

Good MornING Asia - 23 January 2019

All positive signals by top CEOs at Davos about the US and China resolving the trade dispute, though uncertainty prevails and combined with prospects of weak growth and lack of inflationary pressures this argues for a prolonged central bank policy pause

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By Robert Carnell



Malaysia

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We share the consensus view that the Bank Negara Malaysia will maintain its overnight policy rate at 3.25% this week. We believe Malaysia's economic...

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EM Space: Investors will likely stay defensive over concerns about slowing global growth

- **General Asia:** Negative fallout from the IMF's global outlook coupled with conflicting reports about the US-China trade negotiations will likely send investors to head for cover on Wednesday. Trading will likely take its cue from developments on the trade front but the tone will be defensive for the time being.
- **Malaysia:** The BNM's policy committee begins its first meeting of the year today and will announce the outcome tomorrow around 3 pm local time. We believe the central bank will assess economic risks being fairly balanced between growth and inflation (read more here), and leave the policy on hold throughout 2019, which is also the consensus view.
- **Singapore:** CPI data for December is due today. The consensus is centered on no change in the headline inflation from 0.3% YoY but an uptick in core measure to 1.8% from 1.7% in November. The balance of economic risks is tilted toward growth as reflected by disappointing NODX in December, reducing odds of continued MAS policy tightening this year.
- **Philippines:** The Bureau of the Treasury (BTr) issued PHP20bn worth of 20-year bonds and opened the tap facility to take in PHP10bn additional as the government looks to secure

funding for its aggressive spending plan, which unfortunately has gone unpassed by Congress. Furthermore, the government is open to issuing another US Dollar denominated bond sometime in 3Q should conditions be favorable. The BTr had successfully issued 10-year Dollar bonds worth \$1.5bn in January.

What to look out for: Central bank meetings

- Singapore inflation (23 January)
- South Korea policy meeting (24 January)
- Philippines GDP (24 January)
- Malaysia inflation (24 January)
- Malaysia policy meeting (24 January)
- ECB policy meeting (24 January)

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Source: Shutterstock

2.7% BoK forecast of 2019 GDP growth
Inflation 1.7% - BoK forecast

The BoK meeting on Thursday will see no change in policy rates. We are still trying to find some plausible justification for the 30 November 25bp rate hike to 1.75% without any notable success.

However, the BoK summary may include changes to the outlook for both growth and inflation in 2019.

Unlike us, the BoK must have had a strong 4Q18 forecast built into their annual numbers to enable them to forecast full-year growth of 2.7% in 2018. This is what actually happened, based on the 4Q18 figures, so they won't have the same arithmetical boost to their 2019 average that we have.

Moreover, with the external environment (China, Trade, technology) looking worse than it did back at the time of the November BoK meeting, there is a chance that they even nudge down their 2.7% 2019 GDP forecast by a tenth of a percent.

The BoK's inflation forecast of 1.7%YoY for 2019 also looks challenging at this stage, and probably only achievable with considerably stronger energy prices and an adverse weather-shock to food prices to match that in 2018. The current headline and core inflation is running at only 1.3% YoY. We think the BoK has room to cut the 2019 CPI inflation figures a tenth of a percent too to 1.6%.

Reduced growth and inflation outlooks could weigh on expectations for the BoK. No further hikes are envisaged this year. But a further weakening in growth and inflation could raise thoughts of a reversal of the November hike, all of which plays to a somewhat weaker KRW near term.

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Malaysia: Central bank to leave policy on hold

