

## Good MornING Asia - 23 July 2019

Reports of the US and China resuming trade negotiations next week are positive for risk sentiment, but escalating tension in the Middle East pushing oil higher are negative. We anticipate wait and watch sentiment taking hold of the markets ahead of the ECB meeting this week and the Fed meeting next week.

### In this bundle



#### Asia Morning Bites

##### **ASEAN Morning Bytes**

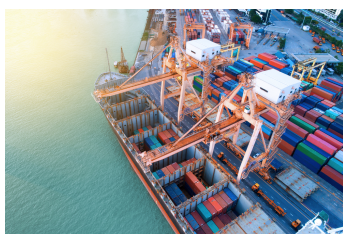
General market tone: Wait and see. Investors will likely refrain from making substantial bets ahead of key central bank meetings in the week.



#### Taiwan

##### **Taiwan: Export orders fall and will keep on falling**

Despite flattering base effects given weakness last year, Taiwan continues to disappoint. We wonder whether policies to attract manufacturers to set up in...



#### Thailand

##### **Thailand: Wide external surplus dents drive to curb baht strength**

The Bank of Thailand's latest efforts to curb appreciation in the Thai baht are proving ineffective and aggressive interest rate cuts are needed to...

## ASEAN Morning Bytes

General market tone: Wait and see. Investors will likely refrain from making substantial bets ahead of key central bank meetings in the week.



### EM Space: Hopes for a trade deal and rebounding energy sector will clash with caution ahead of ECB

- **General Asia:** Reports of the US and China resuming trade negotiations next week are positive for risk sentiment, but escalating tension in the Middle East pushing oil higher are negative. We anticipate wait and watch sentiment taking hold of the markets ahead of the ECB meeting this week and the Fed meeting next week.
- **Thailand:** Yesterday's June trade data showing an unexpectedly large trade surplus comes as a further boost to the THB. \$3.2 billion trade surplus in the last month was the fourth-highest monthly surplus on record as exports improved for a smaller drop of 2.2% YoY while imports crashed by 9.4%. Weak domestic demand and lower oil price seem to be depressing imports and this is sustaining large external surpluses. We believe the economy needs lower interest rates to revive domestic spending, which will also help in curbing the THB strength. We forecast two 25 basis point cuts by year-end.
- **Malaysia:** Finance Minister Lim Guan Eng is worried about public finances staying on track to meet the 3% of GDP deficit target in 2020. He pointed to weak growth amid the US-China trade war and need to reduce public debt, estimated at over MYR 1 trillion, as main 'challenges', though minister also sees opportunities from trade diversion from the trade

war. In the ongoing global slowdown, Malaysia's economy is performing relatively well. The central bank (BNM) eased the policy with a 25bp rate cut in May and has enough policy space to stimulate the economy further if needed.

- **Singapore:** June CPI is due with consensus looking for a slowdown in headline inflation to 0.8% YoY and in the core to 1.2% from 0.9% and 1.3% respectively in the previous month. We see lower transport costs from falling COE prices and fuel prices to more than offset the holiday season surge in recreational costs. With subdued inflation and deteriorating growth prospects, the central bank (MAS) is expected to ease the policy before the next scheduled semi-annual policy review in October.
- **Indonesia:** Bank Indonesia (BI) Governor Warjiyo stepped up the dovish rhetoric in testimony before lawmakers yesterday, signaling further monetary policy easing ahead via cuts in both policy interest rates and banks' reserve requirement ratio. He sees this helping the growth momentum in 2H19.
- **Philippines:** The government budget posted a deficit of PHP 41.8 billion in June. This puts the deficit for the first half of 2019 at PHP 42.6 billion. Delayed passage of the budget for 2019 kept government spending lackluster while revenue collection picked up. Weak government spending was a drag on GDP growth in 1Q19. We believe it persisted in 2Q19, leaving GDP growth below 6%.

## What to look out for: Regional inflation data and geopolitical tension

- Singapore inflation (23 July)
- Taiwan industrial production (23 July)
- Malaysia inflation (24 July)
- US durable goods (25 July)
- South Korea GDP (25 July)
- Hong Kong trade (25 July)
- ECB meeting (25 July)
- Japan inflation (26 July)
- US GDP (26 July)

### Author

#### Nicholas Mapa

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

## Taiwan: Export orders fall and will keep on falling

Despite flattering base effects given weakness last year, Taiwan continues to disappoint. We wonder whether policies to attract manufacturers to set up in Taiwan will deliver and whether the central bank will follow its Asian peers and cut rates



A woman checks her mobile phone while waiting to cross the street in Taipei, Taiwan

### Taiwan export orders keep falling

Taiwanese export orders fall for the eighth month in a row, decreasing by \$1.82 billion from June 2018, a reduction of 4.5%YoY. In the second quarter of 2019, they fell 4.7% YoY. For 1H19 export orders fell 6.5%YoY, and that's all with a very low base effect.

