

Good Morning Asia - 24 April 2019

Asia's subdued inflation outlook is at risk from surging oil prices on the expected loss of Iranian oil from the global supply. But for now, we believe growth worries are more pressing to move regional central banks to ease while there is room to do so.

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

General market tone: Risk-on. Risk sentiment return with investors taking their cue from the overnight rally on Wall Street.



Singapore inflation misses estimates

After a slew of weak activity data, inflation not surprisingly also disappoints in March

By Robert Carnell

ASEAN Morning Bytes

General market tone: Risk-on. Risk sentiment return with investors taking their cue from the overnight rally on Wall Street.



EM Space: Record highs in US equities is positive but higher oil price is negative for Asian markets

- **General Asia:** Strong corporate earnings reports pushed the US stock index to record highs, which bodes well for sentiments in Asia. However, surging oil prices on the expected loss of Iranian oil from the global supply will be an overhang on markets as high energy prices adversely affect growth and inflation.
- **Malaysia:** March CPI is due today. The seasonal retracement of the food CPI component from its spike during the Lunar New Year month imparts downside risk to the consensus of headline inflation swinging back to the positive territory after two consecutive months of negative. The subdued inflation has brought the central bank (BNM) monetary easing on the table for the next policy meeting in May. We expect a 25bp cut to the BNM's overnight policy rate to 3.00% next month. We continue to believe that recent sell-off in the government bonds and the currency (MYR) is overdone.
- **Thailand:** Motor vehicle sales growth eased to 8.5% YoY in March from 9.1% in the previous month. 1Q19 sales growth of 11% YoY was a slowdown from 18% in 4Q18. We think political uncertainty weighed on consumer spending in the last quarter. Not just consumer spending, but the overall domestic demand also has been on a weakening path as can be inferred from falling imports. This supports our forecast of a slowdown in GDP growth to 3.1% in

- 1Q19 from 3.7% in 4Q18 (data due in mid-May). The USD/THB rate re-tested 32 yesterday and remains on course to reach our end-2Q19 forecast of 32.80.
- **Singapore:** The slight rise in the March headline inflation rate to 0.6%YoY from 0.5% still missed consensus estimates (0.7%) and the MAS core measure of inflation, which excludes private transport and accommodation declined further to 1.4%YoY from 1.5%, and down from its recent peak of 1.9% in December last year. The softening of both activity and price data vindicates the recent April MAS decision to leave the SGD nominal effective exchange rate path unchanged - a policy "on hold" decision. The next policy decision is not scheduled until October this year, and it would take quite a turnaround in the fortunes of the economy to put the MAS back onto a tightening stance.
 - **Indonesia:** Bank Indonesia (BI) Governor Warjiyo maintains his view that the central bank's main focus would be on stabilizing the economy, adding that the central bank was looking to infuse additional liquidity to support growth but at the same time ensure the attractiveness of local financial assets to global players. The government is also looking to boost investments and strengthen the export base to limit reliance on foreign funding.
 - **Philippines:** The Philippines experienced a second powerful quake on Tuesday, this time in the second major island group, causing a shutdown of financial markets and government offices yesterday. The government agencies are assessing the damage to infrastructure and power plants. The markets will reopen today.

What to look out for: US GDP

- Malaysia inflation (24 April)
- South Korea GDP (25 April)
- US durable goods (25 April)
- Bank Indonesia meeting (25 April)
- Singapore industrial production (26 April)
- US GDP and core PCE (26 April)

Snap | 23 April 2019

Singapore inflation misses estimates

After a slew of weak activity data, inflation not surprisingly also disappoints in March

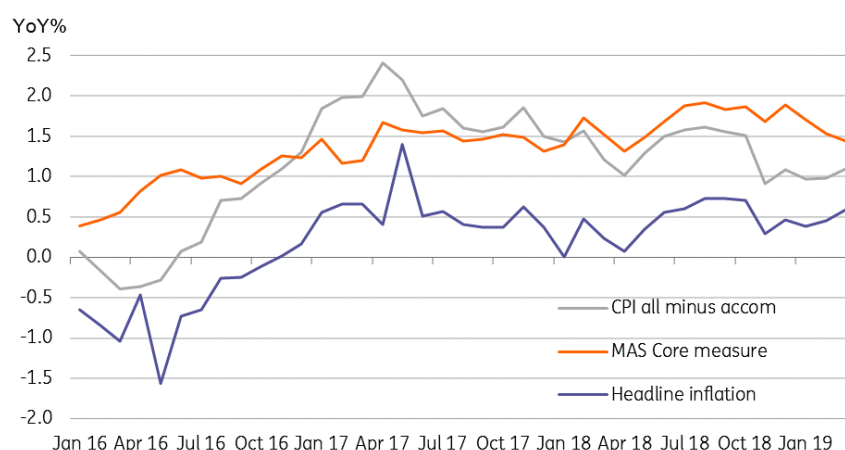


Source: Shutterstock

A consistent picture

You have to scroll a long way back on Singapore's recent data releases to find something that isn't rather disappointing. February industrial production declines gave way to a weak 1Q19 GDP result. Retail sales data and non-oil domestic export softness add consistency to the picture. With all this activity weakness, it is not entirely surprising that this is also now showing up in the inflation figures.

Singapore inflation



Source: CEIC

Singapore inflation

Headline rises, core falls

The slight rise in the March headline inflation rate to 0.6%YoY from 0.5% still missed consensus estimates (0.7%) and the MAS core measure of inflation, which excludes private transport and accommodation declined further to 1.4%YoY from 1.5%, and down from its recent peak of 1.9% in December last year.

Weakness was widespread

This wasn't some fluke single item outcome. Inflation components across the board either registered negative monthly price movements or grew more slowly than the previous month. Some rebound from the February Lunar New year bounce is a probable explanation. And the data should hopefully settle down in April allowing for a more considered evaluation.

Monetary Authority of Singapore (MAS) on hold

The softening of both activity and price data vindicates the recent April MAS decision to leave the SGD nominal effective exchange rate path unchanged - a policy "on hold" decision. The next policy decision is not scheduled until October this year, and it would take quite a turnaround in the fortunes of the economy to put the MAS back onto a tightening stance.

That said, we don't believe things have deteriorated sufficiently for the MAS to consider reversing their earlier tightening, nor do we expect things to get that bad. The recent government budget provides some offset to the headwinds of the trade war and global tech slump and should soften the impact of both for the time being.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.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 <http://www.ing.com>.