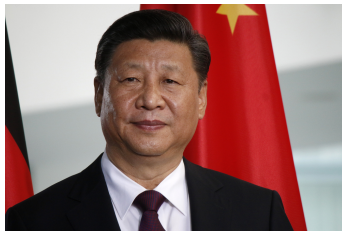


Good MornING Asia - 23 October 2018

Chinese authorities have stopped the rot in stocks with confidence-boosting comments and supporting policies...will it last?

In this bundle



China

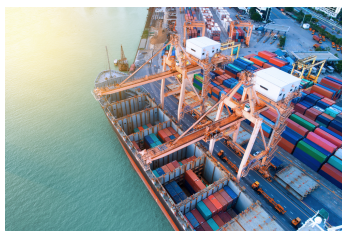
Will the optimism last?

Chinese authorities have stopped the rot in stocks with confidence-boosting comments and supporting policies...will it last?



ASEAN Morning Bytes

General market tone: Risk-off Markets reacted to earnings reports in the United States, while Brexit negotiations continue to drag along. Italy retained...



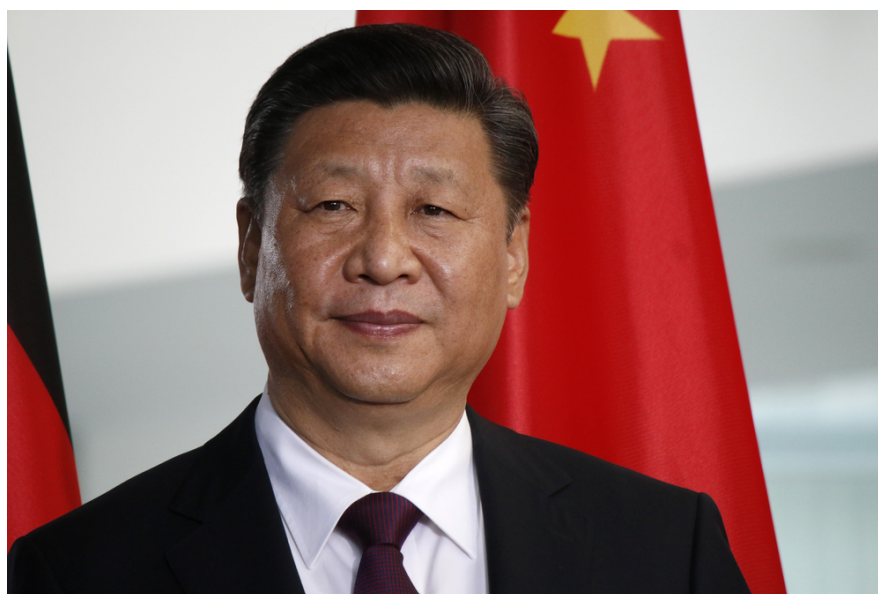
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Thailand: September trade misses expectations

Although the current account surplus is narrowing this year it's still large enough compared to other Asian economies to sustain the positive...

Will the optimism last?

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Source: Shutterstock

Can this be sustained? Probably

Equity markets are driven by confidence. Sure, at the margin, valuations, momentum and investment themes can all matter. But sap the underlying support of confidence, and that all comes crashing down.

Yesterday, a combination of supportive comments from everyone that mattered, from President Xi's "unwavering support", to Vice Premier Liu He, to the head of the central bank, the banking watchdog and head of securities regulation, all came out in support of the stock market. Backing up the comments were policy changes, an income tax cut worth perhaps 1% of GDP, business tax cuts and additional funding for local governments to finance infrastructure and lend to smaller firms in the private sector. On the day, this was enough to deliver the biggest gain in the Shanghai composite index for around three years.

Now the question is, can it last, and will it go further?

Needs must

Having pledged support for the private sector from the highest levels, I don't believe that this is just hot air. If more money needs to be spent, it will be. If more funds need to be pledged to the SME sector, they will be. If financial sector regulation needs to be loosened, this will happen.

And this needs to be the case because default rates in China have been picking up. Many firms use their own equity as collateral pledged to obtain loans. At the sorts of level the Shanghai composite was reaching before the support was offered, many of these loans would have been callable, and not all of them would have been fully met, so this had to happen. And more may need to be done.

But China is not the entire world

However, recent events remind us that there is a lot more to what happens to the Chinese stock market than domestic policies and support. The recent jitters in the US stock market show that global investor sentiment remains shaky. Geopolitical concerns are rising high at the moment, with US President Trump threatening to pull out of nuclear arms agreements with Russia, and the aftermath of the Khashoggi murder lingering over energy markets. The trade war is far from over and could get worse. It seems miles away from China, but the European standoff with Italy over the Italian budget and ongoing stalemate over Brexit could also tinge general market sentiment in a way that could spill over into renewed EM anxiety requiring more support.