The speed of reduction may be slowing slightly from the start of the year, but it's falling nonetheless. And that means production activities will also continue to weaken and we'll be able to confirm that from Tuesday's industrial production data.

## Promoting Taiwan's production line investments

With global smart devices entering a late product cycle, there's a negative environment for manufacturers, especially for technology-focused Taiwanese producers.

The government offers a preferential interest rate policy to manufacturers to encourage them to move production lines from mainland China. But, even if the government attracts investment funds into Taiwan, those production lines may not be running in any meaningful capacity if export orders keep falling.

We believe this will only change to a positive picture once 5G is widely used. Then smartphones will have new product cycles. Until then, we don't think there can be a significant upturn in Taiwan's production and, subsequently, its exports.

## The central bank says it won't cut rates

Other Asian central banks have cut interest rates, Taiwan's has responded by indicating its rate, currently at 1.375%, won't be changing any time soon.

Taiwan CPI inflation is low at 0.86%YoY. GDP has avoided falling into negative territory, with the economy growing at 1.71% in 1Q19, and we expect 1.8% for the whole of 2019. Given that rates are already low, it's difficult for the bank to cut them further in a pre-emptive strike to boost growth.

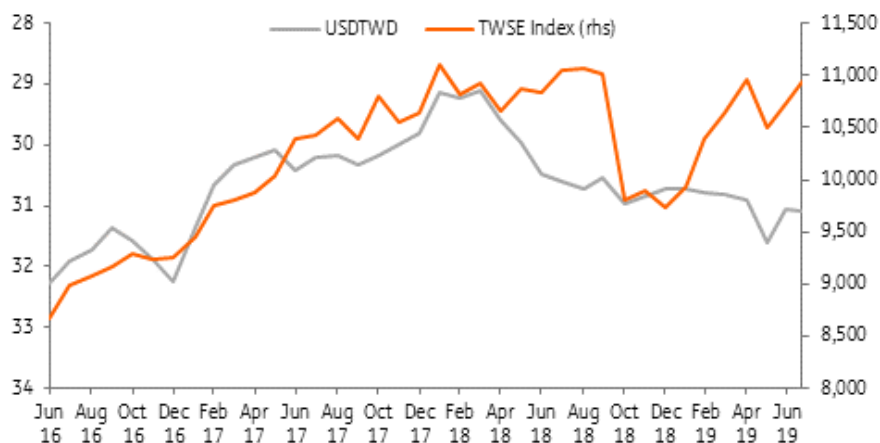
## USD/TWD still weak because of the yuan

Usually, when the Taiwan stock indices rise, there will be inflows of foreign capital into the market, and that should support the Taiwan dollar against the USD. But the stock index (TWSE) have been moving in opposite directions with the currency. The stock market has increased by 13%YTD but the currency has depreciated 1% in the same period.

It could be that the smartphone production cycle has suppressed both Mainland China and Taiwan's economies. The TWD, therefore, has shared the same pressure as the CNY, the yuan. CNY has depreciated slightly at 0.03%YTD.

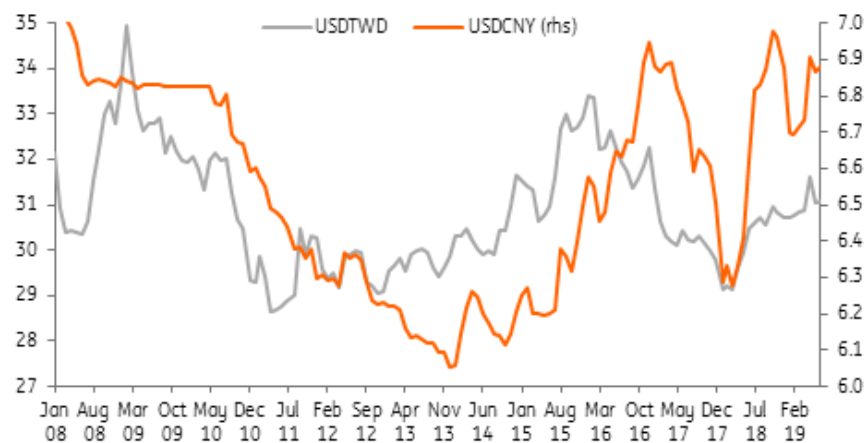
As the two economies are even more interlinked, building up production lines in Taiwan doesn't seem to be the best way to boost growth as the economic weakness lies in the smartphone product life cycle. This will continue until there is a new demand for phone upgrades, which most likely will come from 5G.

