Good MornING Asia - 23 November 2018

A slow day ahead with scant economic data and market holidays in some Asian countries

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ASEAN morning bytes

General market tone: Wait and see. Traders will move cautiously on Friday with scant developments overnight. Investors will continue to monitor developments on the trade front ahead of the G-20 meeting at the end of the month.

International theme: Risk sentiment remains fragmented with energy prices lower anew

- Hopes for a Brexit deal and headway into the Italian budget deliberations boosted sentiment ever so slightly but investors remain skittish with important meetings coming up. US markets were closed but rising energy stockpile pushed oil lower with investors looking to possible supply cuts at the 6 December meeting.

EM Space: Investors likely to remain sidelined ahead of key meetings in the next two weeks

General Asia: Investors will likely adopt a wait and see approach with still so much up in the air as we approach the G20 meeting at the end of the month. Data calendar remains relatively quiet so trading will be headline driven with any news on US-China negotiations or OPEC seen to provide some impetus to trade.

Singapore: October CPI is due. The downside risk to the consensus forecast of slightly higher headline inflation of 0.8% than 0.7% in June stems from lower fuel prices and car COE prices and the quarterly rebate on Services and Conservancy Charges (S&CC) for public housing. The core inflation, which strips out accommodation and private transport prices, remains elevated, rising to 1.9% in October from 1.8% in September. With the balance of economic risks tipped toward growth, it would be hard for the MAS to justify further policy tightening in April.

Malaysia: October CPI is due. The implementation of the Sales and Services Tax (SST) in September barely impacted inflation. Aside from the low base effect, there was nothing in October to push it higher to our forecast of 0.5% YoY from 0.3% in September (consensus 0.6%).

Thailand: The BoT Governor Veerathai Santiprabhob said the monetary policy would be data-dependent, adding that even if they raise the policy rate they won't be raising it continually. Growth slipped below the official comfort level of 4% in 3Q18 and, absent any bounce back anytime soon, it will be a long wait for the BoT before it could start raising interest rates.

Indonesia: The finance ministry has decided to cancel bond auctions for the rest of the year after hitting their issuance target for 2018. Algirman, Director of Budget Financing, indicated that revenue collection was positive and that they continue to see a budget deficit of 2.19% of GDP for the year.

Philippines: The bicameral session voted to approve the rice tariff bill which paves the way for a substantial improvement in the inflation outlook. The bill is seen to slash inflation by as much as 0.8 percentage points, which bodes well for BSP hitting their target by mid-2019.

Philippines: Japan and the Philippines have inked roughly $1.7bn worth of deals on Thursday with infrastructure projects funded via official development assistance bringing in actual funds into the country in the coming months.

What to look out for: G20 meeting

- Malaysia CPI inflation (23 November)
- Singapore CPI inflation (23 November)
- Thailand GIR (23 November)
- G20 meeting (31 November)
- OPEC meeting (6 December)

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Asia week ahead: Increasing headwinds to growth

Manufacturing releases crowd the Asian economic calendar, but India's 3Q18 GDP and the central bank of Korea's monetary policy meeting are the main highlights of next week

Source: Shutterstock

Asia: Some sense of 4Q18 GDP growth

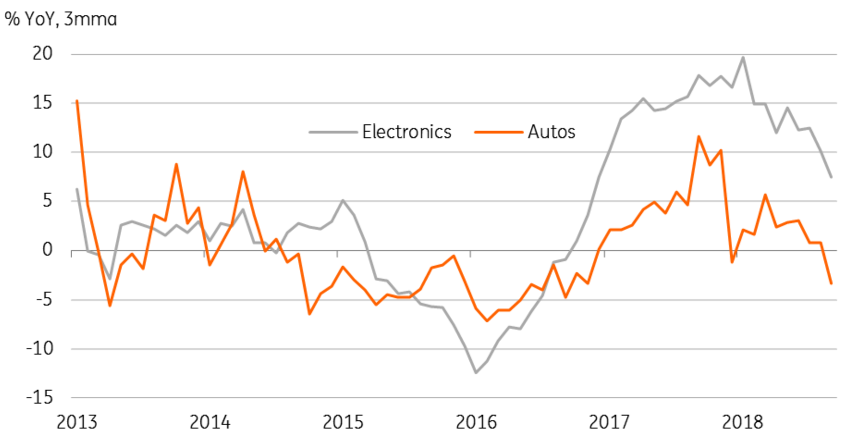
China's manufacturing PMI for November coupled with hard manufacturing data from Japan, Korea, Singapore, and Thailand for October will give a sense of where GDP growth of these countries is headed in the final quarter of the year.

We don't see China's manufacturing PMI drifting far off the threshold level of 50; where it has hovered around since September. Even though export growth has held up since the onset of the trade war, export orders have been contracting at an increasing pace. This has dragged industrial production growth below 6% in the last two months, supporting our view of GDP growth slipping below 6.5% in the final quarter.

Electronics matter more for the rest of the Asia reporting manufacturing data and judging by the ongoing sell-off in electronic stocks; things don't appear to be looking great. Electronic exports from Korea are still growing on an annual basis, but those from Japan, Singapore, and Thailand have either been flat or contracting. Not only electronics, but weak automobile demand has been an added drag on manufacturing in Japan and Thailand.

As such, GDP growth across Asia is poised for a sustained slowdown in the fourth quarter.

Electronics and automobile exports seem to be declining



Source: CEIC, ING

Aggregate electronics exports from Japan, Korea, Taiwan, Singapore, Malaysia and Thailand; automobile exports from Japan, Korea and Thailand.

Korea central bank policy hangs in balance

Bank of Korea will announce its policy decision on 30 November and the rhetoric has been swinging between a rate hike and staying on hold.