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Source: shutterstock

3.25%

BNM Overnight Policy Rate

No change expected

Strong consensus for on-hold BNM

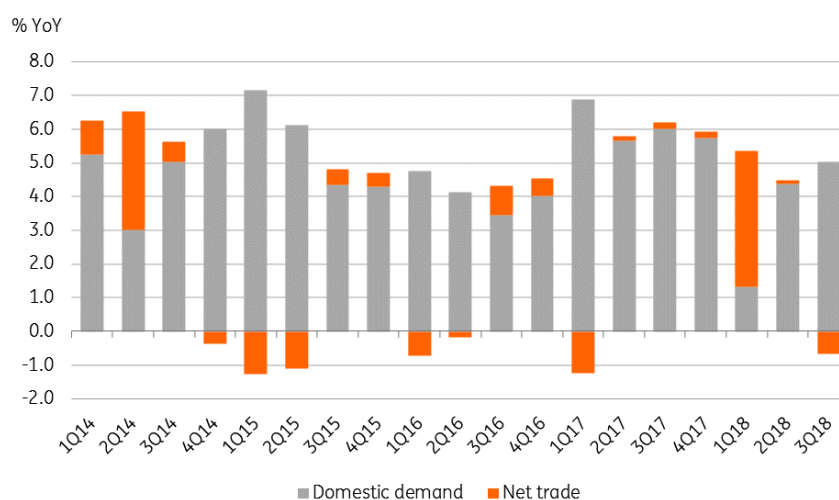
Bank Negara Malaysia's Monetary Policy Committee begins its first meeting of the year on Wednesday, 23 January, a two-day meeting the outcome of which will be unveiled around 3pm local time on Thursday. We are part of 20 analysts surveyed by Bloomberg, all forecasting no change to the overnight policy rate from the 3.25% level it's been at since the last move of a 25 basis point hike a year ago.

What's changed since the previous BNM meeting in early November? There has been some good news for Asia's net oil exporting economy. After crashing more than 40% since October, the global

crude oil price started to move higher in late December. The country's exports and manufacturing growth gained some strength in the final quarter of 2018, while domestic demand remained supported by a benign consumption tax and low inflation. This underpins our view of better GDP growth of 4.6% in 4Q18, up from 4.4% in the previous quarter, which was the slowest in eight quarters.

The lack of price pressure is evident from ultra-low consumer price inflation, which averaged 0.5% year-on-year since the GST elimination in June. December CPI data due on the same day as the BNM policy decision is unlikely to show any departure from this trend.

Domestic demand drives GDP growth



Source: Bloomberg, CEIC, ING

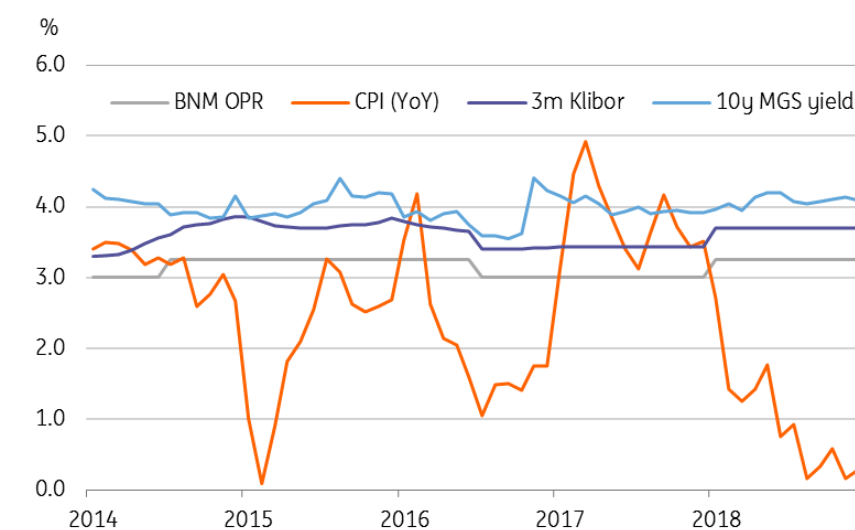
2019 economic and policy outlook

The external factors (trade war, China slowdown, oil) will weigh on the economy in the current year. However, the domestic demand-friendly policies will prevent a significant shock to GDP growth. We forecast 2019 growth at 4.5%, barely a slowdown from an estimated 4.7% last year. However, the official forecast of 4.9% growth this year isn't impossible in the event of a renewed boost to investment from any trade diversion.

Meanwhile, the lingering impact of the consumption tax reforms should keep inflation subdued through mid-2019 when the impact from GST elimination moves out of the base of comparison. Beyond that, inflation is likely to accelerate to 2%. The official inflation forecast range for this year is 2.5-3.5%, which will take a significant thrust from either the demand or the supply sides, neither of which is our baseline.

Against such a backdrop, we believe the BNM policymakers will assess economic risks being fairly balanced between growth and inflation. We maintain our forecast of no change in monetary policy throughout 2019, which is also the consensus view.

Economic conditions warrant stable monetary policy



Source: Bloomberg, CEIC, ING

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