Good MornING Asia - 23 July 2018

Treasury Secretary Mnuchin may attract a more sympathetic response on the world stage than some other US top officials, but the weekend meeting of the G-20 was still seemingly dominated by concern over the brewing trade war, and President Trump's remarks about the dollar and Fed rate policy

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G19+1?

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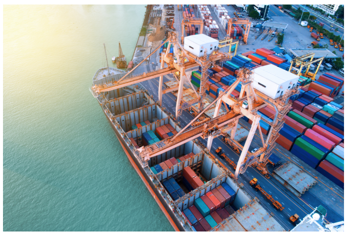
By Robert Carnell



Thailand

Thailand: Trade balance clings to surplus in June

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At least no currency war

The volume on the trade war was dialed up a notch or two over the weekend in a story by Reuters that was repeated in the FT. This suggested that US President Trump allegedly threatened tariffs on all $500bn of Chinese Imports. So far, this has not yet made it onto his Twitter feed, so until it does, I'm not sure how seriously to take it. But the US President did castigate the EU on Twitter, for fining Google $US5bn for its anti-competitive actions.

Treasury Secretary Mnuchin, once again, seems to have managed to calm tensions. A communique was issued by the G-20 which warned of rising trade tensions. The communique was not then dismissed, and apparently, all talk of interference with the Fed or with FX markets was quickly dealt with and dismissed. So no currency war then. But a trade war is bad enough.

The Man from the EU, he says "Non"

Lead EU negotiator, Michel Barner, has said no to the idea of enhanced equivalence for the UK's financial sector, put forward in the White paper submitted by Theresa May. Knocking this back as essentially a suggestion for dual rule setting, this is potentially bad news for the UK's outsized financial services industry. Other elements of the paper were treated more sympathetically, however, including proposals for the Northern Ireland border. This isn't enough to cause the GBP to rally, but maybe enough to keep it from selling off for a while. No progress made, but potentially, room for progress possible.

More chat about Bank of Japan policy

Japanese government bond (JGB) markets have got themselves excited about the coming July 31 meeting of the Bank of Japan, which some media reports are suggesting would change the current policy-setting. 10Y JGB yields have spiked up to a little over 8bp this morning. The speculation is also providing some strong support to the yen. So far, BoJ Governor Kuroda is giving nothing away. His comment in Buenos Aires was "I know absolutely nothing about the basis for those reports ." That's not a "no" then. As a wild guess, I would suggest one way for the BoJ to slowly extricate itself from its asset purchase conundrum, would be to officialise the undershoot of its official policy, and to then steadily reduce its actual purchasing further. Markets seem to respond more to statements than to data these days, so that could soften any blow through JGB and FX markets. The target of zero bond yields need not be changed. But it could also be targeted less rigorously, to the same effect.

Singapore CPI

No change in the CPI index for June should allow Singapore's CPI to edge higher to 0.6%, suggests the consensus view, which we share. Next month should see some slight gain in the index, at least if my latest utility bill is anything to go by. Now I just have to find an old one and figure out how much it has risen (unhelpfully didn't say).

Also, given the trade war background, Korea's 20-day trade data will be worth more than the usual quick glimpse. Any evidence of weakness could go down badly, and not just in Korea, but send a regional warning sign.

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Snap | 20 July 2018 Thailand