Contrary to the message from a chunky 22% annual export growth in October, there is little room for growth optimism. Manufacturing continues to be weak, the inventory-to-shipment ratio remains elevated, and the risk of a downturn in the global electronic cycle is lingering. Supply disruptions due to nationwide factory workers' strike against labour policies is another thing.

The last central bank rate hike by 25 basis point to 1.50% was in November 2017. Even if the central bank is under pressure from the government to resume tightening to rein in rising house prices and household debt, the newly appointed finance minister Hong Nam-ki admits the next year will be "considerably difficult" for the economy. And the central bank governor Lee Ju-yeol has resisted calls of a rate hike to cap house price, despite the downward pressure on the economy.

We continue to see the BoK leaving the policy on hold until the third quarter of 2019, and even this may get pushed back if things worsen further.

1.5% ING forecast of BoK policy rate

No change until 3Q19

India: The GDP peak cycle is behind us

Our view of a slowdown in India's GDP growth to 7.5% YoY in the July-September cycle from 8.2% in the previous quarter, which was the fastest rate of growth in two years, is consistent with the median consensus estimate in the latest Bloomberg survey. GDP data is due on Friday, 30 November.

After a sharp slump from late 2016, demonetisation growth started to pick in 2Q18 and gathered significant momentum over the next two quarters. While this high base effect is at work to depress the annual increase, weaker exports and private consumption, and increasing drag from net trade support expectations of GDP slowdown.

GDP slowdown and stable inflation under 4% will give more reasons to the central bank to leave the monetary policy on hold, as this is what we now forecast for the December policy meeting.

7.5% India's 2Q FY19 GDP growth

Bloomberg consensus median

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 26 November			
Hong Kong	0830	Oct Exports (YoY%)	15	-	4.5
	0830	Oct Imports (YoY%)	14	-	4.8
	0830	Oct Trade balance (HK$ bn)	-47	-	-47.7
Philippines	-	Oct Budget Balance (PHP bn)	-	-	-96.2
Singapore	0500	Oct Industrial Production (YoY%)	3.8	-	-0.2
	0500	Oct Industrial Production (MoM% SA)	2.5	-	-4.9
South Korea	2100	Nov BOK Consumer Sentiment Index	-	-	99.5
		Tuesday 27 November			
China	0130	Oct Industrial Profits (YTD, YoY%)	6.0	-	4.1
South Korea	2100	Dec BOK Business Survey Index, mfg	-	-	72.0
	2100	Dec BOK Business Survey Index, non-mfg	-	-	75.0
		Thursday 29 November			
Thailand	-	Oct Manufacturing Index (YoY%)	3.3	-	-2.6
South Korea	2300	Oct Industrial production (MoM/YoY%)	2.0/1.4	-/-	-2.5/-8.4
		Friday 30 November			
China	0100	Nov Non-manufacturing PMI	53.8	-	53.9
	0100	Nov Manufacturing PMI	50.1	-	50.2
India	1100	Oct Fiscal Deficit (INR crore)	-	-	3441.0
	1200	3Q GDP (Q) (YoY%)	7.5	-	8.2
Hong Kong	0830	Oct Retail Sales Value (YoY%)	-	-	2.4
	0830	Oct Retail Sales Volume (YoY%)	-	-	1.4
Taiwan	0900	3Q F GDP (YoY%)	-	2.3	2.3
Thailand	0730	Oct Current Account Balance (US$bn)	2.0	-	2.4
South Korea	-	7-Day Repo Rate	1.5	-	1.5

Source: ING, Bloomberg

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China: Intervening in the yuan, for what?

The People's Bank of China spent CNY 91.58 billion on foreign-exchange sales in October. We believe this means the central bank wants USD/CNY to cross the 7.0 mark, but without any market hiccups

China's central bank spends second largest amount on forex sales in 2018

In October, the Chinese central bank spent CNY 91.58 billion on forex sales, which is the second largest amount in 2018. However, this was less than September, which was CNY 119.39 billion.

This data has always been eye-catching, especially during the yuan's depreciation, because it implies the central bank might have spent money in the market to stop or slow down the depreciation by selling dollars. And we don't completely rule out this possibility.

Given the speed of the monthly yuan depreciation in October, which was 1.56%, up from 0.55% in September, we believe the central bank might have sold dollars to intervene as the speed of the depreciation indicates more intervention.

Will the central bank intervene again in the coming months?

We don't think anyone can answer this question, not even the central bank.

- It seems the central bank is allowing the yuan to be more responsive to news, data and ad hoc information, which means the yuan is more flexible. This should imply the central bank doesn't intervene frequently.

- But the central bank could be intervening with a target. This is more interesting because the market then wants to know what the 'target' is. Is USD/CNY at 7.0 a target or is there a line below that?

We think the central bank could be targeting small ranges that would lead USD/CNY to cross 7.0. For example, 6.91- 6.95 might be a target range for a certain period, then a weaker yuan range of 6.95 - 7.00 for later, so that eventually, USD/CNY crosses 7.0 without surprising the market.

Therefore, we don't agree that the People's Bank of China won't allow USD/CNY to cross the 7.0 handle.

We believe USD/CNY will depreciate when trade war tension escalates, and crossing 7.0 looks increasingly likely.

The central bank is more likely to be managing market sentiment by making sure the exchange rate doesn't surprise the market. The scale of interventions will become smaller as the exchange rate approaches 7.0 so that foreign exchange reserves only fall mildly.

For now, we maintain our forecast at 7.0 by the end of this year.

Correction: 22nd November 2018

An earlier version of this article misstated the value of the foreign-exchange sales as $91.58 billion instead of CNY 91.58 billion. This version corrects the inadvertent error.

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