

Good MornING Asia - 23 May 2018

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In this bundle



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By Robert Carnell

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Source: Shutterstock

Trump expresses North Korea doubts

Yesterday, looking for reasons for the market's newly found optimism to fade, high up my list was scepticism that the forthcoming US-North Korea talks to be held here in Singapore on 12 June, might not deliver any positive results. It seems the US President is of the same mind (maybe he reads this note...I suspect not). Trump is reported to have said yesterday in meetings with South Korean President Moon Jae-in: "There's a chance, a very substantial chance, it won't work out." This seemed to be enough to send stocks down, though the gloom seems to have stopped there, with US Treasury yields more or less unchanged, and Asian FX holding on to its bid tone.

The other main event yesterday was the UK Treasury Select Committee's grilling of Bank of England Governor Mark Carney. The governor came under considerable pressure for his flip-flopping on rate guidance. But he continued to suggest "gentle" rate rises, as the economy bounced back after winter snow disruption. That said, it is hard to square this view with an economy that is obviously slowing, and which by his own words, has already been hurt by Brexit to the tune of about GBP900 per household. Some further hawkish testimony from MPC member Gertjan Vlieghe, helped GBP to stay roughly unchanged over the last 24 hours.

Still, angry noises from the Brexiteers about Prime Minister Theresa May's stance on Brexit, chatter

about a snap election, and a repeat from lead EU negotiator Michel Barnier that no deal could be delivered until the Irish border question has been solved, do not leave the pound looking like a happy currency today. The pause in cable's decline may be just that, a pause.

Day ahead - PMIs dominate

As a source of information, PMI's are timely, and less subject to the sort of statistical shenanigans that can deliver "surprise" GDP results. But their very timeliness can make them an overly sensitive barometer of economic conditions. At the time of the EU PMI surveys due out today, it was looking likely that the US would impose tariffs on China and kick off the trade war for real. Now this threat has been shelved. There is a fair chance that if today's numbers for the Eurozone show some softness, that this is still responding to a more downbeat view of the world that existed a week or two back. That still won't help the EUR to rise or bund yields to nose higher, but we can keep hope alive for some better numbers next month.

The UK's CPI release today will not provide much support for the GBP, most likely showing either no change in headline inflation and a small decline in core rates. That said, I get the feeling that the MPC is more motivated by private sector wage gains than inflation currently.

The US PMI series is still not widely watched, and the other release, new home sales, has been on a steady upward track for years. Any deviation from that would have to be substantial for the market to regard it as anything other than noise.

In our APAC region, Korean household credit data will show a steady rise. Household sector indebtedness is alarming. But it is the domestic economy and consumption that is keeping the economy ticking along right now, so the Bank of Korea will not want to lean against that, though ultimately, it could be problematic.

Inflation data from both Malaysia and Singapore will likely show an increase in April figures released today. This will be mainly energy driven, showing up in the transport components. For Malaysia, we still forecast a 3Q18 rate hike. But the setting of the Goods and Services Tax to zero and likely delay before a Sales and Service Tax (SST) replacement can be installed, all taking place as we approach seasonal food price rises associated with Ramadan, make us a little wary about this rate forecast, which we may end up pushing back a quarter or so.

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