

## Good Morning Asia - 23 February 2018

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By Robert Carnell



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## Inflation day in Asia

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Yen

### Japanese inflation pushes further above 1.0%

Japan's inflation in January was up, flat or unchanged, depending on how you want to look at the numbers - Isn't data a wonderful thing? Headline numbers usually get the most press and inflation here was 1.4%YoY, up from 1.0% in December and a tenth of a percent (insignificantly) higher than expectations. But whilst this was broadly on track, perhaps a little higher, the consensus expectation was that this headline story would be dampened by softer core inflation figures. There are a couple to choose from. The traditional "Ex-fresh food" index showed inflation staying steady at 0.9%YoY, not dipping as expected. And the Ex-fresh food and energy index actually rose from 0.3% to 0.4% - OK - this is still extremely low. And none of this screams of an inflation problem. But it will incrementally add weight to the notion that the BoJ is running out of justifications for continuing to print money.

It seems that markets are coming round to thinking in this way too. The JPY is one of the best major currencies this year (up 5.26% ytd) beaten only by the Mexican Peso and South African Rand. As we have seen with the Euro this year, it is the anticipation of monetary policy swings, not their implementation, that drives markets, and the BoJ has further to swing to achieve normalisation than either the USD or the EUR. We have been forecasting USDJPY at 100 by year-end. This looked punchy when we did it a month or so ago, it no longer does.

## Singapore inflation - still absent without leave

Singapore presents a somewhat different picture of inflation. Headline inflation for the island state fell further in January, dropping to zero from a year ago. There was a little bit of comfort from the core inflation figures, which firmed up to 1.4% from 1.3%. But the trend in headline inflation has been fairly steadily down for over 12 months now, and the core rate seems to be acting as a poor longer-term magnet for the headline figures.

So what does the Monetary Authority of Singapore (MAS) do with this when they meet in April to decide what to do with their policy stance? We have been wrestling with this almost since their last meeting back in October 2017. But what has clinched it for us was the recent budget, which in net terms, will deliver a swing towards a deficit of about 2.0% this year. We aren't impressed with the strength of domestic demand, and the external data has been OK, but not amazing. Inflation is neither worrying nor comforting, with a core rate that is close to what seems sensible but a headline rate that seems stubbornly resistant to moving towards where core indicates its long-run trend should be.

In the end, about the only thing that is keeping us forecasting a MAS tightening in April, is the recent budget. Alone, it merits a small offsetting tightening in policy. Though this is still a tough call.

### Author

#### **Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

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### South Korean data deluge

A Bloomberg headline this week that [“S. Korea’s Household Debt Hits Record \\$1.3 Trillion in 2017”](#) punches monetary policy hawks ahead of the Bank of Korea (BoK) monetary policy meeting on Tuesday, February 27. The article cited an 8% rise in household debt in the last year led by surging mortgage debt. The pace of debt growth has slowed from 11.6% in 2016 but it’s still too rapid for an economy growing at only 3%. The article also cited the risk of rising debt defaults as interest rates go up. High household debt has prominently appeared as a risk in BoK policy statements.

The BoK started raising policy interest rates in November 2017, in what now looks like it will be a very slow tightening cycle. The pressure on further tightening has ebbed since, thanks to a sharp slowdown in GDP growth in the final quarter of 2017 (to 3% from 3.8%) and inflation has also begun to drift well below the target rate. A slew of Korean activity data, including forward-looking consumer and business confidence indexes and hard data on exports and industrial production, will inform on the current state of the economy. The recent global market rout could dent

confidence indicators while the Lunar New Year holiday will distort real activity data.

## Bank of Korea rate decision

Moreover, the recent market turbulence should have laid to rest the BoK's concern over the Korean won (KRW). The selloff once again exposed the KRW's "VIX currency" status, e.g. appreciating more than most other Asian currencies during 'risk-on' market sentiment and depreciating more than most during 'risk off'. While markets do not expect the BoK to change their policy at the forthcoming meeting, they will pore through the statement for signs of future policy moves. We have scaled back our BoK policy forecast for this year from two 25bp rate hikes to only one in the third quarter of the year.