Thailand: Trade balance clings to surplus in June

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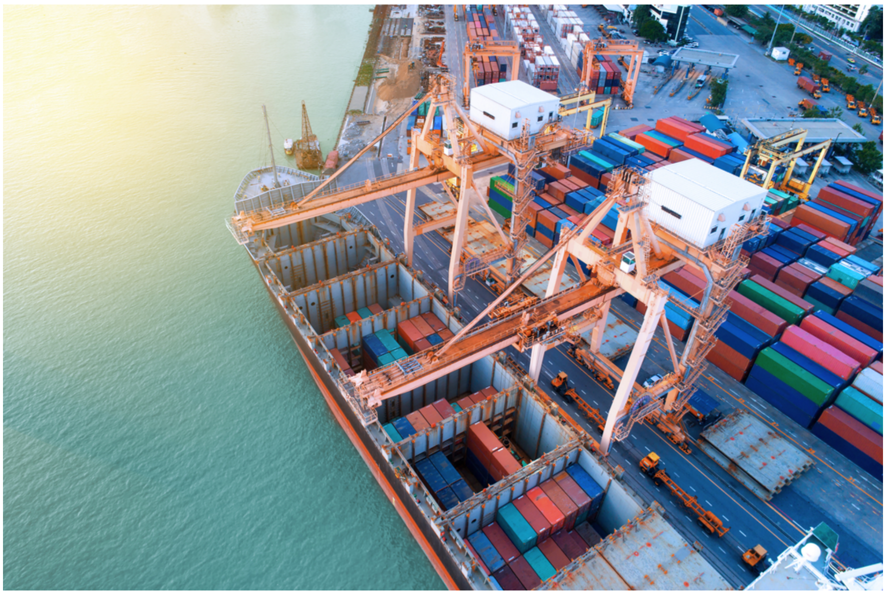

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A shift in Thailand's currency (THB) from Asia's outperformer in 2017 to underperformer this year can be ascribed to the country's falling trade surplus. Although just-released customs trade data for June does not entirely support this view, the cumulative data for the first half of the year does. We continue to see the USD/THB rate trading toward the 35.0 level by end-2018 (spot 33.5).

$1.6bn Trade surplus in June

Higher than expected

Surprisingly strong trade surplus in June

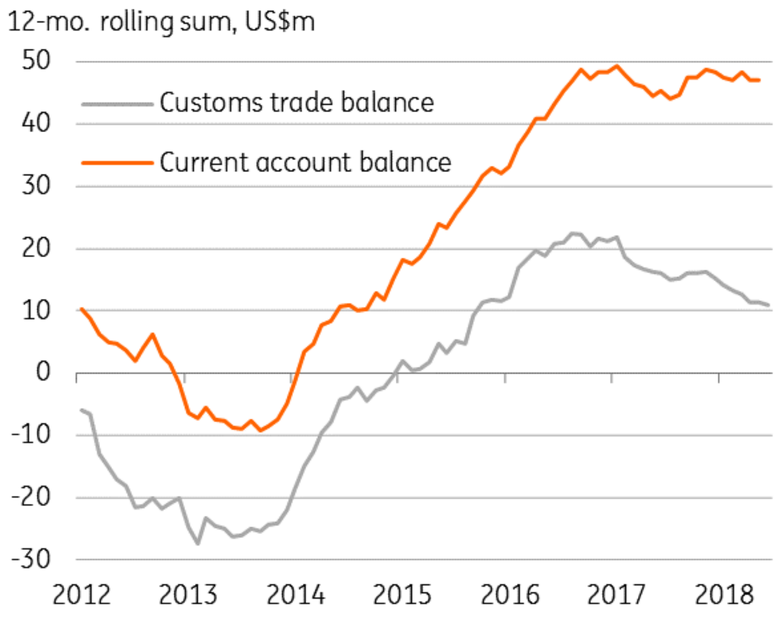
Beating the consensus, the trade surplus widened to $1.6bn in June from $1.2bn in the previous month; the consensus forecast was $1.3bn, while we were expecting a small deficit. Exports grew by 8.2% year-on-year and imports by 10.8%, though both fell short of the 11% growth registered in May. Electronics and autos have been the main export drivers this year, whereas fuel has been the dominating commodity on the imports side.

Cumulative surplus is still lower

However, the cumulative trade surplus of $3.5bn in the first half of 2018 has more than halved from the $7.6bn surplus of a year ago. Trade balance drives the current account balance. Indeed, the $17.3bn current surplus in the first five months was $1.4bn less than a year-ago.

After a strong run in the last four years, Thailand's external payments have started to weaken this year and foreign exchange reserves have started to fall after peaking over $215 billion in March. These trends are here to stay as the global trade war threatens exports and confidence-sensitive capital inflows while rising oil prices boost imports. We forecast that the annual current surplus in relation to GDP will narrow to 7.5% in 2018 from 10.6% in 2017.

Trade balance drives current account balance



Source: Bloomberg, ING

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