In short, while I do not doubt the Chinese authorities intentions and actions to stem the rot in local stocks, I am concerned about the extent of their firepower against any global turn in confidence.

Day ahead - more supportive commentary would be helpful

With little on the economic calendar to get too excited about in Asia (Bank Indonesia - not expected to hike, and Singapore September CPI) or the G-7 (practically nothing), today would be a good day for the Chinese authorities to come out and supplement weekend and yesterday's comments with further reassurance, actions and even further policy announcements. If yesterday's move turns into a one-day wonder, then much of the latest effort will have been wasted. And with US stocks weaker overnight, the authorities still need to maintain their pressure against the tide of market sentiment. Stocks, as we said at the beginning, are essentially confidence driven beasts. That confidence, though improved, is still vulnerable to any adverse news, and will need supporting for some time. This is not over.

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Article | 22 October 2018

ASEAN Morning Bytes

General market tone: Risk-off Markets reacted to earnings reports in the United States, while Brexit negotiations continue to drag along. Italy retained its budget but pledged to avoid Italeave. Meanwhile, Saudi pledged to turn up production to make up for Iran's projected loss from the market.



International theme: Global growth fears keep risk sentiment fragile

- Traders will likely remain cautious with investors focused on important data reports out from the US (3Q GDP) and the ECB meeting. Earnings reports and negotiations in Europe forced dealers to tread even more carefully even as Italeave is promised to be avoided.

EM Space: Taking cue from developments in Europe and oil prices

- **General Asia:** Risk markets will likely consolidate on Tuesday with investor sentiment still fragile given directional trading seen on Wall Street. Investors carefully monitor developments in Europe (Brexit talks and Italian budget concerns) while also tracking oil price movements that failed to react to Saudi Arabia's pledge to bring 11 million barrels per day to the market.

- **Thailand:** Markets are on holiday for Chulalongkorn Day. Yesterday's trade data for September missed expectations, with exports posting the first year-on-year year fall since early 2017 coupled with a sharp import slowdown produced a small trade surplus. And in a sign of slowing tourism, the growth of international air passenger traffic at Bangkok airports hit the lowest rate in two years of 1.5% YoY in September. Our forecast of about 7% of GDP current account surplus in 2018 remains on track.
- **Singapore:** September CPI data is due today. In line with consensus, we expect the headline inflation to tick up to 0.8% YoY from 0.7% in August, but no change to the core rate from 1.9%.
- **Indonesia:** Bank Indonesia will likely keep rates unchanged although 10 out of 30 analysts now think that the central bank has space to hike rates in its drive to stabilize the IDR further. Governor Warjiyo has retained the hawkish tone but the relative stability in currency markets of late (IDR up 0.24% since 16 October) may afford the central bank some breathing room.
- **Philippines:** Wage boards in the capital will be holding consultations this week to petition a substantial increase in wages (65%) which could reignite the second round effects and make inflation more deeply rooted. If passed in full, the BSP will likely be called to hike policy rates to stem the tide, pushing up borrowing costs and slow growth momentum even further.
- **Philippines:** The national government continues to spend in a big way with the spending sans interest payments retained its robust trend to grow 26% year-on-year, resulting in a budget gap of PHP 96.2 bn for the month of September. This brings the year to date deficit to Php378.2 bn or 72% of the full year target. The change in cash position for the year shows a PHP 52bn deficit despite strong collections, with the government needing to make up for the shortfall either through increased borrowing or further improvement in collections.

What to expect: 3Q US GDP and ECB meeting

- Bank of Indonesia meeting (23 October)
- Fed Kashari (23 October)
- Fed Kaplan and Fed George (24 October)
- US new home sales (24 October)
- Korea 3Q GDP (25 October)
- ECB meeting (25 October)
- Fed Bostic and Fed Mester (25 October)
- US durable goods orders (25 October)
- US 3Q GDP and core PCE (26 October)
- Fed Clardia (26 October)