## TWD and stock index has lost the link



Source: ING, Bloomberg

## TWD and CNY has increased correlation



Source: ING, Bloomberg

### Author

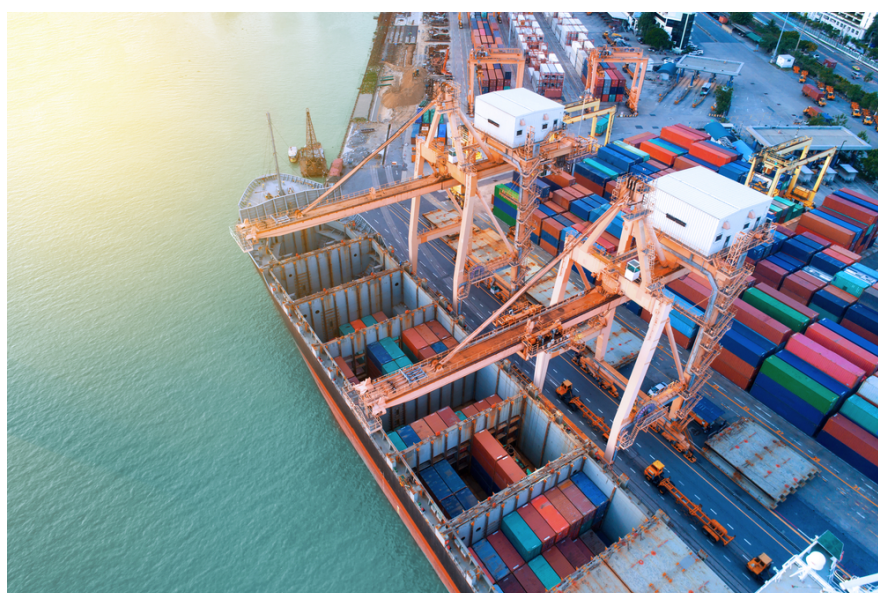
**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

# Thailand: Wide external surplus dents drive to curb baht strength

The Bank of Thailand's latest efforts to curb appreciation in the Thai baht are proving ineffective and aggressive interest rate cuts are needed to revive beleaguered domestic demand. We forecast two 25 basis point cuts before year-end



Source: Shutterstock

**\$3.2 billion** June trade surplus

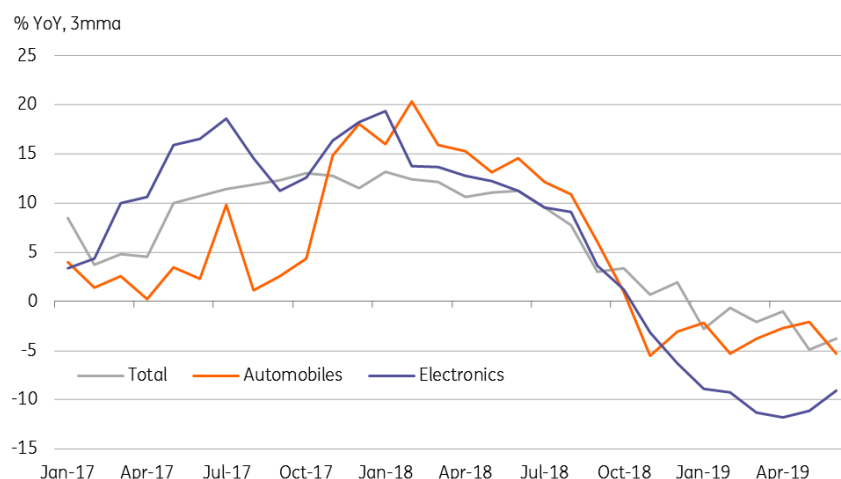
Higher than expected

## Fourth highest trade surplus in June

Thailand's trade balance posted an unexpectedly large \$3.2 billion surplus in June, the fourth largest monthly surplus on record. This happened as year-on-year (YoY) exports contracted by 2.2% while imports tumbled by 9.4% YoY compared to consensus estimates of -5.0% YoY and -2.5%, respectively. The corresponding growth rates for May were -6.2% and -0.7%.

Electronics and automobiles, with a combined 30% weight in total exports, remained the key drags; the global tech slump is depressing electronics exports and rising tariff barriers by the US are hurting automobiles and parts. Persistently weak domestic demand weighed on imports, while lower global crude prices likely kept a lid on fuel imports. Fuel makes up 17% of total imports.

