP Governor Diokno to remain open to further rate reductions in the near term as he pledged to implement more "pro-growth policies". ING forecasts BSP to cut policy rates further by 50 bp in 2020 with the first cut expected in 1Q.

### Central bank policy rate and Philippine inflation



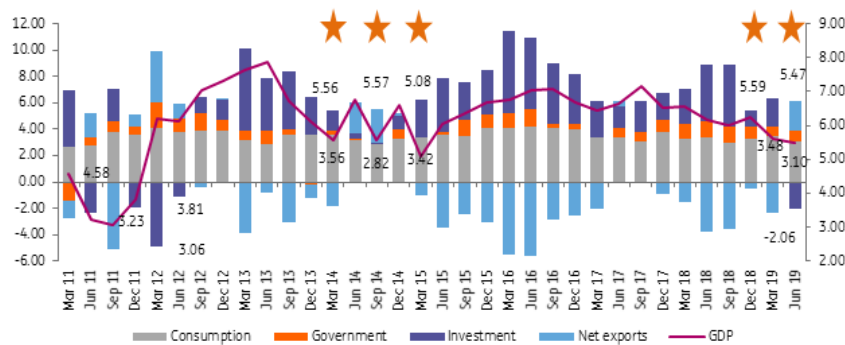
Source: Bloomberg and ING estimates

### Cratering capital formation to rebound

Capital formation had helped contribute significantly to the recent string of 6% growth for the Philippines dating back to 2011. 2Q19 was the first time capital formation registered a negative contribution to overall GDP as investment activity slowed on the back of BSP's aggressive rate hike in 2018. With the BSP quickly scaling back policy rates to help foster growth, we expect capital formation to come back online as early as 4Q19 with growth going into 2020 likely to enjoy an added push from investment activity to get growth above 6%.

## Philippine GDP contribution to growth

\* - growth of less than 6%



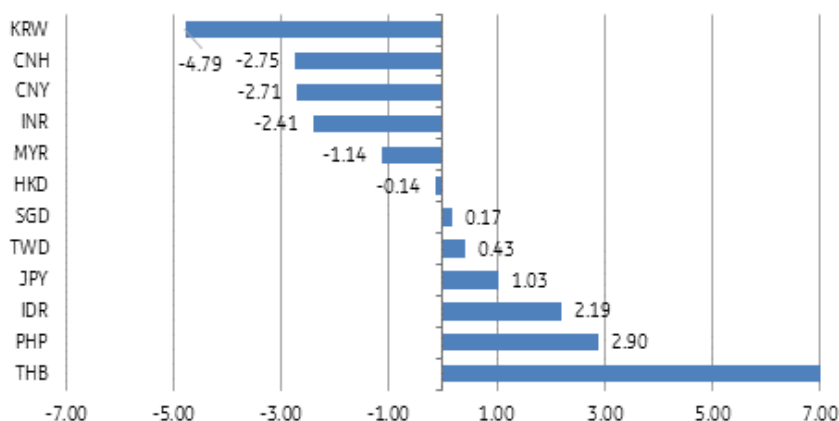
Source: Bloomberg

## Currency movement: Rebound from 2018 plunge but gains to be whittled down in 2H

As expected, the Philippine peso has performed relatively well for most of the year, appreciating by 2.3% mainly on inflows from the financial account as risk sentiment improved in 2019. As the trade war continues, US economic indicators have declined, convincing the Federal Reserve to reverse course and cut rates to stem slowing growth. This change in central bank dynamic has helped bolster emerging market currencies for the year with most 2018 underperformers now transformed into 2019 outperformers.

The peso is expected to enjoy some short-term appreciation as investors have looked kindly on high-yielding currencies as the Fed has reversed its 2018 hike cycle. The risk rally can continue for as long as market sentiment remains focused on the now dovish Fed, however, a possible refocus on the global trade war and economic malaise that could follow may eclipse the euphoria from the Fed's easing. In the medium term, we expect the peso to face renewed headwinds as the current account remains in deficit and with the BSP expected to continue cutting policy rates in 2020 with the Peso settling at 52.88 by end-2019 and eventually at 53.57 by end-2020 as the trade gap widens anew on ambitious infrastructure spending.

## Select Asian FX performance year to date



Source: Bloomberg

## Summary: double dose of stimulus to boost PHL growth

The Philippine economy hit a speed bump in 1H with growth slipping to below 6% for the first time in 4 years as robust consumption failed to offset slower government spending and lacklustre capital formation.

With inflation forecasted to remain within target well into 2020, we expect economic expansion to rebound over the next six quarters on the combination of fiscal and monetary stimulus with state spending back online and with the central bank scaling back its previous tightening stance.

The national government has pledged to catch up spending and we expect the economy's acceleration to get a substantial boost from the fiscal side in both 2H19 and 2020. Meanwhile, ING expects stimulus from the monetary side as well with BSP expected to cut rates by 50 bp in 2020 with the first rate cut expected in 1Q given stable inflation and lacklustre growth. The Philippine peso is projected to face only a mild depreciation trend over the next 15 months after the projected easing from BSP and on expectations for sustained current account deficits tied to the resumption of revamped government infrastructure spending.

## Philippine forecasts

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