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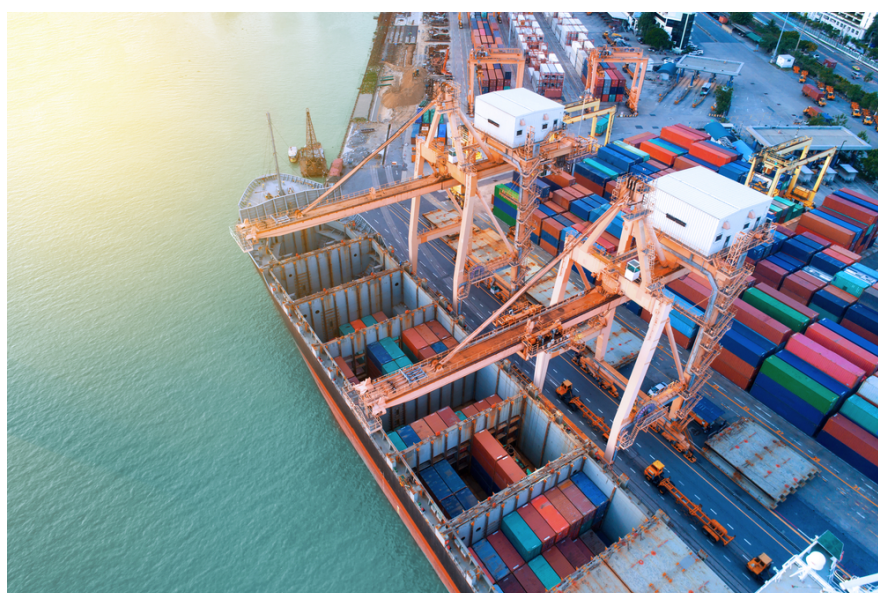
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Thailand: September trade misses expectations

Although the current account surplus is narrowing this year it's still large enough compared to other Asian economies to sustain the positive sentiment toward the Thai baht (THB). We maintain our end-2018 USD/THB forecast of 33.0



Source: Shutterstock

\$487m September trade surplus

Lower than expected

Dismal export performance, but imports slowed too

As widely expected, the trade balance swung to a surplus in September after two consecutive months of deficits. However, the \$487m surplus was much smaller than the \$1.8bn consensus estimate. This resulted from a sharp swing in growth of both exports and imports. The 5.2% year-on-year export contraction was a reversal of 6.7% growth in August, the first negative print since early 2017. But import growth also slowed sharply to 9.9% from 22.8% over the same months.

The Thai Commerce Ministry attributed weak export performance to a high base effect, the US-China trade tensions, and problems in some emerging markets. Data clearly undermines the Ministry's expectations of sustained export growth in 2019 projected at 8% on the back of strong demand from China and ASEAN countries. The base effect is indeed active in driving the export growth everywhere else in the region. But it seems the impact of the US-China trade tensions has yet to kick in. At least it wasn't reflected in China's strong export growth in September.

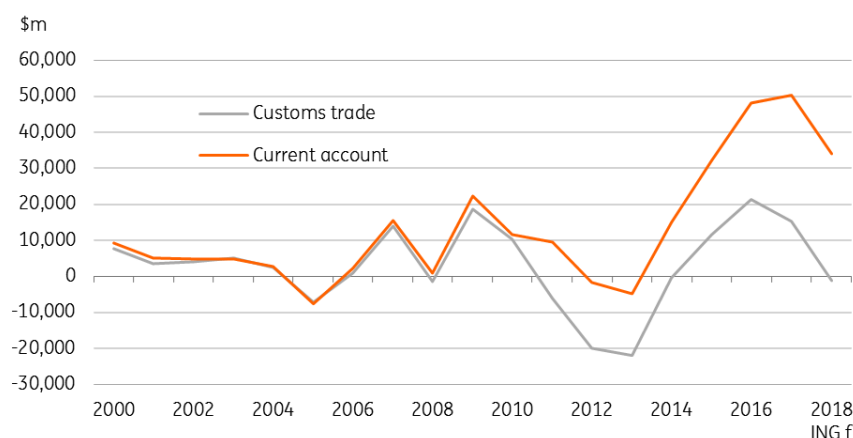
The escalation of the US-China trade tensions will remain an ongoing threat to exports in the period ahead. But on a positive note, it could also open the opportunity for increased intra-regional trade to bypass tariff barriers.

Narrowing, yet still large current account is positive for THB

At \$2.8bn, the cumulative trade surplus in the first nine months of this year was \$10.4bn narrower than a year ago. At this rate, the full-year 2018 trade balance could be in deficit to the order of \$1bn against over \$15bn of surplus in 2017. Absent any offset from services income this will certainly drag the current account surplus lower. Indeed, the tourism income has already started to take a beating from slowing Chinese tourist arrivals in recent months.

The current account posted over 11% of GDP equivalent surplus in the last two year. Our forecast has it narrowing to 7% this year, with the risk biased to the downside. It's still large compared to other Asian economies, which is what lies behind Thai baht's (THB) ongoing outperformance among Asian currencies this year. We maintain our end-2018 USD/THB forecast of 33.0 (spot 32.6).

Narrowing trade and current accounts



Source: Bloomberg, CEIC, ING

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