## Automobiles and electronics led export downturn



Source: Bloomberg, CEIC, ING

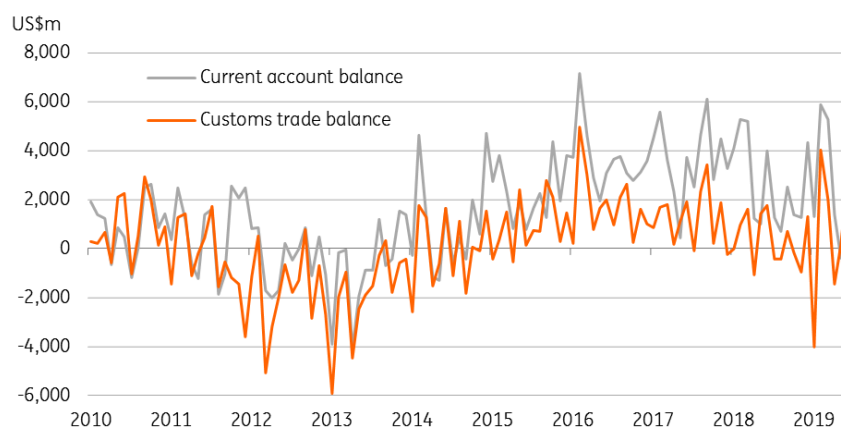
## Persistent large current surplus

This puts cumulative export and import growth in the first half of the year (1H19) at -2.9% and -2.4%, respectively, both down sharply from +11.7% and +10.2% in 1H18. The 1H19 trade surplus of \$3.9 billion, however, was little changed on the year.

The trade surplus is driving the current account surplus. Based on today's data, we estimate a close to \$5bn current surplus in June (data due on 31 July), leading to a more than \$18bn cumulative surplus in 1H19. A small narrowing from \$20.8bn in 1H18 would far from satisfy the US Treasury, which currently has Thailand on its radar for currency manipulation. Having run at a rate of around 10% of GDP in 2016 and 2017, the current surplus dropped to 6.4% of GDP in 2018. We are considering an upward revision to our view of a further narrowing in the surplus to 4.8% of GDP in 2019 (consensus 6.6%).



## Trade balance drives current account balance



Source: Bloomberg, CEIC, ING

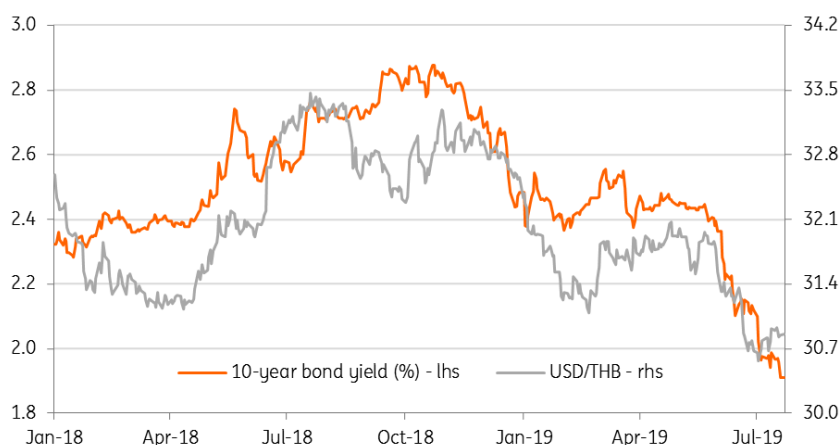
### Efforts to curb THB strength in vain

A large trade surplus dampens the Bank of Thailand's recent efforts to rein in runaway currency (THB) appreciation this year. With a 5.5% year-to-date appreciation, the baht is the best performing Asian currency (second-best emerging market currency performer after the Russian rouble) this year.

Recently, the BoT has cut the limit on outstanding balances in non-resident THB accounts, including those for securities, to 200 million from 300 million. It has also tightened reporting requirement for non-residents' holding of debt securities issued in Thailand, making mandatory the disclosure of end beneficiaries of such holdings. While these measures have proven to be insufficient to arrest the currency appreciation, the authorities are considering more measures like reduction of bond supply and easing of rules on capital outflows.

Besides the persistently large external surplus, any efforts to curb THB appreciation pressure are currently being countered by USD weakness, as Fed rate cuts loom. A BoT rate cut may help to some extent, though it will take more aggressive central bank easing to revive beleaguered domestic demand. We forecast two 25 basis point BoT policy rate cuts in August and in the fourth quarter of the year.

## Rallying Thai government bonds and the THB



Source: Bloomberg, ING

### Author

#### Alissa Lefebre

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

#### Deepali Bhargava

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

#### Ruben Dewitte

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

#### Kinga Havasi

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

#### Marten van Garderen

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

#### David Havrlant

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

#### Sander Burgers

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst  
[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist  
[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy  
[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy  
[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland  
[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist  
+31(0)611172684  
[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania  
[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors  
[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Kloek**

Senior Economist, Netherlands  
[marcel.kloek@ing.com](mailto:marcel.kloek@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)



**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).