## Singapore PMI

Singapore's industrial production for January and manufacturing PMI for February will help show how GDP growth is shaping up in 2018. The 13% year-on-year growth in non-oil domestic exports (NODX) in January was an upside surprise but electronics shipments growth, the mainstay of Singapore's exports, remained in negative territory. We expect NODX growth to return to the mid-single digit range this year. The April central bank decision remains a very tough call, and we are still somewhat uncomfortable with our long-standing tightening forecast. But following the recent stimulative budget announcement, some very modest offsetting tightening by the Monetary Authority Of Singapore seems more probable than it did.

## Hong Kong Budget

Hong Kong's Budget for 2018 is due on February 28. Just as in Singapore, a significant fiscal surplus leading to a payback to households will not come as a complete surprise. Innovation is the buzzword in both Hong Kong and Singapore with greater policy initiatives.

## Indian GDP

India also reports GDP data for the October-December quarter. The majority of Asian economies posted a year-on-year growth slowdown in the last quarter of 2017, thanks mostly to a high base a year ago. India's growth, however, benefits from low base effects. Consistent also with the run of high-frequency data over the period, we anticipate a slight acceleration in growth to 6.5% YoY in the October-December quarter from 6.3% the previous quarter. But it will take a big upside growth surprise to put some lift in the Indian rupee, Asia's worst performer this month.

## Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Saturday 24 February</b>					
China	0130	China January Property Prices			
<b>Monday 26 February</b>					
Philippines	-	Dec Budget balance (PHP bn)	-	-	-8.623
Singapore	0500	Jan Industrial production (MoM/YoY%)	-/-	2.7/7.8	-2/-3.9
South Korea	2100	Feb BOK Consumer Sentiment Index	111.7	-	109.9
<b>Tuesday 27 February</b>					
Taiwan	0820	Jan Money supply (M2) (YoY%)	-	-	3.6
Thailand	-	Jan Manufacturing index (YoY%)	2.6	-	2.3
Hong Kong	0815	Jan Exports (YoY%)	-	-	6
	0815	Jan Imports (YoY%)	-	-	9
	0815	Jan Trade balance (HK\$ bn)	-	-	-59.9
South Korea	-	7-Day Repo Rate	1.5	-	1.5
	2100	Mar BOK Business Survey Index, mfg	74.7	-	77
	2100	Mar BOK Business Survey Index, non-mfg	78.9	-	78
<b>Wednesday 28 February</b>					
China	0100	Feb Non-manufacturing PMI	-	-	55.3
	0100	Feb Manufacturing PMI	-	-	51.3
India	0500	Feb Nikkei Manufacturing PMI	-	-	52.4
	1100	Jan Fiscal deficit (INR crore)	-	-	8844
	1200	2018 GDP annual (YoY%)	6.5	-	7.1
	1200	4Q GDP (Q) (YoY%)	6.5	-	6.3
Hong Kong	0815	4Q17 GDP (MoM/YoY%)	-/3.3	-/-	0.5/3.6
	-	FY2018 Budget			
Malaysia	0400	Jan CPI (YoY%)	2.7	-	3.5
<b>Thursday 1 March</b>					
China	0145	Feb Caixin Manufacturing PMI	-	-	51.5
Indonesia	0400	Feb CPI core (YoY%)	-	-	2.69
	0400	Feb CPI (YoY%)	3.4	-	3.25
Taiwan	0030	Feb Nikkei Manufacturing PMI	-	-	56.9
	0800	Jan Export orders (YoY%)	30	-	17.54
South Korea	0000	Feb Exports (YoY%)	-2	-	22.2
	0000	Feb Trade balance (US\$mn)	1775	-	3721
	0000	Feb Imports (YoY%)	12	-	20.9
	2300	Jan Industrial production (MoM/YoY% SA)	-0.2/4.4	-/-	-0.5/-6
	-	Independence Day holiday			
<b>Friday 2 March</b>					
Singapore	1300	Feb Purchasing Managers Index	-	-	53.1
Thailand	0300	Feb CPI (YoY%)	0.8	-	0.68
	0300	Feb Core-CPI (YoY%)	0.6	-	0.58
South Korea	0030	Feb Nikkei Manufacturing PMI	50.3	-	50.7
Hong Kong	0815	Jan Retail sales value (YoY%)	-	-	5.8
	0815	Jan Retail sales volume (YoY%)	-	-	4.3

Source: Bloomberg, ING

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