

Good MornING Asia - 23 October 2019

Yesterday's Brexit vote was a mix of good and bad for PM Johnson. Markets have given it a thumbs down if GBP is any guide. Hope has risen for a resolution to HK's problems, following an FT story about Chief Executive, Carrie Lam, stepping down. But this is not a straightforward issue either. Inflation dominates today's calendar releases.

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By Robert Carnell



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Philippines

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Source: Shutterstock

Britain's Prime Minister Boris Johnson speaks outside 10 Downing Street in London.

In a nutshell...

James Smith's latest Brexit update will be out early this afternoon, but in the meantime, he has helpfully prepared this summary of the forthcoming note:

"The UK is now highly unlikely to leave the EU on October 31. That's the single biggest takeaway from Tuesday's fiery evening in Westminster. MPs rejected the government's ultra-fast timetable for passing the Withdrawal Agreement Bill (WAB).

The EU is now expected to grant an Article 50 extension - perhaps one lasting 3-4 months, with an option to shorten it if a deal is ratified in the UK.

But while the prime minister has been defeated in a key battle, it's not clear he has lost the war. While there are a number of hurdles still to be overcome, there is a feeling that a majority now exists for the deal that could conceivably get the WAB over the line.

That would enable Johnson's Conservatives to go to an election with the UK formally outside of the EU. But don't forget that Labour MPs will likely be needed to sign-off on an election, and many are

wary given how far they are behind in the polls. That means the UK may not go to the polls until 2020, and opposition lawmakers may hope that this extra time will see some of the Conservative's recent momentum begin to ebb away".

Hope for a resolution in HK?

Today's FT carries a story that Beijing is drawing up plans to replace HK's Chief Executive, Carrie Lam, with an interim leader. The full story can be found on the FT's Home Page.

Lam's removal is one of the key demands from the protest movement, but not the only one. Universal suffrage, and an independent inquiry into police tactics are others. So it remains to be seen if this development, if it is confirmed, will be enough calm the protest movement. The suggestion is that any replacement will be contingent on calm returning to the streets of Hong Kong.

One of the factors that may be pressuring a change of heart in Beijing is the suggestion that the US Senate is to require annual reviews of Hong Kong SAR to decide whether it is autonomous enough to justify its special trading status as distinct from mainland China.

Will these latest moves help to create calm? This is what our Iris Pang in HK thinks: "*After the Financial Secretary handed out more candy for the economy there is an FT report that China is going find a new CEO for Hong Kong to replace Mrs Carrie Lam. If there is a new CEO then he/she will have to be very tough on dealing with violence on the one hand and possibly setting up independent investigations on police use of force on the other hand. But even if this is done, we doubt that the protests will stop altogether. The economy still has a long way to go before it can be recovered*".

Out of gas?

We wrote yesterday that on a very dull day for economic releases, it might pay to keep an eye on the September existing-home-sales data out of the US.

Our reasoning? Although it is a small element of the US economy, housing has an undue influence on other things, such as consumer spending and sentiment. It is, after all, the single biggest asset on most household's balance sheets. The figure for September dropped back to 5.38m homes (saar). Not enough to signal a retreat in the housing market, but enough to suggest that recent gains are running out of steam. We will probably need a further fall in US Treasury yields and mortgage yields to provide some further push for this market. This is where the Fed could step in with more rate cuts. The October 31 meeting looks likely to deliver on that front.

Inflation data and what it means

Prakash Sakpal writes on today's inflation data out of Malaysia and Singapore: "September consumer price inflation figures from Malaysia and Singapore are unlikely to show any departure from the existing low inflation trends in these economies. We share the consensus view of a slight dip in Malaysia's inflation to 1.3% year-on-year from 1.5% in August and an unchanged rate of Singapore's headline inflation at 0.5% and core at 0.8%.

So what does this all mean for the monetary policies of each economy's respective central bank? Some weak signals emerged recently from Malaysia, which had otherwise been

outperforming the region. These signals reinforce our view that there will be one more preemptive Bank Negara Malaysia policy rate cut in the current quarter.

Singapore's economy is already flirting with a recession. Widening of the negative output gap suggests that inflation should remain subdued for a prolonged period, which conflicts with the continued MAS tightening announced last week (albeit at a slower pace of SGD NEER appreciation). Unfortunately, monetary policy is now fixed for the next six months, shifting the onus on fiscal policy, which also looks unlikely to deliver a meaningful boost. Barring any improvement in the external trade environment, the economy is in for further slow growth".

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EM Space: Subdued inflation

- **General Asia:** Inflation numbers out from regional economies will inform on the monetary policy direction in Asia ahead of the ECB meeting tomorrow.
- **Singapore:** We share the consensus of unchanged CPI inflation in September at the August's rates of 0.5% for the headline and 0.8% for the core measures. Widening of the negative output gap suggests that inflation should remain subdued for a prolonged period, which conflicts with the continued MAS tightening announced last week (albeit at a slower pace of SGD NEER appreciation). Unfortunately, monetary policy is now fixed for the next six months, shifting the onus on fiscal policy, which also looks unlikely to deliver a meaningful boost. Barring any improvement in the external trade environment, the economy is in for further slow growth.
- **Malaysia:** September CPI is due with consensus looking for a dip in inflation to 1.3% YoY from 1.5% in August. While inflation continues to be subdued, some weak signals emerged recently from the Malaysian economy, which had otherwise been outperforming the region. These signals reinforce our view that there will be one more preemptive Bank Negara Malaysia policy rate cut in the current quarter.
- **Philippines:** The government budget posted a hefty PHP 178.6 billion deficit in September as

government expenditure soared by 39%, far outpacing revenue collection growth of 16.9%. The strong spending in September puts 3Q expenditure growth at 17%, which should be a boost for the economy in the second half of the year. If so, we could imagine the BSP taking a backstep on further policy easing.

- **Indonesia:** President Jokowi retained finance minister Sri Mulyani Indrawati with the mandate to “guard the economy and maintain economic stability and resilience”. Indrawati’s reappointment was received well by investors with bonds rallying sharply in a vote of confidence for the veteran economist. Foreign flows have bolstered the IDR and keep the door open for a rate cut by the Bank of Indonesia either at the meeting this week, or later in November, in an additional stimulus for the economy.

What to look out for: ECB meeting

- Malaysia inflation (23 October)
- Singapore inflation (23 October)
- Hong Kong trade (24 October)
- Bank Indonesia meeting (24 October)
- ECB meeting (24 October)
- US durable goods and new home sales (24 October)
- Singapore industrial production (25 October)
- Thailand GIR (25 October)

Philippines: Government spending packs a punch in September

After months of weakness, government spending is back after the budget passed in May



Source: Shutterstock

Budget balance swings into the red in September

After vowing aggressive spending to make up for the budget delay, expenditures posted a herculean 39% surge with the budget balance swinging to a deficit of PHP 178.6 bn despite a double digit gain in revenue collection of 16.9%. The impressive performance on both fronts gives hope for a 6% growth chase towards the end of the year as expenditures roll out while the government continues to streamline and improve its collection efforts.

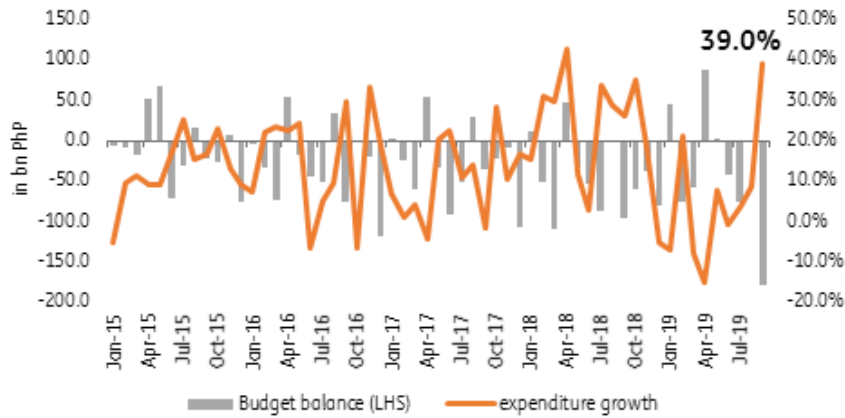
Can you say catch-up spending?

Government spending closes 3Q on a strong note with expenditure growth hitting 39% - all the more impressive given that it topped a 26% gain in September 2018. So far 2019 growth has been disappointing to say the least with the budget delay constraining government outlays (both capital and operational expenditure) and as elevated borrowing costs put the brakes on capital formation, noted in lackluster car sales and the overall meltdown in durable good equipment growth.

The September spending numbers also benefited from the PHP 13bn release for right of way requirements which may be followed by further outlays for the actual construction activity.

Meanwhile, end-September notice of cash allocation utilisation rates remain favorable, peaking at 97% and matching the same utilisation rate in 2018.

Philippine budget balance and expenditure growth



Source: Bloomberg

Chasing 6% growth with a significantly better 2H

A resurgence in government spending coupled with still robust and potent household spending will look to carry the load for 3Q GDP growth as capital formation remains handicapped and recovers from its meltdown in 2Q. As capital formation regains form hopefully by 4Q, we can expect growth to return to form and close out the year on a strong note with the economy firing on all cylinders once more.

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